

MR NORGROVE

25 November 1986

MEETING OF INNER GROUP ON ROVER,
THURSDAY 27 NOVEMBER

The final paper for Ministers had not been prepared prior to my departure for industrial visits. I am therefore not briefing the Prime Minister directly but have the following comments and observations on the basis of drafts and conversations which I have attended at the DTI. If you find these useful please pass them on to the Prime Minister for the Thursday meeting, for which I am endeavouring to return to London.

The DTI paper will recommend that we make a pre-emptive announcement in early December on the future of Trucks but extending to a broad supportive statement on the Government's commitment to ARG. A full substantive statement will be promised for February, by which time either heads of agreement on the sale of Trucks will have been reached or Rover will have had to decide to attack the problems themselves.

The paper will recommend that officials should be asked to commence discussions forthwith with the EC Commission in strict confidence on authorisation for the ^{rescheduling} retirement of the Bus and Truck debt (£650m). The paper will finally recommend that Graham Day be authorised to propose to Honda a shareholding of up to 20% in ARG and that the horse-trading can therefore commence on what conditions might attach to such a holding.

Comment

1. The issue of the £650m Government injection for debt retirement in Truck and Bus, and the mechanism for funding ARG's future have therefore been separated.

This was my principle concern in the main briefing paper which I put into the Prime Minister last week.

2. The beginning of the stately dance with the EC Commission should get under way and, provided there is strict security, I can see no sense in delaying it.
3. The timings of both the pre-emptive announcement and the substantive statement in February seem entirely appropriate.
4. The principal issue for the medium and long term future of the business is where any Japanese shareholding is taken and whether it has to be a corporate shareholding rather than a joint venture arrangement. The fears and concerns over the immediate future of ARG coupled with all the difficult timing arrangements for the disposals of Bus and Truck may be obscuring this fundamental issue.

It is clearly in the commercial interests of both ARG and Honda to get together in the short and medium term. I continue to believe that it would be better if this were done by specific joint ventures for specific business objectives rather than a shareholding. A shareholding will probably endure beyond the immediate issues and might become an incubus for ARG should Honda ever attack the Rover market head-on. It is rarely a good thing to have a main competitor holding shares and board positions in your company.

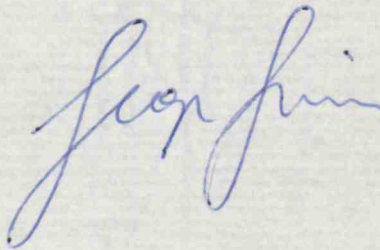
What Graham Day is asking for is general Ministerial support for negotiating such a shareholding forthwith. He is closer to the situation than any of us. He knows what can be achieved. If he insists that is the only way to have a productive business relationship with Honda he should be supported.

Ther ARG

Chair 2nd Ford Plant

Honda

In proffering such support, Ministers should indicate a clear preference for joint venture routes rather than a shareholding to achieve the same capital injection and overall business cooperation.

A handwritten signature in blue ink, appearing to read "George Guise". The signature is fluid and cursive, with the first name "George" written in a larger, more prominent script than the last name "Guise".

GEORGE GUISE