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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

27 November 1986

Dear Catherine,

ROVER GROUP

The Prime Minister this afternoon held a meeting to discuss minutes by Mr. Giles Shaw, Minister of State, Department of Trade and Industry, of 26 November about Leyland Truck and Bus and Austin Rover. There were present the Lord President, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for the Environment, the Chief Whip and Mr. Giles Shaw. Mr. George Guise, No.10 Policy Unit, was also present.

Mr. Shaw reported that the team preparing a management buy out for Leyland Bus believed their bid was proceeding satisfactorily. Mr. Shaw then described the possible proposals for Leyland Trucks from Paccar and DAF, noting that it might be possible to reach Heads of Agreement by February.

After discussion the following points were agreed.

- (i) Graham Day should be asked to pursue both disposal options for Leyland Trucks, giving priority to DAF with the objective of reaching Heads of Agreement by February. He should seek to retain for Rover Group the option, under the DAF proposal, of a placement of the Rover Group shares with institutions before flotation. It was not clear why DAF should expect to carry their outstanding debt into the joint company whilst Leyland Trucks and Freight Rover would not. The objective should be that as much as possible of the Leyland Trucks and Freight Rover debt should be carried into the joint company.
- (ii) Even if some of the debt were carried into the joint company a substantial amount would need to be written off. It was vital that this and the debt relating to Leyland Bus should be written off in 1986/87. The Treasury and DTI should explore the possibilities. The debt should be written off in 1986/87 whether or not a deal on Leyland Trucks and Bus had been brought to a conclusion by the end of the financial year and even if the deals now in prospect came to nothing. (The position on Freight Rover debt in that event was not discussed.)

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- (iii) Officials should discuss urgently with the EC Commission in the strictest confidence how best to obtain their authorisation to write off the debt in 1986/87. The UK would need to be firm with the Commission. It would be absurd for them to seek to delay or block the deal: they would for example have no alternative but to agree to a write off if the company collapsed. One possibility to make sure that the debt was out of the way in 1986/87 would be for the DTI to make a loan on commercial terms to Rover Group out of voted money. Rover Group would repay the debt and Commission approval would not then be an issue. (This possibility was mentioned by the Chancellor of the Exchequer.)
- (iv) A statement should be made as soon as possible to the House of Commons about the position on Leyland Bus and the proposals for Leyland Trucks and Freight Rover. This statement would need to be carefully phrased particularly as regards the section expressing support for Austin Rover which had been requested by Graham Day: it should say nothing which implied a continuing substantial financial commitment. The statement would need to be cleared with the Treasury. Before the statement could be made however Graham Day would need to confirm that DAF were content for their interest to be made public.
- (v) Once this was known a decision could be taken about a meeting of MISC 126. The aim should be to circulate a meeting notice on Monday 1 December, with the meeting to be held on Tuesday 2 December and the statement possibly to be made that same day. DTI should prepare a paper to be handed to those attending MISC 126, which need not go into details about the amount of the debt write offs or their timing.

The meeting then discussed the possible Honda equity stake in Austin Rover. It was agreed that no other companies were on the horizon which might be willing to invest in Austin Rover. Ford would not be willing to reopen discussions unless they were clear that they would be carried through successfully. From the Government's point of view to reopen discussions could also further damage confidence in the company. The possibility of a takeover by Ford had been resisted earlier from fears about a reduction in dealer networks and the effect on component suppliers, among other things. The possible Honda stake would not be open to these objections. Some Ministers present expressed fears that Honda would exploit its holding and that the arrangement would be one-sided. On the other hand, it was argued that the Honda stake would tie Honda more closely to Austin Rover, cementing a very important relationship.

It was agreed that Graham Day should be authorised to open discussions with Honda on the possibility of them taking

RF // a stake of up to 20 per cent in Austin Rover. They should be given no undertaking that the Government would necessarily allow them to go beyond that figure and the Government's agreement would be subject to negotiation of satisfactory terms and conditions. The consideration would need particularly careful attention: if Honda paid by means of capital investment, there was a risk that the benefits would accrue to Japanese companies through purchases of Japanese machinery. The payments should be in the form either of cash or of purchases in the UK. The question of an undertaking to Honda about development of their Swindon site would need to be further considered. DTI and the Treasury should prepare a note setting out the facts and discussing the implications, including the handling in relation to the Government's bargaining position with Honda. (We agreed that this should be circulated only to the Prime Minister and the Chancellor.)

I am copying this letter to Alex Allan (H.M. Treasury).

Yours,  
David

DAVID NORGROVE

Miss Catherine Bradley,  
Department of Trade and Industry.