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PRIME MINISTER

29 November 1985

BIDS FOR UNIPART AND AUSTIN ROVER

Charterhouse Japhet have today made a formal bid for Unipart of £50m+. This is less than the £75m to £100m expected before Unipart went into the ill-advised Edmunds Walker acquisition, but is still some 50% more than the value Samuel Montagu (DTI's advisers) put on the business. It will be surprising if BL accept the offer without some arm twisting. Even if they do agree there is still the small possibility of snags emerging from the accountant's investigation and legal agreement.

But a much bigger issue has arisen: Ford want to buy Austin Rover. The interest seems genuine and they want to move fast. The declared reasons are economies of scale and the threat of Head Office forcing a link up with the Japanese just as Ford have done in the US. But they must also be motivated by the relatively poor showing of their new Sierra and Scorpio models, (BL's equivalents are better designed for their target markets), and Honda establishing a major presence in the UK on the back of ARG.

Ford anticipate that the two companies would retain their separate identities until around 1990 when both companies would need to introduce new models. They expect that all four assembly plants would still be needed; this seems optimistic, but large scale redundancies would certainly be unlikely before 1989.

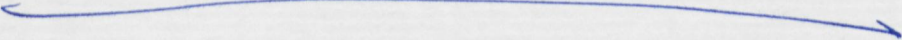
Ford are also interested in Unipart. This will need careful handling if we are not to lose the firm bid already in hand, for the speculative one in the bush.

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Ford are unlikely to offer very much for ARG, but as ARG plan to double their borrowings to £600m by 1991, any price will save us money. If both Ford for ARG, and GM for LR-L are successful, then BL could be history by the middle of 1986. The downside is the political difficulty of selling the whole of BL to foreign multinationals, and the crystallisation of Varley Marshall debt which could cost the contingency reserve £400m.

Ford want to know if in principle we would countenance such a deal. The answer is surely yes. Leon Brittan plans to discuss this with you and the Chancellor next week.



Peter Warry

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