VW may increase bid for R-R Motors

BMW threatens to withhold supplies if it loses control

By Graham Bowley in Munich and Roger Taylor and Haig Simonian in London

Volkswagen, the German car group, is putting up strong opposition to Vickers' decision to sell Rolls-Royce Motor Cars to its rival BMW for £340m ($568m).

It is understood it is considering approaching Vickers with a higher offer for the UK luxury car company and also for Vickers' Cosworth engine-making subsidiary.

Graham Morris, chief executive of Rolls-Royce, said last night he was aware that Volkswagen had talked to Vickers. However, Vickers categorically denied speculation it was back in talks with Volkswagen.

Earlier it said it had started a period of exclusive negotiations, thought to be one month, with BMW, and could not re-open talks with others. It said it remained happy with BMW's offer, and it is also understood not to have received a formal higher bid from Volkswagen. VW last night refused to comment.

The sale has to be approved by Vickers' shareholders.

BMW meanwhile warned it would force the temporary closure of Rolls-Royce Motors by cutting its supply of components if it failed to clinch control of the company. It said it saw no reason to increase its bid, even in the light of any VW counter-offer.

Reports in Germany suggested VW would pay up to DM1.7bn ($923m) for Rolls-Royce, DM200m more than its original offer, and topping BMW's figure. VW's new bid would also include a proposal to buy the Cosworth engines business.

Even if VW did offer more, it might serve only to elicit a higher price from BMW. "Vickers are not going to be seduced away from BMW's safe offer by tempting proposals from VW which then prove hard to deliver," said one observer.

BMW's determination to take over Rolls-Royce was underlined by its threat. Bernd Pischetsrieder, chairman, said his company would immediately terminate supplies of engines and other components to Rolls-Royce, forcing a temporary closure. "If somebody wants to shoulder that responsibility, then we will stop our supplies within a short period. Crewe [Rolls-Royce's headquarters] would have to close down. Nobody has the ability to take it up again in such a short period," he said.

The termination period for BMW's engine contract has been a secret. The period, believed to be one year, would make it difficult for VW to re-engineer Rolls-Royce's new models quickly enough to avoid disrupting production.

Mr Pischetsrieder also outlined plans to reshape Rolls-Royce's board with the inclusion of four non-executive directors, including an independent "diplomat" to help maintain Rolls-Royce's British image.

Mr Pischetsrieder's comments came as BMW said net profits last year rose 52 per cent to DM1.25bn as sales increased 15 per cent to DM60.1bn. He said the strength of sterling was hurting profits at subsidiary Rover, which had a pre-tax loss of £92m, down from £119m.