

~~cc~~ A. Walters  
A. Duquid



PRIME MINISTER

BL/HONDA COLLABORATION

When we decided to give BL more money last January, Sir Michael Edwardes sent Keith Joseph the enclosed confidential letter agreeing to clear in advance with the Government any proposed collaborative arrangements that were sufficiently comprehensive to preclude other collaborative arrangements being reached.

2 Sir Michael has now sent the enclosed letter seeking agreement for BL to sign a letter of intent with Honda, which would commit BL to a feasibility study on a proposal to design and develop an executive car, code named the XX, to replace the Rover in 1985. Signing the letter does not commit BL to enter into any legal agreement with Honda but BL will need to announce (probably in December) that a letter of intent has been signed which would at least signal BL's and Honda's intentions to the rest of the industry. Sir Michael thinks - and I agree - that setting up the feasibility study falls within the scope of the collaborative arrangements mentioned in his January letter.

3 The XX would be produced in different "BL" and "Honda" versions, which would have the same basic design but different appearances. BL would produce both versions for sale through both companies' dealer networks in Europe and Honda would produce both versions for sale in Japan. Unlike the Acclaim, much of the XX would be designed by BL.

4 The XX would replace BL's own planned Rover replacement, the LM14/15, which was to be based on the LC10 range. BL intend that it should have a substantial degree of commonality with the rest of the LC10 range and that it should be accommodated within the financial provisions already made for the LM14/15. The proposal is consistent in product strategy terms with the Corporate Plan we approved last year.



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



5 Our general objective is to extricate the Government from BL as quickly and completely as possible. In present world car market conditions there is no likelihood whatever of anybody buying BL, or even the BL volume cars operation, outright. The most hopeful way of attaining our objective seems to be to secure a progressive collaboration which initially helps BL towards viability and financial independence from the Government and which holds out a prospect, if not a certainty, of moving on to more wide ranging collaboration and a permanent solution.

Collaboration with Honda has already started with the Acclaim which was launched this month and can now move on to the XX project. BL is also having separate (less advanced) talks with Honda on joint marketing and on collaboration on major components. The question has been raised, though not yet pursued in detail, of Honda's taking an equity stake in the BL Cars group. I do not think it would be fruitful to press this idea at the present stage but the fact that the idea has been raised indicates the possible eventual scope of collaboration with Honda.

6 I am satisfied that the XX project, and the possible further extension of collaboration with Honda, will not adversely affect the prospects of selling shares in Land Rover, Unipart, or even eventually Jaguar and parts of the commercial vehicles operations. Nor would it preclude piecemeal engineering collaboration between BL and other companies: BL are (with Honda's knowledge) engaged in talks with Volkswagen about the development of a new small engine for the late 1980s.

7 Sir Michael's January letter stressed the need for the Government to reply quickly about proposals for collaboration. It would be tempting to argue in the present case that we should delay approval until we have considered the forthcoming updating of the main Corporate Plan and that we should wait until the strike position is clarified. But I think that to do so would be wrong. The Cars Group (apart from the present pay dispute)

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



is generally on course and I do not expect major problems on that score. Honda are pressing for an early response for operational reasons of their own and there is a serious risk that collaboration might lose momentum if there was any sign of hesitancy on our part. Moreover, we ourselves put great pressure on BL to seek early comprehensive collaborative arrangements with another company.

8 I therefore strongly recommend that we should approve the outline of the collaboration with Honda on the XX as soon as possible. I have undertaken to let Sir Michael have a response on this by 2 November. Our approval would of course necessarily be dependent on a satisfactory outcome of the present pay dispute.

9 I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Robert Armstrong and Mr Robin Ibbs.

PJ

P J

23 October 1981

Department of Industry  
Ashdown House  
123 Victoria Street

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE