

PRIME MINISTER

MEETING WITH MR. TEBBIT

I. BL Corporate Plan. Mr. Tebbit will be seeking clearance for the draft letter to Honda - Flag A. A note by Peter Warry is at Flag B. While this is consistent with the outcome of last week's meeting, Longbridge Robots seemed to have played a part in its drafting. Paragraph 2, for example, is extremely tortuous, and will defy translation. You should ask Mr. Tebbit if it can be simplified. We seek a simple answer to a simple question - can Honda supply either an engine design for ARG to manufacture under licence, or an engine for sale from Swindon. All the talk about "collaboration would be nicer, but ....." merely complicates the picture.

Mr. Tebbit also wants agreement to an early statement on collaboration with Honda. This seems sensible in order to prevent Honda delaying agreement on all the non-controversial parts of the Memorandum of Understanding while the engines issue is argued out.

II. Steel. Mr. Tebbit will want to report on the difficult choices ahead on steel. BSC believe a major plant will have to close, not simply for their own commercial results, but in order to meet community requirements. BSC have been planning to buy Alphasteel in order to close it, and acquire its quota. The asking price of the owners of Alphasteel has become too high, and negotiations have reached a dead end. Peter Warry's note (Flag C) indicates this might be a blessing in disguise. Alphasteel is losing money, and the best course might be to allow it to fold of its own accord.

Duty Clerk  
AP Andrew Turnbull.

30 May, 1985.





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PS/  
Secretary of State for Trade and Industry

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
Whitehall  
LONDON  
SW1

30 May 1985.

Dear Andrew,

BL CORPORATE PLAN

Thank you for your letter of 24 May about the meeting the Prime Minister held the previous day.

2 Ministers here have explained the position to the BL Board to the degree necessary and the attached draft letter from Mr Musgrove, Chairman of Austin Rover to Mr Kume, President of Honda is the result. My Secretary of State considers it is in accordance with the conclusions of the meeting of 23 May. Once Honda receive such a letter the ball will be in their court and protracted discussions may follow, since they will clearly be puzzled to assess our intentions. In view of Parliamentary pressures and the needs of Austin Rover's commercial position we may wish to consider announcing the acceptance of the BL Corporate Plan with this point left for later resolution.

3 More urgently than that, however, BL take the view that in order to secure Honda's commitment to the proposed medium car collaboration it is essential for them to proceed soon to announce the outline proposals and to sign a statement of understanding with Honda. They recognise of course that both the announcement (a draft indicating the intended substance is attached) and the statement of understanding will have to be in terms which do not exclude the possibility that Honda would supply the engine for the Metro replacement. Subject to that proviso, my Secretary of State believes that it would be reasonable for BL to proceed as they propose. The earlier stages of the collaboration with Honda have been announced purely as commercial arrangements between the companies, and have not called for a statement to Parliament, so he considers that this can legitimately precede telling Parliament our decisions on the Plan.

JH2ARM





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4 Clearly considerable urgency attaches to clearing the letter to Honda. If the Prime Minister and colleagues are content with the proposals in this letter, my Secretary of State would like us to be in a position to inform the company no later than mid-day Monday, 3 June.

5 Copies go to Rachel Lomax (Treasury), Leigh Lewis (Minister without Portfolio's office) and Richard Hatfield (Cabinet Office).

*Yours ever*  
*John Mogg*

J F MOGG  
Private Secretary

Encl

JH2ARM



LETTER FROM MR MUSGROVE TO MR KUME (PRESIDENT OF HONDA)

I am very pleased to inform you that Her Majesty's Government is prepared to approve, in principle, the latest BL Corporate Plan. In reaching this decision on the Plan, Ministers paid special attention to the proposals for extended collaboration between Austin Rover Group and Honda and it has been made clear to us that further collaboration between the two companies is favoured by the Government. This means that we can proceed to finalise and sign the proposed Statement of Understanding.

Although the draft Statement of Understanding includes the point that Honda has no intention of jointly developing engines with another manufacturer at the present time, the favourable Government response and the further detailed considerations we have given to our plans for engine development and manufacture during the time the Government has been carrying out its review makes it appropriate, we believe, for us to return to the question of whether Honda might be willing to extend the field of collaboration to include working with Austin Rover on a programme for the new small engine which Austin Rover needs.



● In broad terms, the need is for a family of engines, with two  
3 displacements of about 1.0 litre and just below 1.4 litres, capable of meeting coming European emission standards, and providing competitive performance and fuel economy in European conditions. Further details of the characteristics of the engine are attached. The engine must be available for volume production by the summer of 1988 with at least 200 pilot build units for extended test by autumn 1987. The annual requirements for the engine would be in the region of 250,000 to 300,000.

4 Ideally, Austin Rover Group would like to collaborate with Honda on a joint design, development and manufacturing programme for such an engine. Only in this way do we believe that compromises on the design of the cars in which the engine will be used can be avoided. You will fully understand the importance of that point. Nevertheless, knowing that you have so far not favoured collaboration programmes on engine, and in order to make a complete analysis of possibilities, we should also like to explore the implications of taking a Honda design. All this, of course, assumes that you will have such an engine or would be prepared to embark on such an engine programme in the time frame indicated, and be willing to make the engine available to Austin Rover.

If the use of a Honda design is in your view acceptable and feasible, we would like to explore the following possibilities for manufacture:-

- o ARG manufacture under license
- o Honda manufacture in the UK

(Supply from Japan should not be totally ruled out although the implications for local context may make this impractical).



ENGINE CHARACTERISTICS

The main characteristics/standards to be achieved by the engine are:-

- o Two engine capacities - the first of 1.0 litres/1.1 litres, the second to be marginally below 1.4 litres.
- o Capable of meeting proposed European emissions requirements in the most effective, practical way which, in ARG's judgment, is by lean burn technology, avoiding the need for a catalytic converter, either oxidation or three-way.
- o Dimensional requirements:
  - Length - Engine front pulley to back face of block - 475mm
  - Height - Centre line of crank to highest point (assumed to be the induction system) - 440mm
  - Capable of installation 15° forward from vertical.
- o Specific power outputs of about 50 PS per litre with single carburettor up to 73 PS per litre (naturally aspirated) with multi point fuel injection.



● n the case of your supplying the engine to us, rather than manufacture by ARG, we should make it clear that the price which we would expect to pay would need to be commercially viable compared with our own in-house manufacture. In our view that would inevitably involve a price significantly less than that which we are paying for the current 1342cc engine from you and it would require any unique investment and design and development costs to be covered in the unit price.

I appreciate that, in our discussions to date, some of these points have been covered, but I believe that present circumstances make it appropriate for there to be further consideration of the subject. I should therefore be extremely grateful for your initial reaction to the points I have raised as soon as possible.

30.5.85



- o Ideally the engine/engines would need to rotate in a conventional (clockwise) manner. Alternatively, if this were not possible, then Austin Rover Group would have to consider changing its present small gear box plans and request Honda to supply or to allow Austin Rover to manufacture under licence Honda gearboxes also.
  
- o Fuel consumption characteristics of the engine to be such that it will permit the most economical version of the Metro replacement to achieve a target of 80 mpg (imperial) at a steady 90 kph.



3

PROPOSED PRESS STATEMENT BY ARG AND HONDA

As a result of the collaboration which has successfully developed between ARG and the Honda Motor Company over the past six years, represented by the Acclaim, the Rover 200 Series and the very impressive progress to date on the jointly designed and developed XX car project, ARG and Honda have been discussing plans which would take collaboration between the two companies to a further stage. Several possibilities have been discussed, of which the main ones are:-

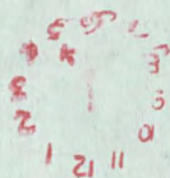
- o As a further development of the encouraging progress on the XX project, the establishment of another joint design and development programme on a new car, bringing to it the best appropriate technology of both companies.
- o The establishment by Honda of an engine manufacturing facility at Swindon to provide UK sourced engines for the Rover 213 and vehicles built by ARG for Honda.
- o The build by ARG of Honda vehicles for sale by Honda.

The above points are satisfactory in principle to the Boards of both BL and Honda. Her Majesty's Government has also indicated its approval to this further collaboration with Honda.

It is anticipated that a statement covering the principles of the next stage of collaboration will be signed by the two companies in the near future.



IND. POL: BL: PE9.



30 MAY 1985