



10 DOWNING STREET

*From the Private Secretary*

3 June 1985

**BL CORPORATE PLAN**

The Prime Minister has seen the draft letter to Honda which was attached to your letter to me of 30 May. She discussed this with your Secretary of State on Friday. She felt that the draft letter could express in a more straightforward way the question being put to Honda of whether it could or could not supply an engine for the Metro replacement which could be supplied from Swindon, or made available to ARG for manufacture under licence.

She has seen the revised text sent under cover of Andrew Lansley's minute to me of 31 May. She was content with this draft.

The Prime Minister was also content that a draft announcement should be made outlining the proposed collaboration with Honda.

I am sending copies of this letter to Rachel Lomax (HM Treasury), Leigh Lewis (Office of the Minister without Portfolio), and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

John Mogg, Esq.,  
Department of Trade and Industry.

JB

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Prime Minister (1)

Mr Tebbit has personally redrafted the letter to Honda. It is much clearer and comes straight to the point about using a Honda engine in the Mehs replacement. Are you now content for it to be sent?

One remaining danger is that BL misrepresent HMG's stance. Agree that the reply to Mr Tebbit warns against this and asks him to consider what steps can be taken to prevent this?

AT  
31/5

I think any further warnings would provoke a sharp reaction.

Over the hill now



JU589

Secretary of State for Trade and Industry

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cc ~~AT?~~

31 May 1985

CONFIDENTIAL

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

Dear Andrew,

with AT?

BL CORPORATE PLAN

PP →

Following my Secretary of State's conversation with the Prime Minister before lunch today, I enclose a copy of a further draft of a letter to go from Mr Harold Musgrove, Chairman of the Austin Rover Group to Mr Kume, President of Honda. As John Mogg said in his letter of 30 May enclosing an earlier draft, my Secretary of State would like us to be in a position to be able to inform the company as to whether this draft is acceptable no later than mid-day on Monday 3 June.

Yours etc,  
Andrew Lansley

ANDREW LANSLEY  
Private Secretary

JU588

DRAFT

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

I am very pleased to inform you that Her M<sup>a</sup> 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.

As you know Austin Rover has a development programme for their cars outside the collaborative programme. The most important of these is the new small car. Austin Rover has begun preliminary design work on a new engine for that project but would also like to explore the possibility of using a Honda engine.

In broad terms, the need is for a family of engines, with two 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.

Since our new collaborative agreement excludes collaborative development of such an engine we wish to ask

a whether Honda has an engine suitable for this car, and if so, whether you are willing to make it available to Austin Rover;

b if so, on what terms, whether by ARG manufacture under licence or Honda manufacture in UK?

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.

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.

- 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.

31 MAY 1985

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