



SUBJECT  
in Trade Set

8

10 DOWNING STREET

13 June 1985

From the Private Secretary

BL/HONDA

The Prime Minister this afternoon discussed your letter to me of 13 June with your Secretary of State and the Chancellor. It was agreed that the option of taking engines from Honda should be dealt with by a letter from Mr Musgrove to Honda rather than by seeking an amendment to the Memorandum of Understanding or by attaching the side letter formally to it. (The Prime Minister remarked that while Honda were unwilling to contemplate an amendment on this issue they were insisting on an amendment elsewhere which would incorporate a reference to a "possible" engine plant.

Your Secretary of State thought that the engine plant would eventually be built, but to increase pressure on Honda it should be made clear that, after a transitional period, less than 80 per cent local content would be unacceptable to HMG. There would not be a separate requirement about the origin of the engine. Honda would thus be subject to the same conditions as Nissan. This was agreed.

Your Secretary of State said it was intended to sign the Memorandum of Understanding on Friday. Honda had agreed to delay their announcement to allow him first to make a statement in the House on Monday.

Your Secretary of State said that Ministers had earlier agreed that BL's EFL should be set at £680 million but that this figure should be adjusted to take account of the impact of asset sales of which Unipart was the most immediate. The formula for making the adjustment had to take account not only of the cash received on sale but also of debt repaid and future cash inflow or outflow foregone. The Prime Minister invited the Secretary of State and the Chancellor to agree on a formula.

I am copying this letter to Rachel Lomax (H M 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