

cc Rachel Lomas (HMT)
Lugh Lewis (MWP)
Richard Hatfield (CO)

~~cc JR~~



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Secretary of State for Trade and Industry

10 June 1985

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

Dear Andrew,

BL : HONDA

My Secretary of State is to see the Prime Minister this afternoon at 3.45. He wishes to discuss the present position regarding collaboration between BL and Honda, particularly in the light of Mr Kume's letter of 7 June to Mr Musgrove, the Chairman of the Austin Rover Group. (Copy enclosed).

Yours ever

John Flogg

JOHN MOGG
Private Secretary



HONDA
HONDA MOTOR CO., LTD.

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June 7, 1985

Mr. Harold J. Musgrove
Chairman
Austin Rover Group Limited
Fletchamstead Highway
Coventry CV4 9DB
England

Dear Mr. Musgrove:

Thank you for your letter of June 3. I am glad to hear that your Government is prepared to approve in principle the BL corporate plan and favors further collaboration between our two companies.

As you know, we are working to finalize the details of the Statement of Understanding and expect to sign it shortly.

The question of possible engine supply is, of course, a very important and serious matter. As the Statement of Understanding says, it is not Honda's policy to engage in joint development of engines with another manufacturer, because we believe it essential to preserve our own engine technologies. Manufacture by ARG of Honda engines under license would run counter to this policy. Therefore, in answer to your question, Honda could not agree to ARG manufacturing our engines under license.

The answer about supply from our own engine manufacturing plant in the U.K., to which we are not committed, is not so clear, because such arrangement would involve many factors such as the size of investment which would be beyond what we have contemplated and problems of maintaining each company's identity. While it is difficult to give a definite answer at this time, our initial reaction is negative, although we are not in a position to say "No" unequivocally.

Very truly yours,

Tadashi Kume
President

TK/kt