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10 DOWNING STREET

22 July 1985

From the Private Secretary

Dear John,

VEHICLE EMISSIONS

The Prime Minister has seen your Secretary of State's minute of 15 July. She agrees that the implications of the Vehicle Emissions Directive for BL's capital programme will need to be examined carefully on their merits. Meanwhile she hopes BL and Departments will be examining how to exploit the permissive nature of the Directive by creating a grouping of European countries operating to a more relaxed standard, as suggested in Sir Robin Nicholson's letter of 8 July.

She has noted that your Department will be monitoring very closely the level of BL's borrowings. She has asked to see the trend in monthly movements in ARG borrowing in all forms so far this year and the projections for the coming months.

I am copying this letter to Rachel Lomax (HM Treasury), Peter Ricketts (Foreign and Commonwealth Office), John Ballard (Department of the Environment) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

John Mogg, Esq.,
Department of Trade and Industry

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PRIME MINISTER

VEHICLE EMISSIONS

Mr. Tebbit's minute is the opening shot in discussions about the implications for ARG's capital expenditure of the Vehicle Emissions Directive. The Directive both sets standards at the tighter end of the range and requires them to be achieved earlier than was originally hoped. Some adjustment may, therefore, be justified. At least for once DTI have set themselves in the role of monitor of ARG's claims rather than as ARG's advocates.

In your reply you could:

(i) Agree that the implications for ARG's capital expenditure should be looked at on their merits;

(ii) urge ARG and Departments to examine how to exploit the permissive nature of the Directive by creating a special grouping of European countries operating to a more relaxed standard, as suggested in Robin Nicholson's letter of 8 July;

(iii) welcome the fact that DTI will be monitoring BL's borrowings closely and ask to see the figures showing the trend in monthly movements in total Austin Rover borrowings (direct, off balance sheet, car financing, etc.) so far this year.

AT

Yes

ANDREW TURNBULL

18 July 1985

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B/F with PM response AW
BT 15/7

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PRIME MINISTER

VEHICLE EMISSIONS

Since your meeting on 1 July, the Chancellor of the Exchequer has lifted the UK's ad referendum reserve on the agreed basis and the negotiations on important outstanding technical points got under way this week. It remains to be seen how difficult these will prove but we may need to fight hard and obstinately for our corner.

2. In the meantime, I shall be taking stock of the situation in the main UK manufacturers affected by the proposed Directive. Sam Toy has told me that Ford's first assessment is that "probably" they can live with the new emission levels agreed for medium cars but they believe it will be expensive. As an insurance, Ford do in any case have access to their parent company's US experience with three-way catalyst technology.

3. The issues for Austin Rover are less straightforward. For obvious reasons they need to persevere with lean-burn but, at the severe limits set for medium cars, there is no guarantee that these standards can be met within the required timescale on this technology alone. ARG therefore need to run parallel programmes using three-way catalyst technology both as a longer-term insurance and to provide them the means of access to the FRG and other markets where fiscal incentives are likely increasingly to determine purchasing patterns.

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4. It is not yet clear what effect the emissions question will have on the resources required by ARG to remain competitive. For the moment, my Department will continue to monitor very closely the level of BL borrowings against the constraints which the Government has imposed in the light of the 1985 Corporate Plan. However, it will be necessary to carry out a more detailed investigation of the cost of emissions - and the implications - in the context of the 1986 Plan and we shall have to judge the results on their merits at that time.

5. I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for the Environment and to Sir Robert Armstrong.

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15 July 1985

Department of Trade and Industry

Aid law