

Mr Luca di Montezemolo, Chairman
Mr John Howett, Vice Chairman
FOTA
FORMULA ONE TEAMS ASSOCN

18 November 2008

Gentlemen

Thank you for your letter of 4 November.

As you already know, your earlier letter of 31 October reached us in time for the proposal signed by all the teams on 30 October to be put before the World Motor Sport Council, who agreed to it. I am pleased to say that the three-race engine will therefore be part of the 2009 regulations.

However, your letter of 4 November did not reach me until after the beginning of the meeting on 5 November and we were therefore unable to deal with it.

Having now had an opportunity to review your letter of 4 November, I must say we greatly appreciate what is clearly a significant effort to reduce costs. However, cost reductions of the order mentioned in your third paragraph are inadequate having regard to the current economic situation. Reductions of €20-48 million per year will not save the independent teams, nor will they reduce the budgets of the major manufacturers to a level at which we can feel confident of their continued participation.

If I may approach the questions in more detail.

POWER TRAIN

Engines

We understand that the FOTA proposal is to produce a €5 million engine from 2011. We are in fact looking for a complete power train (ie engine plus transmission) for less than €5 million and we believe it is essential to have this in place for 2010 and not wait until 2011. By 2011, it may be too late.

Furthermore, we understand that instead of an inexpensive but high-tech in-line 4-cylinder engine, FOTA are now considering developing a brand new V6 for 2011. In our view, the latter would rightly be seen by the public as an inferior version of what we already have and be a waste of development money. There is a strong case for deferring the introduction of a new engine until the manufacturers are in a better position to fund its development. This would imply the use of an interim engine until at least 2013, as suggested in the note which was sent to you on 14 October.

Transmission

In order to achieve significant savings, there is a very strong financial case for a standard gearbox and an even stronger financial case for a ten-race standard gearbox with fixed ratios, serviced only by the supplier. We should like to discuss these possibilities with FOTA.

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Complete power train

We are now confident that we will be able to source a power train (engine and complete transmission) which is visually, technically and audibly indistinguishable from the power trains currently in use, for significantly less than €10m per team per season. We would then be able to offer each competing team three options:

- (i) the FIA-sourced power train or
- (ii) the right to build an engine identical to the FIA-sourced engine or
- (iii) to continue with a current engine and to operate it within the constraints of the 2010 regulations.

An engine with less than current Formula One technology in combination with a ten-race gearbox would come in under the original €5 million budget. However, the attractions of continuing to use full current Formula One technology for less than €10 million are significant.

CHASSIS

We note the list of elements attached to your letter of 4 November, but I would reiterate the point made in my letter of 27 October (copy attached for convenience). A more rigorous analysis is needed in which every element of the chassis is looked at, so that a considered decision can be taken as to whether it should or should not remain a performance differentiator. Only by considering each individual element can a proper analysis of the chassis be made and a reasoned decision be taken as to what costs might be saved and in which way.

We are therefore going to revise the chassis rules for 2010. We would like to do this in consultation with FOTA. The plan is to make a list of every single chassis component and then, one by one, decide whether or not each component should be a performance differentiator. At present, virtually every component has an effect on performance even if only minimal. In today's ultra-competitive F1 this has led to vast sums of money being spent on items which make no difference to the appeal of F1 (because they are invisible to all except the team's own engineers) and contribute nothing to technology. This money is therefore being wasted. In the present economic climate, that cannot continue.

Having considered each component and decided whether or not it should continue to be a performance differentiator (ie affect the performance of the car), we would have three lists of components: List A: those which will continue to affect performance, List B: those which will no longer affect performance and List C: those which it is customary to purchase from outside suppliers.

We will put out to tender the supply of each of the List B components and all teams would then use them. The same would apply to items on List C whose cost is other than trivial. We will also introduce rules to prevent teams using very expensive materials and/or manufacturing processes for List A components.

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From this will follow a very clear and simple definition of a customer car, namely one which does not incorporate any component which features on List A if it is also to be found on another competing car.

Whether so-called customer cars should be admitted to the Championship (as is currently the case) and, if so, on what terms, is a matter for discussion with the teams and the commercial rights holder (FOM).

RACE WEEKEND

We will revise the regulations governing the race weekend in exactly the same way. We will look at each item of expenditure and consider whether it can be eliminated without affecting the spectacle. All such items will be eliminated unless they are likely genuinely to affect safety or the teams need to keep them for marketing reasons. Again, we should prefer to do this in consultation with FOTA.

From this will follow whether any - and if so what – changes to the regulations or procedures should be made.

THE HOME BASE

Similarly, all aspects of R&D at a team's factory must be looked at. These include limitations on wind tunnel use and the maximum scale of the models, restrictions on CFD and the use of simulators of all kinds as well as numerous other items. I believe FOTA are currently working on proposals which we look forward to receiving.

THE TARGET

As mentioned above, reductions of €20-€48 million per year are inadequate. In present circumstances we need to introduce radical change before it is forced upon us. Fortunately, Formula One is currently a business from which more than 80% of the costs can be removed without affecting the "product" in a way which the customers (ie the public world-wide) would notice.

In order to ensure the survival of the Formula One World Championship with confidence, we believe that costs must come down to the point where the income from FOM, split among 12 teams, will cover all a team's costs except for the power train, the drivers and marketing. If expenditure exceeds this level by anything other than a marginal amount, we cannot be confident that enough of the current teams will survive to ensure a viable championship.

When we enter the era of a new, low-cost, high-tech engine (2013 or later, depending on the state of the motor industry), we would expect the manufacturers to help us frame regulations to ensure that the research and development associated with the new engine is useful for their core business. The regulations should also ensure that the cost per kilometre of operating the new engine is far lower than today's cost.

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In the meantime, the power train as outlined above will be much less expensive, but nevertheless maintain current technical levels and ensure that an entertaining and viable World Championship continues, apparently unchanged.

With these arrangements in place, the FIA would join with FOTA in seeking to persuade FOM to divide the prize money so that up to 12 teams are guaranteed at least \$50m (€40m or £33m) each. This would ensure a full grid with a strong possibility that new teams will enter the Championship, filling the two vacant slots as well as any additional vacancies.

Finally, I should make it clear that the FIA has an absolute duty to ensure that its Formula One World Championship continues. When a problem such as the current world-wide financial crisis emerges, the FIA must rapidly introduce whatever regulations it judges necessary to ensure the survival of its principal championship.

We will, of course, always do this in consultation with the stakeholders and we will try hard to accommodate the wishes of at least a majority of the teams.

However, we must recognise that in an extreme situation, not all teams may agree with our measures. We appreciate that in these circumstances some teams might decide not to enter the World Championship and opt instead for some other professional racing series. Furthermore, we are, of course, always ready to sanction an international series for teams which wish to run under regulations other than those of Formula One. We would require only that the series in question did not fall below current safety standards and met the generally accepted criteria of sporting fairness. We would, of course, not be concerned with the financial viability of a series which was not part of an FIA championship, nor with the amount of money spent by participants.

As always, I and my advisers remain ready to meet the teams at short notice.

Yours sincerely

Max Mosley

cc: All Formula One Team Principals
Mr B Ecclestone