

PO-CH / NL / 0431
PART A

Part A.

begins: 30/9/87.
Ends : 21/12/88.

COMMERCIAL - IN - CONFIDENCE.

THIS FOLDER HAS BEEN
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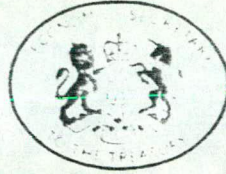
PO CH / N L / 0431
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Chancellor's (Lawson) Papers:
The Ford Motor Company Future Investments Plans.

DD's: 25 Jan
[Signature]

26/1/96.

PO CH / N L / 0431
PT.A



CC PS/Chancellor,
PS/CST, Mr F.E.R. Butler, Mr Monck,
Mr Anson, Mr Burgner, Mr Waller,
Miss Peirson, Mr Turnbull,
Mr N.R. Williams
PD

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
The Secretary of State for Scotland
Scottish Office
Whitehall
LONDON
SW1A 2AU

30 September 1987

Dear Malcolm
FORD MOTOR COMPANY

Ch
I am sure EST was right to
reject the advice for official
- first instance. He might
even have bought in.
AH

Thank you for your letter of 30 September.

I am grateful for your reassurance that Ford were fully appraised of the tax benefits to their subsidiary of locating in the UK. I continue to think that the UK's favourable corporate tax regime should be used as one of the major selling points when encouraging foreign companies to locate projects in the UK, and that calculations of the benefits of alternative offers should be worked out as far as possible post-tax.

Nonetheless, your letter does not remove the other doubts I have about offering an increased grant for this project. Even on Ford's own projections, themselves open to question, the project's direct net benefit to the UK at the proposed higher level of grant would be marginal. Although the project may have the indirect effects that you mentioned, these are hard to quantify. And I was sad that you were not able to obtain more details from Ford about a project which, according to their own figures, would be highly profitable for them even without Government assistance.

If, however, you are convinced that the total benefit to the UK of this project really will compensate for the costs involved in your proposal, and that an attempt to obtain more detailed information from Ford would lose the project for the UK, then, subject to the following conditions, I am reluctantly prepared to agree to your offering regional assistance:

i. You find savings from within your cash-limited programme of £3.75 million to offset the amount by which the offer to Ford exceeds the normal limit;

ii. Public sector support for this project is limited to £11.4 million, so that any further assistance obtained by Ford, for example, as a result of a decision to locate the project in the Dundee Enterprise Zone, will be fully offset. Our officials have agreed that this would involve a reduction of £700,000 in the regional assistance offer for the Dundee location.

Lastly, you are, as you know, bidding for substantial additions to your industry programme in the Survey. I should make it clear that John Major will not admit arguments about the need for offsetting savings for the Ford offer in support of these bids. And he will defer agreement on which of your cash-limited programmes is to provide the necessary savings until the end of the current PES round.

I am copying this letter to David Young and Peter Walker.

Yours ever
Peter

PETER LILLEY



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

14 October 1987

Peter Lilley Esq MP
Economic Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
RECD	14 OCT 1987
Mr N Williams	
P/Chancellor	
P/Asst	
Mr F. G. R. Butler	
Mr Anson	
Mr Burgess	
Miss Pierson	
Mr Walker	
Mr Hughes	
Mr Inglis	

FORD MOTOR COMPANY

Malcolm Rifkind sent me a copy of his letter of 22 September to John Major about the level of assistance to be offered to EED to encourage them to locate in Scotland. I have also seen your reply of 29 September.

If there turns out to be a good reason for Ford finding the corporation tax argument unconvincing - and we shall of course have to see about that - I would support the case which Malcolm has put to you for offering selective assistance above the guideline level. As John Major knows, I see scope for tightening up the operation of regional selective assistance. But this project is a thoroughly good one and we should recognize that by operating the existing rules flexibly in this case.

I am copying this letter to Malcolm Rifkind.

LORD YOUNG OF GRAFFHAM

JF2APD

PPS 12/2

prep

A B D G - Mr Towers
Mr Flite

U.K. FORD WORKERS REJECT PAY OFFER - AGENCY NRAM

LONDON, FEB 4 - FORD MOTOR CO'S (F) 32,500 MANUAL WORKERS
HERE HAVE REJECTED THE COMPANY'S LATEST THREE-YEAR PAY PACKAGE
IN A SERIES OF SECRET BALLOTS, THE PRESS ASSOCIATION NEWS AGENCY
REPORTED.

ONE THIRD OF THE BALLOT RESULTS ARE KNOWN, BUT THE OVERALL
RESULT IS EXPECTED TO SHOW THAT 60 PCT OF THE WORKERS VOTED TO
THROW OUT THE IMPROVED OFFER, IT SAID.

SOURCES AT FORD CONTACTED BY REUTERS COULD NOT PROVIDE ANY
IMMEDIATE CONFIRMATION.

BOND DEALERS SAID THE AGENCY REPORT ADDED TO PESSIMISTIC
SENTIMENT. U.K. GOVERNMENT BONDS WERE ALREADY WEAK THIS MORNING.
04-FEB-1011 MON223 MONJ

REUTER

P

DEALING - SEE INSH 0826



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

myp

CHIEF SECRETARY	
REC.	12 FEB 1988
ACTION	<i>Mr P. McIntyre</i>
COPIES TO	<i>EX FST PMG Mr Anderson</i>
	<i>Mr Kemp Mr Burgess</i>
	<i>Mr Luce Mr Moore</i>
	<i>Mr C. Kelly Mrs Pearson</i>
	<i>Mr Turnbull Mr Call</i>

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

12 February 1988

Dear Paul

FORD STRIKE: ADMINISTRATIVE ARRANGEMENTS

At Cabinet on 10 February, the Prime Minister asked for further details about the timing of the arrangements being made to handle claims to supplementary benefit from Ford strikers.

As you know, strikers' families are entitled to supplementary benefit - though special rules apply which reduce the amounts which they can be paid. (A married man with 2 children aged 10 and 8 would be entitled to £28.15 - including child benefit - compared with an unemployed married man in similar circumstances who would be entitled to £70.15). The rules of entitlement to benefit are well known and are usually publicised by the trades unions involved. Because of this, the Department starts receiving requests for postal claim forms at an early stage in the dispute and if suitable arrangements are not made quickly, an uncontrolled extra burden falls on local offices thus affecting the service delivered to other claimants.

In the case of the Ford dispute there is more at stake than just the disruption of the service to non-striker claimants. There is also the problem of interrupting the process of converting all the supplementary benefit cases to income support by 11 April. If that is not completed on time, there could be chaos. To give you an idea of the scale of the problem, the two worst affected offices in London North - Basildon and Barking - would, without an emergency centre, experience an estimated increase in their weekly claims to supplementary benefit of 600 per cent. And the work is on a continuing basis because claimants have to write in each week confirming that their circumstances have not changed before benefit payments can be made. This, together with enquiries either by phone or people calling at the offices, would probably force them to close.

E.R.

Last wages for Ford strikers will have been paid yesterday (ie 1 February) and therefore supplementary benefit will be payable from next Thursday (18 February) and some strikers have already requested claim forms. So far only two Regions have been affected to any significant degree - North Western and London North. To avoid strikers arriving in large numbers at their local offices, these Regions have already taken steps to issue claim forms in accordance with normal instructions.

Once the claim forms are issued they will start to be returned quickly. It has therefore been necessary for these two Regions to make preparations to handle them. In North Western Region, this is being done by injecting extra staff into the local office affected (because they have sufficient accommodation for this). In London North this option is not available because the impact of the dispute falls in a more concentrated way on a small number of offices (4 compared with about 20) and they are already over-crowded and can take no more staff. The Region has therefore acquired the premises for an emergency centre to which the claims will be sent but which will not be open to the public.

The arrangements which we are operating in this instance have been used successfully for many years and applied during the miners strike, and I believe represent a prudent response in this case.

I am copying this to Jill Rutter at the Chief Secretary's Office and to Trevor Woolley at Cabinet Office.

Yours sincerely
Rod Clark

ROD CLARK
Private Secretary



[Handwritten signature]

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 February 1988

FORD STRIKE: ADMINISTRATIVE ARRANGEMENTS

The Prime Minister was grateful for the further information provided in your letter of 12 February which she has noted.

I am copying this letter to Jill Rutter (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

PAUL GRAY

Rod Clark, Esq.,
Department of Health and Social Security

MANAGEMENT IN CONFIDENCE

CHIEF SECRETARY	
REC.	15 FEB 1988
ACTION	Mr McINTYRE
FILE	TO CHRISTIAN GIBSON
	Mr KEMP, Mr BURGESS
	Mr LUCE, Mr MOORE
	Mr COWLEY, Miss PERSON
	Mr TOWNSEND, Mr GILL



CHIEF SECRETARY	
REC.	24 MAR 1988
TO	Mr Walker.
	Mr Sir P. Middleton
	Mr Hanson Mr Menick
	Mr Burgess
	Mr Call

PRIME MINISTER

... I attach a paper prepared by officials in my Department and DTI on Ford's current operations in the UK and prospects for further investment as background to our discussion on 28 March.

Recent events will not make the task of attracting these 2 important internationally-mobile projects to the UK any easier and highlight the importance of our discussing in advance the approach which should be taken by officials in the forthcoming grant negotiations. The EED project at Dundee was secured for Scotland only after difficult and protracted negotiations and required a level of assistance, even in the Dundee Enterprise Zone where very favourable terms apply, in excess of that normally available in the area.

The Zeta engine project is of enormous importance for the future of the Bridgend plant, which is the largest single employer in an area which continues to find it difficult to attract new investment followings its double down-grading from Special Development Area to Intermediate Area in 1984. In addition to its considerable contribution to our balance of payments position and the other national benefits which would be implicit in a decision to invest in the UK, I believe that the project offers long-term security for the site together with some expansion. Without this investment, the future of the plant, which presently employs over 1,300 in an area where male unemployment is 17.6%, must be viewed as precarious and any failure by Government to offer levels of assistance which can be defended as competitive with alternative locations will be exploited by our opponents.

Negotiations with Ford are expected to re-open very shortly to meet the company's timetable of taking decisions on the preferred European location in June. Since David Young's officials and mine had preliminary discussions with the company, events have moved on. The decision not to proceed with the Dundee project and the difficult pay negotiations which preceded that announcement, coupled with the weakened dollar, may make the task of attracting these projects to the UK more difficult.

On the information so far available, it seems unlikely that the rates of assistance normally available, at least in the Bridgend Intermediate Area, and our favourable corporate tax position, will be sufficient to secure the investment for the UK. These projects are, however, of national importance offering considerable balance of payment benefits alongside the direct and indirect employment gains and I believe that the negotiations should be conducted with this in mind.

/ I am copying this letter and the paper to David Young and John Major.

23 March 1988

P W



COMMERCIAL IN CONFIDENCE

FORD MOTOR COMPANY: Note by officials of the Welsh Office and DTI

The Ford Motor Company Ltd is currently finalising proposals for 2 major internationally-mobile projects for which sites in the UK are in contention. In total they will require capital investment approaching £1000m and will create or safeguard 2250 jobs. Preliminary discussions about potential grant aid have been held with officials of the DTI and the Welsh Office and detailed negotiations are due to begin shortly in preparation for a decision by Ford Europe, which is intended for June.

FORD MOTOR COMPANY

The Ford Motor Co Ltd is a wholly owned subsidiary of Ford Motor Company of Michigan USA and is Ford's biggest enterprise outside the US. The company has a number of manufacturing sites in the UK the main ones being:

Dagenham

Ford's largest British manufacturing centre, comprising engine, body, assembly, trim and export packing plants. Employment at the plant is around 18,000 producing the Sierra and Fiesta models.

Halewood (Merseyside)

Ford's two plants at Halewood were completed in 1963 at a cost of £100 million. They produce Escort and Orion cars, Escort vans and gearboxes, transaxles, engine gears and suspension components. Employment at Halewood is approximately 9,800.

Bridgend

Opened in 1980 at a cost of £180 million, the plant is the sole source of CVH engines for the Fiesta, Escort and Orion models built in the UK and Europe. Employment is scheduled to fall from its current level of 1300 to 1150 by 1990.

Southampton

The centre of Ford's light commercial vehicle operation, producing the Transit on automated production facilities brought on line in 1985 at



an investment cost of some £75 million. The plant has the largest concentration of robots in the UK commercial vehicle industry and, as well as producing the Transit, supplies large cab panels to Iveco/Ford at Langley. Employment is approximately 3,100.

Ford also have plants at:

- Basildon - Tractors and radiators
- Belfast - Carburettors
- Enfield - Instrument clusters
- Treforest - Spark plug ceramics
- Swansea - Rear axles, gear sets and brake components
- Leamington - Castings
- Wolwich - Engine and transmission parts, (due to close in Autumn 1988)
- Daventry - Motorcraft (all makes) parts
- Croydon - Components (due to close end 1988).

The company has a research and engineering centre at Dunton (Essex) built in 1967 at a cost of £10.5 million. In addition, there is a commercial vehicle test track at Boreham (Essex) and Ford have a joint facility with Iveco Ford Truck Ltd at Langley in Buckinghamshire, where the "Cargo" trucks are manufactured.

EMPLOYMENT, PRODUCTION AND PRODUCTIVITY

Employment and production figures since 1982 are shown below:

Table 1

	1982	1983	1984	1985	1986	1987
Total						
Average Employment	70,000	64,000	59,000	53,000	49,000	N/A
Car						
Production	307,640	318,687	273,767	317,689	346,265	402,805
CV						
Production	115,637	96,843	94,211	101,407	93,805	N/A



Although no productivity information for Ford is published, it is known that output per manufacturing employee has increased by more than 50% since 1984. Local sourcing has also risen in line with improved productivity; since 1985 the proportion of UK-produced cars sold in the UK has risen from 45% to about 70% and supplies of locally-sourced materials and components have increased to a current level of about 70%.

POSITION OF COMPANY IN SECTOR

In the car market Ford have led for many years with a steady share of between 26 and 30 per cent. This is considerably higher than that of their nearest rivals ARG and Vauxhall, who achieved 15 per cent and 13 per cent respectively in 1987. Ford are also traditional market leaders in the car-derived and medium and heavy van sectors. In 1987 their market shares in both sectors were 31 per cent and 34.8 per cent respectively. Annual registrations and exports are shown below:

Table 2

Company Sales

	1982	1983	1984	1985	1986	1987
UK Car Registrations	474,192	518,048	486,971	485,620	515,367	580,119
UK CV Registrations	227,244	264,127	265,624	284,228	289,069	N/A
Car Exports	60,937	31,717	16,984	14,233	6,425	N/A
CV Exports	35,371	26,421	29,560	27,769	14,887	N/A

RECENT DEVELOPMENTS

Ford is reported to remain interested in acquiring Austin Rover following the failure of its earlier take over bid. In the interim (September 1987), it has acquired a 75% share in Aston Martin Lagonda and has announced that it intends to continue with that company's current programmes. A 64% stake in AC Cars was acquired in October 1987 for £1.3m and Ford subsequently announced plans for a new factory at the present AC site to manufacture sports cars, creating a further 150 jobs.



Ford is also to build another technical centre at Dunton, for completion in 1989. The new centre will conduct research into the design of engine management systems, spark plugs, the development of in-car entertainment components and systems.

In October 1987, Ford (US) announced that a new European plant for EED (Electrical and Engineering Division) would be sited at Dundee. The plant would have involved capital investment of £35m and created 450 jobs by 1991-92. Regional Selective Assistance of £11.5m was accepted by the company which exceeded the normal "cost per job" limits, but was agreed to be necessary to counterbalance assistance offered by the Austrian Government to capture the project.

Ford's announcement on 17 March that the project would not proceed in Scotland followed inter-union disagreements over the single union arrangement which had been negotiated with the AEU.

RECENT INVESTMENT AND ASSISTANCE

In October 1986, Ford announced plans to invest £300m per annum in the UK until at least 1991 on plant, new models and product development. Included in this figure is £157m development of the new engine programme to be built at Dagenham; further £60m for development and production of the MT75 gearbox at Halewood and £30m at Belfast to consolidate oil and water pump production. In 1987 the company also invested £23m at the Bridgend engine plant to increase capacity to 520,000 units per annum.

The company has received significant Government assistance towards its investments notably:

Year	Project	Type of assistance	Amount
1978	Escort development at Halewood Bridgend and Swansea	Section 7	£75m
1980	Energy Conservation	Section 8	£0.052m
1982	Coal firing scheme	Section 8	(15.2% of net eligible costs of £3.5m)



1985	Near rear wheel drive 5 speed transmission (MT 75) at the Halewood transmission plant	Section 7	£8.5m
1986	Expansion of the production of brake drums at Swansea	Section 7	Up to £160,000
1987	Modernisation of Halewood Press shop	Section 7	£850,000
1987	A new "mini" assembly line at Bridgend engine plant	Section 7	£800,000
1987	EED plant in Dundee	Section 7	£11.5M

ADDITIONAL POTENTIAL INVESTMENT

Two major internationally mobile projects are currently at an advanced stage of preparation, with Ford UK bidding for the investment against subsidiaries in Europe and USA:

Bridgend

The plant presently employs about 1,300 producing 1.4 and 1.6 litre engines for the Fiesta, Escort and Orion cars. Investment of £23m will increase capacity from 475,000 units pa to 520,000 pa but employment is planned to reduce to 1,150 by 1990.

At the end of the decade the Bridgend engine will be 10 years old and Ford intend to replace it with a more modern design, incorporating multi valve technology, advanced engine management systems, new lightweight materials, and other technological innovations to improve its competitiveness for the 1990s. This programme, code named "ZETA", is planned for 1992. Planning volumes for the new engine will initially be around 570,000 per year. It is envisaged that the present engine will also continue in production, at least for a few years, at reduced volumes (around 250-300,000 a year). By the mid nineties however, it will probably be necessary to upgrade the residual CVH engine



volume to ZETA design levels, requiring a total ZETA capacity of around 850,000 engines a year. Investment for the initial 570,000 ZETA engines is estimated at £450-£500m with the potential subsequent upgrade of the residual CVH engines to ZETA requiring a further £150-£200m.

The ZETA engine is planned as a worldwide Ford engine for concurrent introduction in Ford's European and North American cars. Ford US is planning to invest at the Dearborn, USA, plant to produce the US volume. No sourcing decision has yet been made for the European volume, but alternatives are:

- install all-new facilities at Bridgend for 570,000 ZETA engines in 1992, whilst retaining capability to produce existing CVH engines up to 300,000 a year;
- install additional facilities in Dearborn to meet the total worldwide demand for ZETA;
- invest at one of Ford's associated companies in Europe eg Cologne or Valencia;
- develop a greenfield site in Portugal.

Without the ZETA programme the company contend that employment at Bridgend will reduce to around 500 hourly paid staff by the mid-nineties, producing around 250,000 old level engines annually. There will also be a corresponding reduction in salaried staff. If the residual CVH volume is subsequently upgraded to ZETA, closure of the plant will be inevitable. However, with ZETA facilities at Bridgend for 570,000 engines per year, together with continuation of CVH production at 250,000 a year, Bridgend's employment would increase to about 1,400 hourly paid staff, and the plant would be protected against the impact of subsequently upgrading the CVH to ZETA in the mid 1990s.

The company estimates that net UK balance of payments benefits will amount to £170m-£245m pa excluding the business generated for UK automotive suppliers, which is estimated as an additional £60-80m.



Halewood

Ford Europe intends to replace the present rear wheel drive Sierra with a front wheel drive vehicle, probably in 1993. Ford will require a new 5-speed transaxle (code named MIX75) which, when in full production, will be built at the rate of 570,000 units per annum. It will also be necessary, around 1991, to develop a new transaxle for the high performance derivatives of the Orion and Escort. Originally Ford UK, which is in competition for the investment with Ford Germany, had intended to meet the 1991 development by pulling forward the 1993 development as an earlier-starting low-volume programme, thus, hopefully, ensuring that all the transaxles were sourced from Halewood. However, a further requirement of 80,000 transaxles has been identified for North America, bringing the total to 650,000 and Ford may view this as too high to be sourced from a single plant. Further information on the company's strategic decision is promised.

The employment effect of the MIX75 programme by 1995 is 750 new jobs, 540 of which would result from the high volume programme implemented in 1993. Investment for the total programme is estimated at £225m and around 70% of production would be exported to Germany, Spain and Portugal. Ford UK estimated that British component suppliers would benefit from additional business of about £37m per annum.

Other Projects

Ford are also considering a £15m project at Leamington to produce iron castings and a £6.4m project at Basildon to produce air-conditioning products for Ford cars in the US.

INTERNATIONAL ASSISTANCE

Ford have alternative European locations for the 2 major investment projects and decisions are expected to be taken by Ford Europe in June for subsequent reference to Ford of America. The main European contenders for the investments appear to be Cologne and Valencia, where Ford have existing plants, and Portugal:



Cologne

No regional grants are available. Assistance would be limited to projects providing employment for particular categories of disadvantaged workers.

Valencia

While the city of Valencia is not designated of regional assistance purposes, surrounding areas can offer a combination of assistance which may include corporation tax reductions for investment and job creation, and regional investment grants. The total level of assistance potentially available could be up to 30% of eligible costs (£210m on the Bridgend project).

Portugal

The whole of Portugal is designated for regional policy purposes, although the rates of award vary across the country. The Assistance potentially available includes regional development grants, double tax credits for investment and exemptions from social security contributions, to a maximum of 75% of eligible costs in the most disadvantaged areas (£525m on the Bridgend project)..

UK Position

The **Bridgend** project is eligible for Regional Selective Assistance to a normal limit of £6,000 per job created or safeguarded provided the company can demonstrate that the assistance is essential for the project to proceed at the site. If it is accepted that the long-term future of the entire plant is at risk if the ZETA project is not secured, then the maximum assistance normally available would be £9m.

At **Halewood** the company would be eligible for both RDG and RSA, if a case for the latter can be shown, bringing the maximum level of assistance to about £12.75m.

Ford are likely to argue when negotiations begin in earnest that these levels of aid are insufficient to attract the projects to the UK in the face of competition, particularly from Spain and Portugal.

PWP

Told PB/CSF

FROM: M A WALLER
DATE: 25 March 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr Call

1 Study
Support Admin

FORD: FUTURE INVESTMENT IN BRIDGEND AND HALEWOOD

This is a brief for your meeting at No 10 on Monday 28 March with the Prime Minister, Mr Walker and Lord Young to discuss HMG's attitude towards financial assistance to Ford establishing new engine and transmission plants at Bridgend and at Halewood. The background to the discussion is set out in Mr Walker's minute of 23 March to which is attached a rather unsatisfactory factual note by Welsh Office and DTI officials.

TREASURY OBJECTIVES

2. Mr Walker's minute and paper amounts to a thinly disguised bid for additional RSA resources to enable Mr Walker to offer RSA which is substantially above currently agreed guideline levels. I therefore suggest your objectives for this meeting should be:

- i. To secure your colleagues agreement that any RSA grants offered should conform to the agreed cost per job guidelines;
- ii. To the extent that there is a desire on Mr Walker (or Lord Young's) part to exceed these costs per job guidelines, any offers of regional assistance must be found from within their existing departmental programmes; and
- iii. Payments above cost per job guidelines should be offset in the normal way against cash limited programmes.

These are ambitious objectives given the scale of bribes implied by the DTI/Welsh Office paper. But value for money considerations would point to as close adherence as possible to cost per job guidelines. More importantly, if you do not secure agreement that RSA offers from Mr Walker or Lord Young must be financed from within their existing programmes, this will effectively blow a major hole in the RSA commitment limiting system which you have fought so hard to put in place.

THE FORD PROJECTS

3. The projects involve capital costs totalling up to some £1 billion and some 2000 extra/safeguarded jobs viz:

	Capital Costs (£)	Jobs	Production on stream	Output
Bridgend (Engines)				
Phase 1	450-500)	1400	1992	570,000
Phase 2	150-200)		1995	180,000
Halewood (transaxle)	225	540-750	1993/5	570,000/650,000
Total	<u>825-925</u>	<u>1940-2150</u>	<u>NA</u>	<u>NA</u>

(i) Bridgend

4. The Bridgend project involves the establishment by 1992 of production facilities for a new engine (code named ZETA) to be used in Ford's European cars (the engine will also be produced in the US for N. American models). The cost of the investment for the new engine at Bridgend is some £450-£500 million over the period to 1992 with a further potential spend of £150-£200 million in the early-mid nineties to produce additional volumes of the ZETA engine to replace production of old models.

5. According to Ford there are four possible alternative sites for the production facilities ie

- All new facilities at Bridgend

- Additional facilities in the US to meet both US and European engine requirements.
- Establish a new plant in Europe eg Cologne or Valencia alongside existing production facilities.
- Develop a green field site in Portugal.

In the absence of the ZETA investment at Bridgend employment there (currently 1300 reducing to 1150 by 1990) would drop to something over 500 by the mid 1990s with the threat of total loss of employment there to the extent that old engine production facilities are phased out and production transferred to ZETA facilities elsewhere. By contrast, with the ZETA investment at Bridgend employment in the early 1990s would increase to about 1400 hourly paid staff.

(ii) Halewood

6. This project involves the introduction of a new five speed transverse axle to replace the current Sierra transmission. The precise employment effects associated with this project are currently unclear, pending decisions by the company on sourcing for the North American market. Assuming the plant only produces for the European market, then the gross employment effect of the new programme would be 750 additional jobs by 1995. Total investment is estimated at £225 million.

Bredden

Size and justification for assistance

7. Bridgend is in an intermediate area and therefore only eligible for regional selective assistance to a normal limit of £6,000 per job created or safeguarded (assuming additionality, viability and other tests are satisfied). Under these cost per job limits the maximum level of assistance available to finance the project would be some £9 million. Halewood is in a development area and would be eligible, under transitional provisions, for both regional development grant and regional selective assistance to a maxima of something just under £13 million.

8. The paper by officials suggests that assistance of this size would not be sufficient to induce Ford to locate in the UK but is silent on the likely level of assistance which would be required. I have talked to the Welsh Office officials about this and they have indicated the possibility of figures in the region of £50-100 million for the Bridgend project alone, partly on the basis that locating the ZETA project in Spain or Portugal could offer Ford assistance of between £210 million and £525 million. In terms of cost per job this could involve figures of £35,000-70,000 which would be outrageously profilgate even by the very generous standards of some recent regional assistance cases (cf cpj for Nissan £23,300, Ford/Dundee £25,333 compared with the ceiling of £17,000 per job under RDG/RSA in development areas). Moreover, the paper is a wholly unsatisfactory basis for consideration of the projects since it fails to assess any of the key criteria for RSA ie additionally, viability, economic efficiency. While it prays in aid balance of payments benefit (not a relevant criterion) there is no discussion of the wider supply side benefits in terms of wider technology transfer etc (where Ford's performance is rather less impressive than, say, Nissan.)

9. On Halewood DTI officials take the view - which they have cleared with Lord Young - that no more than the £13m would be justified.

Impact on Welsh Office/DTI RSA provision

10. Given the uncertainties about the scale and timing of payments which these projects might generate it is difficult to be precise about the likely impact the RSA provision for the departments concerned. The Welsh Office provision for RSA exceeds existing commitments by not more than 30 per cent (£11 million) in 1988-89; 55 per cent (£26 million) in 1989-90 and 80 per cent (£47 million) in 1990-91. Assuming a range of figures for the Bridgend project of £50-100 million for RSA this could involve outlays of some £10-20 million a year, probably starting in 1989-90. At the lower end of this range, its costs could arguably be contained within the Welsh Office RSA budget, though no doubt Mr Walker will argue that they would constitute an unacceptable constraint on his freedom of manoeuvre to accept other inward investment cases. At the higher end of the range it would virtually preempt a great majority of non

committed RSA money in 1989-90 and put a substantial squeeze on resources in the later years. Mr Walker's reaction to this is not difficult to forecast. Despite the very generous PES settlement in last year's survey and the reaffirmation of his adherence to commitment limiting in his letter of 23 March to you (copy attached) he is certain to argue that he would need to have further additional resources to cope with the effects of the Ford project. Mr Walker may argue that the DTI budget should take some of the strain, though it is more likely he will ask for totally new resources (particularly in view of the fact that we know Lord Young's RSA budget is under pressure, even without the possible need to finance the Halewood investment).

11. So far as can be established a similar proportion of the DTI RSA provision is committed as for the Welsh Office. This suggests presently unallocated figures of perhaps £38 million in 1988-89, £70 million in 1989-90 and £122 million in 1990-91. The Halewood investment is much smaller than that at Bridgend and in principle, therefore, the possible demand on DTI's regional assistance budget should be capable of containment within the existing provision. On the other hand, we know that DTI are already having to take steps to contain demand for surplus to live within their existing provision (which the Welsh Office are not) and Lord Young has recently signalled the possible intention to bid for further regional assistance resources on the back of the decision to support the Nissan investment.

SUMMARY AND CONCLUSIONS

12. The existing level of information in the officials' paper makes it difficult to offer any detailed comments on the economic and commercial arguments relating to establishment ^(by Ford of facilities) in the UK or to form any judgement on the precise impact of the Welsh Office and DTI regional assistance budgets. Nonetheless a number of features are clear even at this relatively early stage:

- A bribe of the order of £35,000-70,000 per job is likely to offer very poor value for money and, unless the Exchequer stumps up additional resources, the resulting

expenditure will lead to lower cost and therefore better value investments not being supported;

- Conceding very substantial payments to Ford could well generate pressure for further RSA PES bids and thus seriously compromise the system of commitment limiting which all three regional assistance Ministers have agreed to put in place.
- While Ford clearly does have a number of options open to it, it is at least arguable that industrial logic would point to putting new engine facilities alongside existing ones at Bridgend. Of the alternatives Cologne offers no regional grants and establishing totally new production in Valencia or Portugal must involve a substantially higher degree of risk to that associated with locating alongside existing engine plants. There must therefore be some doubt about additionality.
- Bribing Ford to overcome reluctance to invest generated by the union attitudes to the Dundee case is hardly giving the right signals to the unions who must recognise and bear the consequences of their behaviour.

13. I therefore recommend you should press strongly for Monday's meeting to reaffirm the need to stick to existing cost per job guidelines. There is far too little detail at this stage about Ford's intentions and alternative plans and about the overall balance of costs and benefits of assistance to justify any decision to relax these limits. It will be necessary for officials to talk to Ford to elicit more details but without any commitment on HMG's part to levels or forms of assistance. (I understand that the No 10 Policy Unit will be briefing in similar terms and that Lord Young is also likely to take a fairly robust attitude to proposals for substantial regional assistance - not least to preempt Mr Walker making a raid on the DTI budget). If, however, the sense of the meeting is that levels of assistance above cost per job guidelines should be offered

then you should press very strongly that this can only be on the basis that such assistance must be found within Mr Walker's (and Lord Young's) existing programmes, with usual cash limited offset rules applying for over-guidelines payments.


M A WALLER

659



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GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel: 01 270 3000
01 270 0538

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
0538

The Rt Hon Peter Walker MBE MP

23 March 1988

CT/7081/88

CONFIDENTIAL

Dear Chief Secretary

Mr Walker
Mr Anson
Mr Mearns, Mr Burgess
Miss Pearson, Mr Turnbull
Mr Greene, Mr N. Williams, Mr Call

Thank you for your letter of 8 February about RSA cash limiting. I have seen Malcolm Rifkind's response on 29 February. I am grateful for your agreement that the formal vote position should be on the same basis for the three territories. I note that this is an issue which will come under further consideration during this year's survey.

As I said in my letter of 17 December last, it is my intention to manage RSA expenditure so that it does not exceed the PES provision we have agreed. I will continue to monitor commitments made under the scheme accordingly. I am content that the need for any further controls, whether by way of any formally agreed systems of cash or commitment limits, should be pursued further in the course of the 1988 Survey.

Yours sincerely

J. Major

Approved by the Secretary of State
and signed in his absence

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG



10 DOWNING STREET
LONDON SW1A 2AA

CHIEF SECRETARY	
REC.	30 MAR 1988
ACTION	Mr Waller
COPIES TO	Cy, Sir P. Middleton Mr Anson, Mr Manck
	Mr Burgner
	Mr Call

From the Private Secretary

29 March 1988

✓ - JPB pny
Dear Tom,

The Prime Minister held a meeting on 28 March to discuss the prospects for Ford's investment plans in the UK against the background set out in your Secretary of State's minute of 23 March. Those present were your Secretary of State, the Chief Secretary and the Chancellor of the Duchy of Lancaster.

Your Secretary of State said he was concerned that planning should be carried out to assess the maximum level of assistance that the Government should be prepared to give to Ford investment projects at Bridgend and Halewood. This work should take into account all the relevant factors, including the impact on the balance of trade and component suppliers, and should involve officials from the DTI and the Treasury as well as the Welsh Office.

In discussion the following main points were raised:

- (i) there was a danger that large financial assistance could attract attention from the European Commission. The Government had, however, indicated that future policy on Regional Selective Assistance would be competitive with genuinely mobile international projects;
- (ii) Bridgend was an intermediate area and assistance would therefore have to be limited to Regional Selective Assistance and not include Regional Development Grant. RSA should be limited to the normal guidelines;
- (iii) it was understood that Ford had deferred decisions on the location of the investment projects in question and was looking again at its international strategy. It seemed likely that industrial relations aspects, and in particular the prospects for reaching agreement on single union deals, would be a major factor in their thinking. Ford's attitude might also be affected by the outcome of the Government's decision on the sale of its shareholding in Rover;

COMMERCIAL IN CONFIDENCE

- (iv) the scale of any RSA assistance also had to take into account the agreement reached in the Public Expenditure Survey on the development of commitment limiting.

Summing up the discussion, the Prime Minister said it was agreed that the Department of Trade and Industry, the Welsh Office and the Treasury should put in hand an assessment of the possibilities for levels of assistance to Ford investment projects at Bridgend and Halewood, taking into account all the relevant factors.

I am copying this letter to Peter Smith (Chancellor of the Duchy of Lancaster's Office) and Jill Rutter (Chief Secretary's Office).

Yan,
Paul

—
Paul Gray

Jon Shortridge, Esq.,
Welsh Office.



PRIME MINISTER

19/8/88

Mr Waller

Mr Anson

Mr B... Mr T...

Mr Moore

Mr AM White Mr Call

You will recall that when we met on 28 March to discuss the prospects for Ford's investment plans in the UK it was agreed that an assessment be made of the possibilities for levels of assistance towards the company's proposals.

At this stage there has been no further progress on the Halewood development as the company has yet to put forward full details of its proposals for that site, but we are now in a position to assess the full implications of the Zeta engine investment. If anything this has turned out to be an even more substantial project and of greater national significance than we had first thought. At £726 million involving production of up to 1 million engines per year it is the largest single investment in an automotive engine plant anywhere in the world with significant implications for plants at Belfast and Swansea as well as Bridgend. The main engine plants will be at Bridgend and Swansea and will involve £666 million of the overall investment. The Belfast factory makes fuel pumps and the remaining £60 million expenditure will take place there. The project has crucial effects on the balance of payments and on supplier industries. The overall effects of the investment can be summarised as follows:-

1. The net effect on the balance of payments is of the order of £300 million per annum.
2. The project will provide an extra £200m per annum in UK component supplier business and some of this is likely to involve new inward investment. For instance, Internet Corporation, a US iron foundry company is being actively courted by Ford to set up in the UK and supply the Zeta programme should it proceed here. The company is keen to locate in Wales with a £35m facility supplying engine blocks all of which are currently sourced from Germany. This project alone will provide over 300 jobs and displace £30m of imports.
3. The project will provide and help safeguard over 3,500 jobs directly at Ford's Bridgend, Swansea and Belfast plants. It will also provide nearly 7,000 jobs in UK component industries apart from 3,500 in the plant facility installation and construction programme.

/...



To properly assess these issues, I have personally seen Mr Hayden, Vice-President of Ford Europe and responsible for all the company's European manufacturing activities, and impressed on him the great advantages of investment in the UK and my concern, should the investment not take place, for the future of these plants particularly at Swansea, which has recently seen the announcement of the closure of the Rover pressings plant, and Belfast.

Fords are proposing investment at Swansea which will secure the long-term future there. The project has crucial implications for the Belfast plant which will certainly shut if the investment in South Wales does not proceed. Bridgend and Swansea will also close if the project does not go ahead.

It is clear that Ford has very real alternatives to site part or all of the main engine project elsewhere, in Germany or the US, where excess capacity dramatically reduces investment cost and hence provides better returns. The company is seeking a £45 million grant for the South Wales development to offset this. The Belfast plant is not only crucially affected by any decision to proceed with the main investment in South Wales but is also threatened by the cheaper alternative of sub-contract purchasing of pumps. In recognition of this, Ford is likely to apply separately for a grant, probably £12 million, at Belfast.

The main engine investment in South Wales is an immense project with enormous consequences if the UK fails to secure it. I am convinced that the company's argument based on financial returns is objective and that assistance is vital to ensure that the investment is secured.

The levels of assistance more than justifies the benefits gained.

We shall of course make every attempt to secure this investment at a lower level of grant though this will be in excess of the £27 million which can be paid within normal RSA scheme guidelines. Nonetheless, even with grant of £45 million, the cost per job is well under half the cost of the Nissan project and less than two-thirds that proposed for Dundee. Both of these projects represented, of course, substantially smaller investments than Zeta.

I am sending copies of this minute to John Major and Lord Young.

19 August 1988

E. K. Davis

PW

Approved by the Secretary of
State and signed in his absence

AMP

FROM : HM ROBERTS
DATE : 24 AUGUST 88

PS/ CHIEF SECRETARY

cc PS / CX

Sir Peter Middleton
Mr Monck
Mr Anson
Mr Moore
Mr AM White
Mr N Williams
Mr Call

WELSH OFFICE SUPPORT FOR FORD UK

The attached minute from Peter Walker to the Prime Minister proposes making a payment of up to £45m Regional Selective Assistance to Ford UK in respect of its proposed investment of £666m in South Wales for the production of a new engine (codenamed ZETA). His minute claims that without this investment the Ford plants at Bridgend, Swansea and Belfast will eventually close. In practice the company seem to have taken the decision not to single source ZETA from any one European country and so the issue is rather one of how much production Ford will source from the UK. The company is seeking a £45m Regional Selective Assistance grant in respect of the South Wales investment, which Peter Walker supports, although he undertakes to try to scale this down. DTI's view based on their discussions with Ford is that some scaling down should be possible. The minute does not address the question of how the extra resources to cover the RSA support for this investment is to be found.

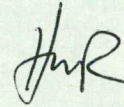
2. In parallel with this application, there is also a Ford proposal - with accompanying request for RSA support - to make an investment in axle production at Halewood. This of course falls within DTI's remit.

3. The latest minute makes many of the same points as Mr Walker's earlier minute of 23 March plus attachment. The Prime Minister held a meeting on 28 March to discuss this case : its conclusion recorded in Paul Grey's letter of 29 March to Peter Walker's Private Secretary (attached) was that " the Department of Trade and Industry, the Welsh Office and the Treasury should put in hand an assessment of the possibilities for levels of assistance to Ford investment projects at Bridgend (and Halewood) taking into account all the relevant factors." This remit has not been met and the Welsh Office are therefore attempting a bounce in writing to the Prime Minister at this stage. A reasonable response would be at least to remind them of this outstanding remit.

4. The £45m sought by Ford breaks the Regional Selective Assistance (RSA) guidelines in respect of this project. RSA operates under agreed cost per job guidelines. Any offers of regional assistance which exceed these guidelines must be met from existing departmental programmes. Value for money considerations point to close adherence to the guidelines. DTI view is clearly against breaching the guidelines for Ford and they would prefer to restrict the amount of grant that

which the guidelines presently allow in respect of this project rather than the £45m sought by Ford. DTI are intending to send a robust Private Secretary's letter in response to Mr Walker's minute making the point on cost per job guidelines, though they are unlikely to respond quickly. (Peter Walker's minute claims that the guidelines would allow £27m Government support for this project : this figure has not been corroborated and far exceeds the £9m which we had previously seen.)

5. It would have been helpful to see DTI's response before intervening but to prevent silence appearing to signal consent, it would be helpful if you could speak to Paul Gray pointing out that Peter Walker has not fulfilled the remit of the earlier meeting so that writing along these lines is premature, and that Treasury (and DTI) are of the view that the proposal does not justify a breach of the cost per job guidelines for RSA, particularly when the sums in question (£27-45m out of £666m) represent such a small proportion of the overall size of the project and therefore are not likely to be crucial to Ford's decision.



MS HM ROBERTS

M, 16/6/68

1521

Note

Spoke to Nichola Carter in DTI. Agreed that DTI would draft a private secretary's response which was robust in maintaining cost per job guidelines. We may wish to comment when we have seen DTI's letter.



PRIME MINISTER

Mr Wainwright
Mr H. Anson
Mr. F. ...
Mr. Moore
Mr. ...

June 24/68

You will recall that when we met on 28 March to discuss the prospects for Ford's investment plans in the UK it was agreed that an assessment be made of the possibilities for levels of assistance towards the company's proposals.

At this stage there has been no further progress on the Halewood development as the company has yet to put forward full details of its proposals for that site, but we are now in a position to assess the full implications of the Zeta engine investment. If anything this has turned out to be an even more substantial project and of greater national significance than we had first thought. At £726 million involving production of up to 1 million engines per year it is the largest single investment in an automotive engine plant anywhere in the world with significant implications for plants at Belfast and Swansea as well as Bridgend. The main engine plants will be at Bridgend and Swansea and will involve £666 million of the overall investment. The Belfast factory makes fuel pumps and the remaining £60 million expenditure will take place there. The project has crucial effects on the balance of payments and on supplier industries. The overall effects of the investment can be summarised as follows:-

1. The net effect on the balance of payments is of the order of £300 million per annum.
2. The project will provide an extra £200m per annum in UK component supplier business and some of this is likely to involve new inward investment. For instance, Intermet Corporation, a US iron foundry company is being actively courted by Ford to set up in the UK and supply the Zeta programme should it proceed here. The company is keen to locate in Wales with a £35m facility supplying engine blocks all of which are currently sourced from Germany. This project alone will provide over 300 jobs and displace £30m of imports.
3. The project will provide and help safeguard over 3,500 jobs directly at Ford's Bridgend, Swansea and Belfast plants. It will also provide nearly 7,000 jobs in UK component industries apart from 3,500 in the plant facility installation and construction programme.

/...



To properly assess these issues, I have personally seen Mr Hayden, Vice-President of Ford Europe and responsible for all the company's European manufacturing activities, and impressed on him the great advantages of investment in the UK and my concern, should the investment not take place, for the future of these plants particularly at Swansea, which has recently seen the announcement of the closure of the Rover pressings plant, and Belfast.

Fords are proposing investment at Swansea which will secure the long-term future there. The project has crucial implications for the Belfast plant which will certainly shut if the investment in South Wales does not proceed. Bridgend and Swansea will also close if the project does not go ahead.

It is clear that Ford has very real alternatives to site part or all of the main engine project elsewhere, in Germany or the US, where excess capacity dramatically reduces investment cost and hence provides better returns. The company is seeking a £45 million grant for the South Wales development to offset this. The Belfast plant is not only crucially affected by any decision to proceed with the main investment in South Wales but is also threatened by the cheaper alternative of sub-contract purchasing of pumps. In recognition of this, Ford is likely to apply separately for a grant, probably £12 million, at Belfast.

The main engine investment in South Wales is an immense project with enormous consequences if the UK fails to secure it. I am convinced that the company's argument based on financial returns is objective and that assistance is vital to ensure that the investment is secured.

The levels of assistance more than justifies the benefits gained.

We shall of course make every attempt to secure this investment at a lower level of grant though this will be in excess of the £27 million which can be paid within normal RSA scheme guidelines. Nonetheless, even with grant of £45 million, the cost per job is well under half the cost of the Nissan project and less than two-thirds that proposed for Dundee. Both of these projects represented, of course, substantially smaller investments than Zeta.

I am sending copies of this minute to John Major and Lord Young.

19 August 1988

E. K. Davies

PW

Approved by the Secretary of State and signed in his absence

PHF

FROM: H M ROBERTS

DATE: 9 September 1988

- 1. MR WALLER
- 2. CHIEF SECRETARY

seen in draft HMR

Minister Walker

has been

resolved

[this]

- cc PS/CX
- PS/FST
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Moore
- Mr Burgner
- Mr A M White
- Mr N Williams
- Mr Call

FORD: FUTURE INVESTMENT IN SOUTH WALES

Introduction

The attached minute from Peter Walker to the Prime Minister of 19 August proposes making a payment of up to £45m Regional Selective Assistance to Ford UK in respect of its proposed investment of £666m in South Wales for the production of a new engine (codenamed ZETA). His minute claims that without this investment the Ford plants at Bridgend and Swansea will eventually close.

2. This submission summarises Ford's case based on the evidence presented so far and identifies its potential weaknesses. A response to Peter Walker's letter has been delayed by discussions with officials which are continuing. We nevertheless recommend you write immediately to the Prime Minister expressing scepticism on the basis of what we have seen.

Background

3. The latest minute makes many of the same points as Mr Walker's earlier minute of 23 March plus attachment. The Prime Minister held a meeting on 28 March to discuss this case: its conclusion recorded in Paul Gray's letter of 29 March to Peter Walker's Private Secretary (attached) was that "the Department of Trade and Industry, the Welsh Office and the Treasury should put in hand an assessment of the possibilities for levels of assistance to Ford investment projects at Bridgend (and Halewood) taking into account all the relevant

factors." This remit has not been met and the Welsh Office are therefore attempting a bounce in writing to the Prime Minister at this stage. Ford have asked for a decision by the end of September.

4. Peter Walker's minute is based on Ford's application for Regional Selective Assistance and quotes a potential £666m investment in South Wales and 3500 new or preserved jobs in exchange for the £45m grant applied for. Both the letter and Ford's application raise a number of areas of doubt about the case for assistance.

Issues

5. Rate of return: Ford have not provided overall rate of return figures for the Zeta investment project as a whole making it difficult to assess at a macro level whether any RSA support is justified in terms of the 15% threshold rate of return required on major new investments.

6. Exchange rates: Ford's case, which is costed in \$, assumes a \$1.55 exchange rate. This low estimate, about 9% below a \$1.70 exchange rate, probably exaggerates the sterling investment figures, with consequent understatement of the rate of return.

7. Jobs: Peter Walker's minute quotes 3500 jobs preserved or created by this investment which includes Belfast and South Wales. The most recent figures given by Ford are for 2870 jobs safeguarded or created in Wales, of which 1920 are at Bridgend and 950 at Swansea. Under the Regional Selective Assistance guidelines for cost per job this suggests a maximum grant of £27m, the figure quoted towards the end of Peter Walker's minute.

8. Additionality: The proposed investment by Ford for the production of the new Zeta engine appears to fall into 2 parts. Ford need to meet European demand of about 850,000 engines. Ford has decided that the economics of production largely rule out any alternative to single sourcing within Europe. Ford's remaining alternative to South Wales production is therefore their US engine line in Dearborn, Michigan. Spare capacity at Dearborn on current plans amounts to 300,000 engines: on which Dearborn has a cost advantage over Bridgend (South Wales). Phase I of Ford's investment

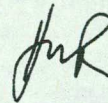
relates to production capacity of 550,000 at Bridgend; Phase II represents the 300,000 production which can be produced either at Dearborn US or Bridgend. The proposal raises the following questions:

- (i) Ford appear already to have decided to invest for 550,000 production (Phase I) in Bridgend, South Wales. The possible additionality of the project is thus restricted to the 300,000 Phase II production which could otherwise be sited in the US.
- (ii) The application for £45m Regional Selective Assistance is based on the premise that this additional support raises the return on South Wales production of the incremental 300,000 engines to that of Dearborn and thus justifies Ford siting such investment in the UK. But the incremental investment proposed is only £116m, of which the £45m grant applied for represents a princely 39%.
- (iii) Final figures are not available on the incremental jobs impact of Phase II: estimates suggest 300-400 giving cost per job figures of £100-150,000. This compares with cost per job limits in the Regional Selective Assistance guidelines of £6000 for intermediate areas and £17000 for development areas. For example, 350 jobs in an intermediate area implies maximum Government support under the guidelines of £2.1m.

Conclusion

9. Taking the project overall it is not clear whether any Government support is justified given the doubts about additionality, low exchange rate used and lack of information about rate of return. If the figures for the jobs created by the overall project are confirmed it suggests a limit of £27m on Government support rather than the £45m applied for. But it is very doubtful whether the whole project is additional: it appears that Phase I capacity for 550,000 engines will be placed in Bridgend, South Wales in any case, so that only Phase II capacity of 300,000 engines is additional. On this basis eligibility for Government support would be about £2m, rather less than the £45m Ford have applied for.

10. We are still pursuing several outstanding questions on the Ford application with the Welsh Office and therefore cannot give conclusive advice now. But since Number 10 would welcome comment quickly you may care to write to the Prime Minister along the lines of the attached draft expressing doubts about the additionality of the investment and about the value for money any such support would imply. DTI Ministers are also expected to comment expressing doubt about the additionality of the project overall, but stressing the need to process the case quickly to avoid it being caught by the new EC State Aids regime for the car industry which comes into effect later in the year.



MS H M ROBERTS

DRAFT MINUTE TO THE PRIME MINISTER

I have seen Peter Walker's minute to you of 19 August outlining the case for making a grant of up to £45m to Ford in connection with proposed Zeta engine investments at Bridgend and Swansea in South Wales

2. While I of course agree about the desirability of Ford investing in the UK, on the evidence currently made available to my officials there is no clear case for making any grant to Ford. It appears that a substantial portion of the investment will go ahead even without assistance so that the additionality criterion for Regional Selective Assistance (RSA) will not be met. As a result the value for money from this sizeable Government grant would seem to be very low. Clearly therefore the case needs to be examined in more detail before I could agree to giving any substantial support to the company.

3. I must also stress that if eventually a decision is reached to make Regional Selective Assistance available to Ford for this investment, the amount should be within the normal cost per job guidelines and should be met from within the existing Welsh Office regional assistance provision.

5. I am copying this to David Young and Peter Walker.

JOHN MAJOR

521

Note
Spoke to Nicola Corder
in DTI. Agreed that
DTI would draft a
private secretary's response
which was robust in maintaining
cost per job guidelines. We may
wish to comment when we
have seen DTI's letter.



PRIME MINISTER

JWR
24/8

Mr. Wainwright
Chris Arson
Mr. F...
Mr. Moore
Mr. M. White
Mr. C. Hill

Helen
Fondry group
JWR

You will recall that when we met on 28 March to discuss the prospects for Ford's investment plans in the UK it was agreed that an assessment be made of the possibilities for levels of assistance towards the company's proposals.

At this stage there has been no further progress on the Halewood development as the company has yet to put forward full details of its proposals for that site, but we are now in a position to assess the full implications of the Zeta engine investment. If anything this has turned out to be an even more substantial project and of greater national significance than we had first thought. At **£726 million** involving production of up to 1 million engines per year it is the largest single investment in an automotive engine plant anywhere in the world with significant implications for plants at Belfast and Swansea as well as Bridgend. The main engine plants will be at Bridgend and Swansea and will involve **£666 million of the overall investment.** The Belfast factory makes fuel pumps and the remaining £60 million expenditure will take place there. The project has crucial effects on the balance of payments and on supplier industries. The overall effects of the investment can be summarised as follows:-

£544m

1. The net effect on the balance of payments is of the order of £300 million per annum.
2. The project will provide an extra £200m per annum in UK component supplier business and some of this is likely to involve new inward investment. For instance, Internet Corporation, a US iron foundry company is being actively courted by Ford to set up in the UK and supply the Zeta programme should it proceed here. The company is keen to locate in Wales with a £35m facility supplying engine blocks all of which are currently sourced from Germany. This project alone will provide over 300 jobs and displace £30m of imports.
3. The project will provide and help safeguard over **3,500 jobs** directly at Ford's Bridgend, Swansea and Belfast plants. It will also provide nearly 7,000 jobs in UK component industries apart from 3,500 in the plant facility installation and construction programme.

2000 jobs

1...



To properly assess these issues, I have personally seen Mr Hayden, Vice-President of Ford Europe and responsible for all the company's European manufacturing activities, and impressed on him the great advantages of investment in the UK and my concern, should the investment not take place, for the future of these plants particularly at Swansea, which has recently seen the announcement of the closure of the Rover pressings plant, and Belfast.

Fords are proposing investment at Swansea which will secure the long-term future there. The project has crucial implications for the Belfast plant which will certainly shut if the investment in South Wales does not proceed. Bridgend and Swansea will also close if the project does not go ahead.

It is clear that Ford has very real alternatives to site part or all of the main engine project elsewhere, in Germany or the US, where excess capacity dramatically reduces investment cost and hence provides better returns. The company is seeking a £45 million grant for the South Wales development to offset this. The Belfast plant is not only crucially affected by any decision to proceed with the main investment in South Wales but is also threatened by the cheaper alternative of sub-contract purchasing of pumps. In recognition of this, Ford is likely to apply separately for a grant, probably £12 million, at Belfast.

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We shall of course make every attempt to secure this investment at a lower level of grant though this will be in excess of the £27 million which can be paid within normal RSA scheme guidelines. Nonetheless, even with grant of £45 million, the cost per job is well under half the cost of the Nissan project and less than two-thirds that proposed for Dundee. Both of these projects represented, of course, substantially smaller investments than Zeta.

3500 jobs => 21m
4500 jobs =< 27m
2000 jobs => 12m

I am sending copies of this minute to John Major and Lord Young.

E. K. Davies

PW

Approved by the Secretary of State and signed in his absence

19 August 1988



FROM: CHIEF SECRETARY
 DATE: 12 September 1988

MJ

PRIME MINISTER

FORD: FUTURE INVESTMENT IN SOUTH WALES

I have seen Peter Walker's minute to you of 19 August outlining the case for making a grant of up to £45 million to Ford in connection with proposed Zeta engine investments at Bridgend and Swansea in South Wales.

2 While I of course agree about the desirability of Ford investing in the UK, on the evidence currently made available to my officials there is no clear case for making any grant to Ford. It appears that a substantial portion of the investment will go ahead even without assistance so that the additionality criterion for Regional Selective Assistance (RSA) will not be met. As a result the value for money from this sizeable Government grant would seem to be very low. Clearly therefore the case needs to be examined in more detail before I could agree to giving any substantial support to the company.

3 I must also stress that if eventually a decision is reached to make Regional Selective Assistance available to Ford for this investment, the amount should be within the normal cost per job guidelines and should be met from within the existing Welsh Office regional assistance provision.

2 I am copying this minute to David Young and Peter Walker

cc *(initials)* FST

Sir P MILDRETT, Mr ANSON

Mr MAJOR, Mr MAUR

Mr BURNER, Mr MAUR

Mr AMWHITE, Mr NEWELL

Ms H ROBERTS, Mr GILL

Carly Evans

JOHN MAJOR

(approved by the Chief Secretary and signed on his behalf)



the department for Enterprise

RESTRICTED
COMMERCIAL IN CONFIDENCE

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Peter Walker MBE MP
Secretary of State
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1A 2ER

Department of
Trade and Industry

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London SW1H 0ET

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Fax 01-222 2629

CHIEF SECRETARY	
REC.	15 SEP 1988
ACTION	Mr Waller
COPIES TO	Cx, FSI, Sir Paul de la Cour, Mr Anson, Mr Burgner, Mr Turnbull, Mr Mack, Mr Moore, Mr AM White Mr Call. Mr N. Williams,

Ms H. Roberts

Direct line 215 5147
Our ref
Your ref
Date 15 September 1988

John Peter

FORD: FUTURE INVESTMENT IN SOUTH WALES

Thank you for copying to me your minute of 19 August to the Prime Minister. I have also seen John Major's minute of 12 September.

I agree about the national significance of this major investment and I accept that we may have to be prepared to make a substantial offer of RSA if we are to secure it in its entirety for the UK. I am concerned, however, that my officials have not yet received some of the key information they need before they can give me substantive advice. I also understand that you have yet to put a detailed case to the Welsh Industrial Development Advisory Board. I think we need their independent view, and the further information, before we try to reach any firm conclusion. On the basis of what you say in your minute and the recent advice of my officials, I am afraid I would find it difficult to support at this stage an offer even as high as £27m, which your officials calculate would be the maximum allowable under the guidelines and in normal circumstances would represent the Government's fall-back rather than opening position.



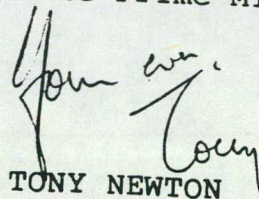
the department for Enterprise

As you point out, we have breached the guidelines in the past to secure important investments. In this case, however, I believe that circumstances suggest a cautious approach. Senior officials from my Department visited Ford's headquarters in Detroit in April and found a very positive attitude towards investment in the UK in general and at Bridgend in particular. Discussions with Ford in the UK have also confirmed that at least Phase 1 of the Bridgend project, costing about £445m, looks very likely to take place there and that negotiations need to focus on Phase 2, costing about £221m, which is mobile between Bridgend and the USA. This suggests that you should be prepared to negotiate a very low figure for Phase 1, reserving any flexibility for Phase 2.

In addition my Department is likely soon to receive an application from Ford for the Halewood MTX75 project for a new 5 speed transaxle gearbox. While this is not as large as the Bridgend project it is nonetheless significant, involving investment of some £225m and 750 jobs on Merseyside. We would of course want to secure this project for the UK at the least cost in selective assistance and I hope it will be possible for your officials to negotiate over Bridgend in a way which, so far as possible, avoids setting a precedent for what we might offer at Halewood.

You will also wish to be aware that my Department has just learnt formally that the European Commission have decided in principle to implement a prior notification and clearance requirement for all state aid payments of any significance to vehicle producers in the Community. We have yet to receive the details, but it will inevitably mean a significant tightening up on the terms of any assistance member states may wish to offer, probably coming in to effect before the end of the year. It is therefore important, if you are to have the necessary flexibility in final negotiations, to seek to reach an agreement quickly with Ford. But I do not think this should in any way dissuade you from trying to secure a low settlement since Ford can be told that, if they hold out for a higher figure, then there is a real prospect that any applications they may wish to make, not only in the UK but also elsewhere in the EC, will become entangled in the Commission's new restrictions. I also feel that in any event it is essential that you should press Ford for more detailed information before we try to reach any substantive view on the amount of any assistance we might be prepared to offer.

I am copying this letter to the Prime Minister and John Major.


TONY NEWTON

SE2AAZ



Phf

10 DOWNING STREET

From the Private Secretary

19 September 1988

LONDON SW1A 2AA CHIEF SECRETARY	
REC.	19 SEP 1988
ACTION	<i>Mr. Waller</i>
COPIES TO	<i>Cx FST, Sir P. Middleton, Mr. Hanson, Mr. Brygale, Mr. Tombs, Mr. Mack, Mr. Moore, Mr. Amis, Mr. Williams, Ms Roberts, Mr. Call</i>

Dear Stephen,

FORD'S INVESTMENT PLANS

The Prime Minister has seen your Secretary of State's minute of 19 August and the subsequent responses from the Chief Secretary and the Chancellor of the Duchy of Lancaster.

The Prime Minister sees great attraction in seeking to bring Ford's investment projects to the UK. But she thinks it essential that the detailed evidence and figuring should be thoroughly examined by the Treasury and Department of Trade and Industry, as well as the Welsh Office, on the basis agreed at the meeting on 28 March. She would therefore be grateful if your Secretary of State could arrange for these detailed discussions and for a full assessment to be prepared of the proposed level of assistance.

I am copying this letter to Carys Evans (Chief Secretary's Office, HM Treasury) and to Peter Smith (Chancellor of the Duchy of Lancaster's Office).

*Yours,
Pd*

Paul Gray

Stephen Williams, Esq.,
Welsh Office.



10 DOWNING STREET

From the Private Secretary

19 September 1988

LONDON SW1A 2AA CHIEF SECRETARY	
REC.	19 SEP 1988
FROM	Mr. Miller
TO	Cx EST Sup Modeler Mr. Hanson, Mr. Brogan, Mr. Tomoull, Mr. Munnick, Mr. Munnick, Mr. Munnick Mr. N. Williams, MS Kibetsky

Dear Stephen.

FORD'S INVESTMENT PLANS

The Prime Minister has seen your Secretary of State's minute of 19 August and the subsequent responses from the Chief Secretary and the Chancellor of the Duchy of Lancaster.

The Prime Minister sees great attraction in seeking to bring Ford's investment projects to the UK. But she thinks it essential that the detailed evidence and figuring should be thoroughly examined by the Treasury and Department of Trade and Industry, as well as the Welsh Office, on the basis agreed at the meeting on 28 March. She would therefore be grateful if your Secretary of State could arrange for these detailed discussions and for a full assessment to be prepared of the proposed level of assistance.

I am copying this letter to Carys Evans (Chief Secretary's Office, HM Treasury) and to Peter Smith (Chancellor of the Duchy of Lancaster's Office).

Yours,
Pd

Paul Gray

R/est cc Mr. Munnick
Tom 20/9
We will pursue at
Sp's level. No response
needed from Welsh
proten.

[Signature]
20/9.

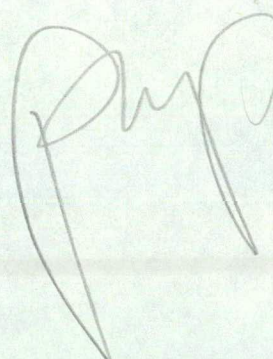
Stephen Williams, Esq.,
Welsh Office.

CONFIDENTIAL

FROM: M A WALLER

DATE: 27 September 1988

MR A M WHITE



cc. PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
Mr Anson
Mr Monck
Ms Peirson
Mr Burgner
Mr Meyrick
Mrs Burnhams
Ms Roberts
Ms Osmond
Mr Call

FOUNDRIES MONTUPET: LINKS WITH RSA ASSISTANCE FOR FORD

1. Your minute to the Financial Secretary foreshadowed an application for assistance of £47.4m for a foundry facility primarily designed to supply cylinder heads for Ford's new range of Zeta models in the 1990s.

2. You should be aware that we are currently in discussion with the Welsh Office on an application from Ford for Regional Selective Assistance of up to £45m intended to induce Ford to site their Zeta engine production facilities at Bridgend and Swansea in South Wales. I also understand that the Northern Ireland office are in negotiation with Ford over a £6-7m grant in respect of Zeta related production at Ford's Belfast plant. In total, therefore, Ford's Zeta engine programme is currently generating requests for industrial assistance from HMG of close to £100m. We will need to ensure that this overall picture is kept in mind when these cases come forward for collective Ministerial consideration, particularly in view of the high cost per job figures involved with the Montupet project. There may well be an advantage in seeking to have these issues considered together though I do not know whether this will be possible given that Ford have set a deadline for a response to their application for assistance in Bridgend and Swansea of the end of this month. Mr Walker is therefore likely to be pressing for discussion with colleagues towards the end of this week.



M A WALLER

29/9/88



PRIME MINISTER

FORD - ZETA ENGINE PROJECT

SECRETARY

Mr Waller

Cx, EST, Sir P Midgerton

Mr Anson, Mr Burgess, Mr Turnbull,

Mr Mowck, Mr More, Mr Snowwhite

Mr N. Williams, Mr Roberts

Mr Call

Following our earlier discussion and correspondence on Ford's Zeta Engine project, I am concerned that we should now move quickly to give the company a decision on its application for grant aid. I am under considerable pressure from Ford to give them an answer by the end of the month when a decision about the location of the investment has to be taken.

I am glad to note from the correspondence that the immense national and regional significance of this project is not in doubt and that we are all agreed on the importance of attracting the investment to the UK. We are also agreed that it should be secured for the minimum level of assistance which will ensure that both phases come to the UK.

All the essential information has been copied to the Treasury and DTI, and officials have now examined the application as requested in your Private Secretary's letter of 19 September. A note setting out their findings is attached.

By any calculation this is an enormous project. It is the largest engine investment undertaken anywhere in the world. The entire project has a cost in excess of £959m and it has already been decided that the American market will be supplied from Ford's existing plant in Dearborn. At stake, therefore, is the entire European engine manufacturing capability which is scheduled to produce the first engines by 1991. The location of the European facility has not been decided but Ford USA has agreed that the project, which is in two closely related phases, will go ahead at the existing factories at Bridgend and Swansea provided significant Government support is available.

COMMERCIAL IN CONFIDENCE



I understand that there may be doubts about the need to assist this project at any significant level arising particularly out of a visit earlier this year by DTI officials to Ford in America which left an impression that at least a substantial part of the Zeta project would proceed in the UK without assistance. This is not the position that Ford have taken in their discussions with me or throughout the negotiations with my officials. I have had several meetings with Ford's senior representatives in Europe who have made it clear that the Group has not finally decided on a location for this investment and that the decision will be crucially influenced by the level of grant which is offered.

It was also apparent at my meetings that there is growing nervousness about Wales as a location for this project and increasing awareness of the advantages of Germany. The increasing rate of inflation in the UK with its potential damaging effect on wage demands is of particular concern, and Ford is under considerable pressure in Germany to locate at least Phase 1 at their existing plant in Cologne which will have ample spare capacity during the time scale of the Zeta project. While there are no national grants available at Cologne there are considerable other benefits. Productivity at Welsh plants has improved, and continues to improve, but performance at the Bridgend factory is still 10% worse on key activities than Cologne. It is intended that 70% of the engines produced by the European Zeta programme will be used by assembly plants in Germany and only 30% by the UK plants. The consequent balance of payments benefit is very considerable and is estimated by Ford at about £300m per annum.

There is no particular natural advantage to Ford in locating this project in Wales. About 85% of its components are sourced internationally and the capital costs of Phase 1 are identical at Cologne and Bridgend. The company's decision on Phase 1 will depend upon strategic and operational factors as well as upon the outcome of the grant application, but Phase 2 will not come at all to the UK if the first phase does not also take place here. Moreover, there are significant financial advantages for Ford



in proceeding with Phase 2 in America. While there may be locational benefits for the company in putting the second phase of the investment alongside the first, the company's case for a grant for this second investment is strong. If Phase 1 is lost to the UK then the Bridgend and Swansea plants will close with the loss of almost 3,000 jobs.

The project has now been considered by my Advisory Board who unanimously recommended that an offer up to £45m should be made. In reaching this conclusion the Board also recognised the linkage between the 2 phases of the project, as well as the unique financial, employment and technical opportunities which it offered.

I now need to respond to the company. While I am not persuaded that the case for a grant as high as £45m has been made, I have no doubt whatsoever that a substantial offer is required which takes into account both phases of the investment and is pitched at a level which ensures that the entire project comes to Wales. I therefore propose to negotiate with Ford for a grant of about £26.5m, which is within the limits of the scheme, though there may need to be some flexibility around this level. Anything below this general level would run the risk of losing some or all of the investment and with it the opportunity to secure for the foreseeable future the survival of the plants at Bridgend and Swansea. The payments will be made over a 5 year period and I accept that I will have to meet the cost from within my own resources.

Given Ford's tight timetable it would be helpful if I could have your early agreement to proceed on the above basis.

I am copying this minute and the attachment to John Major, Tony Newton and Tom King.

PW

29 September 1988

Approved by the Secretary of State
and signed in his absence

FORD ZETA PROJECT

BACKGROUND

1. Ford UK have applied for £45 million Regional Selective Assistance (RSA) for a proposed investment of £627m in South Wales for the production of a new engine, codenamed ZETA. This total investment relates to engine production capacity of 850,000 units to supply all Ford's European assembly plants over the period 1991 to 2002. The project affects the existing Bridgend engine plant (in an Intermediate Area which allows grants of £6,000 per job under the scheme) and a components plant in Swansea (in a Development Area which allows grants of £17,000 per job).
2. The project would create or preserve a total of 2,510 jobs directly in Wales, of which 730 are safeguarded at Swansea. In addition there is a possibility of over 5,000 jobs in UK component industries. The estimated favourable impact on the balance of payments is £300m, since 70% of production will be exported.

ELIGIBILITY

3. In terms of the RSA guidelines the project is considered low risk and no questions arise over its viability. The full grant of £45 million requested by Ford is offset by the project's estimated tax take. The crucial questions then concern additionality and level of grant.

ADDITIONALITY

4. The project is presented in two phases. Phase I relates to production capacity of 550,000 units and Phase II to the remaining 300,000 units needed to meet European demand. Eventual levels may be higher.
5. Phase I involves investment at Bridgend only. The company claims that the alternative is to invest in Cologne. Locating both Phase I and II in the UK involves investment at both Bridgend and Swansea. The company's alternative to Phase II is investment in Dearborn, Ford's HQ in the USA.
6. The additionality case for Phase I turns on strategic considerations; the company acknowledges that the financial arguments for subsidy are poor. Bridgend offers a marginal cost advantage over Cologne though the company claims that Cologne offers non-price advantages such as quality and productivity. Ford appear to prefer Bridgend but have said that grant support for the programme is an essential factor in the final sourcing decision.
7. The case for Phase II is better. On financial grounds South Wales offers lower unit costs but Dearborn has excess capacity and requires much lower investment. Ford request Government assistance to raise the rate of return on the incremental investment above the Group's hurdle rate of 15%. The company's application for £45m is based on this. However the strategic case for additionality is weaker since the company would prefer to source in Europe.

8. Although Ford has presented its case in 2 phases it is clear that the USA parent views it as a single project. However, Ford's decision about investment recognises the 2 inter-related phases described above and this provides a useful basis for assessing additionality and hence grant.

OPTIONS FOR GRANT LEVEL

A. PHASE I AND II ADDITIONAL

- i. £45m : the company claims this level of grant is needed to secure both phases of the project. It is based on financial arguments for Phase II, produces an incremental rate of return of 16.3% (compared with a hurdle rate of 15%), and represents 23% of the total capital costs of Phase II and 7% of total project costs.
- ii. £34m : this grant would enable the company to meet its hurdle rate of 15% on Phase II. It represents 17% of Phase II and 5% of total project costs.
- iii. £26.5m : this is the maximum grant allowable within RSA guidelines on cost per job. It represents 13% of Phase II and 4% of total project costs.

B. PHASE II ONLY ADDITIONAL

- iv. £19.5m : this is the maximum grant allowable on phase II only within RSA guidelines, assuming that the 730 jobs at Swansea relate to this phase. It represents 10% of Phase II costs.
- v. £5m : assumes that Ford would invest in Swansea in Phase 1 without grant, and is the maximum then payable within cost per job guidelines on Phase II. It represents 2½% of Phase II costs.

C. NO ADDITIONALITY

- vi. £0m : it is conceivable that the company would proceed with the project without grant.

Handwritten initials/signature

FROM: H M ROBERTS

DATE: 30 September 1988

1. MR BURGNER

Mr Walker has come down from his earlier position, but his proposal involves a pretty generous interpretation of additional help. But in view of the importance of the investment & the Prime Minister's favourable inclination to it, I think we should give the last kind proposed in the draft minute.

- cc. PS/Chancellor 12/2
- PS/Financial Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Moore
- Mr Waller
- Mr A M White
- Mr Spasojevic
- Mr Meyrick
- Ms Osmond
- Mr Parkinson
- Mr Call

Handwritten initials/signature

TBS 299

2. CHIEF SECRETARY

FORD: FUTURE INVESTMENT IN SOUTH WALES

Summary

1. Peter Walker minuted the Prime Minister yesterday (copy attached) with revised proposals for Regional Selective Assistance (RSA) for the proposed Ford investment in South Wales for the production of a new engine (Zeta). Peter Walker's 19 August minute proposed assistance to Ford of up to the company's application of £45m and my submission of 9 September concluded that further scrutiny of the company's underlying figures was needed. Mr Walker has now scaled down his request to a grant of about £26.5m and this submission recommends that you write pressing for a further reduction in his negotiating stance with Ford.

Background

2. Peter Walker's minute is based on Ford's application for Regional Selective Assistance for a £45m grant. Ford proposed £627m investment in plants at Bridgend and Swansea in South Wales bringing 2510 new or preserved jobs.

3. The proposed investment by Ford for the production of the new Zeta engine falls into 2 parts. Ford need to meet European demand of about 850,000 engines. Ford has decided that the economics of production largely rule out any alternative to single sourcing within Europe. Ford's remaining alternative to South Wales production is therefore their US engine line in Dearborn, Michigan. Spare capacity at Dearborn on current plans amounts to 300,000 engines on which Dearborn has a cost advantage over Bridgend (South Wales). Phase I of Ford's investment relates to production capacity of 550,000 at Bridgend; Phase II represents the 300,000 production which can be produced either at Dearborn US or Bridgend.

4. Jobs: The figures given by Ford are for 2510 jobs safeguarded or created in South Wales, of which 1480 are at Bridgend and 1030 at Swansea. Under the Regional Selective Assistance guidelines for cost per job this suggests a maximum grant of £26.5m, the level of grant proposed towards the end of Peter Walker's minute. Of the 1480 jobs at Bridgend, 950 relate to Phase I and 530 to Phase II; of the 1030 jobs at Swansea, 730 are components jobs not related to Zeta, 190 are new jobs relating to Phase I, and 110 to Phase II.

5. You minuted the Prime Minister on 12 September (attached) saying that the case needed to be examined in more detail; the Prime Minister's Private Secretary letter of 19 September (attached) also pressed for a full assessment.

6. Discussions between Welsh Office and DTI officials and ourselves have clarified the position but generated little additional information; in particular the company has resisted giving figures on the overall rate of return for the Zeta project as a whole. But we are satisfied that taken overall the project meets the efficiency and viability criteria for RSA. Treasury was involved in drafting the officials' paper attached to Mr Walker's minute which sets out 6 options for the level of grant payable to Ford. The main outstanding issues on the project relate to additionality, and the number of additional jobs which determines the level of grant payable.

Issues

7. Additionality: Treasury officials' view is that while Phase II of the project is additional, Phase I would probably be located in Bridgend anyway. DTI shares the view that Ford have decided to proceed with Phase I in Bridgend as Tony Newton's letter to Peter Walker of 15 September (attached) indicates. Cologne, the alternative location for Phase I identified by Ford, is less attractive in cost terms, although it has some non-price advantages such as quality and stability of workforce, which the company apparently values following the UK strike earlier this year.

8. For Phase II, the company's claim that the 300,000 capacity could alternatively go to the US Dearborn plant seems plausible, though there are sourcing advantages in supplying the European market from within Europe. But Dearborn offers a cost advantage and Ford's original application for £45m was intended to raise the return on the incremental investment required at Bridgend above its 15% hurdle rate. The argument that only Phase II is additional is reflected in the attached draft minute to the Prime Minister: it of course has implications for amount of assistance payable.

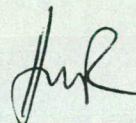
9. Grant payable: Peter Walker's minute proposes he should have flexibility for negotiation with the company around a figure of £26.5m, the maximum payable under RSA cost per job guidelines if both phases are assumed to be additional. If Phase II only is presumed additional the maximum payable falls to £19.5m on the assumption that all the 730 components jobs preserved as a result of investment in the Swansea factory pertain to Phase II. This is arguably the case because without Phase II there would be no investment in the Swansea plant but the option of £5m grant identified in the paper attached to Mr Walker's minute assumes that none of these 730 jobs relate to Phase II.

10. Belfast: You should be aware that Ford have applied for grant from the Northern Ireland Office in connection with proposed £45m investment in a fuel pump factory in Belfast; this investment is apparently contingent upon Zeta going ahead but Ford have been offered £6-7m grant in principle.

11. Survey implications: Peter Walker's letter offers to meet the cost of around £26.5m grant for Ford from within his own resources. While this is welcome in principle you are yet to discuss Mr Walker's Survey bids which include an additional £10m in 1991-92 for RSA. In the Welsh Office bilateral, scheduled for Tuesday 4 October, you will wish to resist this bid on the grounds that it is not justified by the department's RSA model. Similarly, the attached draft minute to the Prime Minister emphasises that we expect Peter Walker to meet any payment to Ford from within existing RSA baselines without prejudice to the outcome of this Survey.

Conclusion

12. The Prime Minister's Private Secretary has indicated that she wishes the Ford project to come to the UK. Mr Walker has made some concession in aiming for a £26.5m grant. But in responding to Mr Walker's minute you will wish to reiterate scepticism about the additionality of the whole project, and in view of this seek that negotiations with the company be based on £19.5m (the maximum RSA of consistent with Phase II additionality). DTI are advising the Chancellor of the Duchy that negotiations should begin at £19.5m but allow some upward flexibility up to a maximum of £29m i.e. 10% above Mr Walker's £26.5m. Given the importance of securing the project for the UK we advise you concede some flexibility in negotiations with the company above the £19.5m to an absolute ceiling of £26.5m and have drafted accordingly. Given Ford's deadline we have agreed with Number 10 to let them have a letter as early as possible on Monday morning.



MS H M ROBERTS

DRAFT MINUTE TO THE PRIME MINISTER

FORD - ZETA ENGINE PROJECT

1. Peter Walker's minute to you of 29 September proposes he negotiates with Ford for a grant of around £26.5m in connection with the proposed Zeta engine project in South Wales and asks for an early response.

2. It is clearly important that Ford invest in the UK. However after detailed investigation of the case for support by my officials I remain of the view that the first phase of the project will probably come to South Wales even without assistance. This view was borne out by Tony Newton's letter of 15 September to Peter Walker. On this basis the additionality criterion for Regional Selective Assistance is not met for the first phase of the project so the maximum grant payable is the £19.5m for Phase II implied by cost per job guidelines. Negotiations with Ford should thus focus on £19.5m.

3. However, the importance of the project is such that if a larger grant is necessary to secure the whole project then I *could* exceptionally consider a higher figure; *I hope* that it would *be well* within the £26.5m maximum payable for the whole project under normal cost per job guidelines.

4. I welcome Peter Walker's undertaking to meet the cost of assistance from within his own resources; I assume that this implies within existing resources and is without prejudice to the outcome of the current Survey discussions.

5. I am copying this to Peter Walker, Tony Newton and Tom King.

JOHN MAJOR



FROM: CHIEF SECRETARY

DATE: 3 October 1988

PRIME MINISTER

FORD - ZETA ENGINE PROJECT

Peter Walker's minute to you of 29 September proposes he negotiates with Ford for a grant of around £26.5 million in connection with the proposed Zeta engine project in South Wales and asks for an early response.

2 It is clearly important that Ford invest in the UK. However after detailed investigation of the case for support by my officials I remain of the view that the first phase of the project will probably come to South Wales even without assistance. This view was born out by Tony Newton's letter of 15 September to Peter Walker. On this basis the additionality criterion for Regional Selective Assistance is not met for the first phase of the project so the maximum grant payable is the £19.5 million for Phase II implied by cost per job guidelines. Negotiations with Ford should thus focus on £19.5 million.

3 However, the importance of the project is such that if a larger grant is necessary to secure the whole project then I could exceptionally consider a higher figure; I hope that it would be well within the £26.5 million maximum payable for the whole project under normal cost per job guidelines.

4 I welcome Peter Walker's undertaking to meet the cost of assistance from within his own resources; I assume that this implies within existing resources and is without prejudice to the outcome of the current Survey discussions.

5 I am copying this minute to Peter Walker, Tony Newton and Tom King.

cc:
 S/Chancellor
 S/Financial Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Monck
 Mr Burgner
 Mr H M Roberts
 Mr Moore
 Mr Waller
 Mr A M White
 Mr Spasojevic
 Mr Meyrick
 Ms Osmond
 Mr Parkinson
 Mr Call

P. Walker

PP JOHN MAJOR
 [Approved by the Chief Secretary and signed
 in his behalf]

To:

PRIME MINISTER

From:

TONY NEWTON

CHIEF SECRETARY	
REC.	- 3 OCT 1988
ACTION	Mr Waller,
COPIES TO	C, ES, Sir P Middleton, Mr Anson, Mr Burgess, Mr Tombull, Mr Mack, Mr Moore, Mr An White, Mr N. Williams MS Roberts, W. Call

pmf

3 October 1988

FORD - ZETA ENGINE PROJECT

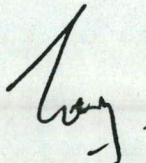
I have seen Peter Walker's minute to you of 29 September seeking agreement to negotiate with Ford a grant of about £26.5m in respect of the Zeta project at Bridgend.

2. My officials have joined Treasury and Welsh Office officials in a thorough examination of the evidence supplied by Ford. Having considered that evidence, I agree with Peter that the offer should be substantial and should take into account both phases of the project. This would mean accepting that phase 1 as well as phase 2 is internationally mobile. On that basis I agree that a grant as high as £26.5m would represent good value for money if it secured the whole project for the UK.

3. I still believe that it may be possible to secure the project at a lower figure. While I accept, on balance, that phase 1 of the project is internationally mobile and therefore additional, some powerful arguments against additionality could be put to Ford requiring them to present stronger justifications than they have advanced so far in support of a grant in excess of the £19.5m allowable for phase 2. I therefore feel that negotiations should commence around the £19.5m level and that Ford should think they have had to work hard to get to £26.5m.

4. Having said that, I do not think we should put the project at risk by undue rigidity and I agree with Peter that he may need some flexibility to clinch the deal. I suggest that a margin of about 10% should be built into the £26.5m figure putting a final limit of £29m on the amount we are prepared to offer to secure the total Bridgend project for the UK.

5. I am copying this letter to Peter Walker, John Major and Tom King.



TN



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

[Handwritten signature]

CHIEF SECRETARY	
REC.	- 5 OCT 1988
ACTION	Mr Walker,
COPIES TO	EX, ES, SI, P, M, O, D, E, T, C, A, R, M, A, N, D, O, N, M, S, B, R, I, G, O, L, E, M, T, O, M, B, A, L, L, M, S, M, O, U, C, H, M, R, M, O, O, R, E, M, S, A, M, W, H, I, T, E

5 October 1988
Mr N. Williams, Mrs Roberts
w/ call

Dear Stephen,

FORD: ZETA ENGINE PROJECT

The Prime Minister was grateful for your Secretary of State's minute of 29 September. She has also seen the comments by the Chancellor of the Duchy of Lancaster and the Chief Secretary.

The Prime Minister sees attractions in the negotiating approach suggested by the Chancellor of the Duchy, and is content for your Secretary of State to have a margin of flexibility on the amount of grant that can be offered, subject to a final limit of £29m. As to funding, the Prime Minister endorses the Chief Secretary's comment that your Secretary of State's undertaking to meet the cost of assistance from within his own resources should be without prejudice to the outcome of the current Survey discussions.

I am copying this letter to Carys Evans (Chief Secretary's Office), Peter Smith (Chancellor of the Duchy of Lancaster's Office) and Mike Maxwell (Northern Ireland Office).

*Yours,
Paul*

Paul Gray

Stephen Williams, Esq.,
Welsh Office.



000393

2 of 4

PRIME MINISTER

FORD MOTOR COMPANY

There are some more recent pps., which Ch. has seen + ticked. Pse
 v/Ann 2/

✓ P.B. J.A. [Signature]

I am pleased to inform you that I successfully negotiated with Ford on the question of their new major investments in Wales.

They were under very considerable pressure in Germany with the unions calling an overtime ban until the company confirmed that the investment would take place there. The German Government were also putting on considerable pressure. I am pleased to say that I agreed to a total grant of £26million. I explained to Ford the difficulties we would have with the Commission: I started by offering them £19million and told them that £26million was the maximum. They agreed to proceed on the basis of £26million.

Today I received a letter from Ford confirming that they have now come to a positive decision and that they will now proceed with this enormous investment.

They have however asked that this matter is kept in strict confidence until 18 October due to a very difficult situation they have in Cologne. I have promised them therefore that their confidence will be kept in Whitehall until that time and I intend discussing arrangements with them as to how the announcements will be made on 18 October at the Motor Show.

Copies of this minute go to John Major and Tony Newton.

CHIEF SECRETARY	
REC.	12 OCT 1988
ACTION	Mr Waller
COPIES TO	Cy, EST, Sir P Middleton, Mr Dixon, Mr Benger, Mr Turnbull, Mr Mowck, Mr Masce, Mr A White Mr N. Williams, Mr Roberts, Mr Call.

11 October 1988

E.K. Davies

P W

approved by the Secretary of State and signed in his absence



10 DOWNING STREET
LONDON SW1A 2AA

CHIEF SECRETARY	
REC.	18 OCT 1988
ACTION	Mr Waller
COPIES TO	SECRET, Sir Philip Mr Brown, Mr Burgess, Mr Tomblin, Mr Munnick, Mr Amis, Mr Roberts Mr Call

From the Private Secretary

18 October 1988

FORD MOTOR COMPANY

The Prime Minister was grateful for your Secretary of State's further minute of 11 October reporting the successful outcome of the negotiations with Ford. She has commented that this is good news.

I am sending a copy of this letter to the Private Secretaries to the Chief Secretary and the Chancellor of the Duchy of Lancaster.

PAUL GRAY

Keith Davies, Esq.,
Welsh Office

FROM: M SHARRATT
DATE: 19 DECEMBER 1988

1. MR WHITE ✓ *19/12*
2. CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Miss Peirson
Mr Waller
Mr Meyrick
Mr Parkinson
Mr Spasojevic

ASSISTANCE FOR FORD'S BELFAST PLANT

Officials in the Department of Finance and Personnel in Belfast have sought our agreement to a package of financial assistance for Ford amounting to just over £7 million. The package is associated with proposals by Ford for investment totalling £47 million at their West Belfast plant over the next five years for the production of components (oil and water pumps together with parts of the fuel injection system) for the new Zeta engine to be built at Bridgend. This would secure 640 jobs at the plant until the end of 1995.

2. We are being pressed to give an early answer to enable a letter of offer to be issued before 1 January 1989 when it is possible that EC restrictions on state aids for the vehicles industry could come into force.

3. In terms of these proposals in isolation, the amount of assistance involved falls within the delegated authority of Northern Ireland Ministers and would not normally come to the Treasury for approval. But there are a number of aspects of this application which we felt we needed to bring to your attention.

4. First, Ford have already received assistance in 1984 and 1986 totalling £17½ million for investment in their current range of components. Demand for those will maintain output and employment up to 1991 but all would decline rapidly after that as production of the Zeta engine picked up. Second, Ford have recently been

offered assistance of £26½ million by Mr Walker towards Zeta investment at Bridgend and Swansea. Finally, Northern Ireland Ministers are about to offer the French company Montupet nearly £38 million (plus up to £9 million in training grants) for their proposed aluminium foundry at the former De Lorean site. In the early years at least, output from that plant will be destined mainly for Zeta engine production.

5. It is, to say the least, regrettable that Ford, despite the earlier considerable assistance measures, are unable to maintain production of their present range in Belfast much after the early 1990s thus leading to the eventual closure of the plant unless investment for the manufacture of the new components goes ahead. It means also that the total assistance Ford would receive from the Government for the Zeta project would be at least £33½ million before account is taken of any subsidy it receives indirectly via lower prices for components it pays as a consequence of aid to Montupet.

6. However, we think that you will wish to agree that Ford be offered the assistance proposed. Without it, the Belfast plant will close with the loss of at least 650 jobs. In terms of Ford's proposed total investment, the level of grant is only 13 per cent which in the context of Northern Ireland, and West Belfast in particular, is uncommonly low.

Background

7. Ford's plant in West Belfast currently produces carburettors and other components for Ford's range of engines and employs about 760. The present range of products was introduced in 1986 following a review of the plant's future and required a total investment of £26 million of which £16 million was provided by the Government, mainly as capital grant. There had been earlier assistance in 1984 of £1½ million made up of capital, employment and interest relief grants.

8. It was expected at the time that this would maintain about 750 jobs at the plant for 10 years but the terms of the assistance

only required Ford to pay back some of the assistance if 80 per cent of that number were not employed until the end of 1990.

9. While there is no suggestion that Fords will not keep to the letter of that agreement, it seems clear that in the absence of the proposed investment, employment will decline sharply after 1991 when the Zeta engine comes on stream. Whether that development should have been given more weight in 1986 is, at the end of 1988, difficult to judge but clearly Ford have been planning the Zeta for some considerable time although they may have brought forward its production because of growing environmental concerns.

10. Ford's present proposal is for fixed capital investment of £47 million over the period 1989-1993 of which Government grants would contribute £7 million (15 per cent). In addition the company has been offered a £¼ million R&D grant in respect of the development in GB of the Zeta fuel rail (part of the fuel injection system) which would be produced in Belfast. If their proposal is agreed, Ford has agreed to a "best endeavours" employment target of 640 up to the end of 1995, with the trigger point for grant repayment set at 600 jobs (the same number as applies now although the employment target of 750 is higher).

Economic issues

11. The resource cost analysis carried out by DFP's economists gives a net present value to the UK economy for the project of £9½ million over a 15 year period. This falls however to £1½ million if account is taken of the additional redundancy payments which Ford would be liable for if the plant closed in 1990 (these represent a net inflow to the UK economy). As this is based on a discounted total profit figure ^{of} £56 million, a positive net present value outcome is subject to a considerable degree of uncertainty.

12. More important is the cost per job which is £11,430 if only the present proposals for £7 million assistance are taken into account. But on an aggregate basis, allowing for the 1984 and 1986

measures, the cost of maintaining the 640 jobs over the period 1986-1995 would rise to £38,519.

13. IDB assert that the level of assistance proposed is the minimum necessary to bring the investment to Northern Ireland and that the investment is additional. On displacement they argue that Ford's policy is to sub-contract component sourcing wherever possible and if the Belfast investment did not proceed, imports would make up the major share of the components needed for Bridgend.

EC dimension

14. DFP have told us that the assistance falls well within EC limits on industrial assistance to projects in Northern Ireland even if the earlier measures are included.

Discussion

15. Clearly, the unsatisfactory feature of this proposal is the fact that Ford have applied for further assistance less than 3 years after they received grants of over £16 million which it was claimed would maintain production and employment until 1995. But it also seems clear that without further assistance the Belfast plant will close before very much longer with the loss of all jobs. That would be a major blow to Mr King's efforts to keeping and attracting major companies to West Belfast.

16. IDB should however be pressed to seek to extract from Ford a longer period over which the company will make best endeavours to maintain the target employment. This would reduce the risk of a repetition of the present circumstances with Ford seeking frequent Government assistance to maintain what amounts to the same jobs. Although there can be no certainty that the company will agree, they may be prepared to extend the period beyond the normal 5 years, given that Zeta is planned to be in full production to the end of the century.

Recommendations

17. I recommend that you agree that the Treasury should not object to the proposed offer of assistance providing that the costs are met from the existing resources of the Northern Ireland block. However, IDB should be instructed to try to negotiate a longer clawback period with Ford. If you agree, we will write to DFP officials along those lines.

18. This line has been discussed with IAE2 and EI.

M Sharratt.

M SHARRATT

CONFIDENTIAL



FROM: PETER WANLESS
DATE: 21 December 1988

MR SHARRATT

cc:
PS/Chancellor
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr H Phillips
Mr Burgner
Miss Peirson
Mr Waller
Mr White
Mr Meyrick
Mr Parkinson
Mr Spasojevis

ASSISTANCE FOR FORD'S BELFAST PLANT

The Chief Secretary was grateful for your submission of 19 December.

2 He agrees that we should not object to the proposed offer of assistance for Ford's Belfast plant providing that the costs are met from the existing resources of the Northern Ireland block. He further agrees that IDB should be instructed to try to negotiate a longer claw back period with Ford.

PETER WANLESS
Assistant Private Secretary