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Begins : 7/2/87.

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Chancellor's (Lawson) Papers:

Nissan Motors Regional Assistance Programme.

DD's: 25 Year



26/1/96.

1988

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*prop.*

*Mr Williams*

*cc to Angus Mitchell  
the Hon. Mr. Williams  
the Hon. Mr. Jones  
etc.*

TO: Mike Waller  
H M Treasury

FROM: Michael Cochlin  
Hd/V  
Room 741  
Ashdown House  
212-6093

*Please consider and prepare a draft  
submission to the FST, covering CA  
and CA, and asking the important  
decisions. I am happy to take  
a meeting if you should help.*

7 December 1987

*MW  
8/12*

*for Mike,*

NISSAN

I mentioned to Tom Burgner on Friday a project involving a significant expansion of the Nissan car manufacturing operation at Sunderland through the introduction of a second model (the Micra replacement) in 1992. Details of the project are contained in the attached case paper.

2. Since the paper was prepared, further negotiations have been held with Nissan and an ad referendum agreement reached on total assistance of £25m (around £16m RSA and £9m RDG) to enable the project to proceed. This is well within the range (up to £30m) agreed by IDAB and Ministers here as being desirable in order to secure the investment.

3. Naturally we shall be glad to discuss the background to this project if you would find this helpful. In the meantime, I should make the following points:-

- (i) that, although the proposed offer is in excess of the normal guidelines, both the Secretary of State and the Chancellor of the Duchy have instructed that officials should make every possible effort to encourage a positive decision by Nissan. Ministers have particularly in mind the likelihood of controversial decisions to be announced in early 1988 on the shipbuilding front. The creation of a minimum of 1400 jobs at Sunderland will therefore be particularly timely and welcome news.
- (ii) the additionality case for assistance, as you will see from the paper, rests on the overall risks of the project for Nissan and the knowledge that if the present opportunity is not seized it will be several years before the chance of fresh investment on this scale reappears. Indeed, in a fast-changing industry, there could be no certainty that it would happen at all.

*24  
162*



(iii) there is a fear among Nissan's UK management that, if decisions on the project were to be postponed until early next year, the whole project might go back into the melting pot. We share that concern and have been pressing the company that clear-cut decisions should be announced when the Chairman of Nissan calls on our Secretary of State on December 14. This short-circuits Nissan's normal decision-making process but they are now ready to fall into line. We do not believe that the package would necessarily hold together if there were to be any postponement.

4. I am sorry that the information available to us on the project is not as full or as detailed as one would normally expect. This is in very large measure due to the speed with which we have been trying to bring discussions to a head. I hope nevertheless that it will be possible for you to give agreement to these proposals by the end of this week so that the arrangements we are provisionally setting in hand for an announcement on 14 December can be finalised.

*W. J. W.*

*M. Cochlin*

MICHAEL COCHLIN

INDUSTRIAL DEVELOPMENT ACT 1982 - SECTION 7

NISSAN MOTOR MANUFACTURING (UK) LTD ("NMUK")

SUMMARY

The project involves production at Sunderland of the Nissan Micra small car for launch in 1992. Output would be 100,000 units per year with 60% being exported. Local content in the cars would be 60% initially rising to 80% within 18 months. The project would create some 1,400 additional jobs on the site and a substantial, though at present unquantifiable, number of indirect jobs with UK component suppliers. The capital investment programme would be some £216m.

The project offers substantial benefits to the UK in terms of direct and indirect employment, exports and expansion of the UK vehicle production base with all the opportunities this offers to the components sector. The enhanced prospects of Nissan's undertaking R&D in the UK is also a very significant factor and officials aim for a firm commitment from the company in this respect.

Officials are satisfied that financial assistance will be necessary if the project is to proceed. We do not doubt that on their current thinking Nissan will at some time in the future produce a second model at Sunderland. But we are convinced that the arguments for doing it now are finely balanced and without an acceptable level of Government assistance, they are likely to postpone the expansion until the end of the century, by which time their plans for their UK and worldwide operations may have changed.

Nissan have requested assistance of £21m RSA on top of £9m RDG to which they are presently entitled. Assistance at this level represents £28,300 per job, significantly in excess of the £17,000 limit for the region but we believe they will be prepared to settle for less.

DEPARTMENT OF TRADE AND INDUSTRY  
December 1987

VGRAAD

## INDUSTRIAL DEVELOPMENT ACT 1982 SECTION 7

## I APPLICANT

The applicant is Nissan Motor Manufacturing (UK) Ltd "NMUK" a wholly owned subsidiary of Nissan Motor Co Ltd "Nissan".

## II BACKGROUND

(a) NMUK

NMUK was formed on 6th April 1984 and construction of the car factory in Sunderland commenced in November of the same year. The factory was completed in December 1985 and the first production model was built in July 1986.

Currently, production at NMUK is running at the rate of 35,000 cars per year, some 11,000 above the original plan; only one model, the Nissan Bluebird four and five door medium sized saloon is assembled in the UK and virtually all of these are sold in the home market. All engines and body panels are presently shipped from plants in Japan but from 1988 these will be supplied from new facilities currently under construction at NMUK. It is planned to achieve production of 100,000 Bluebirds by 1991 and to achieve 80% local content (currently 50%) when phase II of the expansion plan is complete. NMUK expect that at least 85% of this local content will be British. Left hand drive exports will begin next year and from 1989 NMUK intend to export at least one third of their output.

Total investment under current plans will be around £350m and HMG is contributing a maximum of £35m selective assistance and approximately £70m in Regional Development Grant. The employment at NMUK is forecast to reach 2,300 by 1990 with another 400 in associated and indirect jobs. Employment to date is on target at 1,100.

Nissan has injected £89m in share capital to date and this will increase to £150m by 1990. Losses of £23.5m have been incurred at NMUK to 31 March 1987 and trading profits are forecast to be £2m in 1991. Results to date are broadly in line with the original forecasts.

(b) Nissan

Nissan is the second largest vehicle manufacturer in Japan and produced 1.7m cars in 1986 and 500,000 commercial vehicles. In the year to 31 March 1987 Nissan suffered a decline of more than 10% in value of sales of passenger cars and lost some of its share of the domestic market. Export sales values declined by nearly 17% caused primarily by the effect of the yen's

appreciation; unit sales of export vehicles decreased by over 8%. In the first half of the year, Nissan reported an operating loss of almost Y17bn but managed to achieve major cost savings at its domestic plants in the second half of the year with the result that it achieved an overall profit for the year of Y46.6bn on turnover of Y3,429bn, a decline of 28% from the previous year's profits. In this difficult operating environment, Nissan has sought to introduce new and more appealing new cars for its domestic market to overcome its perceived reputation of less innovative design compared with its principal Japanese competitors.

### III PROJECT

NMUK have obtained agreement in principle from Nissan, subject to receiving Government assistance, that the next generation Nissan "small" car, replacement for the current three and five door Micras, will be built in the UK from 1992. It is proposed to build 100,000 Micras for sale in the UK and other European countries. The project will entail further extensions to the facilities at Sunderland and building work will commence in 1990. The cost of the project is £199m plus £17m further capital costs relating to the extension of facilities in a subsidiary Nissan Yamato Engineering Ltd "NYEL". Details of the capital expenditure are set out in Annex A. The project will create an additional 980 jobs with a further 80 at NYEL (see Annex B). Nissan also believe that some 140 extra jobs will also be created through sub-contract work on site. Another 200 jobs would be created at an existing NMUK component supplier located on the Sunderland site.

A second volume model is considered highly desirable to business growth for two reasons.

(a) Any model suffers sales volume reduction at the end of its life, typically around 30% drop in the last year. A second model, necessarily with "staggered" cycle, reduces the "peak and trough" effect on the business.

(b) From 1995, NMUK aims to be the sole world source for the medium sized Bluebird car. This requires substantial Design and Development capability in the UK prior to 1995, but the level required could not be justified by a single car. A two car development capability would ensure continuous employment for a design centre.

Officials have been shown the likely Nissan model plans. These indicate that the only additional model available during the relevant period is the Micra which is due to be replaced in 1992; design and development work to achieve this target is therefore required to start in 1988, hence the pressure on NMUK to obtain all necessary consents if this window is not to be

missed. Failure to meet these targets will mean a postponement of expansion plans until the next appropriate model change which will not occur until the end of the century. Postponing the project for so long must increase the uncertainty over whether it is carried out at all.

#### IV MARKET

Nissan forecasts sales of its passenger vehicles in Europe at 450,000 by 1993. The increase over current levels of 400,000 is essentially NMUK sourced Bluebirds taking Bluebird sales in Europe from 55,000 in 1986 to 100,000 by 1991. Nissan believes it can obtain 4% of the total European market for passenger cars which if achieved will represent unit sales of approximately 500,000 of all types. This should be viewed in the context of Fiat which in 1986 sold over 600,000 of one model alone, the Uno, a comparable model to the Micra. At present Japanese manufacturers are prevented from expanding their present small share of the European market because of the restrictions maintained on imports from Japan by a number of important EC Member States. Japanese production in Europe could be sure of avoiding these barriers providing the local content of each vehicle is more than 60%. Nissan does not anticipate any lessening of these protectionist policies adopted by European countries and believes the only acceptable long term strategy is to build up capacity in plants such as Sunderland. Under the current regime it accepts that a very high local content will be demanded.

Increased competition for the small car segment of the European market can be expected soon from the Korean producers and already some East European producers, whose cars sell in the same price bracket, have announced plans to increase sales in Europe. This will inevitably have an impact on sales of Japanese cars in this class. However, a small car produced in the UK and which already has an established reputation in international markets is thought to be better placed to withstand the competition from these other imports.

#### V REGIONAL CASE

Despite the success in the development of the NMUK plant, Sunderland still has high levels of unemployment (currently, 19.4% overall with male unemployment at 24.3%). Traditional industries such as shipbuilding, remain depressed, and the creation of over 1,000 new jobs is a highly attractive proposition. The new jobs will have considerable impact upon the infrastructure and a large number of indirect jobs may be expected. Of the 1,100 employees on site at present 55% are from Sunderland and 85% from the North East. Some 50% of NMUK most recent intake were taken directly from the unemployment register.



## VI INDUSTRIAL CASE

All Micras are currently produced from the Murayama plant in Japan. Sales of this model are in the region of 200,000 units per annum of which 100,000 are sold in Europe (35,000 in the UK). Output in the UK would be 100,000 units per year with 60% being exported. Local content in the cars would be 60% initially rising to 80% within 18 months. Nissan envisage that production of a Micra aimed at the Japanese domestic market would continue at Murayama at the rate of 100,000 units a year but recognise that the loss of production at its Japanese plants will require careful handling of the industrial relations problems.

The production of UK Micras would substitute for those currently imported. NMUK do not envisage a significant increase in Micra sales in the UK beyond the current market share and the displacement effect should therefore be minimal.

With an expanded scale of operations to include additional model lines, NMUK are reasonably confident of being able to justify establishing R&D capabilities in the UK and so enhancing the UK company's overall status and reputation within the scope of the Group's international operations. There are advantages in this both for the parent company as proximity of R&D to European markets; can be expected to improve sensitivity to market requirements and to the UK components industry through exposure to Japanese design, development and procurement practices.

Nissan at the corporate level accept the principle of establishing R&D facilities in Europe and are reviewing possible locations including Brussels where they have an existing design capability. In the context of this project, however, and particularly if financial assistance is available, officials believe HMG would be in a strong position to secure a commitment from Nissan to locate these facilities in the UK.

## VII WIDER BENEFITS

The expansion would transform NMUK into a 'volume' manufacturer with exports of around 100,000 units per year.

The introduction of additional manufacturing capacity in the UK will be of particular benefit to the UK component supply industry. When in full production, NMUK see their vehicles having at least 70% UK content by value which is higher than that currently achieved by Peugeot-Talbot and Vauxhall. It is difficult to quantify the potential value of new business for component suppliers but Nissan estimate that it will be very substantial. Japanese procurement practices will also provide further inducement through market pressures for UK suppliers to

evaluate quality assurance methods and consider implementing alternative production solutions. Traditional relations with suppliers and assemblers in the UK differ from Japanese practice where the relationship is close and long term with suppliers being expected to supply for successive models with involvement in the vehicle design process. NMUK is endeavouring to introduce these practices into the UK. Both we and they believe this will help enhance the overall competitiveness of the components industry.

#### VIII ADDITIONALITY

Nissan's request for financial assistance is based on the following arguments:-

- (i) building the Micra at Sunderland would duplicate investment in a similar model in Japan involving substantial additional capital expenditure (including double tooling costs) at a time when Nissan is hard-pressed financially;
- (ii) Nissan consider the Sunderland project would not produce incremental sales for the company and would therefore replace at least in part Japanese production, leaving them with the problem of what to do with this spare Japanese capacity;
- (iii) Nissan's model replacement cycle means that, if the 1992 window of opportunity is missed, a second model could not be introduced at Sunderland until the end of the 1990s;
- (iv) The returns on the project are marginal (see Appendix C). Relatively small variations in the assumptions would put these in jeopardy. Government assistance would give Nissan confidence to carry these risks.

The alternative plan for Nissan would be to retain production of Micras in Japan thereby saving on the fixed capital costs of the UK project. In addition Nissan would not incur £29m on new tooling costs incurred by component suppliers as in Japan these are amortised by them over the early life of the model and recovered in the component prices. Against this, however, Nissan would still need to incur capital costs at its Japanese plant estimated to be approximately £70m.

Nissan is faced with the alternative of either continuing to source the new model from Japan at a lower capital cost or to source half from the UK at a higher capital cost but with greater worldwide market opportunities.

In view of the market opportunities and the rising yen it could be argued that the strategic importance of Europe outweighs the higher initial capital cost. Officials do not doubt that on their current thinking Nissan will at some time in the future produce a second model at Sunderland. But we are convinced that given the very significant financial and marketing pressures on Nissan the arguments for doing it now are finely balanced. Without an acceptable level of Government assistance, they are likely to postpone the expansion until the late 1990's and such a long deferral must make it uncertain whether the project is carried out at all.

Conclusion

Officials plan to make an opening offer of £21m RSA, representing 10% of capital costs and £19,800 cost per job, to be abated by any RDG's payable (about £9m under present rules). If necessary to secure the project it may be necessary to go up to £30m including RDG's.

DEPARTMENT OF TRADE AND INDUSTRY

December 1987

NISSAN MOTOR MANUFACTURING (UK) LIMITED

CAPITAL EXPENDITURE £m

YEAR ENDED 31 MARCH	1988	1989	1990	1991	1992	1993	1994	1995	TOTAL
<u>NMUK</u>									
Buildings	-	-	2	17	13	-	-	-	32
Plant	-	-	3	22	74	2	-	-	101
Jigs and Dies	-	-	-	16	19	2	-	-	37
SUB-TOTAL	-	-	5	55	106	4	-	-	170
Vendor Tooling	-	-	7	7	8	7	-	-	29
TOTAL	-	-	12	62	114	11	-	-	199
<u>NYEL</u>									
Buildings	-	-	1	2	2	-	-	-	5
Plant	-	-	2	5	1	-	-	-	8
Jigs and Dies	-	-	-	1	1	-	-	-	2
SUB-TOTAL	-	-	3	8	4	-	-	-	15
Special Tooling	-	-	-	1	1	-	-	-	2
TOTAL	-	-	3	9	5	-	-	-	17
<u>GRAND TOTAL</u>	-	-	15	71	119	11	-	-	216

## NISSAN MOTOR MANUFACTURING (UK) LIMITED

## BUSINESS PLAN 1988 - 1995 - BASE CASE

## Employment

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
NMUK	1200	1780	2050	2400	3250	3300	3300	3300
Increase over Previous plan	-	-	-	100	980	980	980	980
(Memo - Increase in employment of on-site labour subcontractors)	-	-	-	140	140	140	140	140
NYEL	100	140	150	190	220	220	220	220
Increase over previous plan	-	-	-	50	80	80	80	80
(Memo - Employment at year end at Ikeda Hoover Limited)	210	270	330	420	600	600	600	600

## PROFIT ANALYSIS

£M

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994	Return on net Capital Investment
<b>EC Model</b>									
Base Case and Grant Case	-16	-18	-41	-3	20	23	26	23	7.9%
<b>KX Model</b>									
Base Case			-1	-3	-13	-13	1	6	3.0%
Grant Case	n/a	n/a	-1	-3	-11	4	7	12	5.3%
<b>TOTALS</b>									
Base Case	-16	-18	-42	-6	7	10	27	29	
Grant Case	-16	-18	-42	-6	9	27	33	35	
<b>Deduct</b>									
Research and Development	-	6	7	3	2	6	5	5	
<b>Profit Before Tax</b>									
Base Case	-16	-24	-49	-9	5	4	22	24	
Grant Case	-16	-24	-49	-9	7	21	28	30	

COMMERCIAL IN CONFIDENCE

NISSAN MANUFACTURING UK: SECOND MODEL PROJECT  
Regional Selective Assistance

The wider benefits anticipated from the Nissan manufacturing operation can be distinguished under three heads:

- Production management and skills development;
- Supplier relations;
- Risk and investment in the UK components sector.

The existing presence of Nissan Manufacturing in the UK (NMUK) can be argued to generate some or all of these benefits without the addition of further model lines. However, without this extended capability, NMUK manufacturing operations will face a periodic penalty from a fall in sales revenues as a single model approaches each end of its replacement cycle and while production facilities are reorganised for the next model. The effect with the company's policy of no redundancies is to raise unit costs compared with a position where alternative model lines can sustain continuity of work.

With an expanded scale of operations to include additional model lines, NMUK are reasonably confident of being able to justify establishing R&D capabilities in the UK and so enhancing the UK company's overall status and reputation within the scope of the Group's international operations. There are advantages in this for the parent company as proximity of R&D to European markets can be expected to improve sensitivity to market requirements but benefits of scale can also be expected for the components industry here from increased sourcing and from induced changes in supplying industries through diffusion of NMUK quality standards if the volume and variety of component purchasing is extended to include the procurement for additional models.

The competitive strength of the Japanese vehicles industry is widely acknowledged but the reasons are still not appreciated enough in UK industry, and the necessary elements in management innovation are not amenable to simple replication or that would have been accomplished long since. It has been questioned as to whether transplantation is possible at all given the unique features of Japanese society. But the undoubted success of the NUMMI joint venture project between Toyota and GM in Fremont, California and the spinoff for component suppliers are a clear indication that transplantation across cultures is possible and with very positive results for productivity and quality standards which, by independent assessors, compare exceptionally favourably with the performance of more highly automated plants in the USA under traditional GM management.

Increased competition for the small car segment of the European market can be expected soon from Korean producers and then possibly from other NICs with or without the introduction of a second model line for the Micra by NMUK and already some COMECON producers, whose cars sell in the same price bracket, have announced plans to increase UK sales. However, a small car produced in the UK and which already has an established reputation in international markets is thought to be better placed to withstand the competition from imports.

## Production management

Vehicle production engineering and work management in Japan typically differs from that in Europe in several important respects.

Just-in-time delivery of components prior to assembly depends on evolving close and well organised relationships with suppliers and has the benefit of reducing space requirements for parts storage and cutting inventory holding costs.

European vehicle manufacturers typically look to complex and costly engineering solutions to deskill work whilst Japanese producers aim to enhance employee skills through intensive training and economies in capital outlays.

Production engineers assign tasks to work teams who then decide how to allocate jobs between team members. Regular meetings of Quality Control Circles review work practices to improve quality and productivity and provide feedback to production engineers.

Japanese car manufacturers have adopted novel solutions by European standards to some well recognised problems in assembly. For example: in Japan, car doors are normally removed prior to internal vehicle assembly to improve accessibility and reduce incidental damage and for under-body work, the normal Japanese practice is to suspend the vehicle at an angle on the track for better access.

The economic advantages gained from these alternative practices will be gained by Nissan internally, but their effect is to demonstrate their feasibility within the UK and provide an inducement through market pressures for existing UK producers to evaluate and, possibly, implement alternative and superior engineering solutions. Employees acquire transferrable skills and an understanding of the methods and commercial benefits of strict adherence to quality assurance standards in vehicle production. Meaningful comparisons of productivity performance are as yet difficult as NMUK is still in the process of establishing full scale production operations for a single model, but the evidence of success already comes from its achieving quality standards comparable with those of the company's plants in Japan.

## Relations with component suppliers

Traditional relations between suppliers and assemblers in the UK are distant with suppliers being asked to supply at a price and to a specification. In Japan the tradition is quite different: often there are cross-holdings of equity and the relationship is close and long term with suppliers being expected to supply for successive models with involvement in the vehicle design process. If there are subsequent problems with supplier performance the practice is for vehicle manufacturers to work with suppliers until the problems are overcome. The normal UK practice has been for the vehicle manufacturer to terminate the supply contract and seek alternative sourcing.

NMUK is introducing the company's procurement policies into local sourcing. Generally UK suppliers have so far had difficulty in



coming up to specification and maintaining standards of quality assurance. This has required close working between NMUK engineers and suppliers to achieve both the product design and manufacturing standards required and in a number of cases supplier employees have been brought to work in the Nissan plant to gain a better appreciation of the company's methods. NMUK gives emphasis to enabling shop floor employees to understand quality assurance methods and has found this unusual among suppliers where claims in the board room are not matched by shop floor practice. NMUK are establishing a specialist team to develop supplier relationships which will be trained in Japan. Technical collaboration between UK suppliers and the company's suppliers in Japan is encouraged.

#### Risk and investment in the UK components sector

Investment levels as a percentage of value added as well as profitability have been generally low in the UK motor components industry in the 1980s and there is evidence that major UK vehicle manufacturers are presently having difficulty in securing UK sourcing because of capacity constraints in the components industry. UK car production is now recovering strongly from the severe production turndown in the late 1970s and early 1980s. However, certain suppliers and component manufacturers have expressed concern over the future of the Rover Group (RG) in view of its progressive loss of market share and uncertainty over its future product strategy together with the reported new emphasis on margins over volume. RG sources almost entirely in the UK and it is still the largest single national car producer in volume terms. As small cars have low margins there is bound to be some uncertainty over the continuity of RG's Metro until its replacement in the market is assured. In this context, additional UK volume car production in the small car range will help to create the horizon of expectations needed by motor component manufacturers to accept the risks associated with new capacity investment when they already have smaller markets than their competitors in other leading European producing countries.

R BRIANT Ec1a  
30 November 1987

**BUSINESS PLAN**  
**FISCAL YEARS 1987 TO 1994**

**SUBMISSION TO DTI**

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# NISSAN MOTOR MANUFACTURING (UK) LIMITED - FACILITY PLAN

KEY

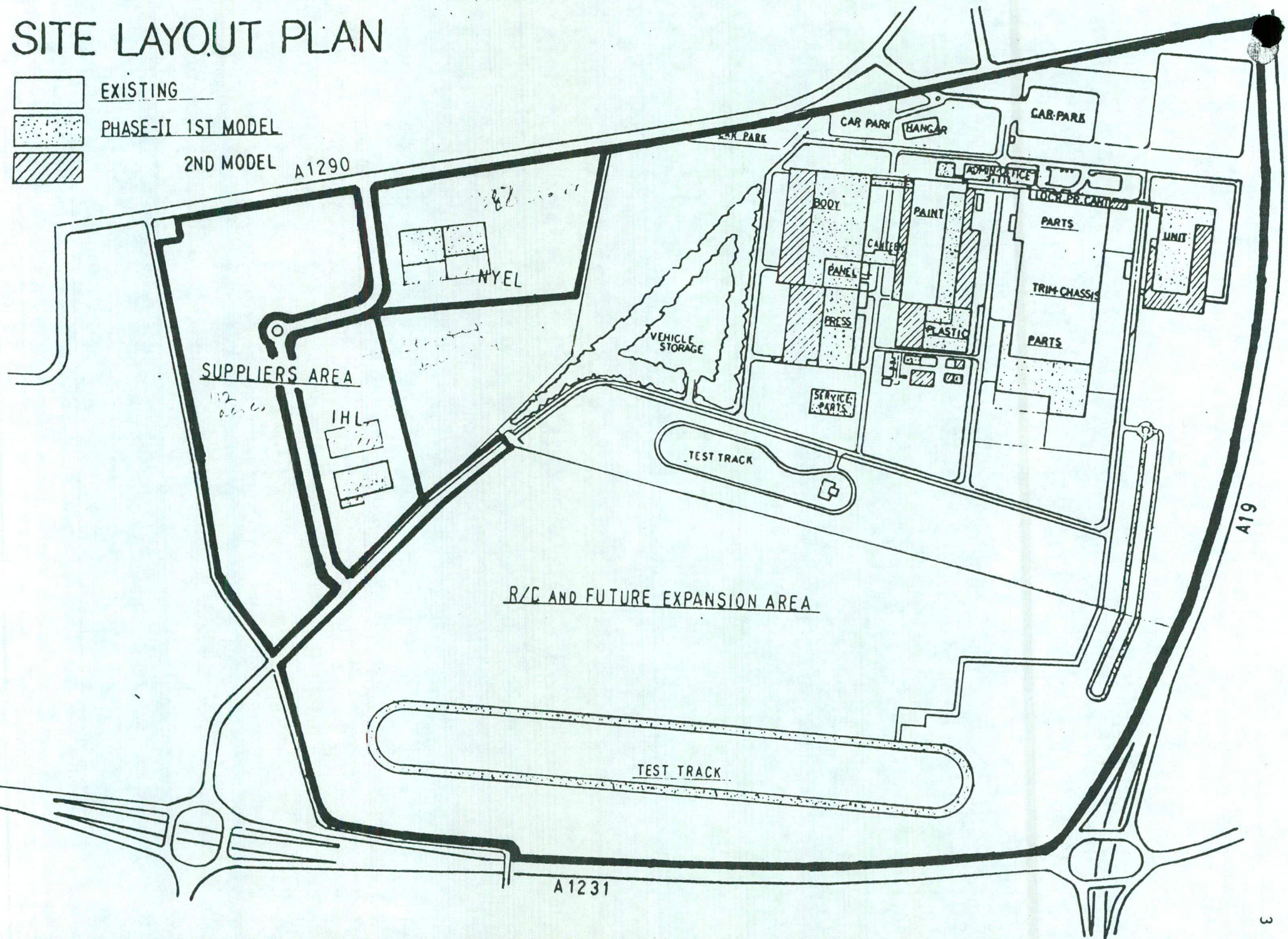
Δ Award Contract  
 ▲ Manufacturing  
 ○ Installation  
 ○ Commission/SOP

B Building  
 E Equipment  
 D Dies/Tooling

	1986	1987	1988	1989	1990	1991	FACILITIES FOR 2nd MODEL
PRESS	B E D						<ul style="list-style-type: none"> <li>400 Ton Blanking Press</li> <li>2700/3200 Ton Transfer Press</li> <li>Press Die for 2nd model</li> </ul>
BODY		B E					<ul style="list-style-type: none"> <li>New Prodn. Line for 2nd Model</li> <li>Robot 80</li> </ul>
PAINT	B E						<ul style="list-style-type: none"> <li>Pre-treatment/ED Line</li> <li>Sealing Line</li> <li>Surfacer/Topcoat Common Line</li> </ul>
FINAL ASSY			B E				<ul style="list-style-type: none"> <li>Tester Line</li> <li>Shower Line</li> <li>Final Anti-corrosion Line</li> </ul>
PLASTICS	B E D						<ul style="list-style-type: none"> <li>2500 Ton Moulding M/C</li> <li>Extension of Plastic Paint Line</li> </ul>
ENGINE ASSY	B E						<ul style="list-style-type: none"> <li>Extension of Assy Line</li> <li>Extension of Machining Line</li> </ul>
ENGINE M/C							<ul style="list-style-type: none"> <li>Axle Assy Line</li> </ul>

# SITE LAYOUT PLAN

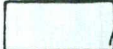
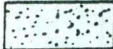

- EXISTING
- PHASE-II 1ST MODEL
- 2ND MODEL A1290

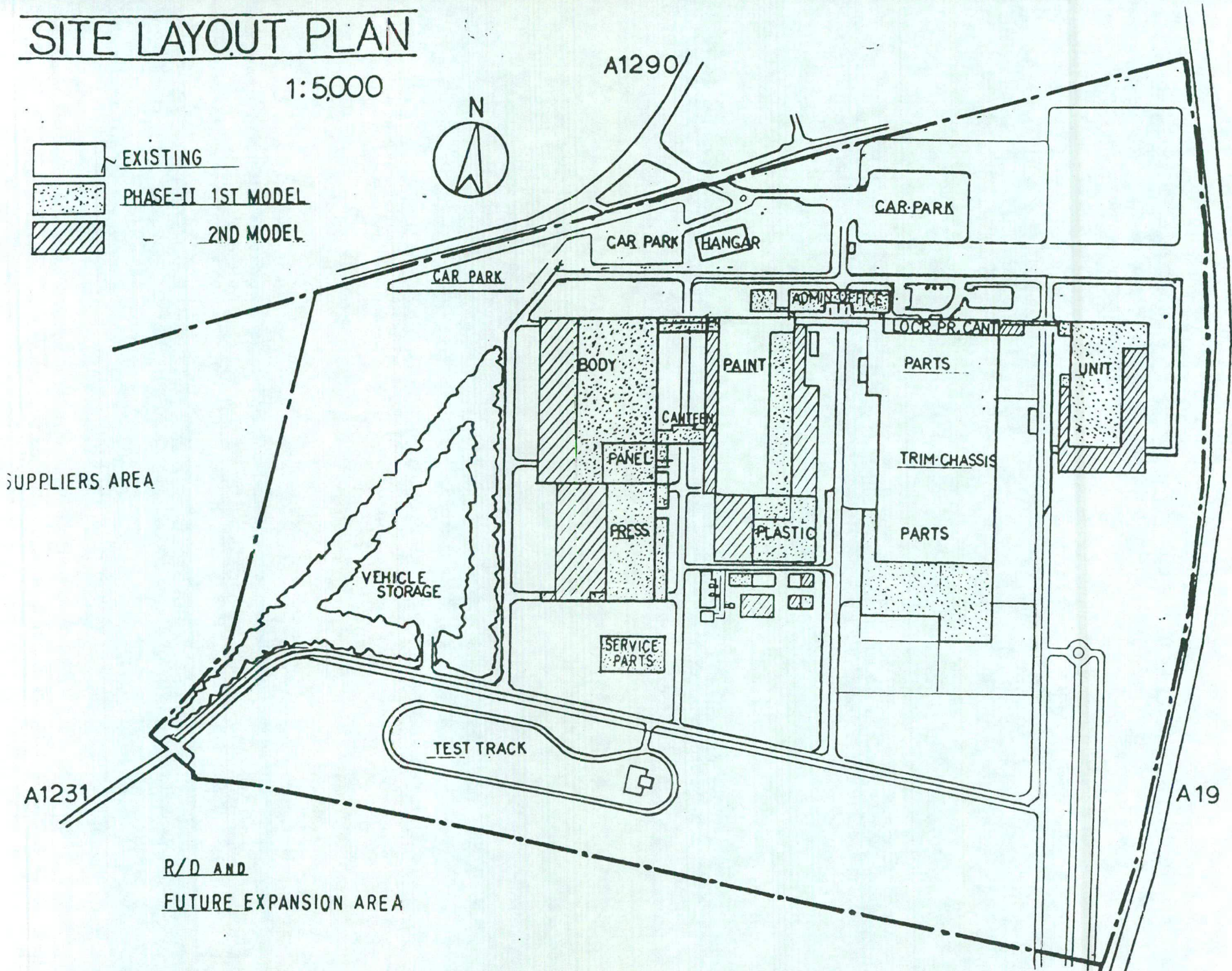


# SITE LAYOUT PLAN

1:5,000



-  EXISTING
-  PHASE-II 1ST MODEL
-  2ND MODEL



SUPPLIERS AREA

VEHICLE STORAGE

TEST TRACK

R/D AND  
FUTURE EXPANSION AREA

A1231

A1290

A19

NISSAN MOTOR MANUFACTURING (UK) LIMITED

FINANCIAL RESULTS 1984 - 1986

Profit and Loss Accounts £m

FISCAL YEAR	1984	1985	1986
TURNOVER	-	-	18
COST OF SALES	2	5	35
OPERATING PROFIT (LOSS)	( 2)	( 5)	( 17)
INTEREST	-	-	1
TAXATION	-	-	-
PROFIT (LOSS) AFTER TAXATION	( 2)	( 5)	( 16)

**NISSAN MOTOR MANUFACTURING (UK) LIMITED**

**FINANCIAL RESULTS 1984 - 1986**

**Balance Sheets      £m**

FISCAL YEAR	1984	1985	1986
Owned Fixed Assets	2	5	6
Leased Fixed Assets	-	-	40
Net Current Assets	1	5	44
	3	10	90
Share Capital	5	17	64
Profit and Loss Account	( 2)	( 7)	( 23)
Loans	-	-	15
Lease Obligations	-	-	34
	3	10	90

## NISAN MOTOR MANUFACTURING (UK) LIMITED

## BUSINESS PLAN 1988 - 1995 - BASE CASE

## Profit and Loss Accounts £m

*Constant 1987 prices*

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
Turnover	172	242	287	390	518	708	824	826
Cost of Sales	193	276	339	402	516	701	800	800
Operating Profit (Loss)	( 21)	( 32)	( 52)	( 12)	2	7	24	26
Interest	( 2)	( 2)	( 4)	( 3)	( 2)	( 3)	( 2)	( 2)
SFA	7	10	7	6	5	-	-	-
Profit (Loss) Before Tax	( 16)	( 24)	( 49)	( 9)	5	4	22	24

*Already agreed**No tax within plan period**Tax payable probably in 1997*



NISSAN MOTOR MANUFACTURING (UK) LIMITED

BUSINESS PLAN 1988 - 1995 - BASE CASE

Balance Sheets £m

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
Owned Fixed Assets	10	11	12	10	8	7	7	7
Leased Fixed Assets	38	113	100	166	304	269	234	199
Investment in NYEL	-	1	3	3	3	3	3	3
Net Current Assets	43	48	35	29	43	74	77	105
	91	173	150	208	358	353	321	314
Share Capital	89	100	120	150	150	150	150	150
Profit and Loss Account	( 39)	( 63)	( 112)	( 121)	( 116)	( 112)	( 90)	( 66)
Loans	5	25	46	20	16	41	22	22
Lease Obligations	36	111	96	159	308	274	239	208
	91	173	150	208	358	353	321	314

## NISSAN MOTOR MANUFACTURING (UK) LIMITED

## BUSINESS PLAN 1998 - 1995 - BASE CASE

## Cash Flow Forecast £m

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
<b>Receipts</b>								
Trade	212	223	284	383	516	687	823	826
Share Capital	25	11	20	30	-	-	-	-
Loans	34	20	21	-	-	25	-	-
Lease Transactions	83	60	90	66	104	5	-	-
SFA	-	7	10	7	6	5	-	-
RDG	-	-	-	-	-	-	-	-
VAT	6	-	-	-	-	-	-	-
Miscellaneous	1	1	1	1	1	1	1	1
Interest Received								
	361	322	426	487	627	723	824	827
<b>Payments</b>								
Trade	195	185	236	282	383	545	610	637
Operating Expenses	30	55	74	77	97	118	139	140
Loans	44	-	-	26	4	-	19	-
Lease Transactions	74	62	86	66	108	3	-	-
Lease Rents	7	12	18	29	27	53	53	47
Investment in NYEL	-	1	2	-	-	-	-	-
Capital Expenditure	2	3	3	3	-	-	-	-
VAT	3	-	-	-	-	-	-	-
Miscellaneous	1	1	1	1	1	1	1	1
Interest Paid	2	2	4	3	2	3	2	2
	359	321	424	487	622	723	824	827
Cash Flow	2	1	2	-	5	-	-	-
Balance at beginning of year	-	2	3	5	5	10	10	10
Balance at end of year	2	3	5	5	10	10	10	10

Lease assets net  
of RDG

NISSAN MOTOR MANUFACTURING (UK) LIMITED

CAPITAL EXPENDITURE £m

YEAR ENDED 31 MARCH	1988	1989	1990	1991	1992	1993	1994	1995	TOTAL
<u>NMUK</u>									
Buildings	-	-	2	17	13	-	-	-	32
Plant	-	-	3	22	74	2	-	-	101
Jigs and Dies	-	-	-	16	19	2	-	-	37
SUB-TOTAL	-	-	5	55	106	4	-	-	170
Vendor Tooling	-	-	7	7	8	7	-	-	29
TOTAL	-	-	12	62	114	11	-	-	199
<u>NYEL</u>									
Buildings	-	-	1	2	2	-	-	-	5
Plant	-	-	2	5	1	-	-	-	8
Jigs and Dies	-	-	-	1	1	-	-	-	2
SUB-TOTAL	-	-	3	8	4	-	-	-	15
Special Tooling	-	-	-	1	1	-	-	-	2
TOTAL	-	-	3	9	5	-	-	-	17
<u>GRAND TOTAL</u>	-	-	15	71	119	11	-	-	216

NMUK 1987 - 1994 BUSINESS PLAN£MCAPITAL EXPENDITURE AT CONSTANT PRICES

	<u>Cost</u>	<u>Capital Grants</u>	<u>Net</u>
<u>Phase I</u>			
NMUK Ownership	8	-	8
Leased Assets	58	13	45
	<u>66</u>	<u>13</u>	<u>53</u>
<u>Phase II</u>			
NMUK Ownership	10	-	10
Leased Assets	220	48	172
	<u>230</u>	<u>48</u>	<u>182</u>
<u>KX</u>			
Leased Assets	<u>170</u>	<u>9</u>	<u>161</u>
<u>Totals</u>			
NMUK Ownership	18	-	18
Leased Assets	448	70	378
	<u>466</u>	<u>70</u>	<u>396</u>

Note : Expenditure re NYEL and Vendor Tooling not included in the above figures.

NMUK 1987 - 1994 BUSINESS PLAN

	<u>NYEL CAPITAL EXPENDITURE</u>		<u>£M</u>
	<u>Cost</u>	<u>Capital Grants</u>	<u>Net</u>
<u>PHASE II</u>			
NYEL Ownership	1	-	1
Leased	17	4	13
	<u>18</u>	<u>4</u>	<u>14</u>
<u>KX</u>			
NYEL Ownership	2	-	2
Leased	15	-	15
	<u>17</u>	<u>-</u>	<u>17</u>

NMUK 1987 - 1994 BUSINESS PLANVENDOR TOOLING EXPENDITURE£M

	<u>Cost</u>	<u>GP</u>	<u>EC</u>	<u>KX</u>
Phase I	3	3	-	-
Phase II	52	16	36	-
KX	29	-	-	29
	<u>84</u>	<u>19</u>	<u>36</u>	<u>29</u>

NISSAN MOTOR MANUFACTURING (UK) LIMITED

BUSINESS PLAN 1988 - 1995 - BASE CASE

Employment

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
NMUK	1200	1780	2050	2400	3250	3300	3300	3300
Increase over Previous plan	-	-	-	100	980	980	980	980
(Memo - Increase in employment of on-site labour subcontractors)	-	-	-	140	140	140	140	140
NYEL	100	140	150	190	220	220	220	220
Increase over previous plan	-	-	-	50	80	80	80	80
(Memo - Employment at year end at Ikeda Hoover Limited)	210	270	330	420	600	600	600	600

NISSAN MOTOR MANUFACTURING (UK) LIMITED

BUSINESS PLAN 1988 - 1995 - BASE CASE

UNIT SALES (000's)

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994
<b>Total Sales</b>								
GP	35	49	58	13				
EC				65	103	106	106	106
KX						60	100	100
	35	49	58	78	103	166	206	206
<b>Distribution</b>								
United Kingdom ↗	33	35	35	8				
GP ↗				28	45	45	45	45
EC ↗						41	41	
KX ↗								41
	33	35	35	36	45	86	86	86
<b>Export</b>								
GP	2	14	23	5				
EC				37	58	61	61	61
KX						19	59	59
	2	14	23	42	58	80	120	120
<b>EXPORT %</b>	6	29	49	54	56	48	58	58



## PROFIT ANALYSIS

£M

FISCAL YEAR	1987	1988	1989	1990	1991	1992	1993	1994	Return on net Capital Investment
<b>EC Model</b>									
Base Case and Grant Case	-16	-18	-41	-3	20	23	26	23	7.9%
<b>KX Model</b>									
Base Case			-1	-3	-13	-13	1	6	3.0%
Grant Case	n/a	n/a	-1	-3	-11	4	7	12	5.3%
<b>TOTALS</b>									
Base Case	-16	-18	-42	-6	7	10	27	29	
Grant Case	-16	-18	-42	-6	9	27	33	35	
<b>Deduct</b>									
Research and Development	-	6	7	3	2	6	5	5	
<b>Profit Before Tax</b>									
Base Case	-16	-24	-49	-9	5	4	22	24	
Grant Case	-16	-24	-49	-9	7	21	28	30	

NISSAN MOTOR MANUFACTURING (UK) LIMITED

BUSINESS PLAN 1987 - 1994

Return on Net Capital Investment      £m

	<u>Notes</u>	<u>EC Base Case and Grant Case</u>	<u>KX Base Case</u>	<u>Grant Case</u>
Profit contribution	(1)	23	6	10
Net Investment	(2)	290	199	190
% Return		7.9%	3.0%	5.3%

(1)  
To provide a fair comparison of the profit contribution in 1994 the direct SFA credit of £2m has been deducted from the KX profit contribution under the Grant Case.

(2)  
Net investment in each case is:

Facilities	296	170	170
Vendor Tooling	<u>55</u>	<u>29</u>	<u>29</u>
	351	199	199
Less RDG	<u>61</u>	<u>-</u>	<u>9</u>
NET INVESTMENT	<u>290</u>	<u>199</u>	<u>190</u>





## NISSAN MOTOR MANUFACTURING (UK) LIMITED

## BUSINESS PLAN 1988 - 1995 - GRANT CASE

## Cash Flow Forecast £m

FISCAL YEAR	1987	1988 22	1989	1990	1991	1992	1993	1994
<b>Receipts</b>								
Trade	212	223	284	383	516	687	823	826
Share Capital	25	11	20	30	-	-	-	-
Loans	34	20	21	-	-	7	-	-
Lease Transactions	83	60	90	66	104	5	-	-
SFA	-	7	10	7	8	20	2	2
RDG	-	-	-	1	6	2	-	-
VAT	6	-	-	-	-	-	-	-
Miscellaneous	1	1	1	1	1	1	1	1
Interest Received							1	1
	361	322	426	488	635	722	827	830
<b>Payments</b>								
Trade	196	185	236	282	383	545	610	637
Operating Expenses	30	55	74	77	97	118	139	140
Loans	44	-	-	27	12	-	14	-
Lease Transactions	74	62	86	66	108	3	-	-
Lease Rents	7	12	18	29	27	53	53	47
Investment NYEL	-	1	2	-	-	-	-	-
Capital Expenditure	2	3	3	3	-	-	-	-
VAT	3	-	-	-	-	-	-	-
Miscellaneous	1	1	1	1	1	1	1	1
Interest Paid	2	2	4	3	2	2	-	-
	359	321	424	488	630	722	817	825
<b>Cash Flow</b>	2	1	2	-	5	-	10	5
Balance at beginning of year	-	2	3	5	5	10	10	20
Balance at end of year	2	3	5	5	10	10	20	25



mpw

Ch/

You asked how much  
GEP / PSF are now assuming  
as Rover's claim on the  
1988-89 Reserve.

They are now assuming  
£650 million, compared  
with a guess of £700 m  
in their previous assessment.

now: mpw  
213

FROM: NEIL WILLIAMS

DATE: 9 December 1987

1. MR WILLIAMS  
9/12
2. FINANCIAL SECRETARY

*On this, need against some  
selective assistance criteria, the  
case as presented is a very  
difficult one. But clearly the  
unemployment situation and projects  
in Sunderland are a special  
factor which has to be taken  
into account.*

cc. PS/Chancellor  
PS/Chief Secretary  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr J Colman  
Mr Hughes  
Ms Roberts  
Ms Huleatt-James  
Mr Cropper  
Mr Tyne  
Mr Call

## REGIONAL ASSISTANCE: NISSAN

1. DTI Ministers are seeking agreement to the making of an exceptional offer of Regional Selective Assistance (RSA) to Nissan involving total regional assistance of £25m (£16m RSA and £9m RDG), in order to secure an extension of the Nissan manufacturing operation in Sunderland to produce a second model providing an extra 1060 direct jobs. (It will lead to additional indirect jobs but these are excluded when calculating cost per job against the allowed limits.) They argue that a decision is required this week to enable a deal to be finalised and announced when the Chairman of Nissan sees Lord Young on 14 December.

2. Lord Young is writing on the political importance he attaches to securing the project within the timescale proposed. We understand pressure to meet this deadline reflects in part a fear that if the opportunity of getting the Chairman of Nissan to commit himself is missed and Nissan defers decisions until next year they may lose interest in proceeding, and partly from Lord Young's desire for an early announcement of additional jobs for the Sunderland area to help him combat criticism arising from the announcement of the Government's decision of further substantial redundancies at shipbuilding yards in the area which is proposed for late January/early February.

3. DTI have processed the proposal with considerable haste and only sketchy details are available (supporting papers supplied by DTI officials are at Annex A.)

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These do not cover all the ground normally required for cases of this sort and are insufficiently quantified to enable us to establish in detail how far the various standard requirements are met, although on the evidence presented this appears unlikely. The tests are:

- (i) **Viability:** the project and enterprise seeking assistance must be viable. There is insufficient detailed information to enable a full assessment, but the low rate of real return of 3.0% quoted for the project without grant suggests that it would be likely to represent a poor use of resources;
- (ii) **Additionality:** whether the assistance is necessary for the project to go ahead. The information provided on this is insufficiently quantified to enable us to establish whether or not the proposed level of grant is required before it is in the company's financial interest to proceed and hence whether the additionality test is likely to be satisfied, but many of the arguments presented by DTI in favour of Nissan locating the project in Sunderland are also reasons why Nissan might wish to do so aside from the availability of assistance.
- (iii) **Economic efficiency:** will the project at the level of grant proposed involve a loss of national output. DTI have not attempted an economic efficiency test. DTI officials accept, however, that given the low rate of pre-grant return the project could be expected to fail this test on a straight calculation. They argue that the benefit to the UK would come from wider benefits which are difficult to quantify (discussed in Annex A2). Since the project represents an expansion of an existing type of investment rather than the introduction of new techniques, skills and technologies there must be doubt as to just how valuable the incremental effect of the proposed project would be, however.
- (iv) **Public sector contribution (net grant equivalent):** this test ensures that the total public sector contribution is within European Community and national limits. Although the DTI papers do not show this test it is clear that the project would pass.
- (v) **Cost per job limits:** the total cost of assistance per direct job after allowing for any job losses through direct displacement is limited to £17,000 in a development area. The DTI paper argues that the project would lead to no displacement from other UK motor manufacturers because production from the UK plant would be devoted entirely to displacing



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production currently from Japan. This is not wholly convincing since the appreciation of the Yen means that without production in Europe Nissan could be expected to lose market share for this type of vehicle. Even if it is accepted, however, at the proposed level of regional assistance the cost per direct job would be £23,300 or approximately 40% above the guideline limit. This is on top of the approximately £45,000 per job (RDG plus RSA of £105m) paid to Nissan to establish the original Sunderland facility.

3. These doubts and uncertainties would normally cause us to recommend against agreeing to the proposed offer.

4. However, given the high public profile of the Nissan operation in Sunderland, the desirability of a major injection of new jobs in this area of high unemployment, the desirability of announcing good news to offset an unfavourable announcement on shipbuilding, and the political importance which DTI Ministers attach to securing this project you may feel that it would be unrealistic to turn the project down, or risk losing it while further particulars are sought. The issue then becomes one of extracting the maximum advantage to Treasury from agreement to it and limiting the extent to which this might set an unfortunate precedent. The former might involve:

- (i) taking full account of the Nissan project in any future discussion of the need for a special package of enterprise promotion measures for the North East to accompany any announcement on shipbuilding, as recently proposed by Kenneth Clarke, and
- (ii) attempting to use agreement as a lever on Lord Young in the continuing discussion on the possibility of his including his RSA budget within a cash limited vote.

Limiting the possibilities of a dangerous precedent would involve at the least maintaining the established position that the amount by which any exceptional offer of regional assistance exceeds guideline limits must be offset by a corresponding saving on a cash limited vote, and emphasising the link with shipbuilding closures as justifying exceptional treatment. To help clarify what this might amount to in practice, the draft of a possible letter along these lines is attached.

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5. This case potentially impacts on a number of wider Treasury concerns with which the Chancellor and the Chief Secretary have previously been involved, and you may wish to get their views on handling. You may also wish to discuss the details of the case with officials.

*Neil Williams*

NEIL WILLIAMS

*Pl. typewritten for the sign.*DRAFT LETTER FROM THE FINANCIAL SECRETARY TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY*9 December*

1. Thank you for your letter of *7* explaining the political importance you attach to securing the proposed Nissan project to produce the replacement Micra small car in Sunderland, on which you officials approached mine earlier in the week.

2. I have to say that I regard the need for a decision in the time scale you have sought and on the basis of the rather sketchy information available to us as highly unsatisfactory. In the absence of a detailed case analysed against the standard tests for regional selective assistance cases it is not possible to be assured that it would not be in the companies financial interest to proceed with the project anyway either in the absence of grant or at some lower level of grant. And, very worrying, it seems likely at the proposed level of grant that the project will yield a significant net economic loss to the UK. In normal circumstances, I would have no hesitation in rejecting your proposal until these questions have been explored in detail, especially given the scale of funding proposed and the significant breach of the cost per job limits.

3. However I accept that the circumstances are not normal given the significance of the project for the Sunderland area, particularly in the context of the forthcoming decisions on shipbuilding. If, despite my reservations, you are keen to support this project as an answer to the employment problems of Sunderland and the North East and are <sup>you</sup> satisfied that the proposed offer is the minimum necessary to secure the project and <sup>that</sup> it will yield significant net benefits to the UK I am therefore prepared to agree that you may offer total regional assistance up to £25m.

4. My agreement is subject to the following safeguards:

- (i) Firm commitments are obtained from Nissan on the extent of local sourcing and the undertaking of R&D work within the UK.

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(ii) The offer must not lead to any increase in total public expenditure. The established procedure, endorsed by the Prime Minister, is that where an offer of regional assistance exceeds the guideline limits any excess must be matched by a corresponding reduction in a cash limited vote. ~~The need for~~ the offsetting saving <sup>has</sup> to come from a cash limited vote ~~reflects the fact that~~ <sup>because this</sup> only that guarantees that such an offer will not leak through into higher expenditure. However, I fully see that you may not wish to make offsetting reductions in other DTI programmes and may prefer to bear the full cost on your regional assistance budget. I know you have recently been in correspondence with John Major on the possibility of incorporating your expenditure on regional selective assistance within a cash limited vote. If you were prepared to agree to this the risk to public expenditure arising from this exceptional offer could be contained and I could waive the requirement for offsetting savings from another cash limited vote in the present case.

5. I would also expect this exceptional measure of support for the Sunderland region to be fully taken into account in any future discussions of the need for special measures for the North East to accompany any announcement on shipbuilding.

6. Copies of this letter go to recipients of yours.

*I am sending a copy of this letter to the Prime Minister.*

*There could be absolutely no question of support for this project generating a bid for extra resources in the 1988 or subsequent surveys.*



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

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COMMERCIAL IN CONFIDENCE**

9 December 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*Nigel Lawson*

CH/EXCHEQUER	
REC.	09 DEC 1987
ACTION	CST
COPIES TO	

1/12  
FST

**NISSAN: SECOND MODEL PROJECT**

Our officials have been in contact on the proposal to offer Nissan financial assistance of £25 million for expansion of the Sunderland plant to produce a second model. I am writing personally to emphasise the importance I attach to securing this project and to underline the fact that it will not go ahead without the financial assistance we have negotiated.

The project involves the production at Sunderland of the Nissan Micra small car for launch in 1992. Output would be 100,000 units a year with 60 per cent being exported. Local content in the cars would be 60 per cent initially, rising to 80 per cent within eighteen months. The project would create some 1400 additional jobs on the Sunderland site and a substantial though at present unquantifiable number of indirect jobs with UK component suppliers. The capital investment programme would be some £216 million.

Nissan requested financial assistance for the project on the following grounds:

- (i) building the Micra at Sunderland would duplicate investment in a similar model in Japan, involving substantial additional capital expenditure at a time when Nissan are hard pressed financially;

DW3DAU



- (ii) Nissan consider that the Sunderland project would not produce incremental sales for the company and would therefore at least in part replace Japanese production, leaving them with the problem of what to do with the spare Japanese capacity;
- (iii) Nissan's model replacement cycle means that, if the 1992 window of opportunity is missed, a second model could not be introduced at the Sunderland plant before the end of the 1990s and such a long deferral would make it uncertain whether the project was carried out at all;
- (iv) the returns on the project are marginal. Relatively small variations in Nissan's assumptions would put the profitability of the project in jeopardy but Government assistance would give Nissan confidence to carry these risks.

We are satisfied that this analysis of the position stands up. Nissan originally requested assistance of £30 million but through hard negotiation we have settled on an offer of £25 million (11.57 per cent of project costs), which we judge is the minimum necessary for the project to proceed. Nissan are not particularly happy with the outcome but are prepared to accept it. As part of the package, we have also managed to secure a commitment that they will locate design and development facilities in the UK.

The bulk of the £25 million expenditure falls outside the current PES period. We should clearly need to take account of the project in setting RSA expenditure levels and commitment profiles in the next PES round. The offer also entails going beyond the normal regional assistance guidelines. But I am in no doubt that the importance of the project to the UK (and the North East in particular) justifies this. It offers substantial benefits to the economy in terms of direct and indirect employment, exports, and expansion of the UK vehicle production base with all the opportunities this offers to the components sector. And Nissan's commitment to undertaking R & D in the UK is a very significant gain, both in itself and in rebutting charges that the Government are allowing activity of this sort to flow out of the country. The adaptation of Japanese design and development practices to UK conditions can be expected to have wider benefits across the whole UK motor industry.

I am due to see Mr Ishihara, the Chairman of Nissan, on Monday 14 December and both we and Nissan intend then to announce the decision to expand the Sunderland plant. Mr Ishihara has long been



a supporter of Nissan's UK operations - often against internal opposition - and his visit here has provided the impetus for their decision to expand UK production despite the concern of some of the Nissan board about the implications for their Japanese plants. However, despite Mr Ishihara's personal enthusiasm, I am clear that Nissan will not be prepared to commit themselves to proceeding with the project on this occasion unless the offer of £25 million is confirmed. And if we miss the window of opportunity created by his visit, the project could be at real risk. If the decision slips, worldwide developments affecting Nissan at the corporate level could lead to it being at best delayed and must considerably increase the uncertainty over whether it will be carried out at all.

I therefore hope that you can let me have your early agreement to the offer of £25 million financial assistance so that the project can be announced on 14 December.

I am sorry for the short notice but we only received Nissan's formal proposals on 20 November and Mr Ishihara's visit does provide the best opportunity of securing the project.

I am sending a copy of this letter to the Prime Minister.

*Lord*  
*Young*

LORD YOUNG OF GRAFFHAM

DW3DAU

not minuted

ppp

COMMERCIAL IN CONFIDENCE

FROM: P J CROPPER  
DATE: 9 December 1987

PS/CHANCELLOR

cc PS/Chief Secretary  
Mr Monck  
Mr Burgner  
Mr Tyrie  
Mr Call

Ch/ Lord Young's letter (and a  
slimmed-down version of  
official advice to FST) behind  
DTI  
MPW 9/12

Peter Luff, Special Adviser DTI, rings asking me to do what I can to ensure that the Treasury does not stand in the way of the deal Lord Young wants to clinch with Nissan on Monday.

2. Apparently Nissan want to double their capacity in Sunderland, where we are about to close down British Shipbuilders, so it is all very important politically.

3. DTI want to give Nissan £25 million. The Treasury says that the formula would point to £17 million as the right figure to give them. Cropper is requested to ensure that the Treasury has not got something wrong in the calculations - and even if the Treasury hasn't got anything wrong, to try and get this case specially treated.

4. Can I ring back with any message? Soon?

P J CROPPER

*FST (cc PJC)*  
*I have been over this paper.*  
*We have already given Nissan special treatment. We cannot go on like that. Soft touch - they will never do if we are. You will be unable to touch us. I am very much obliged to you. Mr.*





*pmj*

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

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9 December 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

REC	10 DEC 1987	09 DEC 1987	1/12
	MR Walker	<del>EST</del>	
	PPS PS/CST		
	Sir P. Middleton		
	MR Anson MR Monck		
	MR Burgess MR Williams		
	MR Call MR Cropper		

*Nigel*

**NISSAN: SECOND MODEL PROJECT**

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- (ii) Nissan consider that the Sunderland project would not produce incremental sales for the company and would therefore at least in part replace Japanese production, leaving them with the problem of what to do with the spare Japanese capacity;
- (iii) Nissan's model replacement cycle means that, if the 1992 window of opportunity is missed, a second model could not be introduced at the Sunderland plant before the end of the 1990s and such a long deferral would make it uncertain whether the project was carried out at all;
- (iv) the returns on the project are marginal. Relatively small variations in Nissan's assumptions would put the profitability of the project in jeopardy but Government assistance would give Nissan confidence to carry these risks.

We are satisfied that this analysis of the position stands up. Nissan originally requested assistance of £30 million but through hard negotiation we have settled on an offer of £25 million (11.57 per cent of project costs), which we judge is the minimum necessary for the project to proceed. Nissan are not particularly happy with the outcome but are prepared to accept it. As part of the package, we have also managed to secure a commitment that they will locate design and development facilities in the UK.

The bulk of the £25 million expenditure falls outside the current PES period. We should clearly need to take account of the project in setting RSA expenditure levels and commitment profiles in the next PES round. The offer also entails going beyond the normal regional assistance guidelines. But I am in no doubt that the importance of the project to the UK (and the North East in particular) justifies this. It offers substantial benefits to the economy in terms of direct and indirect employment, exports, and expansion of the UK vehicle production base with all the opportunities this offers to the components sector. And Nissan's commitment to undertaking R & D in the UK is a very significant gain, both in itself and in rebutting charges that the Government are allowing activity of this sort to flow out of the country. The adaptation of Japanese design and development practices to UK conditions can be expected to have wider benefits across the whole UK motor industry.

I am due to see Mr Ishihara, the Chairman of Nissan, on Monday 14 December and both we and Nissan intend then to announce the decision to expand the Sunderland plant. Mr Ishihara has long been



a supporter of Nissan's UK operations - often against internal opposition - and his visit here has provided the impetus for their decision to expand UK production despite the concern of some of the Nissan board about the implications for their Japanese plants. However, despite Mr Ishihara's personal enthusiasm, I am clear that Nissan will not be prepared to commit themselves to proceeding with the project on this occasion unless the offer of £25 million is confirmed. And if we miss the window of opportunity created by his visit, the project could be at real risk. If the decision slips, worldwide developments affecting Nissan at the corporate level could lead to it being at best delayed and must considerably increase the uncertainty over whether it will be carried out at all.

I therefore hope that you can let me have your early agreement to the offer of £25 million financial assistance so that the project can be announced on 14 December.

I am sorry for the short notice but we only received Nissan's formal proposals on 20 November and Mr Ishihara's visit does provide the best opportunity of securing the project.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Lord Young', written in a cursive style.

LORD YOUNG OF GRAFFHAM

DW3DAU

Ch/ not seen in draft -  
papers on this and shipbuilding behind  
DTI want response asap Monday

PS. Mark Call  
had me to  
interview me  
on Nissan.  
Jail

put into  
an article:

in pwr 11

12  
Prof. Kaplan

FROM: MARK CALL  
DATE: 10 DECEMBER 1987

FINANCIAL SECRETARY

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Paymaster General  
Mr Monck  
Mr Burgner  
Mr Cropper  
Mr Tyrrie

*A strong case -  
which offers to Nissan  
Mr [unclear] for taken.*

*However, there are  
problems with  
X, too; we have to offer  
to other*

REGIONAL ASSISTANCE: NISSAN

I feel very strongly that we have to disappoint Lord Young on this one. The economic case is poor. Furthermore I do not think there would be a major political risk, since subsidising a Japanese multinational would not be seen as the logical quid pro quo for largescale shipbuilding redundancies. If we want to counteract the shipbuilding redundancies let's target some enterprise promotion measures on the area, but not throw money at a Japanese car company which may make further investment in the UK anyway.

2. If the return at 3% is judged to be a poor use of resources, subsidy doesn't make it any better. The "sketchy" case put up by the DTI perhaps indicates that they recognise that the economic case is poor. They rest heavily on the "wider benefits" in Appendix A2. Some of these arguments are thin, but to the extent that they are valid, they are reasons why Nissan may wish to expand production without the help of subsidies. Furthermore depreciation of the Yen is driving many Japanese companies to expand production in Europe.

3. I'm all for encouraging inward investment, but this proposal could prove expensive in its knock-on effects. Following on Ford/Dundee agreement to the Nissan proposal would send the strong signal to others considering investing in the UK that it's worth playing hard to get. It could also lead to a clamour among other depressed regions for government assistance. What about other areas hit by shipbuilding redundancies? What can we subsidise on the Clyde?

4. Even the political case is questionable and could backfire. Subsidising a foreign firm to compete against UK manufacturers would not be understood and could lead to pressure for an explicit industrial policy. Rover Group would not be amused given the already substantial grant paid to Nissan to establish the original Sunderland plant. On a broader front this would hardly help our moral case for reducing market distortions in Europe, for example steel. If we are to take a hands-off approach let's be consistent.

5. We have been emphasising to companies the need to stand on their own two feet, shouldn't we take our own medicine? The UK can now offer a number of advantages: very low company taxes; low complication to establish business here; relatively cheap labour and good industrial relations scene; English language (especially important to the Japanese).

6. In conclusion, let's sell the UK as a location for international business on its merits, and target enterprise measures on the areas hardest hit by shipbuilding redundancies. The two are not connected.

*Mc*

MARK CALL

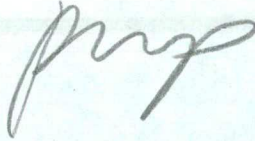
CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

FROM: M A WALLER

DATE: 10 December 1987

FINANCIAL SECRETARY

cc. PS/Chancellor  
PS/Chief Secretary  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr J Colman  
Mr Hughes  
Ms Roberts  
Ms Huleatt-James  
Mr N Williams  
Mr Cropper  
Mr Tyrie  
Mr Call




## REGIONAL ASSISTANCE: NISSAN

As foreshadowed in Mr Williams' submission of yesterday, Lord Young has now written emphasising the importance he attaches to securing this project.

2. The letter adds very little new to the information covered in the papers put to us by DTI officials. The only significant change from these papers is that Lord Young says that Nissan have now committed themselves to an R&D facility in the UK. There is, however, a worrying signal that, if approval is given for this assistance, Lord Young would use it as a supporting factor in a possible bid in the next PES round. (i.e. the second sentence of the penultimate paragraph on page 2 of his letter). We must nail this. I, therefore, suggest that, if the draft letter attached to Mr Williams submission issues in its current form, the following sentence should be inserted after the first sentence in paragraph 4(ii):

"There could be absolutely no question of support for this project generating a bid for extra resources in the 1988 or subsequent Surveys."

  
M A WALLER

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

FROM: NEIL WILLIAMS  
DATE: 11 DECEMBER 1987

1. MR WALLER *11/12*  
2. CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr J Colman  
Mr Hughes  
Ms Roberts  
Ms Huleatt-James  
Mr Cropper  
Mr Tyrie  
Mr Call

REGIONAL ASSISTANCE: NISSAN

I understand that the Nissan proposal was discussed on 10 December, when it was agreed that an offer of regional assistance of up to £25million should be made. I attach a draft reply to Lord Young's letter of 9 December confirming this and making your agreement subject to the usual public expenditure requirements applicable to such cases.

*Neil Williams*  
Neil Williams



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCEDRAFT LETTER FROM THE CHANCELLOR TO SECRETARY OF STATE FOR TRADE AND INDUSTRY

## NISSAN

1. Thank you for your letter of 9 December explaining the political importance you attach to securing the proposed Nissan project to produce the replacement Micra small car in Sunderland.

2. We discussed your proposed offer of regional assistance when we met ~~earlier~~ <sup>on Thursday</sup> this week. As I indicated then, given the exceptional circumstances I am prepared to agree that you may offer total regional assistance up to £25m if you are satisfied that the proposed offer is the minimum necessary to secure the project and that it will yield sufficient net benefits to the UK.

3. My agreement is on the usual basis that the offer will not lead to an increase in public expenditure. There must be no question of support for this project generating a bid for extra resources in the 1988 or subsequent surveys. The offer will also be subject to the established arrangement, endorsed by the Prime Minister, requiring that any assistance over guideline limits is matched by a corresponding reduction in a cash limited vote. I know that you have recently been in correspondence with John Major on the possibility of incorporating your expenditure on regional selective assistance within a cash limited vote. If you wished to avoid the need for offsetting savings impacting on other DTI programmes by agreeing to this and bearing the full cost on your regional assistance budget this would be entirely acceptable to me.

4. I am copying this letter to the Prime Minister.

PS/CST  
PS/FST  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr J Colman  
Mr Hughes  
Ms Roberts  
Ms Huleatt-James  
Mr N Williams  
Mr Waller  
Mr Cropper  
Mr Tyrie  
Mr Call



*pm*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

14 December 1987

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade & Industry

*John Lawson*

**NISSAN**

Thank you for your letter of 9 December explaining the political importance you attach to securing the proposed Nissan project to produce the replacement Micra small car in Sunderland.

We discussed your proposed offer of regional assistance when we met on Thursday. As I indicated then, given the other understandings reached at that meeting, I am prepared to agree that you may offer total regional assistance up to £25m if you are satisfied that the proposed offer is the minimum necessary to secure the project and that it will yield sufficient net benefits to the UK.

My agreement is on the usual basis that the offer will not lead to an increase in public expenditure. There must be no question of support for this project generating a bid for extra resources in the 1988 or subsequent surveys. The offer will also be subject to the established arrangement, endorsed by the Prime Minister, requiring that any assistance over guideline limits is matched by a corresponding reduction in a cash limited vote. I know that you have recently been in correspondence with John Major on the possibility of incorporating your expenditure on regional selective assistance within a cash limited vote. If you wished to avoid the need for offsetting savings impacting on other DTI programmes by agreeing to this and bearing the full cost on your regional assistance budget this would be entirely acceptable to me.

I am copying this letter to the Prime Minister.

*John Lawson*

NIGEL LAWSON



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

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

**CONFIDENTIAL**

18 December 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

CH/EXCHEQUER	
REC.	21 DEC 1987
ACTION	FST
COPIES TO	

*Nigel Lawson*

**NISSAN**

Thank you for your letter of 14 December.

I was grateful to you for your agreement to the proposed offer of regional assistance to Nissan, given at our meeting on 10 December. The offer was accordingly confirmed and accepted in time for the planned announcement on 14 December.

I do, however, have difficulty with the conditions proposed in your letter of 14 December. The past arrangements under which above guidelines support has been matched by a corresponding reduction in cash limited Votes preceded the agreement we reached in the past PES round on a commitment limiting system for RSA. That doctrine provided a crude counterbalance to the public expenditure demands of a wholly demand-led programme of regional support. The new commitment limiting system provides a more sophisticated method of managing RSA expenditure, and substantially invalidates the previous practice.

You also suggested that there could be no question of support for the Nissan project generating a bid for extra resources in the 1988 or subsequent surveys. Without implying that I expect to have to make such a bid, I must reserve my right to make bids in coming PES rounds in whatever areas I conclude necessary after scrutiny of my programmes. In considering the position of regional selective assistance, I should of course take full account notonly of the Nissan case and the context in which your agreement was given last week by my post-bilateral correspondence with John Major.

I am sending a copy of this letter to the Prime Minister, and to John Major.

*Lord Young of Graffham*

LORD YOUNG OF GRAFFHAM

JG6AUI

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

FROM: NEIL WILLIAMS

DATE: 11 February 1988

- 1. MR WALLER
- 2. CHANCELLOR

*If it is vital that we preserve the offer doctors until we can secure that RSD projects of this type do not feed enough into higher world expenditure.*  
*W/W*  
*11/2*

- cc. PS/Chief Secretary
- PS/Financial Secretary
- Mr Anson
- Mr Monck
- Mr Burgner
- Mr Hughes
- Ms Huleatt-James
- Mr Cropper
- Mr Tyrie
- Mr Call

*Oh / Content to write as proposed?*

*OK in 11/2*

**REGIONAL ASSISTANCE: NISSAN**

1. In his letter of 18 December (copy at Annex A) Lord Young disputes the conditions in your letter of 14 December (copy at Annex B) attached to your agreement to the offer of above guidelines regional assistance to Nissan. This issue would have been largely overtaken had Lord Young (and the Secretaries of State for Scotland and Wales) agreed to the introduction of cash limiting for Regional Selective Assistance, and we therefore delayed submitting further advice until the outcome of the Chief Secretary's correspondence with Lord Young on this was clear. In the event Lord Young resisted strenuously, and the Chief Secretary in his letter of 8 February (copy at Annex C) accepted that cash limiting will not be introduced for 1988-89 whilst indicating that he will wish to pursue the matter for future years in the context of the 1988 Survey.

2. In the light of the exchanges on commitment limiting and cash limiting we have doubts about how robust commitment limiting will prove in practice in constraining calls for additional resources, and it is important that Lord Young and the Scottish and Welsh Secretaries should not weaken the existing controls applied to above guideline offers. We therefore recommend that you respond to Lord Young stating that you are unwilling to waive the conditions in your earlier letter. A draft is attached.

*Neil Williams*

NEIL WILLIAMS

*Pre type for Ch. sig.*LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

## NISSAN

1. Thank you for your letter of 18 December, to which I have delayed responding until the outcome of your discussions with John Major on cash limiting of Regional Selective Assistance was clear.

2. I am unwilling to waive the conditions attached to my earlier agreement. *(to be very generous offer of further regional assistance to Nissan.)*  
I must reiterate that this was on the basis that the offer would not generate a bid for additional resources i.e. that you will plan to meet expenditure under it from within your existing provision. Whereas you are, of course, free to make bids for any of your programmes as part of the normal Survey process, I cannot accept decisions to support particular projects which leave open the source of the required funds. **P** Nor, unless you are able to give a cast iron guarantee that under commitment limiting you will never seek additional resources, can I accept that the introduction of this system for Regional Selective Assistance overturns the established arrangements under which support for projects above guideline levels must be matched by a corresponding reduction in a cash limited Vote. In addition to providing a counter-balance to expenditure demands arising from such offers the arrangement provides a valuable financial discipline by bringing into sharp focus questions of priorities and value for money whenever such support is considered.

3. I am copying this letter to the Prime Minister.



FINANCIAL SECRETARY	
REC.	22 DEC 1987
TO	MR Waller
FROM	PPS PS/CST
MR Anson MR Menck MR Burgess MR J. Colman MR Hughes MS Roberts Ms Whitehead-James MR Williams MR Cropper MR Syrie MR Call	

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

CONFIDENTIAL

December 1987

The Rt Hon Nigel Lawson MP  
 Chancellor of the Exchequer  
 Treasury Chambers  
 Parliament Street  
 London SW1P 3AG

21 DEC 1987	
<del>PPS</del>	

*Nigel Lawson*

NISSAN

Thank you for your letter of 14 December.

I was grateful to you for your agreement to the proposed offer of regional assistance to Nissan, given at our meeting on 10 December. The offer was accordingly confirmed and accepted in time for the planned announcement on 14 December.

I do, however, have difficulty with the conditions proposed in your letter of 14 December. The past arrangements under which above guidelines support has been matched by a corresponding reduction in cash limited Votes preceded the agreement we reached in the past PES round on a commitment limiting system for RSA. That doctrine provided a crude counterbalance to the public expenditure demands of a wholly demand-led programme of regional support. The new commitment limiting system provides a more sophisticated method of managing RSA expenditure, and substantially invalidates the previous practice.

You also suggested that there could be no question of support for the Nissan project generating a bid for extra resources in the 1988 or subsequent surveys. Without implying that I expect to have to make such a bid, I must reserve my right to make bids in coming PES rounds in whatever areas I conclude necessary after scrutiny of my programmes. In considering the position of regional selective assistance, I should of course take full account not only of the Nissan case and the context in which your agreement was given last week by my post-bilateral correspondence with John Major.

I am sending a copy of this letter to the Prime Minister, and to John Major.

*Lord Young of Graffham*

LORD YOUNG OF GRAFFHAM

JG6AUI

- PS/CST / ANNEX B
- PS/FST
- Mr Anson
- Mr Monck
- Mr Burgner
- Mr J Colman
- Mr Hughes
- Ms Roberts
- Ms Huleatt-James
- Mr N Williams
- Mr Waller
- Mr Cropper
- Mr Tyrie
- Mr Call



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

14 December 1987

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade & Industry

- 1. Mr. Drake
- 2. PD. Nissan.

*[Handwritten signature]*

*[Handwritten signature]*

**NISSAN**

Thank you for your letter of 9 December explaining the political importance you attach to securing the proposed Nissan project to produce the replacement Micra small car in Sunderland.

We discussed your proposed offer of regional assistance when we met on Thursday. As I indicated then, given the other understandings reached at that meeting, I am prepared to agree that you may offer total regional assistance up to £25m if you are satisfied that the proposed offer is the minimum necessary to secure the project and that it will yield sufficient net benefits to the UK.

My agreement is on the usual basis that the offer will not lead to an increase in public expenditure. There must be no question of support for this project generating a bid for extra resources in the 1988 or subsequent surveys. The offer will also be subject to the established arrangement, endorsed by the Prime Minister, requiring that any assistance over guideline limits is matched by a corresponding reduction in a cash limited vote. I know that you have recently been in correspondence with John Major on the possibility of incorporating your expenditure on regional selective assistance within a cash limited vote. If you wished to avoid the need for offsetting savings impacting on other DTI programmes by agreeing to this and bearing the full cost on your regional assistance budget this would be entirely acceptable to me.

I am copying this letter to the Prime Minister.

*[Handwritten signature]*

NIGEL LAWSON

32  
168

ANNEX C

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c. c. Chancellor  
Mr Hanson Mr Hinch  
Mr Burgess Miss Pease  
Mr Tamblin Mr Green  
Mr Walker Mr Williams  
D. Tyrie Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP  
Secretary of State for Wales  
Welsh Office  
Gwydyr House  
Whitehall  
London  
SW1A 2ER

8<sup>th</sup> February 1988

Dear Peter,

**RSA CASH LIMITING**

Thank you for your letter of 17 December, to which I delayed making a response while I pursued further with David Young the treatment of RSA in England.

As you know, I am most concerned to ensure effective control of expenditure on regional assistance, which was an essential part of the settlements reached in last year's Survey. One element of control involved agreement with all three Secretaries of State responsible for operating RSA to introduce commitment limiting, which requires each Secretary of State to take difficult decisions on how to constrain demand where necessary to bring forecast expenditure back in line with provision in each year of the PES period. Cash limiting is not necessarily more demanding (and, indeed, offers you some benefits) but I regard it as a necessary underpinning which has the advantage that the rules on the handling of cash limited votes are well established.

I should very much like to have pressed ahead with the introduction of cash limiting in Scotland and Wales for the coming year, leaving the position in England to be settled at a later stage following the review of DTI's vote and programme structure. I understand that neither you nor Malcolm see insuperable practical problems with RSA cash limiting as such but are concerned with the presentational difficulties created by different RSA control regimes in England to those in Scotland and Wales. Though I believe we should not rule out different regimes for the three territories, I would, of course, much



CONFIDENTIAL

prefer to see cash limits introduced for all three territories' RSA programmes. But I accept that the political climate is not now right for the immediate introduction of RSA cash limiting.

I shall, therefore, wish to press for its introduction in all three territories in 1989-90. We can pursue this issue in the context of the 1988 Survey discussions. In the meantime I should be grateful if departments would avoid public statements which would make the introduction more difficult.

I am copying this letter to David Young and Malcolm Rifkind.

*Yours Ever,*  
*John*  
JOHN MAJOR

cc PS/Chief Secretary  
PS/Financial Secretary  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Hughes  
Ms Huleatt-James  
Mr Cropper  
Mr Tyrie  
Mr Call



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

Mr N Williams  
Mr Waller

12 February 1988

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

**NISSAN**

Thank you for your letter of 18 December, to which I have delayed responding until the outcome of your discussions with John Major on cash limiting of Regional Selective Assistance was clear.

I am unwilling to waive the conditions attached to my earlier agreement to the very generous offer of further regional assistance to Nissan. I must reiterate that this was on the basis that the offer would not generate a bid for additional resources, ie that you will plan to meet expenditure under it from within your existing provision. Whereas you are, of course, free to make bids for any of your programmes as part of the normal Survey process, I cannot accept decisions to support particular projects which leave open the source of the required funds.

Nor, unless you are able to give a cast iron guarantee that under commitment limiting you will never seek additional resources, can I accept that the introduction of this system for Regional Selective Assistance overturns the established arrangements under which support for projects above guideline levels must be matched by a corresponding reduction in a cash limited vote. In addition to providing a counter-balance to expenditure demands arising from such offers the arrangement provides a valuable financial discipline by bringing into sharp focus questions of priorities and value for money whenever such support is considered.

I am copying this letter to the Prime Minister.

**NIGEL LAWSON**

# dti

the department for Enterprise

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

*Bf 14/3*  
*Bf with advice of*  
*9/3*

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

**Department of  
Trade and Industry**

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

*2/5*

CH/EXCHEQUER	
REC.	02 MAR 1988
ACTION	Mr N Williams
COPIES TO	PS/CST, PS/FST Mr Anson, Mr Bugner Mr Waller, Mr Hughes Ms Hubbatt-James Mr Cropper Mr Tyme Mr Call

Direct line 215 5422  
Our ref PS1AJU  
Your ref  
Date 1 March 1988

*Nigel*

NISSAN

Thank you for your letter of 12 February.

There is nothing between us on the question of resources for the Nissan project. You recognise my right to make bids in the coming Survey for any of my programmes, including regional assistance. On that understanding, I can confirm that there would be no question of my making an explicit bid for support for the Nissan project, and that I would plan to meet the costs of this project from whatever level of provision John Major and I agree for RSA as a whole.

I am, however, concerned at your line on cash limited offsets. Given an effective commitment limiting system - which my correspondence with John Major shows that I am determined to achieve - full offsets against completely unrelated cash limited expenditure programmes cannot be justified even as a crude control mechanism. Expenditure beyond the RSA guidelines will not now generally lead to an equivalent call on the Reserve via the non-cash limited RSA provision. An



the department for Enterprise

imposed saving on a cash-limited Vote would then lead to the bizarre consequence that Treasury endorsement of the merits of a particular element of public expenditure would lead to a net reduction in public expenditure totals.

The RSA control system is already going to be fully discussed in the coming Survey. If despite the above arguments you still feel some special regime for above guidelines cases is appropriate, the issue is best discussed in that forum, both in principle and in relation to Nissan, where there were additional factors in the decision.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Lord Nair'. The signature is written in a cursive style with a large initial 'L' and 'N'.

TELEPHONE:  
01-623 1050

MINSTER HOUSE,  
ARTHUR STREET,  
LONDON,  
EC4R 9BH.

*ppp*

GTAWH/SD/421

2nd March, 1988

The Rt. Hon. Norman Lamont, M.P.,  
Financial Secretary to the Treasury,  
H.M. Treasury,  
Parliament Street,  
London SW1P 3AG.

*MR Waller*

*cc P3/CHX*

*1 Tanager  
2 ppp*

*Dear Norman,*

The Bow Group is looking forward very much to seeing you on Monday 28th March at 6.30 p.m. in the House of Commons. Enclosed by way of background is a copy of our budget submission to the Chancellor.

Would you be able to stay on for dinner after the 28th March meeting? If so, we would be delighted to entertain you. Perhaps your office could let me know if you would like to do this and I will organise the evening.

In reviewing a possible acquisition of Rover by British Aerospace, it would be worth examining the vendor placing route as a means of widening share ownership. By this, I mean that British Aerospace could issue new shares which would be renounced by the Government in favour of as wide a spread of new investors as possible following a marketing campaign.

The British Steel privatisation should go well as the European quota system is dismantled. I have been driving home the need to do this as prospective Euro-candidate for Yorkshire South-West. Cheryl Gillan, Chairman of the Bow Group, has been selected to fight Greater Manchester Central. Fighting a Euro-seat has plainly become the aspirants' favoured course for the coming year!

*Yours ever,*

*Toby*

Toby Horton

cc: Mrs C. Gillan,  
The Bow Group

# THE BOW GROUP

240 HIGH HOLBORN LONDON WC1V 7DT TELEPHONE 01-405 0878

The Rt. Hon. Nigel Lawson MP,  
Chancellor of the Exchequer,  
H.M. Treasury,  
Parliament Street,  
London, SW1P 3AG.

10th February, 1988.

Dear Mr. Lawson,

I enclose a brief budget submission, to add to the many piling up on your desk, which represents the views of a number of us on the Bow Group's Economic Affairs Standing Committee.

Whether all or none of our suggestions are included, I hope that you have a most successful March 15th.

Yours sincerely,

Toby Horton  
Secretary, Economic Affairs Standing Committee

# THE BOW GROUP

240 HIGH HOLBORN LONDON WC1V 7DT TELEPHONE 01-405 0878

## PRESS RELEASE

EMBARGO UNTIL 00.01 ON MONDAY 15 FEBRUARY 1988

### ROW GROUP CALLS FOR TAX REFORMING BALANCED BUDGET

Members of the Economic Affairs Committee of the Bow Group have called on the Chancellor to follow his best instincts and perform a unique double on 15 March: a Zero PSBR combined with radical tax reforming measures.

The main points in the submission are:

1. Zero PSBR both now and into the 1990's;
2. Any net surplus otherwise arising to be applied wholly to personal tax reform;
3. End of tax bias against marriage; reduction of higher rates balanced by curbs on tax breaks including mortgage relief; new 15% lower income tax rate to reduce poverty trap;
4. Abolition of Capital Gains Tax and replacement by short term Asset Speculation Tax;
5. Demands for further public spending increases should be firmly resisted.

---

### Economic background

The Bow Group Economic Affairs Standing Committee, chaired by Michael Fallon MP, believes that the continued buoyancy of tax revenues, rapid growth in manufacturing and in retail sales together with worrying inflation indicators such as wage settlements and the money supply figures, all suggest that the main danger for the Chancellor this year is an overheated economy.

### Zero PSBR

Against such a background it is vital for the Government to demonstrate once again its determination to fight inflation. A balanced budget this year, combined with the announcement of the same policy objective into the 1990's, will symbolise that determination never to return to the inflationary horrors of the 1970's.

---

In common with all other Bow Group publications and statements, this release does not express any collective Bow Group view, but, in this case, represents the views of certain members of the Group's Economic Affairs Standing Committee, including Michael Fallon MP, its Chairman, and Toby Horton, its Secretary.

Other points in favour of a zero PSBR are:

- Maintains downward pressure on interest rates
- Ties future tax cuts to net expenditure savings
- Reduces public spending as a percentage of GDP as the economy grows
- It is not in itself deflationary, as a budget surplus might be.

#### 1988: the tax reform opportunity

Even within a self-imposed constraint of Zero PSBR, this budget provides both the political and fiscal opportunity for the sort of radical reform of personal tax that the Chancellor achieved for company taxation in 1984. It is vital that the opportunity is not fluffed at a time when buoyant revenues allow gainers with few losers and the next election is sufficiently far off for the inevitable controversy to be withstood. To achieve maximum flexibility the whole of the available fiscal adjustment, which best estimates currently put at about £5 billion taking account of a balanced budget, should be applied to tax reform.

#### Income tax: lower rates, less breaks

Recommendations:

1. Simplified rate structure of 25%/35%/45% with the top 45% rate starting where 55% now starts, a wide 35% band and, crucially, a new lower rate 15% band for the first £4,000 of taxable earnings. Thus there would be significant reductions in marginal rates for all taxpayers, with emphasis not only at the top, but particularly at the bottom end.
2. The reduction in higher rates to be balanced by abolition of all tax reliefs that operate specifically to help the higher rate taxpayer. Thus mortgage interest relief would be restricted to the basic rate as would pension reliefs and company car breaks. Such reliefs could then be given to all at source, greatly simplifying tax codes and returns.
3. Husband and wife should be taxed entirely separately with married man's allowance abolished and the only linkage being fully transferable flat rate personal allowances. The fiscal penalty on marriage should be ended by mortgage relief being restricted to £30,000 per property and the wife's unearned income no longer deemed that of her husband.

#### Asset Speculation Tax

Capital Gains Tax should be abolished as the attempt to provide fairness has resulted in the over-complicated indexation provisions, profitable to few but the taxpayer's accountant. Instead there should be a new



short term Asset Speculation Tax with a single 25% rate in line with the basic rate of income tax, levied on gains realised within two years and with an annual exemption of just £1,000. Thus longer term portfolio investment would be encouraged in line with the objectives of wider share ownership and wealth accumulation but short term speculative dealing discouraged.

The rates of that other tax on capital accumulation, Inheritance Tax, should be brought into line with income tax so that the basic rate is reduced to 25% and the top rate to 45%. As wealth spreads downwards, many average family houses in London and the South East are bringing estates into tax and accordingly the starting point should be increased to £150,000.

#### Indirect taxation

The Government should not be squeamish on appropriate extensions of VAT to widen its base: a start would be to accept with good grace the EC judgement on VAT on new buildings. Any seemingly regressive effects of particular VAT extensions could be tackled by increasing benefit levels, including old age pensions and child benefit, whilst still providing a net revenue gain.

Tobacco excise duty should increase above indexation on both health and revenue raising grounds.

#### Public spending: the lid stays on

To achieve tax cuts and reform whilst continuing to balance the budget in future years will require continued tight control of total public spending. Reductions in general levels of taxation may, on the experience of recent years, lead to an increase in total revenue; but this is not certain. Since adjustments downwards in government spending are a good deal more difficult to achieve than increases, it is crucial that a few years of exceptionally buoyant tax revenue are not used as an excuse for ill-disciplined expenditure increases, including in the Health Service where structural reform is arguably more important than spending palliatives.

There must also be room for the inevitable eventual decline in privatisation proceeds, and for possible future spending in the event of a recession. For the present, the lid must stay on spending.

---

#### Contacts:

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Toby Horton  
Secretary, Bow Group Economic Affairs Standing Committee

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FROM: NEIL WILLIAMS

DATE: 9 March 1988

*There is a strong case both on merit and in relation to negotiating tactics on not cash limiting for maintaining a firm line on the issue of offsets.*

- 1. MR WALLER
- 2. CHANCELLOR

*9/3 "There is a strong case both on merit and in relation to negotiating tactics on RSA cash limiting for maintaining a firm line on the issue of offsets."*

- cc. PS/Chief Secretary
- PS/Financial Secretary
- Mr Anson
- Mr Monck
- Mr Burgner
- Mr Hughes
- Ms Huleatt-James
- Mr Cropper
- Mr Tyrie
- Mr Call

*Chy contact to write to proposal? OK in sub 25 9/3*

**FINANCIAL ASSISTANCE: NISSAN**

1. In his letter of 1 March (copy attached at Annex A) Lord Young presses again for a waiver on the requirement for offsetting savings from within his cash limited votes of an amount equivalent to that by which payments to Nissan under the recent offer of regional assistance exceed guideline limits. He argues that following the introduction of commitment limiting such offsets are no longer appropriate and would lead to a net reduction in public expenditure totals. He suggests that if despite commitment limiting you feel some special regime for above guidelines cases is appropriate then this should be discussed in the 1988 Public Expenditure Survey.

2. The offset arrangement for above guideline offers of regional assistance was originally introduced with the endorsement of the Prime Minister in 1985. It works as follows. Once expenditure under such an offer reaches the guideline limit all further expenditure must be accompanied by an equivalent offsetting reaction in a cash limited vote. In the case of Nissan, on the expected expenditure profiles this would mean offsetting reductions would need to be made from 1992/3 onwards.

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3. It follows that deferment of resolution of this issue until the 1988 Survey would not rule out the possibility of making offsets in the normal way. However we believe that it will strengthen the Chief Secretary's negotiating position in the Survey if operating departments are clear in advance that unless they agree to cash limiting the much disliked requirement for offsets on above guideline offers will be maintained.

4. The combination of the requirement for offsets and commitment limiting could lead to net reductions in public expenditure as follows. Although under the offset requirement a proportion of the expenditure on an above guideline offer is in effect being funded from a cash limited (non regional assistance) vote, the full amount of the offer scores against the profile of commitments. If, therefore, subsequent monitoring showed a need to limit RSA commitments to stay within provision, and corrective action were taken to achieve this, it could lead to the above guideline element in the original offer being in effect double funded. Whilst this could happen it appears a somewhat theoretical possibility. In practice the amount of offsets in any one year would usually be small and therefore within the unavoidable forecasting error of the monitoring system, and is most unlikely of itself to be a determining factor in any decision on corrective action to constrain demand.

5. We recommend that you maintain a firm line. A draft reply to Lord Young is attached.

*Neil Williams*

**NEIL WILLIAMS**

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DRAFT LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR  
TRADE AND INDUSTRY

*Px type for Ch. sig.*

NISSAN

1. Thank you for your letter of 1 March.
2. As you know, John Major intends to press for the introduction of cash limiting of RSA in England, Scotland and Wales in 1989-90 in the context of the forthcoming survey. I have already indicated my willingness to give up the requirement for offsets on above-guideline offers once RSA is cash limited. Since I understand that on present expectations of expenditure the need for offsets in relation to Nissan will not arise before 1992-93, I ~~am hopeful~~ <sup>hope</sup> that in practice there ~~will be~~ <sup>such</sup> no ~~need for these.~~ <sup>with assist.</sup> Until cash limiting is introduced, however, I am clear that the existing arrangements for offsets represents an essential element of value for money discipline and must stand. Therefore I ~~am~~ <sup>again I am</sup> not willing to waive the conditions attached to my earlier agreement to the very generous offer of further regional assistance to Nissan.
3. I am copying this letter to the Prime Minister.



the department for Enterprise

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The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

Department of  
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Direct line 215 5422  
Our ref PSLAJU  
Your ref  
Date 1 March 1988

Mr N Williams  
PS/CST, PS/FST  
Mr Anson, Mr Bugner  
Mr Waller, Mr Hughes  
Ms Fulbatt-James  
Mr Cropper  
Mr Tyme  
Mr Call

NISSAN

Thank you for your letter of 12 February.

There is nothing between us on the question of resources for the Nissan project. You recognise my right to make bids in the coming Survey for any of my programmes, including regional assistance. On that understanding, I can confirm that there would be no question of my making an explicit bid for support for the Nissan project, and that I would plan to meet the costs of this project from whatever level of provision John Major and I agree for RSA as a whole.

I am, however, concerned at your line on cash limited offsets. Given an effective commitment limiting system - which my correspondence with John Major shows that I am determined to achieve - full offsets against completely unrelated cash limited expenditure programmes cannot be justified even as a crude control mechanism. Expenditure beyond the RSA guidelines will not now generally lead to an equivalent call on the Reserve via the non-cash limited RSA provision. An





the department for Enterprise

imposed saving on a cash-limited Vote would then lead to the bizarre consequence that Treasury endorsement of the merits of a particular element of public expenditure would lead to a net reduction in public expenditure totals.

The RSA control system is already going to be fully discussed in the coming Survey. If despite the above arguments you still feel some special regime for above guidelines cases is appropriate, the issue is best discussed in that forum, both in principle and in relation to Nissan, where there were additional factors in the decision.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in cursive script, appearing to read 'Lord David'.



Ch:

You asked whether the on-sale restriction also applied to the sale of trade marks - Mr Waller has confirmed that it does.

W  
25/3

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*Handwritten mark*

*Handwritten initials*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

16 March 1988

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

cc PS/Chief Secretary  
PS/Financial Secretary  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Waller  
Mr Hughes  
Ms Huleatt-James  
Mr N Williams  
Mr Cropper  
Mr Tyrie  
Mr Call

*Handwritten signature*

**NISSAN**

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I am copying this letter to the Prime Minister.

*Handwritten signature of Nigel Lawson*

**NIGEL LAWSON**