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807

PREM 19/821

PART 1 ends:-

26.11.87

PART 2 begins:-

2.12.81





JS

Japan

10 DOWNING STREET

From the Private Secretary

26 November 1981

COMMERCIAL IN CONFIDENCE

Dear Terry,

NISSAN

The Prime Minister has seen and noted the Chief Secretary's minute of 16 November about the negotiations on NISSAN.

I am sending copies of this letter to the Private Secretaries to members of E(EA) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Terry Mathews, Esq.,  
HM Treasury.

JS



To note.  
We are awaiting a  
reply from Patrick Jenkin  
about local content.

MES 17/11

A handwritten signature in blue ink, appearing to be 'L.B.' with a flourish.

PRIME MINISTER

NISSAN

I have seen Patrick Jenkin's minute of 12 November. It is encouraging that these negotiations are still live, and I hope that further progress can be made in the coming week.

But we shall need to think very carefully about the possibility of selective financial assistance, and I am glad to see that officials have been instructed to make no offer in the current talks. I understand that it is very unlikely that even if we were to agree to making an offer any expenditure would be required before 1983-84; and it would probably be spread over a couple of years. I am sure that it will be possible for the Industry Secretary to accommodate some modest level of assistance within his existing provision, which has been supplemented by an enhanced allocation for future industrial support. That provision, which we have now agreed in the Public Expenditure Survey, must however, <sup>in my view</sup> be regarded as a clear and firm constraint on the size of any offer which may be contemplated.

I am sending a copy of this minute to colleagues on E(EA) Committee and to Sir Robert Armstrong.

L.B.

LEON BRITTAN  
16 November 1981

Japan  
R H



cc:- Mr Ingham  
Mr Duguid

PM DN  
DOE CS, H&I  
WO DOI  
SO  
BOT

10 DOWNING STREET

From the Private Secretary

16 November, 1981

Nissan

The Prime Minister was grateful for your Secretary of State's minute of 12 November.

She has asked what more precisely is meant by "local content" in paragraph 3 of your Secretary of State's minute. She suspects that the 60 - 80% figure includes Japanese components made in the United Kingdom, rather than components made in the United Kingdom by British-owned companies.

Subject to this point she is content with the approach outlined by your Secretary of State, on the basis that there will be an opportunity later to consider the Japanese reaction.

I am sending copies of this letter to the Private Secretaries to the members of E(EA), Brian Fall (FCO), David Wright (Cabinet Office) and Robin Ibbs.

M. C. SCHOLAR

I Ellison, Esq  
Department of Industry



①

10 DOWNING STREET

Prime Minister

Mr Jenkin proposes to negotiate hard, on a basis in line with earlier decisions. There will be a chance later to consider the response.

Are you content with the approach he proposes?

MCS 13/11 Yes - but  
Governing Council  
then does not  
mean British  
Government  
not.

JU710



PRIME MINISTER

*mb*

NISSAN

Nissan return next week for further talks with my Department about their proposed UK Project. They are expected to table a revised version of the Business Plan presented to us in July which, as you may recall (Norman Tebbit's minute of 30 July) was unacceptable in a number of important respects and which, with your approval, we firmly rejected.

2 Since then there have been further informal discussions in Tokyo which have helped clear the ground and officials expect that the revised proposals will be much closer to those on which our "warm welcome in principle" was originally based. Their general feeling is that Nissan still wish the project to succeed but there are aspects of the project - and of the requirements we have set for it - about which Nissan have genuine worries and on which the company will be looking for some concessions. Thus, while the forthcoming round should take us much nearer to a decision (Nissan expect to reach final conclusions early in the New Year) it is likely to involve some tough bargaining.

3 One of the key areas is local content which is of the utmost importance to the UK components industry as well as being the most difficult for Nissan. I do, however, regard the original "60% rising to 80%" understanding as non negotiable - any lowering of these percentages would be regarded as a dangerous sign of weakness in our dealings with Japan - and I am also determined that we shall have arrangements for measuring and monitoring the project which will stand up to public scrutiny. There are aspects to these subjects where we can safely give

*does this include Japanese components made in U.K.?*



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



ground but I believe we must stand firm on fundamentals.

4 The second potentially troublesome subject is the amount of financial aid which we are prepared to give in order to secure the project. In their July Plan Nissan were assuming about £80 million plus of selective financial assistance (SFA) in addition to regional developments grants (RDGs) of around £74 million. Expectations are therefore very high. I have, nevertheless, instructed officials that during the coming talks no initiative should be taken in offering SFA. Rather they should continue to stress that RDGs are the principal, and very generous, form of project assistance; that public expenditure constraints are severe; and that "special features" would need to be present in the project to justify any injection of SFA money. They should also press Nissan to consider alternative means of funding, including the introduction of equity from UK sources. Although this may seem an unhelpful stance (particularly as Nissan know that Ford were treated generously for similar investments on the Escort), I believe it is necessary fully to test out Nissan's willingness to go ahead without special aid. While the project will be a considerable prize for the UK, it also offers Nissan a real opportunity to develop its position as a very substantial supplier to European markets and, despite the obvious risks involved for them, this might be something for which they are prepared to pay quite heavily.

5 Nevertheless, at the end of the day - and this might become apparent during next week's talks - we might have to conclude that a (perhaps significant) tranche of SFA will indeed be necessary in order to secure the project and colleagues should be aware of this. Any substantial level of assistance would require a special addition to Departmental Estimates and the approval of the Industrial Development Advisory Board would also have to be sought.

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6 The timetable for the talks next week allows a break for preliminary consideration to be given to Nissan's proposals and I may need to consult colleagues at short notice during that period. Unless, however, Nissan propose something startling, officials will give only a preliminary response at the end of the talks which would be followed up by a considered written response when I have had the chance to consult you and colleagues.

7 I am sending copies of this minute to members of E(EA), Peter Carrington, Sir Robert Armstrong and Robin Ibbs.

PJ

P J

12 November 1981

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Department of Industry  
Ashdown House  
123 Victoria Street



of the... for the... and I...  
 preliminary... to be... and I...  
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 officials will give only a...  
 which will be...  
 when I have had the...  
 I am sending copies of this...  
 regarding, for... and...



12 NOV 1981

Department of Industry  
 Labour House  
 123 Victoria Street

# Woodrow Wyatt



SUNDAY MIRROR  
18.10.1981

THE most important news about Britain last week did not come from the Tory Party Conference. It came from the New York Times.

The Tories at Blackpool resounded with theoretical solutions. Some wanted the Government to spend more.

Some wanted the Government to be tougher. Some wanted it to sound more compassionate.

That's all pointless dreaming. The harsh facts were in the New York Times.

They showed the depth of the decline Britain is in. All governments are powerless in the face of it.

## The comparison

Ford's Halewood plant on Merseyside uses identical equipment to Ford's Saarlouis factory in West Germany. Both are making Escorts.

The Halewood plant has 10,040 workers. They have produced only 800 cars a day this year.

At Saarlouis, there are 7,762 workers. They have produced 1,200 cars a day.

Bill Hayden is Ford's vice-president of manufacturing for Europe. He was quoted as saying that Saarlouis workers take 21 man-hours to make an Escort. It takes 40 man-hours at Halewood.

At Saarlouis strikes are unknown. There have been 20 stoppages this year at Halewood.

Ford confirmed that productivity in its British plants is still well below other European countries.

## A long way

I don't suppose the Halewood workers are any worse than the rest of us. They probably think they are doing a good job.

Even at this late day, we have not woken up to how far behind we are.

Ford in Britain has a four-year programme. It involves ending restrictive practices and demarcation lines. It involves de-manning and continued high investment.

But four years is a hell of a long time to catch up with the rest of the world.

BL is going through similar traumas. BL workers (who, I suspect, won't strike on November 1st) have certainly improved

## AMERICA IS

## RIGHT ABOUT

## OUR FAILURE

their productivity. But they've a long way to go to match their competitors. They are still losing many millions of taxpayers' money.

This Government has subsidised BL and British Steel with more public money than any other.

It can't go on indefinitely. Or the nation's back will break.

Until the unions allow us to work as they do in other countries, Britain has no chance of recovery. The politicians can talk all day and it will make no difference.

Every work place, whether unionised or not, should be run as though unions did not exist. Then we would have some hope.

The unions have done great work for their members in the past. Now they are strangling them.

## RUSSIA GOES TO THE DOGS

LAST Budget time many of my readers suggested that the cost of dog licences (37p for over a century) should be increased. None went so far as the proposed new Russian annual dog tax.

Dog owners would pay between £92 and £153 a year for each dog.

The reason? Meat is so scarce in Russia that the government want to stop dogs eating it.

## GADDAFI STIRS A NASTY BREW

COLONEL GADDAFI, ruler of oil-rich Libya (population 3 million), rejoiced at the murder of President Sadat of Egypt (population 40 million). He is now trying to take over neighbouring Sudan (population 20 million).

He has the money and the sophisticated Russian weapons to do it with. Sudan has appealed to next-door Egypt for help.

If the mad Colonel Gad-

## A dirty stunt

FORTY years ago germ warfare experiments were conducted on the tiny Hebridean island of Gruinard. We were fighting Hitler who was still allied to Stalin.

As a publicity stunt a group of idiots recently collected some anthrax-infected soil on the island. They dumped it at the Porton Down biological research centre in Wiltshire, and at Blackpool.

Anthrax is a dangerous disease killing humans as well as animals. Is the world full of lunatics or am I just imagining it?

dafi persists, he could be obliterated by the powerful Egyptian army. The Americans would back Egypt. However, Russia might support Libya.

There is something very nasty brewing out there.

THE Tory Party like looking backwards. All last week Ministers referred to Disraeli, Tory Prime Minister for only seven years in Victorian times.

Twenty-two years before he became Premier, he wrote a novel called Sybil. In it he described the gap between the two nations, rich and poor, of England.

On Thursday Michael Heseltine, Secretary for the Environment, said that required great courage from Disraeli.

Rubbish! What Mr Heseltine was signalling was that he is full of compassion and in favour of more Government spending of taxpayers' money.

When Tory Ministers talk of Disraeli, they usually mean they are not so much behind Mrs Thatcher that they wouldn't readily adapt to any successor.

## This man is dangerous

GREATER London Council could disappear without harm to anyone. Its limited functions could be re-distributed to the London boroughs and Government departments.

Perhaps it's because the GLC has so little worthwhile to do that its Marxist leader, Ken Livingstone, talks such balderdash.

After Saturday's murderous nail-bomb attack in Chelsea, he said we should not think of Irish terrorists as

"just criminals, murderers and psychopaths."

On Monday he and his extreme Left-wing supporters nearly got a resolution through the ruling Labour group. It called on the GLC "within days to negotiate peace in London."

This was to be done by meeting a deputation of the Provisional IRA and the Irish National Liberation Army.

Mr. Livingstone is now more than a laughing stock. He is a serious danger.

# Business Day

B. Ingham Ben Affie

The New York Times

TUESDAY, OCTOBER 13, 1981

## A Tale of Two Ford Plants



### German Unit Far Outpaces One in Britain

By STEVEN RATTNER

Special to The New York Times

SAARLOUIS, West Germany — To the casual visitor, the sleek gray Ford Motor Company plant here appears to be exactly like its cousin at Halewood, England, outside Liverpool. At each, shiny Escorts, Ford's hot new car, roll off bustling production lines dominated by robot welders and vast automated presses punching out steel as if it were aluminum foil.

But the resemblance ends at physical appearance. This plant produces some 1,200 cars a day, more than the 1,015 that Ford planners had anticipated, and requires 7,762 workers. Its counterpart at Halewood, with virtually identical equipment and production targets, has averaged only about 800 cars a day this year, and 10,040 workers have been needed to achieve even that production level.

"Our standards say it should take something like 20 man-hours of labor in both the body and assembly plants to make an Escort," said Bill Hayden, vice president of manufacturing for Ford Europe Inc., in an interview. "At



The New York Times / Steven Rattner

Workers standing idle at the Ford plant at Halewood, England (top), in contrast to employees at work at the Ford plant in Saarlouis, West Germany.

Saarlouis, they do it with 21 hours. At Halewood it takes 40 hours."

The experience of Ford, with two plants that are alike in every important respect, provides an unusually graphic example of the extent to which Britain has fallen behind in the effort to improve worker productivity and the extent of the challenge facing Prime Minister Margaret Thatcher in her effort to restore Britain's competitiveness.

#### "Symbolic of British Industry"

"All of the problems I have in Halewood, I have in Dagenham," Mr. Hayden said in his office in suburban London, referring to a Ford plant in another British city. "All of the problems I have are symbolic of the whole of British industry."

To Mr. Hayden, and Ford officials in Halewood, the difference between the

two plants comes down to the attitudes of the workers. At Halewood, 20 strikes have occurred already this year; at Saarlouis, strikes are unknown. Under pressure, management at Halewood has organized the two daily shifts so that no one works on Friday night; at Saarlouis, there is no such pressure.

"It has to do with the mental attitude of our people here," said Paul Swoboda, the burly operations manager here. "People are very interested right from the beginning in making a high-quality product," he said in the plant's executive dining room.

Aside from statistics, subjective differences between the two factories become evident. Halewood seems to overflow with workers — some of them reading or eating, others kicking a soccer ball — while Saarlouis seems al-

Continued on Page D4

# A Tale of Two Ford Plants in Europe

Continued From First Business Page  
most depopulated and nearly every worker in evidence is hard at his job. At Saarlouis, workers dash to open doors for visitors touring in electric carts, while at Halewood, one worker greeted a news photographer by exposing himself.

## Quality Also Better

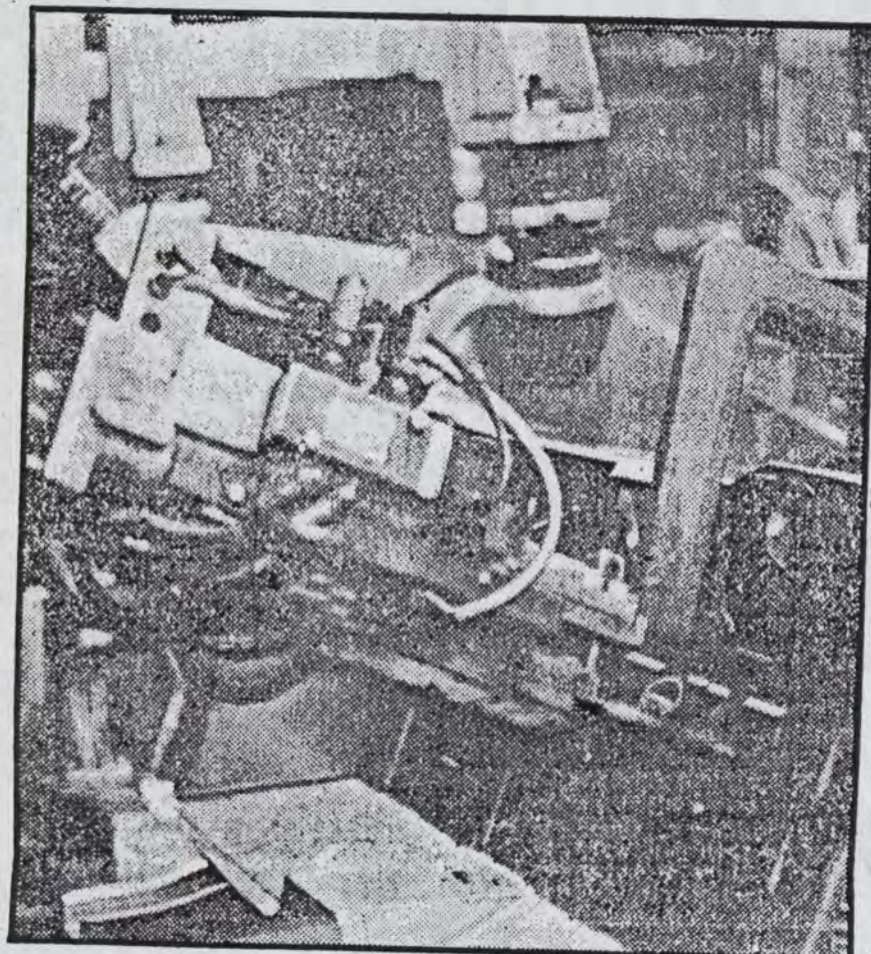
Despite the smaller work force, Saarlouis's quality record remains unmatched in the Ford system. Saarlouis Escorts, on average, earn half as many demerits as Halewood cars, which are about equal in quality to those produced in American plants. On one recent day at Halewood, 14 percent of the cars were rejected at the electrical system checkpoint. At Saarlouis a day later, the same computerized "Qualitätskontrolle" rejected fewer than 1 percent of the completed Escorts.

For their part, the workers at Halewood maintained in recent interviews that shop conditions at Saarlouis were unsafe.

"If that was in England, I'd stop the job immediately," said Stephen Broadhead, the "convenor" at the body plant, who has visited the German plant twice. "It was such a violation of our health and safety regulations we couldn't live with it." Nonetheless, the Saarlouis plant has the lowest injury record in Ford's entire Europe subsidiary.

In one example mentioned by Mr. Broadhead, the Halewood union summoned a company doctor to rule that two men were required to lift the car hood onto the body, a job performed by one man at Saarlouis. But the other day at Halewood, only one man was lifting the hoods; the second man watched.

"From the very beginning it was always one man who picked up the hood, said Lothar Kotalla, a German worker here, as the dull silver car bodies moved along behind him, 58 an hour. "It's heavy so we switch every hour." Such differences are found to per-



The New York Times / Steven Rattner

The robot welder used at both the Ford Motor plant in England and in West Germany. The West German plant turns out 1,200 new Escorts a day, compared with the 800 produced daily in England.

vade the two plants. In May, the workers at Halewood went on strike for 11 days because they contended that four men could not produce 60.2 transaxle assemblies an hour, as the company and the German experience suggested they could. Five months later, the four men are still assembling about 55 an hour.

The economic consequences for Britain of the lower productivity are also evident. When the two plants were retooled in August 1980, a significant portion of the 1,015 cars a day scheduled to be produced at Halewood were to be exported — to Scandinavia, France, Italy and elsewhere. The failure to meet production goals meant, in

effect, no exports and no help for Britain's balance of trade.

Moreover, Ford officials have argued that the low productivity threatens British jobs. The Halewood workers earn the equivalent of just \$8.25 an hour, including fringe benefits, while their German counterparts make \$13.50 and have been offered a Saturday shift at premium wages to meet the demand for their cars.

With British workers half as productive, even that disparity is not enough and Ford officials calculated a few months ago that it costs \$1,000 more to produce a car in Britain than to make one in Germany and ship it to Britain. That disparity has been kept down by the regular devaluation of the British pound — from 8.75 marks per pound in 1971 to 4.15 now.

Half of the Ford cars sold in Britain are imports and the company is looking to its other European plants for an increasing supply of parts for British assembly plants. By comparison, at Saarlouis recently railroad freight cars backed deep into the cavernous plant were being loaded with trailer after trailer of freshly stamped panels for an assembly plant in Valencia, Spain.

At Halewood, Ford officials have been struggling to improve the plant's poor performance. To some extent, the current economic distress seems to have had the desired effect of not only bucking up management but also convincing workers to become more cooperative. Although 20 strikes have occurred so far this year, 300 took place in 1976. Quality may not be as high as desired, but the number of quality demerits has been cut in half over the past 12 months.

"A lot of the men got it through their brains that if stoppages occurred as regularly as before they could lose their jobs," said John Bohanna, a soft-spoken body plant employee.

The line managers at Halewood also see signs of progress. "They may say it takes two men on the engine dress," said Arthur Rothwell, the general production manager. "Six years ago, they would have said six and gotten six."

But industry analysts say there is still a long way to go. Management's efforts are now concentrated on raising productivity, a painstaking process of identifying a bottleneck — at the moment, the assignment of workers and work in the paint shop — and negotiating at length with the unions to remove it. With various shop rules, moving one worker, part of a process known as "rebalancing," often requires that five be shifted.

"To really understand what we're talking about, you have to be English," said Ted Rayment, operations manager at the plant. "We English are not good receivers of instruction. We like to know the basis of the instruction and why it's being given."

Indeed, the English managers appear to be making almost as great an effort at communicating as their German counterparts to instill "positive motivation." A concept on the continent known as "area management" has been adopted, creating mini-plants that are easier to operate and that provide closer contact with workers.

Meetings with union leaders occur regularly, and every six months or so the workers are given time off to hear a presentation about productivity and jobs. But only a small percentage of workers attend, according to Ford officials.

"The problems were compounded with the new model," Mr. Rothwell said of the period since August 1980. "All our management resource was involved in trying to control disruptions."



Prime Minister

4

To note

NOTE OF A MEETING WITH THE JAPANESE GOVERNMENT ECONOMIC MISSION  
TO EUROPE

Present:

Chancellor of the Exchequer (In the Chair)

Mr Hancock

Miss Sinclair

Miss Rutter

Mr Sunderland (DOTrade)

Mr Yoshihiro Inayama - Honorary Chairman, Nippon Steel Corporation

Mr Naraichi Fujiyama - Ambassador

Mr Toshio Nakamura - Chairman, The Mitsubishi Bank Limited

Mr Takehiro Sagami - Adviser to the Minister of Finance

Mr Isao Masamune - Chairman, Industrial Bank of Japan Limited

Mr Masaya Miyoshi - Managing Director Keidanren

Mr Hideo Kitahara - Adviser to the Minister for Foreign Affairs

Mr Yoshiyasu Sato - Deputy Director-General, Economic Affairs Bureau,  
Ministry of Foreign Affairs

Mr Binsuke Sugiura - Chairman, The Long-Term Credit Bank of Japan  
Limited, Chairman, Committee on Economic Research,  
Keidanren

Mr Norishige Hagesawa - Chairman, Sumitoms Chemical Co, Ltd

Mr Koro Bessho - Official, First International Economic Affairs  
Division, Ministry of Foreign Affairs

Mr Bunzo Watanabe - Chairman, Jinomoto Inc

Mr H Suzuki - Chairman, Showa Denko KK

Mr Ibayashi - Personal Secretary (Mr Inayama)

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The Chancellor greeted the delegation from the Keidanren. He was sorry that the Prime Minister was not able to see the delegation, but she had just returned from abroad. It was always a great honour to receive a distinguished deputation from the Keidanren.

2. Mr Inayama thanked the Chancellor for his welcome, the delegation had been very happy to receive a letter from Mrs Thatcher. He thanked the Chancellor for giving them the opportunity to meet him. The Japanese Prime Minister, Mr Suzuki, had asked the delegation to come as a Government mission, and they had been delighted to accept. Mr Inayama felt the US, Japan and European Community, should intensify co-ordination and co-operation at a very trying time. He was aware of the problems with the trade imbalance between the Community and

/Japan - that was



Japan - that was primarily a matter for Governments but the Keidanren could contribute a lot. He felt the need very strongly to safeguard the free economic world and not to strain economic solidarity by an unwillingness to tackle problems. They had had a frank exchange that morning with the CBI who had presented them with a paper outlining the actions they would like the Japanese to take. The delegation would take that back and consider it.

3. The Chancellor stressed that it was important to understand problems and then look at the ways to find a solution. They all wanted to promote growth and increase wealth but without friction, that meant growth had to be balanced - and not be to the detriment of one particular country or one particular industry. His first anxiety was that Japanese growth was concentrated too much on exports. There is a need to expand the Japanese domestic market. The second imbalance showed up in the balance trade between Japan and the UK: UK exports to Japan were only £500 million whereas Japanese exports to the UK amounted to some £1700 million. The problem was concentration - in light commercial vehicles the Japanese market share was now 19 per cent. These problems had existed for a long time and were getting worse, despite the effort the UK was devoting to trade promotion in Japan. If the position continued to deteriorate, the Government would have no option but to take action.

4. Asked to comment on this, Mr Inayama stressed that the problems were the result of the working of the free market. The problems would not arise if consumers did not want to buy Japanese cars, TV's, steel or watches. But the Japanese did want to see the European economy survive, It was essential to find a solution by discussion.

5. The Chancellor shared Mr Inayama's attachment to the Liberal economy. The problem was that the principles would come under threat if the economy continued to work in such an unbalanced way. There was a grave danger of further restrictions, which the Chancellor did not want. But the Chancellor could outline five positive things that could

/be done quite quickly





be done quite quickly which would help remedy the situation. The first thing to do was to improve the openness of the Japanese domestic market. There were some areas which were still very heavily protected, in goods where European economies could compete. He had discussed this in Japan 8 years ago, but the problems remain the same.

6. The next priority was for Japan to open her capital markets to give access for other countries to Yen finance on the same borrowing terms. This seemed to be the most important thing still outstanding in the current negotiations on the export credit consensus. It was important to secure agreement on this, and it will be a pity if this were to prove a stumbling block.

7. The next important thing was to encourage inward investment. There were already many successful examples - Nippon Steel, Mitsubishi and Sony. This was a good way of marrying the Japanese skills and money with UK resources. It promoted exports from this country. The Government wanted to see more inward investment. The Chancellor also attached importance to increased technical co-operation - the Fujitsu/ICL co-operation was one example; there was scope also for co-operation in third countries as the Mitsubishi and Marconi joint scheme on satellite ground stations proved. It was important to do more in all these areas. The Chancellor added that it was essential that the voluntary restraints that had been agreed were made to work.

8. Mr Sagami took up the point on export credits, saying that what the Community proposed would in fact be a surcharge on the Japanese prime rate. Japan had worked to absorb a second oil shock and for that reason had been able to maintain lower interest rates. This penalised the Japanese for their success, and was totally against the spirit of the guideline. Nonetheless he would convey the Chancellor's views back to Tokyo.

9. Mr Inayama thought that the question of the market share in light commercial vehicles had not arisen in the talks between the Society of

/Motor Manufacturers and



Motor Manufacturers and JAMA until very recently. Mr Sunderland thought that the subject had first been raised 4 years ago and had been risen every subsequent time. JAMA had undertaken to exercise prudence, and then had undertaken to exercise even more prudence. So although month by month market penetration was expected to decrease in coming months, it was impossible for the share to go under 15 per cent.

10. Mr Inayama expressed a desire to see more co-operation, but this of course was conditionally on the judgement for the individual firm that a specific project would make money. The mission had heard the CBI views, and would like to develop on this basis. The Chancellor summed up by saying that there were three requirements to success: firstly that expansion should not damage our economy, secondly that there should be clear examples with increased UK trade to Japan, and lastly that there should be more examples of co-operation between the UK and Japan.

11. The meeting closed at 4.10 pm.

JKR

JILL RUTTER

13 October 1981

Distribution:

Those UK representatives present

Sir D Wass

Mr Ryrie

Mr Quinlan

Sir K Couzens o.r

Mr Lavelle

Mr Mountfield

Mr Dixon

Mr Slater

Mr Bottrill

Mr Garside

PS/S/S Trade

PS/Minister for Trade (Mr Rees)

PS/S/S Foreign Affairs

PS/No.10

PS/S/S Industry

Counsellor Economic British Embassy Japan

MINISTER FOR TRADE'S OFFICE MINUTE NUMBER: 1279

MINISTER FOR TRADE'S MEETING WITH THE JAPANESE ECONOMIC MISSION TO EUROPE; MONDAY 12 OCTOBER 1981

## PRESENT:

Mr Peter Rees QC MP  
 Sir Kenneth Clucas,  
 Permanent Secretary  
 Mr John Caines, Dep Sec  
 Mr Robert Foster CRE2  
 Mr David Woods CRE2

Mr Inayama, Leader of the Mission  
 H E Mr Fujiyama, Japanese Ambassador  
 Members of the Mission

1 Mr Rees in welcoming the Mission said that the UK viewed Japanese industry's success over the past few decades with admiration and interest. The companies represented had made great contributions towards this.

2 Mr Rees raised the material points of concern which divided the UK and Japan and said he would speak with complete candour. The meetings with the Department of Industry and with the CBI would have shown the Mission the concern felt in the UK and in the rest of the Community about the increasing deficit in the balance of trade. He said that the UK believed in open trade. We considered trade balances multilaterally rather than bilaterally and did not look for a precise equivalence in UK/Japanese trade. Mr Rees hoped that one outcome of the visit would be to see if there were any practical measures to be taken to redress this imbalance, perhaps along the lines of Mr Tanaka's recent statement.

3 Mr Inayama was grateful for the message which they had received on their arrival from the Prime Minister. All Community countries, he noted, including the UK, were fighting against inflation and unemployment, and were faced with the problem of a trade imbalance with Japan. Japan was concerned too, and would like to redress the balance through cooperation. The Community and Japan needed to find a way to improve the state of the world economy, and so to help world peace. This was one objective of the present Mission. Mr Inayama was pleased to state that the UK and Japan were at one in favouring the maintenance of open trade. Countries involved in free trade could not always expect a balance in trade. The present problem could be solved through industrial cooperation, through cooperation in trade in third countries, or through direct export to Japan. These were all areas with which the Government and the Keidanren were concerned. The problems were not easy to solve. They had tried, but the imbalance in trade had increased. The problem would not be solved through each side criticising the other, or through taking action on the basis of misunderstanding; but correct understanding would help. He understood that there would be political and economic effects in the UK and in the rest of the

Community if no solution was found - a situation which Japan hoped to avoid. The Keidanren felt that a solution would only come through cooperation.

4 Mr Rees explained that these problems were made more acute when seen against the background of world recession. These problems at times raised almost irresistible political pressures for protectionist measures, which politicians could ignore only at their peril. He wished to give a clear impression of UK politicians' attitudes towards these international trade questions. We were of course as dedicated as the Japanese Government to free trade and open markets, but pointed out that we saw industries in various sectors in decline - as workers and management saw it, from foreign competition. The pressures for restrictions then became very strong, despite the economic and philosophical arguments which could be deployed against them. To ward off such pressures HMG had to demonstrate to the electorate that a solution could be achieved through international cooperation, within the free trade system. He therefore welcomed the perceptive words of Mr Inayama speaking on behalf of the delegation, that we must try to resolve the imbalance in our trade with Japan. Mr Rees wished to indicate three areas of cooperation. The first was that, in line with Mr Tanaka's statement, Japanese industry should adopt a deliberate policy of studying capital goods available from the UK, and of buying from the UK wherever possible. Secondly, Japanese industry should actively support the Japanese Government's efforts to open up their market to British goods in other ways, and in that context Mr Rees referred to the list of specific measures which he later handed to the Mission through the Japanese Ambassador. (Copy at Annex). Thirdly, Japanese industry should examine carefully the impact of its exporting strategies on the economies of other industrial countries, particularly of the UK, and consider exporting over a wider range of products so as not to endanger UK industry, given our open market. Mr Rees said that he and his officials would very much welcome a considered response, which he hoped would be sympathetic and helpful, to the points which he had made and to the points in the document presented.

5 In conclusion, Mr Rees mentioned, in case the Mission felt we expected everything from the Japanese without making equivalent efforts of our own, that all of the diplomats in our Tokyo Embassy spoke Japanese; and that in 1973 the British Export Marketing Centre had been opened - a venture unparalleled in any other industrialised country; further, 5 per cent of the Government's expenditure on trade promotion was spent on the Japanese market which regrettably accounted only for one per cent of UK exports.

6 Mr Inayama, said that they were in favour of the freedom of action of individual companies and companies must be free to compete with each other. However, a trade imbalance had resulted - it was a problem to reconcile this. In considering any resolution Japanese

CONFIDENTIAL

Reference.....

anti-trust laws had to be taken into account. These were not as strong as those in the United States but were becoming more important.

*Matthew Cruickshank*

MATTHEW CRUICKSHANK  
APS/Minister for Trade  
V/S 835  
Extn 5146  
15 October 1981

cc: PS/No 10  
PS/Chancellor of the Exchequer  
PS/SOS (Foreign & Commonwealth Office)  
PS/SOS (Trade)  
PS/SOS (Industry)  
HMA Tokyo  
PS/Secretary (Trade)  
Mr Caines - Dep Sec  
Mr Gray - Dep Sec  
Mr Abramson CRE1  
Mr Sunderland CRE2  
Mr Dunning CRE2  
Mr Foster CRE2  
Mr Garrod Inf  
Mr Woods Inf  
UKREP Brussels

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ANNEX

SUGGESTED ACTION FOR JAPAN TO UNDERTAKE IN ORDER TO PROMOTE IMPORTS  
(FOLLOWING MR TANAKA'S RECENT STATEMENT ON IMPORTS)

1. A declaration by the Japanese Government that manufactured imports notably capital goods, should account for a higher percentage of total imports and that the Government will work to increase that percentage.
2. Public recognition that an increase in the volume of manufactured imports will have to be achieved through a considerable expansion in the import of capital goods.
3. The Japanese Government will, however, consider the pricing of consumer products with a view to making recommendations for a reduction in mark-ups and/or rationalising the distribution system and thereby in the long term making foreign products available to consumers at more reasonable prices and in greater volume, as the Keidanren have recommended.
4. Mindful of the fact that any increase in manufactured imports should be overwhelmingly in the capital goods sector, the Japanese Government will publicly declare that direct import or a joint venture manufacture in this country is to be preferred to manufacture under licence; that administrative guidance will be given to this effect and that agents will thus no longer be discouraged from importing foreign machinery because they find that demands for licence manufacture undermine their efforts and bring considerable investment to nothing.
5. The Japanese Government should say that those bodies which are directly under its control will report annually on the amount of foreign products which they will purchase and to ensure that a set percentage of all new equipment purchased will come from abroad.
6. Patent application procedures should be reviewed so as to ensure that delays in granting patents are shortened.
7. A review should be announced of regulations relating to chemical and pharmaceutical testing and all other forms of mandatory testing with a view to eliminating duplication of testing procedures with tests conducted abroad and



8. That at the same time as the above a review of technical regulations should be conducted to determine which are obsolete and can be abolished and which could be brought into line with widely recognised world standards.
9. That the motor car manufacturers should be subject to renewed official pressure to buy more components from abroad, with a set percentage of the value of their exports being fixed as a target.
10. That local government authorities should be told to consider as often and as carefully as possible foreign products particularly in the environmental engineering field. To this end a seminar or series of seminars on local government procurement should be held.
11. That trade associations should be requested to admit foreign companies to any exhibitions where their presence now is either discouraged or actually forbidden.
12. That the Ministry of Health and Welfare should review the regulations relating to the exhibition of medical equipment so as to simplify these and eliminate the costly procedures which at present discriminate against imported products at public exhibitions.
13. That the Ministry of Transport should (i) rationalise the domestic airline routing system so as to permit TDA to compete with JAL and ANA and thereby allow TDA to make full use of the European Airbus (ii) adjust domestic fares policy so as to facilitate the domestic airlines' purchases of more efficient aircraft.
14. That selected public buildings erected throughout Japan should be used to promote imports of building materials and furniture and fittings.
15. That swift action should be taken to reduce tariffs on certain foodstuffs and beverages and to eliminate those quotas concerning which we have been making representations for so long.
16. That customs authorities around the country should be instructed to co-operate more closely in promoting imports and that arbitrary and sometimes contradictory decisions and discrimination by the customs should be reduced.
17. That Japanese companies will be encouraged to invest directly in European companies manufacturing high technology products and as a result to assist in the importation of those products to Japan.



18. That steps will be taken to ensure with reference to 7 and 8 above, that the representatives of domestic manufacturers will no longer sit on any body which tests imported products or be directly concerned, in any other way with such testing procedures.
19. That a climate will be created in which foreign companies can purchase outright a Japanese company of a non-strategic nature or acquire a controlling shareholding in order to advance their interests in this market.
20. That the Japanese Government might consider annually award certificates of merit to companies which have been particularly successful in increasing imports to this country ("an Emperor's award for imports.")



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10, DOWNING STREET,  
WHITEHALL S.W.1

*With the Private Secretary's  
Compliments*

CONFIDENTIAL

26



10 DOWNING STREET

*From the Private Secretary*

5 August 1981

NISSAN

The Prime Minister has now considered your Minister's minute of 30 July. She agrees that the terms currently proposed by Nissan for their investment in Britain are not acceptable, and that Mr. Tebbit should write to them on the lines he suggests.

I am sending a copy of this letter to the Private Secretaries to the members of E(EA), David Wright (Cabinet Office) and Gerry Spence (CPRS).

**L. P. LANKESTER**

Peter E. Mason, Esq.,  
Department of Industry.

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Dinn Minutes



Prime Minister

Yes - this just  
 sort of on, unless the  
 terms are considerably  
 improved

~~First~~  
 The response proposed  
 by Mr Tebbitt seems  
 sensible. Agree unless  
 other colleagues  
 dissent?

As you know, a team from Nissan was in London between 17 and 22 July for further talks about their proposed investment. They had several long meetings with Department of Industry officials, and called on me before their departure. 12

2 You will recall that the "welcome in principle" we announced in January was for a full manufacturing plant, to start production in 1984 at 60,000 units and 60% local content, rising to 200,000 units in 1986 and 80% local content "as soon as practicable". At the beginning of the latest talks, the Nissan team tabled a paper setting out the project as they now envisage it after their feasibility study. The key points are: 4/8

- i a request for Nissan to be allowed to import 100,000 built up cars over and above their allocation under the SMMT/JAMA agreement during 1982/84 to "prepare the market";
- ii low volume production to start in 1984, in the form of a kit assembly operation with 30% local content;
- iii a new model to be introduced in 1986, at which point local content would rise to 61%. Volume would also increase, but exports would not start until 1987;
- iv a relatively slow build-up of production, so that 200,000 units is not reached until 1989. Forty-five thousand of those would be exports. Local content could be 80% by this stage, depending on the model mix (though the definition of local content is some way short of an acceptable one);
- v around £52 million in selective assistance in addition to some £75 million it could expect to receive in regional development grants. Nissan were also hoping to have access to interest relief grants (worth a further £35 million) and had allowed for these in their financial projections; but it was explained that these were no longer on offer. This may lead them to increase their bid for SFA;
- vi excluding grants, the project would not generate profits until 1988.

3 This is therefore a three-stage project:

Stage 1, (1982-84): increase Nissan's built-up exports to the UK;



Stage 2, (1984-86): assembly of kits of first model;

Stage 3, (1986- ): slow move to fully fledged manufacturing.

✓ In this form, the project seems to me to be both economically and politically unacceptable. The slow build-up of production, the very low levels of local content and the kit assembly stage are all major departures from the outline that we discussed with Nissan last winter, and on which our "warm welcome in principle" was based. It would also be a very unattractive return for the £74 million regional development grants that are being sought, let alone the £80 million plus selective financial assistance.

4 It is possible that the presentation of this unattractive plan is a Japanese way of saying "we have changed our mind". We think it more likely, from the demeanour of the Nissan team and from other signs, that it is (as they insisted throughout the talks) genuinely a preliminary plan open to much further refinement. Some of the difficulties may stem from a feeling of obligation, because of last winter's discussions, to start up production in some form in the UK in 1984. It may be that if production were delayed - say to 1985 or 1986 when they have to make a model change to fit in with their Japanese production plans - they could achieve faster build up and higher local content. There were some signs that extremely conservative cost, pricing and export assumptions had been built in. It is therefore possible that a more attractive project could be devised at the cost of some delay: a start up in 1985-86 would still need a final decision by about the end of 1982.

5 The question of choice of site has been deferred until a decision has been taken whether to proceed at all. There remains a risk that Nissan will examine alternative locations in Europe. This was never explicitly raised in the talks, but our impression was that this is not being actively pursued at present.

6 On the basis of guidance from me, Department of Industry officials gave the Nissan team orally a preliminary response to the proposal in its present form. Briefly, Nissan were told that:

i the project in its present form had some difficulties for the UK;

ii that HMG would not be inclined to press SMMT and JAMA to accede to Nissan's request to exceed its import allocation;

✓ iii that the initial level of 30% local content was unacceptable; a higher level was necessary, even perhaps at the cost of a later start up;



✓ iv that HMG was not prepared to discuss selective financial assistance until it saw a more fully worked-out proposal.

We promised to write to them shortly (at official level) to confirm that this is the Government's view of their interim plan.

7 Subsequently, just before their departure for Japan, the Nissan team withdrew their request for 100,000 built up imports over and above their allocation under the SMMT/JAMA arrangement. They said that this was because of the delicate nature of the SMMT/JAMA relationship, and asked that Ministers should not be told that the request had been made. I have, however, taken the view that it is right for my colleagues to know of the initial request and its subsequent withdrawal, but at the team's request it will not be mentioned in the letter to Nissan.

8 I should be glad to know that the line of the Department's oral response outlined above is acceptable to you and other colleagues; if so, I will arrange for a letter to be sent as promised to Nissan confirming this as the Government's view. We agreed with Nissan that public comment would be limited to the fact that a further round of discussions had been held, and that further talks would be held "later in the year".

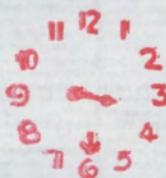
9 I am sending copies of this minute to members of E(EA), Sir Robert Armstrong and Mr Ibbs.

Department of Industry

30 July 1981

NT  
NT

31 JUL 1981



CONFIDENTIAL

Japan

C. 4/2/81



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

2

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State

PS/Norman Tebbit MP

Rainhurst

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

MT

13 July 1981

R 18/7

Dear Tim

NISSAN

Mr Tebbit would like the Prime Minister to know that representatives of Nissan (led by Kawai who led the feasibility team in London) are visiting the UK again this week as planned. They will have a first meeting with officials on Friday 17 July and further meetings next week, including one with Mr Tebbit.

It appears that Nissan are not yet ready for full negotiations. The feasibility study is said not to be complete yet. Although they expect to be able to discuss the results in general, they will not come armed with fully detailed proposals. They are seeking some discussion of financial assistance. They have also sought suggestions for a general adviser and an industrial relations adviser (on which names have been sent). At one stage it seemed possible that Okuma, who led the initial talks in January, might be coming; but this is not now the intention. Whether this indicates that some particular difficulty has arisen is not clear. There have been several hints that Nissan are expecting very tough negotiations on local content and on financial assistance, but our general impression is the plan is still regarded as "live": we do not think, for instance, that they would be seeking advisers on industrial relations if they had already taken a decision in principle against the scheme.

We do not expect any further indications of a possible location at this stage. We intend to use the talks to press forward as far as possible on establishing the details of their plans, and to put across our own requirements for example on local content, where the important issue may prove to be definition and timing rather than the percentage. But it seems likely at present that substantive negotiations will not be until September.

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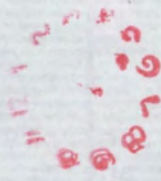
I am sending copies of this letter to the Private Secretaries to members of E(EA), Sir Robert Armstrong and Mr Ibbs.

*Yours ever*

*Peter Mason*

PETER MASON  
Private Secretary

115 JUL 1981



COPIES



10 DOWNING STREET

Mr. Louker Esq.

Arranged for  
Monday 3rd  
August at  
1600.

E.J.

12

Japan

SS

17 June 1981

THE GREAT JAPAN EXHIBITION

We have already had a word on the telephone about your letter to me of 16 June. I am writing now to confirm that the Prime Minister and Mr. Suzuki both announced at lunch today their willingness to join the Committee of Honour of the Great Japan Exhibition.

MODBA

Roderic Lyne, Esq.,  
Foreign and Commonwealth Office.

CS



Foreign and Commonwealth Office

London SW1A 2AH

*Dear Michael,*

16 June 1981

The Great Japan Exhibition

Thank you for your letter of 12 June indicating that the Prime Minister would be willing to become a member of the Committee of Honour of the Great Japan Exhibition. I confirm that this is simply a cultural exhibition.

We have been in touch with the Japanese Embassy, who are gratified. They, in turn, have been in touch with Mr Suzuki in Brussels and confirm that he would equally be willing to become a member of the Committee.

The Japanese Embassy have suggested that this might be announced at the Prime Minister's lunch on Wednesday and followed up at the press conference that Mr Suzuki is giving at 3.30 p.m. that afternoon.

I should be grateful if you would let me know as soon as possible whether these suggested arrangements are acceptable.

*yours ever*  
*Roderic Lyne*

(R M J Lyne)  
Private Secretary

M O D'B Alexander Esq  
10 Downing Street  
LONDON  
SW1

MR ALEXANDER.

---

Japan Exhibition.

Sir Hugh Casson's MSN has  
come to me. I may feel to  
find out what was happening,  
and they are writing to you  
about a proposed announcement.  
In the light of that, would  
you like to deal, please,  
with Sir Hugh's MSN?

CYP  
... 16/6.



10 DOWNING STREET

With the compliments of

Japan.

FILE

dl

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10 DOWNING STREET

*From the Private Secretary*

12 June 1981

The Great Japan Exhibition

The Prime Minister has seen your letter to me of 9 June about the Great Japan Exhibition. On the assumption that this is simply a cultural exhibition, the Prime Minister would be prepared to become a member of the Committee of Honour. She could not of course attend the opening ceremony if it were on 20 or 21 October since on these days she will be on her way to, or in, Mexico.

M. O'D. B. ALEXANDER

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

RESTRICTED

B





Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

A familiar gesture. Agree?  
(You will, of course, be in Mexico - 9 June 1981  
or on your way there - on 20/21 October.)

Agreed provided

Dear Michael,

Print it in 9/6  
A cultural  
exhibition only?

The Great Japan Exhibition

I am writing to ask whether the Prime Minister would be prepared to accept an invitation to join (with the Japanese Prime Minister) the Committee of Honour of the Great Japan Exhibition which is being staged by the Royal Academy from October 1981 to February 1982. The Japanese Prime Minister has not yet been approached but we believe that he would accept if the Prime Minister accepted. Lord Carrington has already accepted an invitation to join the Committee. No duties are involved but if the Prime Minister were free to do so, she might wish to attend the opening ceremony which will probably be on 20 or 21 October.

The Great Japan Exhibition will be the Royal Academy's major international event of the year and the first such occasion involving Japan. It will be on a scale of the Academy's Chinese Exhibition and the British Museum's Tutankhamun Exhibition. Its effect will add considerably to Japanese political and cultural links with Britain.

As you know, the Japanese Prime Minister is coming here for talks on 17 June. If the Prime Minister were prepared to accept the invitation to join the Committee of Honour of the Exhibition, the visit could perhaps be an appropriate time to make a joint announcement.

No formal invitations have been issued to the Prime Minister or Mr Suzuki, but if the Prime Minister were willing to accept, invitations would be issued straight away.

Yours ever,

(B J P Fall)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

**CONFIDENTIAL**

In discussion of the case for action, it was recognised that Japan needed to run a substantial trade surplus on manufactured goods to finance her import of food and raw materials, particularly oil. The United Kingdom itself had a large visible surplus with some countries eg Nigeria which offset our deficit with Japan. There was therefore no need to aim for bilateral balance. Action was nevertheless needed, given that Japan was now moving into net balance of payments surplus, that her economy was continuing to expand, and that her exports were in areas where future hopes for our own recovery should lie. Moreover with the destruction of some sectors of British industry eg small ship radars, the domestic pressure for an effective Government response was becoming more strident. It would none the less be difficult to persuade the Japanese to change their strategy, which was designed to enable their massive investment in research and development to be recouped.

In discussion of the means at our disposal to counter the Japanese commercial threat it was suggested that it would be wrong to seek to establish a protective regime against the Japanese. The United Kingdom was itself heavily reliant on an open trading system. But the Japanese were responsive to proposals for industrial co-operation and were already collaborating in a number of useful projects eg in the manufacture of video equipment. Chemicals was also a promising area. There were already 23 Japanese companies engaged in manufacturing activities in the United Kingdom; we should continue to encourage Japanese participation in the British economy by investment and technology transfer and by developing a firmer relationship with domestic component suppliers, despite the suspicions of our Community partners. We should also take advantage of comparative Japanese weakness in innovative thinking to seek collaboration as early as possible in the research and manufacturing process. It might also be worth exploring the possibility of a package deal with Japan, on the lines of the agreement reached between the United States and Japan by the Nixon administration which had given major American companies access to the Japanese market. It was also suggested that we should consider emulating some of our Community partners in taking administrative action to discourage imports from Japan; but it was pointed out that in the United Kingdom such a course would probably be frustrated by legal action. We should rather seek at a high level to mobilise the Community, whose

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potential strength the Japanese respected, in achieving our objectives. This would not be easy in view of member states' differing attitudes and the tradition in some of relying on national action. It would also be essential to raise the subject at the Ottawa Economic Summit, particularly as there was evidence that the Japanese who usually set more store by their relations with the United States than with the Community, were likely to feel serious embarrassment at our doing so.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up the discussion, said that the Sub-Committee endorsed the proposals in paragraph 14 of the Secretary of State for Trade's memorandum and the conclusions of the attached Note by Officials. It would be important to bring pressure to bear on the Japanese in the coming months, in particular at the Ottawa Economic Summit; to mobilise the Community in support of our objectives; to concert our position with the United States Government; and so far as practicable to exploit the United Kingdom Presidency for these purposes.

The Sub-Committee -

1. Took note, with approval, of the Foreign and Commonwealth Secretary's summing up of their discussion.
2. Instructed officials to be guided accordingly in preparing briefing for the forthcoming bilateral contacts with Japanese Ministers, and for renewed discussion in the Council of Ministers, the European Council and at the Ottawa Economic Summit.
3. Instructed officials to keep the United Kingdom's trade relations with Japan under review and to seek further Ministerial guidance as necessary.

Cabinet Office

5 June 1981

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OD(E)(81) 7#

4.6.81

Japan  
Item 3.

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### 3. TRADE RELATIONS WITH JAPAN

The Sub-Committee considered a Note by the Secretary of State for Trade (OD(E)(81)17) to which was attached a paper by officials reappraising our trade relations with Japan and suggesting the objectives that the United Kingdom should pursue in the series of forthcoming bilateral contacts with the Japanese Prime Minister and other Ministers, renewed discussion in the Council of Ministers, in the European Council and at the Ottawa Economic Summit.

THE SECRETARY OF STATE FOR TRADE said that the need to reappraise our trade relations with Japan stemmed from the growing Japanese commercial threat and in particular, the fear that the recent arrangements to curb Japanese imports of motor cars into the United States might result in a deflection of trade to the European Community. There was need to determine the principles that should guide government policy in the months ahead, including the Ottawa Summit. It was less the bilateral imbalance in trade than Japan's heavy concentration of exports in particular sectors and her impenetrable home market that were causing anxiety. Competition of this kind between the centrally directed Japanese commercial challenge and the liberal economies of the West had not been envisaged when the General Agreement on Tariffs and Trade (GATT) had been concluded and raised the question whether the GATT was adequate to meet the resulting strains on the world's economy. The proposals in OD(E)(81)17 were modest, being designed to persuade the Japanese of the damage they were inflicting on the West and the present economic system. Our objectives should be in concert with our Community partners to get the Japanese to modify their policy of concentration on target sectors, show more determination to open up their market to imports and participate in our economy by investment and technology transfer. Such a strategy would be slow in producing an effect and would not deal with the immediate problem of accelerating Japanese exports. Although we should continue to rely on our existing Voluntary Restraint Arrangements (VRAs) with the Japanese we should recognise that they might break down. We should therefore press on with establishing a Community policy for surveillance and restraint and, in the absence of action on a Community basis, secure Community authority for whatever British Government action was thought necessary to sustain our VRAs.

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

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TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State  
PS/Norman Tebbit MP

Tim Lankester Esq  
Private Secretary to  
Prime Minister  
10 Downing Street  
Whitehall

*✓* *Mr. Lankester*  
*ms*

*Primi*  
*Progress report*  
*on the Nissan feasibility*  
*study.*  
1 June 1981

*Dear Tim*

*R*  
*2/6*

NISSAN

Nissan's feasibility team has just returned to Japan at the end of the UK phase of their study, and Mr Tebbit thought it would be useful for colleagues to be aware of the present position.

Mr Kawai, the leader of the team, called on officials here on 22 May before returning to Tokyo at the end of the UK phase of the study. A dozen or so Nissan executives have been in the UK studying sites, component supplies, construction questions and markets. They will now take some weeks to analyse the information obtained and present preliminary conclusions to their Board, but said they expected to return to the UK in mid-July to report either on their conclusions or on progress towards reaching them.

Meanwhile, they were clearly reluctant to give any firm indication of preliminary results. As to the cost of component supplies, they said that these ranged between certain components where prices similar to those obtainable in Japan had been quoted (eg aluminium castings) to others where the quotation had been roughly twice the Japanese level. They emphasised however that these were first quotations on sample parts from existing models, and did not allow for any reduction in price during negotiations. As to sites, the conclusion appeared to be that there were various locations which would meet their requirements, and that they would now narrow the choice further at this stage. On markets, Kawai emphasised the difficulty of exporting profitably at the cost levels they had found and with the sterling parity where it now was; but there were indications from other members of the team that their primary concern was whether we would be able to secure free access throughout Europe for the products of a UK Nissan plant, so as to secure an adequate volume of exports which were necessary for the viability of the plant.

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Generally, officials gained the impression that the study was still being pursued actively and that the prospects remained reasonably favourable, though the indications of component costs are cause for concern.

We expect the next stage to be in mid-July, when we would hope to get down to more detailed negotiations with Nissan on the timing and amount of local content. Meanwhile, to put pressure on Nissan, we have emphasised the growing European pressures for restrictions on exports of built up cars from Japan and the Council of Ministers' statement seeking "analogous" arrangements to those recently agreed between Japan and the US.

I am sending copies of this letter to the Private Secretaries to members of E(EA) to Sir Robert Armstrong and Mr Ibbs.

*Yours sincerely*

*Peter Mason*

PETER MASON  
Private Secretary

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SECRET



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CF to hlc

Jayson

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C. Fu

10 DOWNING STREET

THE PRIME MINISTER

22 May 1981

Your Excellency

Many thanks for your telex of 21 May, and for your kind wishes.

It was a great pleasure to hear that you had once again taken up post as Minister for Foreign Affairs. Like you, I look forward to strengthening further the already close and happy relationship between your country and the United Kingdom.

Finally, may I say that the Arita vase you gave me two years ago still occupies a place of honour in my study.

signed

MT

His Excellency Mr. Sunao Sonoda

jfh





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ETATPRIORITE

THE RIGHT HONORABLE MRS MARGARET THATCHER MP  
PRIME MINISTER AND FIRST LORD OF THE TREASURY  
NO10 DOWNING STREET LONDONSW1

DEAR PRIME MINISTER,  
ON MAY 18 I ASSUMED THE OFFICE OF MINISTER FOR FOREIGN AFFAIRS.  
IT IS MY GREAT PLEASURE TO WORK AGAIN FOR FURTHER STRENGTHENING  
THE CLOSE AND FRIENDLY

COL NO10 18

PAGE2/27

TIES WHICH HAPPILY EXIST ALREADY BETWEEN YOUR COUNTRY AND JAPAN.  
ON THIS OCCASION I WISH TO RENEW MY HIGHEST RESPECTS AND WISHED  
TO YOUR EXCELLENCY  
SUNAO SONODA

SENT 1545/21

889113 PO SW G



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

19 May 1981

The Rt Hon John Biffen MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
London SW1

SO WEX 1981

ANB M.  
K  
20/5

Dear John

Thank you for your letter of 14 May setting out the line you propose Cecil Parkinson should take in the Foreign Affairs Council next week on trade with Japan. I agree with your intention to try and widen the discussion beyond the question of Japanese car imports to cover preparation for discussion on international trade at the Ottawa Summit. Although there must be doubts about the likelihood of securing a significant change in the pattern of Japanese imports, I agree that this is something which should be emphasised.

2 On Japanese car imports I fully support your concern that any Community arrangement should not undermine our own understanding with the Japanese. At the same time, I believe that it is important for us to try ~~to~~ get a firm Community line in the interest of persuading the Japanese that they have to take the EEC as seriously as they evidently do the United States.

3 In view of the number of Japanese visitors we will be receiving in the next few weeks I very much welcome your intention to prepare a general paper on trade with Japan for discussion in OD(E). I hope this will refer to the importance of encouraging suitable inward investment and of promoting collaboration between our own and Japanese industry. As you will know, Kenneth Baker's recent visit to Tokyo led to an agreement which will be followed up during the rest of this year.

4 I am copying this letter to the recipients of yours.

Ann.

Kw





*From the Secretary of State*

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

NR PA

Print

14 May 1981

*Dear Keith*

The subject of trade with Japan will once more be a prominent feature of the Foreign Affairs Council at its meeting next Tuesday. I am writing to let you know the line which I propose Cecil Parkinson should take.

Inevitably it will be the agreement between Japan and the USA on passenger cars that will dominate the discussion. The Commission is asking the Council to agree that the Japanese should be asked to exercise "analogous" restraint in their exports to the Community. Exactly what this means is not spelt out for the very good reason that there is now a mosaic of arrangements for all the Member States that have car production of their own. It is quite unrealistic to expect these to be reconciled in the short term. As you know, the SMMT's understanding with their Japanese counterparts envisages claw-back after a certain overrun last year. It is essential that any arrangement which the Community makes with Japan should not derogate from this understanding. We should be explicit about this at the Council. The French and the Italians will be equally firm about their national limits.

I am under no illusion about the difficulty that the Commission will have in getting a workable understanding with the Japanese satisfactory to each Member State, including, of course, the



*From the Secretary of State*

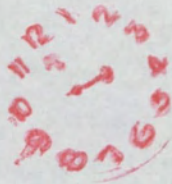
Germans who are nervous about the whole exercise. But the preservation of a common Community front is a pre-condition of making any progress towards making the Japanese appreciate that their exporting impact on relatively narrow but vitally important sectors is having a seriously destabilising effect on world trade. I propose that Cecil Parkinson should draw the attention of the Council to the importance of the Community making proper preparation for the discussion on international trade at the Ottawa Summit in which we need to try to make common cause with the Americans. This will involve putting a new emphasis on the need for Japan to start buying much more from the other industrialised countries. At next week's Council we should urge Member States to ensure that the stream of Japanese ministers who will be visiting Member States before the Summit will get the same message wherever they go.

I believe that the whole subject of trade with Japan is important enough to warrant my preparing a rather fuller paper which I hope we can discuss in OD(E) before the series of meetings with the Japanese visitors next month.

I am copying this letter to members of OD(E) and to the Prime Minister.

JOHN BIFFEN

15 MAY 1981



15 MAY 1981

RESTRICTED

Japan.



Prime Minister (2)

Foreign and Commonwealth Office

London SW1A 2AH

a/c

And [signature]

7 May 1981

Dear Michael,

Counsellor for Science and Technology at Tokyo

Following his return from the Far East, the Foreign and Commonwealth Secretary mentioned to the Prime Minister the views held by the Counsellor for Science and Technology at our Embassy at Tokyo, Dr Marshall.

We have considered whether Dr Marshall should be asked to come back to London for consultations. However, it transpires that he was already due to return in mid-June to conduct a series of seminars and lectures about Japan, concentrating on electronics and micro-electronics. These seminars, mainly for businessmen and Government officials, will form part of continuing efforts to publicise Japan's technological advances and the challenge they present to British industry. We are keeping in close touch with the Department of Industry over Dr Marshall's programme, and will try to ensure that he is able to disseminate his information widely within Whitehall.

I am sending a copy of this letter to Ian Ellison (Dept of Industry).

yours ever  
Roderic Lyne

(R M J Lyne)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street  
LONDON  
SW1

RESTRICTED

is:  
RESTRICTED



Prime Minister (2)

PRIME MINISTER

Ans

#### INWARD INVESTMENT MISSIONS

Your Private Secretary's letter of 26 January, conveying your agreement to my undertaking an inward investment mission to Japan, also contained a request for an evaluation of the mission. This is it. I have, however, taken the opportunity to look back at my visit to the USA last year and the following report, therefore, covers both missions.

#### GENERAL

I will preface my remarks by stating the obvious. Leading an inward investment mission gives me a snapshot at a particular moment; but it is a part of a continuous on-going effort by the posts overseas, the UK promotional bodies (in the case of Wales, the Development Corporation for Wales) and Government departments such as my own. Decisions by companies about investment are of course the outcome of months or years of investigation and consideration and it will very seldom be the case that it is possible to point to a single meeting or visit as the decisive event. When an investment decision is announced during a Ministerial visit it is virtually always the case that the negotiations have coincidentally reached the right stage at the right moment. I have not sought to stage manage in this way. However, while I was visiting Yuasa Batteries in Tokyo, the company announced their intention, subject to the satisfactory conclusion of financial negotiations, to establish a plant at Rassau near Ebbw Vale employing up to 270, and thus become the eighth Japanese company to establish in Wales. This announcement was not only good news, but gained a great deal of excellent publicity and politically, was extremely useful. But by the very nature of things, such cases are the exception rather than the rule. What I would say, however, is that I do believe both missions to have been of immense importance. Indeed, in any assessment that I might make of my own personal contribution to the welfare of Wales during my period in office as Secretary of State, I would put my leadership of these two missions very high on the list of worthwhile achievements; not least because they have shown the people of Wales that I am prepared to do my utmost to encourage the new investment that is needed so much.

Incidentally I have also formed some strong views about the way in which our overseas promotional work is organised; but I will be taking this up with Sir Keith Joseph and Peter Carrington.

#### INWARD INVESTMENT MISSION TO THE USA

Between 23 September and 11 October last year I led a Development Corporation for Wales inward investment mission to the USA. In accordance with the usual practice, I undertook the mission as a UK Minister, making it clear that while I had a special responsibility for Wales I was at all times seeking to promote new US investment into the

/UK generally.





UK generally. I gave a number of TV/radio interviews at which I described what Wales and Britain as a whole have to offer for US investment and explained the Government's policies in a variety of fields but with the emphasis very much on economic matters.

I visited 19 companies during the tour, which took me from Washington to Colorado Springs via New York, Pittsburgh, Chicago, San Francisco and Los Angeles. Many of these companies already have plants in Wales and the meetings allowed an opportunity to discuss the present performance and the problems of these firms as well as their plans for the future.

I was able to visit the US headquarters of Inmos and establish an excellent working relationship with the senior personnel of that company whose success is so vital for the future of South East Wales and so important to the image that we are trying to create for that area.

The tour included a number of receptions; and seminars and discussions were held. Some 51 companies expressed an interest in undertaking a development in Wales now or at some time in the future. Six of these companies have since visited the Principality and one (Tone Commander) has decided in principle to proceed with a project in North Wales, promising about 50 jobs. Discussions are continuing with many of the others and follow up visits to the United States have been made by the Industrial Director of my Industry Department and by the Development Corporation for Wales. The majority of the 51 companies concerned are continuing to show an interest in overseas investment.

Of necessity the results of this mission, in terms of new investment projects, will only emerge over a period of time. However, in assessing the value of the mission account also needs to be taken of the outcome of very frank talks which I had with the American management of two companies, Alcoa and Borg Warner, whose Welsh units were at the time of the visit incurring heavy losses. There is no doubt that my visit materially influenced Alcoa in their decision to go for a slim-down operation rather than a complete closure of their Swansea plant and thus safeguard over 700 jobs. Borg Warner too were contemplating closure of their Kenfig unit with the loss of over 1,000 jobs at the time of my visit. My discussions with them again helped very significantly to underpin their commitment to the Welsh unit with the result that Borg Warner are now very seriously examining the possibility of undertaking production of a new automatic transmission unit at Kenfig.

The presence of the Welsh Office Industrial Director, with his previous experience of running the Anglesey Aluminium Company in North Wales made it possible to talk authoritatively to industrialists about the level of grants and assistance that might be available. And the positive contribution by the Chairman of the Wales TUC helped to dispel many of the fears about industrial relations problems in the UK.

/In summary





The nature of discussions with the various company representatives was very different from the American experience. Discussions were invariably through interpreters, which inevitably slowed down the discussion process, and the natural tendency of the Japanese to assume a formal stance further retarded the discussion pace. Once the formalities had been completed however the discussions proved to be meaningful, to the point and honest. The following points emerged from the discussions:-

- (a) There is general goodwill from Japan towards the UK.
- (b) Japanese industrialists are much concerned that protectionist barriers may escalate in Europe.
- (c) Japanese industrialists believe that good industrial relations are difficult to establish in the UK. They are concerned that even if they were to establish good industrial relations within their own plants, external disputes could wreck their operations.
- (d) Although the Japanese industrialist claims that he would wish to source as much as possible of the components locally, the generally held belief is that UK products - particularly in the electronics industry - are unreliable and of inadequate quality.
- (e) The Japanese are naturally courteous and anxious not to offend. A demonstrable welcome is more important than the precise level of Selective Financial Assistance that might be offered. No Selective Financial Assistance however creates the impression that the British Government does not welcome the proposed investment.

#### CONCLUSION

On both occasions I have been able as a UK Minister to speak of Government policy on trade and industry matters to people in the front rank of business. I have been able to cement relationships with those already operating companies in Britain and to discuss with their top management some of the problems that they face. I have in two or three key cases probably decisively influenced attitudes when the very existence of their UK operations were seriously called in question ie in the case of Alcoa and Borg Warner. I have been able with the help of my Industry Director and the Chairman of the Wales TUC to dispel many misconceptions about industrial relations in Britain. Undoubtedly what John Griffiths had to say made a deep impression in the USA, and particularly in Japan. I have been able to obtain a prolonged hearing from a number of potential investors who have by the thoroughness of their cross-examination revealed their interest. I have been able to establish a number of personal contacts and relationships which could be of value in the future.

/These missions



These missions have given a fresh impetus to long term development work, have created a wide range of contacts and have stimulated considerable interest among potential investors and others. They form part of a continuing process, they are being followed up by the DCW and by my own Department. They need to be repeated at regular intervals over a period of years by whoever is Secretary of State.

/ I am sending copies of this to Peter Carrington, Keith Joseph, George Younger and Norman Tebbit.

*RNE*

RNE

May 1981

RESTRICTED

BY BAG

FROM TOKYO

TELNO 4 SAVING

DATED 9 MARCH 1981

RESTRICTED

Addressed to FCO Telegram No 4 Saving of 9 March 1981

Repeated for information Saving to Osaka, Welsh Office, IBB,  
Department of Industry

VISIT BY THE SECRETARY OF STATE FOR WALES TO JAPAN

1. The Right Hon Nicholas Edwards MP, Secretary of State for Wales, visited Japan from 21 February until 3 March. His main purpose was to encourage Japanese investment in the UK, in particular in Wales. He also took every suitable opportunity to emphasise the British Government's full support for the EC Council of Ministers' statement of 17 February on EC/Japan trade relations and urged Japanese Government and business leaders to take action to respond to the Community's concerns.
2. The Secretary of State's programme which covered both the Tokyo and Osaka metropolitan areas included meetings with seven companies already established in Wales (Sony, Matsushita, Hitachi, Hoya, Aiwa, Takiron and Sekisui). He also called on firms which are potential investors in Britain: Yuasa, Showa Denko, Munekata, Nittan, Toshiba, TDK Electronics, Hitachi Maxell, Akai Denki and Sanyo. He did not call on the Nissan Motor Company although he publicly emphasised the welcome given by the British Government to Nissan's decision, subject to a feasibility study, to establish a substantial car manufacturing facility in Britain. He did, however, meet Mr Okuma, the Executive Vice President of Nissan, at dinner at my house and at a meeting with the Keidanren, the Japanese equivalent of the Confederation of British Industry. He also had a meeting with the Electronics Industries Association of Japan and spoke at luncheons/receptions hosted by the British Chamber of Commerce, the Chartered Bank, Barclays Bank and the Touche Rosse company in Tokyo and by the Kankeiren in association with other Kansai organisations and the British Chamber of Commerce in Osaka. When in Tokyo he called on Mr Tanaka, the Minister for International Trade and Industry, to whom he explained HMG's economic policies. In Osaka he called upon the Governor of Osaka Prefecture.
3. The visit coincided with a decision by the Yuasa Battery company, subject to the satisfactory conclusion of detailed negotiations, to establish a factory at the Rassau industrial estate near Ebbw Vale which will eventually employ 270 workers. No decision was forthcoming during the visit from Munekata/Showa Denko about their projected joint venture to manufacture plastic containers for TV sets in South Wales.

/But

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But the Secretary of State was able to allay anxieties, felt particularly by Munekata which has no previous experience of operating abroad, about establishing a factory in Britain. Following the visit the President of Munekata wrote to the Secretary of State seeking reassurance on some points which continued to bother him. It seems likely that a decision on whether to set up in South Wales will be taken shortly.

4. Most of the companies operating in Wales spoke warmly about their UK operations, but the Presidents of Hitachi and Matsushita spoke frankly about their concerns respectively about UK labour relations and quality of locally supplied components. These concerns were shared by almost all the companies the Secretary of State visited. Labour relations in particular was the theme of an extensive discussion at the Keidanren. Mr Griffiths, Chairman of the Welsh TUC, took a prominent part in this and his quotation from a contract between management and labour in connection with the establishment of a Japanese enterprise in Wales where it was stated that neither management nor unions "will be a party to any external disputes" was effective. Mr Griffiths proved himself a valuable last minute addition to the Secretary of State's party. I hope that other UK Ministers who may visit Japan for inward investment purposes will be accompanied by similarly articulate exponents of moderate British trade unionism.

5. One of the points made by the Governor of Osaka during the Secretary of State's call on him was that Japanese companies would prefer detailed information on exactly where their industrial activity could fit into the UK scene rather than receiving general exhortations to invest in Britain. This point was not made elsewhere during the visit, but there are increasing signs here that our approach to inward investment from Japan needs to be differentiated and sophisticated.

6. Three members of the Development Corporation for Wales led by their Chairman, Sir Idwal Pugh, were in Japan during the visit and participated in some items of the programme.

7. The Secretary of State made a number of effective short presentations and speeches. He took every opportunity to hammer home the welcoming environment in Britain for Japanese investment. I trust he found the visit both useful and informative.

CORTAZZI



INDUSTRIAL INVESTMENT MISSION TO JAPAN

COMPANIES & ORGANISATIONS VISITED

COMPANY/ORGANISATION	COMMENTS
1. Minister of International Trade and Industry at Miti	Discussion on trading policies.
2. Nittan Company Limited	Existing company at Woking. No immediate plans for expansion.
3. Hitachi	Joint venture with GEC at Hirwaun, South Wales. Possible new video project being evaluated.
4. TDK Electronics	Distribution company already in UK.
5. Toshiba	Possible investment in Scotland.
6. Showa Denko	Possible joint venture with Muneketa in Wales (now deferred).
7. Hitachi Maxell	No plans at present, but are considering future investment plans.
8. Yuasa	Company announced decision to establish plant in Wales subject to final detailed negotiations.
9. Akai	Company has a London based subsidiary. No firm plans at present to establish manufacturing plant, but future plans could include UK as a production base.
10. Aiwa	Existing company in Penyfan, Wales. Company intend extending factory in time.
11. Takiron	Existing company in Bedwas, South Wales. No plans for expansion at this time.
12. Sekisui	Existing plant in Merthyr, South Wales. Consideration being given to expand the Merthyr operation.
13. Sanyo	Consideration being given to establishing a production plant within EEC. No firm location preference at this time.

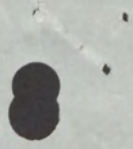


## COMPANY/ORGANISATION

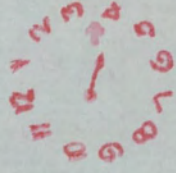
## COMMENTS

14. Matsushita	Existing plant in Cardiff, South Wales.
15. Sony	Existing production facilities in Bridgend, South Wales.
16. Hoya	Existing operation in Wrexham, North Wales.
17. Muneketa	Proposed joint venture with Showa Denko (now deferred).
18. Daihatsu	No firm plans to invest in Europe at this time. Consideration being given to machine tool joint venture.
19. KEIDANREN	Wide-ranging discussions on issues covering industrial relations, component supply and quality and financial assistance.
20. Electrical Industries Association of Japan.	Wide-ranging discussions with particular emphasis on component supply and quality.





5-6 MAY 1981



*File*

ds

*Jagan*

8 April 1981

NISSAN : LOCAL CONTENT

The Prime Minister has read your letter of 3 April. She has commented that she hopes that we shall get concrete agreement as to amounts and timing regarding local content.

T P LANKESTER

Mrs. Catherine Bell,  
Department of Industry.

*SP*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State

PS/Norman Tebbit MP

Mrs Catherine Bell  
Private Secretary to the  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
London

6 April 1981

*Den Catherine*

NISSAN

There was unfortunately a typing error in Mr Tebbit's letter of 3 April to Sir Keith.

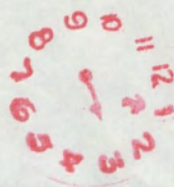
In the penultimate line of paragraph 8 on page 3 the word "now" should have read "not". The last part of that sentence should therefore read, "We should not allow ourselves to regard this project as by any means a certainty."

I am copying this letter to the Private Secretaries to the Prime Minister, the Foreign Secretary, members of E(EA), HM Ambassador in Tokyo and Sir Robert Armstrong.

*Yours ever  
Peter*

PETER MASON  
Private Secretary

1 APR 1981



10

*✓* *Mr Ingham*  
*Mr Walters*  
*Mr Orquid*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

3 April 1981

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Tim

*I hope however that we shall get some agreement on to compromise and wrap it up*  
*Prime Minister*  
*Mr Tebbit + Sir Keith Joseph*  
*want that we should not*  
*overplay the UK hand with*  
*Nissan on local content.*

NISSAN: LOCAL CONTENT

Thank you for your letter of 30 March about Lucas' views on the Nissan project. You may find helpful the enclosed note which Mr Tebbit is circulating to colleagues describing the current state of negotiations with Nissan and the Department's broad approach to this investment.

*MAP*  
*31*  
*14*

2 Local sourcing will be a central question during the forthcoming talks with Nissan. It would be unwise to over-estimate the strength of the Government's negotiating hand:

- a officials here are not yet certain that Nissan will come to this country. They believe Nissan are serious about wanting a European base but they know that there are divisions within the Nissan Board on whether the UK is the best location. Some industry sources assess the chances of Nissan coming here at less than evens. If the negotiations with Nissan are to be successful, Nissan will have to be offered attractive terms on local content, industrial relations and finance.
- b Nissan's original proposal was for local content of 40% at the time of start-up with a loose understanding that this would eventually move to around 80%. In the preliminary discussions with Nissan Department of Industry officials made it clear that this was unlikely to be acceptable. The company eventually agreed to start engine assembly here at an earlier date so as to increase local content on start-up to 60%, with 80% local content being achieved "as soon as practicable" after full production was reached. The feasibility study now in train will determine whether these figures can be realised in practice. Officials hope that UK component manufacturers will seize the market opportunity created by Nissan but, if the component firms fail to do so, officials here suspect that Nissan would prefer

/to ...



to withdraw rather than to negotiate a lower local content figure. There may therefore be problems in persuading Nissan to proceed with their investment on the basis of 60-80% local content.

- c There are few international precedents. Officials here know of no overseas operations on the scale envisaged by Nissan which are based on a higher local content than 80%. Contrary to Lucas' claim there are no formal restrictions in Italy and officials understand that the Nissan/Alfa Romeo venture is in line with what Nissan intend here. It is also worth noting that the Government are defending the BL/Honda deal against strong criticism in Europe on the basis of 60% local content. This is also the figure used by the authorities in South Africa and Spain in assessing prospective inward investment projects in the automotive sector. However, Spain is now in the process of dismantling its controls, while the Australians are also reviewing theirs and Peugeot have announced that they are pulling out of Australia because they find the 80% local content regime too restrictive.

3 Nevertheless, as mentioned in my Secretary of State's minute to the Prime Minister of 9 December, the Department is hoping, despite these constraints, to secure a better commitment from Nissan on the timing of the progression from 60% to 80%. Furthermore, officials plan to use the offer of selective financial assistance as a lever to persuade Nissan to agree to a higher figure for local content. Officials well understand that the detailed terms of any understandings reached with Nissan will influence the business prospects for a number of UK component makers. For that reason, officials here have consulted the UK components industry and vehicle assemblers on the points they would like to be covered in the negotiations with Nissan. Officials have also provided Nissan with a list of the issues they wish to discuss in depth including the various suggestions made by Lucas. Officials have undertaken to keep in close touch with the industry as the negotiations with Nissan progress.

Your ever  
*Catherine*  
CATHERINE BELL  
Private Secretary



From the  
Minister of State

Norman Tebbit MP

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

3 April 1981

*D. Keith.*

NISSAN

Nissan are now well into their feasibility study, and you and other colleagues may care to have a progress report.

#### Reception

1 The reception of the proposal both here and in Europe has been generally favourable. The anxiety of local and regional authorities to press their claims for the plant speaks for itself; but the union reaction has also been very constructive. In Europe, we have reports of acute French unease, but there have been no formal complaints and the Commission appear fairly relaxed about it so far.

2 The vehicle industry, on the other hand, while supporting our position in public, has been less enthusiastic in private. The other vehicle assemblers have long favoured pressure from Japanese firms to invest in Europe rather than import, but they now argue that 80% local content is inadequate because it will allow Nissan too much of a competitive edge in the form of cheap components imported from Japan, and they say they will be forced to source some of their own component needs from Japan to meet this. The net effect for the component sector and employment generally will therefore, in their view, probably be adverse.

3 The component manufacturers also regard 80% local content as too low, because they believe that level will be largely absorbed by Nissan's in-house manufacture in the UK so that they will buy very little from the component sector. They also believe it will be difficult to tie Nissan down even to that level unless we impose very stringent enforceable obligations.

The components sector, like the vehicle assemblers, speak of



Nissan as a Trojan horse, and are little disposed to see it as a gift horse.

#### Location

4 Some local authorities have been persuaded to co-ordinate bids on a regional basis, but there has been a phenomenal interest in attracting the Nissan plant. The indications are that there will soon be a short list of three or four sites, but when and how Nissan intends to publicise this remains uncertain.

#### Local Content Requirement

5 We have given Nissan some indication of how we would expect to define and monitor local content. Nissan showed considerable anxiety at this, since their starting point is that they should be treated like a US owned company investing in the UK, not as a special case for whom stringent conditions can be imposed.

6 Our position is based on the belief that Nissan are not wholly committed to the UK project and will be willing to abandon it altogether or move elsewhere in Europe if we make our conditions too stringent. The figure of 80% was judged to be as far as they could be pressed in the original negotiations. Our present intention is to aim for 80% with no selective financial assistance (apart perhaps from training grants) and use any selective financial assistance to push them above 80%. But we may find this is not possible and we shall have to judge, in the light of the feasibility study, how far they can be pushed. Despite Nissan's distaste, we shall need some clear understandings on definition of local content, on what actual parts will be imported, and on monitoring.

#### Trade Unions

7 There has been useful progress on the industrial relations front. The company met the Secretary of State for Employment during March, and also had discussions in the UK with Messrs Murray, Duffy and Evans and with Evans also in Japan. The three union leaders have approached what for them are very sensitive issues in a most constructive manner, and there is little doubt that this has had a favourable impact on Nissan. The company would ideally have preferred a single union, but appear to have accepted the advice they have had that they should aim instead for a single negotiating structure covering several unions. The company have been encouraged by the unions to discuss the possibilities with local officials in the main candidate areas. Though I have no doubt there will be difficulties on the union front when the company get down to detailed negotiations, the initial response from the unions compares well with that of some senior component industry managers who seem disposed to dwell more on the potential damage than on the advantages of the project - though many others in the component industry have responded positively and with vigour.



Feasibility Study Team

8 A large team of Nissan people are now in the UK conducting the feasibility study. They are, for example, engaged in discussions with about 80 potential suppliers, and initial reports from some of those firms suggest that Nissan's approach is highly professional and well informed. We shall aim to keep contact with the team during the study, but their intention appears to be to complete it, report to their own superiors, and then put proposals to us when they have formed their own views. I expect it will be well on into the summer, and perhaps even early autumn, before we get a clear indication of Nissan's conclusions, and it may well be that we can do little negotiating with them until that stage. Meanwhile, although everything appears to be on course, we should now allow ourselves to regard this project as by any means a certainty.

9 I am sending copies of this letter to the Prime Minister, Peter Carrington, and to colleagues on E(EA); and also to HM Ambassador in Tokyo and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT



Japan



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State

Norman Tebbit MP

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

MS.

R.

3 April 1981

1981

D. Keith.

Eric Martin

A progress report - reasonably optimistic, but Nissan's conclusions probably won't be known until the late summer.

NISSAN

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R.

1981

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I have passed your views on this to D.O.I.  
R.

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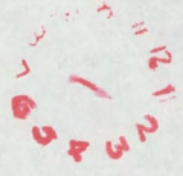
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A handwritten signature in dark ink, appearing to read 'Norman', with a stylized flourish above the first few letters.

NORMAN TEBBIT



6 APR 1961





10 DOWNING STREET

MISS STEPHENS

The Prime Minister can discuss this with Sir Keith at their next meeting: this is not particularly urgent.

T

T P LANKESTER

30 March 1981

B/H to Es. on  
Monday 6 April.  
Es. 3/4

30 March 1981

Dear Ian

The Prime Minister has been sent a copy of a letter dated 9 March from the Chief Executive of Lucas to John Steele (copy enclosed). She is concerned - on the basis of this letter - that we may have negotiated too leniently with Nissan over their domestic sourcing; and she would like to have a word with your Secretary of State about it. We will be in touch to arrange a time.

Yours ever

T P LANKESTER

I.K.C. Ellison, Esq.,  
Department of Industry





10 DOWNING STREET

PRIME MINISTER

This letter from Lucas suggests that they are not too happy with Nissan's 60% local content proposal.

---

*Duty Clerk for*


T.P. Lankester

27 March 1981

*This - it looks to me as if we have made mess of this. Day 1 letter to Keith not*

2

Ref: A04571



MR. LANKESTER

— You may like to show the Prime Minister, if she has not already seen it, the attached copy of a letter which Lucas have sent to the Department of Industry about the Nissan UK Project.

RA

(Robert Armstrong)

27th March, 1981

sc

Members of Lucas Board & Executive

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9 March 1981  
JWW/DEF

*Dear John,*

As we agreed, I am setting out the various points and requirements which we at Lucas believe to be key with regard to the Nissan UK manufacturing proposals.

Most importantly, although a 60% local content may have appeared to provide for substantial UK component supplies, in fact most of that proportion would be taken up by Nissan's own in-house manufacture.

Even if the local content rises to 80% over a period of time, such a proportion and the approach would be those applicable to emerging countries who need to develop their supply facilities. The UK has one of the leading component industries in the world, with the skills, technology and capacity to supply all of Nissan's needs. We therefore should start from the assumption that their entire component requirements should be supplied from the UK/EEC.

The arrangements currently envisaged will allow and predispose Nissan to supply components not only for themselves but also for BL and for others from Japan. The initial target of the Japanese component suppliers will be the high volume, low variety products and - as with any other competitors looking to establish themselves in a new market - they will offer prices substantially below those ruling in the EEC.

We are convinced of the Government's logic of providing assistance to Nissan, (or to BL) in order not only to provide jobs within the vehicle manufacturers, but also within the supporting component industry. But this aim can only be realised by supporting component suppliers also. With regard to Nissan, this means insisting on a very high local content. The requirement in Italy is understood to be 95% and this would seem to us to be reasonable.

We do not believe that concessions on local content are necessary. The advantages to Nissan of manufacture in the UK far outweigh those available in such countries as Belgium and Ireland and our view is that the UK has a very strong negotiating hand.

You are of course well aware of the "Trojan horse" accusations levelled at the UK by other EEC countries and the only credible rebuttal of these criticisms would be to demonstrate the advantages which will accrue from adopting the approach that I have outlined.

If you can establish an indigenisation programme that will benefit UK suppliers, then we believe that the Nissan project will demonstrably represent an opportunity that we can and should exploit.

Turning to the ability of the components industry to respond effectively, I suggest that the government could help us in the following ways:

because of the current recession many firms may require financial backing. A way of providing it may be to require Nissan to spend some of its government assistance on tooling programmes with local suppliers and also to require that early tranches of cash be applied to setting up homologation facilities in the UK;

it is essential that homologation authority be established in the UK. Experience teaches us that to homologate in Japan will be a long drawn out, frustrating and probably not successful exercise. We can assist materially by making available our own testing facilities so as to speed up the homologation process;

a schedule of components available locally should be drawn up and the components should be mandatorily deleted from initial CKD kits over an agreed short timescale. The market value of each item must be declared by the outset by Nissan, so as to avoid the problems of marginal "deletion" prices;

all products licensed from the UK should be in the CKD deletion kit;

heavy duties should be levied on items deleted from CKD. The extent of the duty should take into account ruling EEC component prices;

local content arrangements should be no less onerous than those to be found elsewhere in the EEC and in Nissan's other markets; our proposals draw heavily on our actual experience throughout the world;

production from the Nissan plant should count towards agreed Japanese import levels until 100% of the agreed local content programme is achieved;

Nissan should agree to arrange for the issue of licences to UK suppliers, on normal commercial terms, from existing Japanese suppliers where this is found necessary because of patents, proprietary items or specialised requirements;

because Nissan will produce the same model in Japan and because Japanese component suppliers compensate for their low OE prices by very high aftermarket prices, they will wish to supply the aftermarket through the Nissan distribution network from Japan. An agreement therefore must specifically permit UK manufacturers to supply branded components to the Nissan parts division, the Nissan dealer network and generally to assure parity of treatment with Japanese suppliers.

As you know, there is strong support for an approach along these lines among the component suppliers and I hope that you will be able successfully to negotiate both the safeguards and the positive benefits.

*Best personal wishes,*

*Yours sincerely,*

*Jeffrey.*

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Nissan Japan Pkt

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PRIME MINISTER

You might like to see this article by Bob Lutz, the Chairman of Ford of Europe. I draw it to your attention because of the section on page 35 about comparative productivity in Japan, Europe and Britain. It says that on taking account of the degree of integration of the car plants concerned, Japan produces 30-40 cars per employee; Ford in Europe about 15, VW 13 and Renault 12; and Ford in Britain about 7.

It seemed to me that you might be able to make use of these figures in a speech or in the House.

MS

20 March 1981



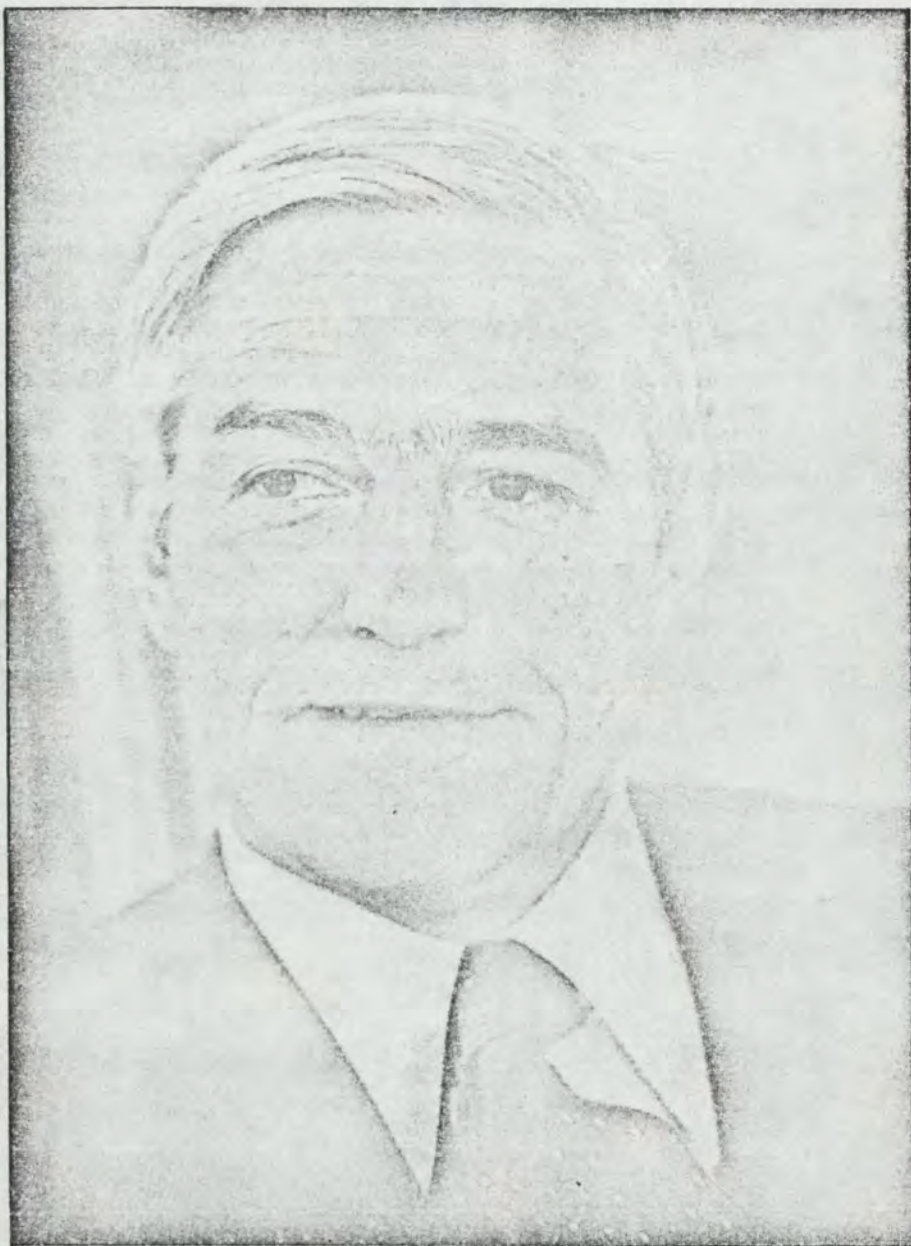
# In candid conversation: Bob Lutz

Ford of Europe's Chairman talks frankly to VISION's John O'Neill in an exclusive interview about... productivity in the car industry... the outlook for that industry in Europe... the Japanese counter-strategy... and his own aspirations.

The command of the English language is masterful, the navy blue suit is impeccable, as the 48-year old Swiss-born Bob Lutz shoots from the hip behind puffs of the choicest Havana cigar. Lutz has a certain false air of smugness about him - Ford in Europe, despite a declining profit graph in '80/'81, is still propping up the American operation financially and, of course, they have just been given the coveted Car of the Year Award for their new Escort. But all is not well with Ford in Europe; they are battling to keep their market shares against a very stiff Japanese advance and in certain areas they are losing ground. However, Ford is not the only manufacturer to be shell shocked at the moment. As one observer succinctly put it, diagnoses differ but the fact remains: the patient is sick. Over a pleasant lunch (sans alcohol - a rule laid down by a Lutz predecessor 20 years ago) VISION bowls and Robert A. Lutz bats at Ford's H.Q. in London.

VISION: "Whether you might of might not agree, Japan has brought Ford to its knees. What is your attitude to this trauma and how do you think Ford will cope in the future?"

B.L.: "Let me say, firstly, Ford is not at its knees; a company like Chrysler is, but Ford is not. Ford has been the recipient of some very strong blows and I think we are reeling a little but we are not down on our knees. I think we have got the worst behind even though the Japanese competition shows no sign of abating. If Ford at the moment is having difficulties, it is partly as a result of adverse market conditions due to the U.S. Government sending completely the wrong signals to the market place in the form of excessively low fuel costs and failing to induce the American motorist to buy small cars. So it is only natural that a private enterprise company, faced with the inability to sell small cars but with an excessive demand for large cars, should orient itself to that end of the market; that's just normal behaviour. We got where we did by virtue of the American Government and the 50-cents-a-gallon fuel but also by our own decisions. I would also say that a



certain degree of management change and management turmoil that we've had in the last few years has not helped.

The worldwide recession has got to everybody simultaneously but I think it is fair to say that, on balance, we have been hit harder by the Japanese phenomenon than others. Why? Because the Japanese car appeal is in exactly the area where Ford

used to stake its claim to the marketplace; that is, efficient, no-nonsense, no-frills, high-value-for-money, reliable transportation with good resale value. So, you could say that companies like General Motors, Fiat, Ford and the products of British Leyland which are at the volume end of the market were the most susceptible to damage by the Japanese." >



VISION: "Surely, because of the Ford strengths just mentioned, you should have been better able to counter the Japanese than evidenced in the erosion of your market share in countries like Germany?"

B.L.: "You may have misinterpreted me. We are not prepared in the US with small cars to counter the Japanese, and in Europe the very traditional strength of the Ford products, the Leyland products or the Fiat products (to take the three companies who have suffered most from the Japanese onslaught) was that they had no specific image in the marketplace other than to be maximum value for money cars, good solid reliable transportation. In that, one has to admit, the Japanese do at least as effectively as we do. Therefore, it is only logical we would be hit harder by the Japanese than, say, BMW, Mercedes-Benz, Saab, Volvo, Jaguar or Rover would be. But I think that this is a temporary phenomenon, frankly. I think it will not be very long, as was the case in motor cycles, before the Japanese are in up-market executive cars. I just saw that Toyota are contemplating a sports coupé with a 2.8 litre, six cylinder twin-cam fuel-injected engine with 170 horse-power - you can guess what that's going to do to BMW and others!

We can compete in the future as well as anyone else in Europe in terms of economy of scale and I think the same is true worldwide. Our survival strategy in Europe is to be by far the most efficient producer in Europe because if there is going to be big attrition in the European car market then I want to continually be in the position where we can go into the vacuum created by the failure of companies who have disappeared from the marketplace because of the Japanese onslaught.

How can we tackle the Japanese perse? Can we achieve their costs? Can we compete with them on a cost and price basis? The answer is that unless things change radically we cannot. Nor will we be able to, because the Japanese problem is essentially one of extremely high productivity. That high productivity is brought about partly by structural, social and cultural variables. For instance, the average purchased content of the European car is perhaps 50 per cent; the average purchased content of the Japanese car is about 80 per cent. The Japanese auto company with its so-called life-time employment only has a modest percentage of the total workers engaged in the actual production of the car. Now all these terrific employee benefits like company housing, company stores, life-time employment, everybody wearing the same smock and baseball cap - that does not go all

the way down the pyramid; that is restricted to the so-called big groups or big company groupings with, invariably, a bank at the centre. And so, as you get out to the suppliers, you may still have this to a degree, but when you get to the suppliers of the suppliers you are really dealing with the social conditions, the working environment and hire-and-fire temporary employees coming and going, which would be intolerable in our society. But it gets their costs down.

The average Japanese motor company produces anywhere between 50 and 55 cars per employee per year. The most efficient European producers, namely Renault, Volkswagen and ourselves on the continent,



produce in the order of between 12 and 15 per year. We're about 15 on the continent, VW is about 13 and Renault is about 12. These are 1979 figures. In Britain we're terrible - we're about seven cars per person per year which leads you to justifiably raise the question of what's the future for car manufacture in Britain and the answer at this juncture, I have to tell you, is not very bright.

If, however, you begin to adjust the Japanese car output per employee per year to allow for the fact that they are not as integrated as far back as we are, you probably still wind up with 30 to 40 cars per employee - again far more than us. But then you ask yourself about the fact that they are more automated than we are. Ok. I'll give you, let's say, five to six cars per employee per year for automation; not much more, because if we automate everything that is technologically capable of being automated today we are still not going to get near Japanese productivity levels. People are being misled into believing that the salvation is in automation; this is not so, as there is a limit to automating - you cannot get a machine to get inside a car to put in the headliner, or screw on the steering wheel or inspect the paintwork.

So, even if we automated everything, you are still going to be staring at about 25 to 30 cars per employee per year as still against, say, the 15 for us. But what is the rest of the difference? It is the low absenteeism in Japan which in Europe runs anywhere between 10 and 25 per cent, working hours per week, willingness to work overtime, willingness to work extra shifts, number of working days per year, willingness to sacrifice vacation in order to get the production up - so when you get down to it, the Japanese worker actually participates in trying to make his company successful. He runs on the assembly line. Why does he run? Well, I think it is entirely possible that the Japanese have conceivably found a superior social cultural system to get the people at the bottom of the pyramid to produce at high levels. If this is so, then the automobile industry cannot solve this problem because this is a social cultural difference with the Western world - the Japanese inter-relationships between companies, interlocking directorates between the banks and the companies, the companies and their suppliers and the way they work with Government. Even when the unions have a gripe they say why hurt the company - 'let us strike for a day and show we mean business and the next day we'll put in some extra hours for the losses we made on the strike'. Now, this attitude, or mentality, or consensus of everyone working together for the common good - in essence is the Communist ideal superimposed on private enterprise society and it happens to work. Unless we can fundamentally re-gear Western man with his drive for individuality, desire to be master of his own destiny, not wanting to subordinate himself to an authoritarian structure, be it the Government, company or, in some cases, the union... unless we can modify all that we literally cannot compete with a society that's organised along entirely different lines which obviously from a stand-point of getting output out of people is far more efficient.

So, I am saying it isn't the Western automobile industry that has got a problem; it is the Western way of life that has got a problem vis-a-vis Japan and nobody can point to the auto industry and say, hey you guys, solve it in your sector - it is bigger than that.

Now, here's what we cannot do in the West. We cannot stand around and pay each other for ever-shorter working weeks, pay each other ever-higher prices for goods and services, pay each other more social security, hand out these pay increases despite a declining economy and talk about a shorter week, more and more health and safety legislation, paint the inside of the factory in bright colours, let everybody knock-off for ten minutes an hour and all that jazz... and they were even talking about sabbat ->

Japan 1 empl<sup>ic</sup> 50-55 cars per year 30  
Europe Renault 12-15  
Volkswagen  
Ford Europe  
Ford Britain 7 cars.



icals for workers, for Pete's sake, here. We cannot talk about all that and treat each other luxuriously and then all of us turn around with all this money we are making for less work and buy the products that are built by this highly efficient society. If we want to operate this sort of comfortable close society then we are going to have to buy our own products which reflect the costs of the wages that we are paying each other. But the day we take these salaries and turn around and buy the stuff from that efficient society then we are haemorrhaging and our industrial base is eroded."

**VISION:** "Do you think Western management is blameless in all this?"

**B.L.:** "I would gladly and gleefully accept shortcomings in Western management. We are over-structured, overly bureaucratized and overly analytical. I think Western management is too short-term finance oriented, we have forgotten to some extent what it means to do business by instinct and we've forgotten to some extent what it means to take entrepreneurial risk. I think the Japanese are teaching us once again how simple business actually is: it's identifying a market need, engineering the product, figuring out the cheapest way to produce it and go out and market it without all of the problems, subsystems, controls, checks, balances and so forth which we have become accustomed to having as a normal part of doing business in the Western world."

**VISION:** "Has the consumer not shown the motor industry that cost is not everything when it comes to a purchase decision, reliability is just as important if not more so?"

**B.L.:** "Performance and economy are not the strongest points of Japanese cars in Europe. I think it is quite right when you say that Japanese cars have a reputation for reliability and durability and it's right when you infer that this is more so in the U.K. than in Germany since German cars including Fords have a reputation for durability, quality and reliability. While for German cars the absolute levels of D, Q, R are not quite the same as for Japanese, the absolute difference is fairly narrow so that I doubt that that, as a factor would sway the buyer. By the way, our on-going research indicates that there is very little difference in D, Q, R between various German makes - they're all clustered with the same magnitude with differences of five to ten per cent between makes with the exception of one make which is clearly and consistently better than all the others - I won't name it and it's better



than the Japanese. But what you must consider is that those Japanese cars compete on a specification adjusted basis of 20, 30, or even 40 per cent below an equivalent German-made car. In Holland, Belgium, Norway and elsewhere we're not being underpriced by five or ten per cent; we're being underpriced by 30 and 40 per cent. Now at 30 and 40 per cent price differences the customer has to start asking himself: 'well, despite all my love for Brand X, yeah, I know it probably holds the road a little better and probably has slightly better brakes, maybe a snappier engine, perhaps it uses a ½ litre less fuel but, holy smoke, you know I'm staring at several thousand dollars difference here.' I think if the Japanese priced at the same levels as we do, I think the slight difference in durability, quality and reliability that still remains between, say, a German Ford, VW or Opel and the Japanese car would be more than offset by the other appeals of the German made car."

**VISION:** "If, therefore, you say it all boils down to a matter of price, do you not come into your office every day in fear and trepidation if your competitor who is undercutting you by 30 to 40 per cent is making a nice profit with a very healthy balance sheet chock full of cash and you, especially in America, are dangerously in the red. In other words, who is your biggest problem at the moment: General Motors or Japan?"

**B.L.:** Oh, General Motors you can forget -

in the hierarchy of our worries they are so far down at least in Europe (they loom large in the States). But in Europe I've got to put the Japanese first, Renault second, Volkswagen third and General Motors in fourth place in terms of how worried we are about things."

**VISION:** "But General Motors came out ahead of your Escort with their Kadett by at least eighteen months?"

**B.L.:** "I don't think it really matters when somebody comes out with what because you always expect that people don't always come out with the same products at the same time. Likewise where is GM's answer to the Fiesta? That's going to come out in 1983. The Fiesta together with the Renault 5 is one of the three most successful B class cars on the market - the other is the Fiat/Seat 127. If you look at it in terms of profitability, the Fiesta is probably one of the few highly profitable small cars ever produced in the world."

**VISION:** "In the case of the Escort you must be trimming your price to hold your market share against the Japanese?"

**B.L.:** "Well, no. We are in the market with the Escort definitely overpriced against competition and we have just accepted that as a necessity - we've priced it against the European competition and they are overpriced against similar Japanese competition."

**VISION:** "But you could not afford to put

## BERT A LUTZ

### BORN:

Feb. 12th 1932 in Zurich, Switzerland.

### EDUCATION:

B.Sc. and MBA from University of California at Berkeley.

### CAREER:

1954 - US Marine Corps

1959 - Lecturer at Imede, Lausanne.

1963 - General Motors, New York (Planning Department).

1965 - Adam Opel, Germany.

1966 - General Motors, France (Director of Sales).

1969 - Adam Opel, Germany (Assistant General Sales Manager).

1970 - Member of Board of Management.

1971 - Joined BMW as Vice President-Sales and member of Board of Management.

1976 - Joined Ford of Germany as General Manager.

1976 - Vice-President, Ford Motor Company in U.S.

1977 - President, Ford of Europe.

1979 - Chairman, Ford of Europe.

He is a superb mimic, likes jogging, dislikes team games, and has been seen on continental holiday on his BMW motorbikes with his wife. He has four daughters and is a voracious reader.

the new engine into the 1.1 litre Escort..."

B.L.: "No, that was a capacity problem; in most countries the new engine is also available in 1.1 form. Frankly, the U.K. is a slightly less critical market when it comes to technological innovation and British fleet owners like the mechanicals to be as simple as possible. No, it was definitely not a question of affordability. If you want to look at it that way, the great preponderance of Opel Kadetts are in fact sold with the old cast iron push rod 1.2 litre engine in all markets. At least, we, for capacity reasons, use the 1.1 Valencia engine only in Britain, Italy and one or two other markets but not in France and not in Germany."

VISION: "It appears you are going to have a negative cash flow on a worldwide basis for 1980/81 - surely that puts you in a horrifyingly non-competitive situation for the next year or so?"

B.L.: "No, because in the first place our balance sheet was in pretty good shape before we went into this; we had drastically improved our so-called times interest earned ratio; we had very much improved our debt to equity ratio; we had in fact a triple A credit rating which has gone to double A now. So while we have had to go more heavily into borrowing and probably over the next year or two will have to go more heavily into borrowing still, there is nothing terrifying about the debt and equity ratio we're going to wind up with.

I think all our current forecasts are that a negative cash flow is a one-time

phenomenon - it may be several years before North America returns to profitability. I think we have an excellent chance of a break-even or better in 1982 and as I say this I have to qualify it as being my personal judgment. I haven't seen a pull-through of the worldwide 1981 budget, and if I had I would not be at liberty to talk about it.

VISION: "If that is the case, why the panic in America of Ford cutting back on its investment programme?"

B.L.: "I think that was prudence because in a time of drastically reduced profitability and negative cash flow you obviously don't want to get your borrowings too far out of line - it's a question of balancing the long versus the short term and while you don't want to mortgage the long-term, on the other hand you have got to stay alive in the short term. A pruning of the model line is no harm anyway. There was such a bewildering array of bodies and models and engines that I think the consumer was genuinely getting to the point where he was confused. A model line-up such as that of the Japanese which is easier to understand is probably more effective in the marketplace.

We did defer one European programme and that was a potential all-new assembly plant somewhere between Austria, France, Portugal or Spain. And quite simply that is deferred because right now the last thing in the world we need is to start work on an assembly plant."

VISION: "Why do you find Renault your number two headache?"

B.L.: "Renault is a very determined, very well-managed company. I've never been able to find out whether they get any facilities in obtaining finance. I suppose the nationalised French banking system is never going to worry about lending money to a nationalised automobile producer - they probably get a quadruple A rating! But Renault are not also under pressure to pay a dividend; I don't think they ever have to put money back into the Government coffers. So anything they make in terms of profits they really can totally re-invest in the business, in facilities and new products. I think the management team they have now under B. Vernier-Palliez and Bernard Hanon is excellent - they've got some highly skilled engineers - they used to be very weak in product design but that's getting better. And then let's not forget they are operating in the base of a very strong national market where they have a com-



manding share and, key point, where the Japanese have been politely advised that a share of more than three per cent will not be tolerated, which effectively insulates Renault from profit erosion in their most important market."

VISION: "The Japanese have been extremely successful in gaining market penetration here by good dealer networks. European manufacturers have not tried to set up dealer networks in Japan; why is this?"

B.L.: "The only way you'll get good dealers - remember, dealers are private businessmen - is by showing them a good business proposition. The Japanese carved their dealer network out of the Vauxhall dealer network and the Leyland dealer network on the Continent. So a dealer who has a make that is having problems is very susceptible to a better offer. The reason we don't carve out dealer networks in Japan is because who the hell wants to put in an investment to sell \$20,000 Mustangs or \$12,000 Volkswagen Golfs. In other words: you can't offer the Japanese dealer, who today has Datsun, Toyota and Honda, a business proposition he won't laugh at. Because the Japanese aren't dumping; Japanese cars in Japan are about half the price they are here, give or take a few per cent. So when I hear people say that the EC must insist that the Japanese market be open to European cars I can only laugh."

VISION: "What about Leyland's future prospects?"

B.L.: "Corporate policy says I shouldn't talk about the competition. However, I think Leyland will have a very tough time ever achieving a significant volume or share outside the UK ever again. And that is very definitely one more reason why Leyland to survive needs to capture an even larger share of the British market.

VISION: "But you can't do that on one product, i.e. the Metro."

B.L.: "Well, they're going to get the LC10 and the Bounty and someday they'll have a new large luxury car. So if they hang on for a while they'll get some good products; but the problem is that the rest of the automotive industry isn't going to sit still."

VISION: "On a European scale the car industry would operate more sensibly on a much reduced level with four or five major manufacturers producing at least two million cars each with two or three specialist producers. Do you agree, and >



if so, who will survive?"

B.L.: "I agree by degrees. In the first place size alone is not a guarantee for efficient manufacture because there are a lot of manufacturers who are at two million units plus, who are losing money. I think it all depends on how you are organised for the scale of business you are doing, and I would like to point to Morgan Motors with a production of five or six cars a week and is entirely successful and viable. On the other hand I would point to a company like PSA (Peugeot) which by getting larger has actually got weaker. Or a company like Fiat which is close to the two million mark and very clearly they are having profit problems. I don't agree that there is any magic number. BMW for instance, has ceased to be a specialty producer and is today a mainstream producer of automobiles making 300,000 plus cars per year, and yet they are highly profitable. I know that company very well. They are organised, manned, staffed and systemed in such a way as to be profitable at 300,000 units per year. Porsche is having a little trouble right now because the market for V8 sports cars isn't what it used to be. The Chief Executive recently elected for an early retirement - he felt he'd been there too long and he didn't want another five year contract."

VISION: "Will Porsche be around in 1984?"

B.L.: "It will. In the first place Porsche makes most of its money from engineering and not from producing and selling cars. Secondly, up to now the profits in the engineering side have more than offset the losses in the cars. That may not be true this year; I'm not sure. Thirdly, the Porsche family wants to keep making Porsche cars and the family makes so much money from the distribution of VW and Audi for the whole of Austria that the loss at Porsche cars is only petty cash."

VISION: "What about functional mergers for Ford of Europe?"

B.L.: "You mean exchange of parts - yes, very definitely. We are very close to some fairly big deals. We buy Peugeot diesel engines at the moment and put them into Granadas, and we sell a lot to American Motors. We also sell a lot to Ford US and we are engaged in very advanced negotiations which would very greatly surprise you if you heard the names at the other end. We may be able to announce something in 1981. It would involve the sale of Ford components to other manufacturers with perhaps offsetting purchases of components they make but we do not want to tool up for. This is going to be the pattern of the European industry and this is one way to

get economies of scale without having to grow to the size of units we have just been talking about"

VISION: "Does this mean in the future we shall only be buying skindeep cars?"

B.L.: "I think everybody will always mix and match the stuff differently. For instance take the V6 engine that the Renault 30, the Peugeot and Volvo use - now, you couldn't ask for three more different cars than the Volvo, the 604 and the R30TS. Also in the case of the four-cylinder engine, its north-south rear wheel drive in the Peugeot 505, north-south front wheel drive in the R20 and it's front wheel drive east-west in the Citroen. So I think you can still do a lot of component sharing and still get totally unique cars."

VISION: "The trade unions involved in Ford seem to be getting together internationally to prevent any switching out of high cost to low cost areas. Will this become a greater problem?"

B.L.: "No, because I think this is merely a union reaction to our pressures to try to achieve greater productivity. I think the unions are justifiably concerned that in times of great stress and really too much productive capacity together with a very tight economic situation, because they find their bargaining power decreasing, they therefore try to offset this. I think it is a legitimate goal in their view but I don't think it's going to prevent us from doing what we have to do. Indeed this whole problem is one of the reasons we walked away from the new assembly plant project."

VISION: "Because of the low productivity in the UK, would you ever envisage switching out of there?"

B.L.: "I don't think we would consider switching out of the UK. It would not be desirable from an employment standpoint, or even a market standpoint. But what I would envisage is that over an extended period of time we certainly would not invest in the UK in an assembly capacity, whereas we would invest elsewhere so that as we grow the UK would become percentage-wise a smaller and smaller part of the total."

VISION: "What are Ford of Europe's weaknesses right now?"

B.L.: "A weakness is definitely the UK cost base and the low British productivity. That I consider to be our most serious weakness at this point. And the continued weakness to which we are addressing ourselves, I think, successfully, is our image for lack of technological sophistication

in the German market which has been holding down our German product acceptance. So I think the way our make and our products are received in Germany is a serious problem for us. The reputation of the product is seriously below what it actually has become, but that's a marketing problem - we can handle that. It may take three or four years, but it can be handled. In Britain our problem is that while the acceptance of our products in the market place almost couldn't be better, our ability to produce them is a disaster."

VISION: "If you didn't drive a Ford, what car would you drive?"

B.L.: "That changes from time to time. For the past couple of years we are producing cars that I might buy even if I weren't working for Ford - one of them being the XR3 and the other being the fuel-injected Granada. I actually drive two old MG's, an old Riley and an old Citroen, but if it were to be a modern car I think I would probably either have a BMW 320i or a Volkswagen Golf GTi."

VISION: "Fords profits in Europe in 1980 - how were they?"

B.L.: "Considerably down on 1979 but still the envy of our competitors in Europe." (While Ford never disclose their total profits in Europe, best estimates for 1979 put them in the £1 billion bracket before tax)

VISION: "Bob Lutz - 48 years old - Chairman Ford of Europe - what next?"

B.L.: "I don't know. This is the most-senior job in Europe for the Ford Motor Company and I have no place to go in Europe from here. So perhaps they will decide that I am so ideally suited to run the European business that they will keep me here till retirement."

Not satisfied with that we interjected: "But you're the eighth incumbent in this office in 13 or 14 years!" To which Lutz replies laughing heartily: "They've never had a tri-lingual European who also holds an American passport in the job before. So maybe they've been looking for the right guy all these years and they finally got him. That's a hell of a thing to say, since the current Chairman of Ford, Philip Coldwell once had this job!"

And with that Ford's man in Europe bounded off to the waiting Ford jet to wing his way to Germany with bad news for some of the employees there. For Bob Lutz the 'product' man whose passion is for riding BMW motorbikes and jogging before work in the morning, it's an enormous task to keep Ford from succumbing before the Japanese onslaught. ☉

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SAVING TELEGRAM

*Japan*

BY BAG

FROM TOKYO

TELNO 4 SAVING

DATED 9 MARCH 1981

*ms*

RESTRICTED

Addressed to FCO Telegram No 4 Saving of 9 March 1981

Repeated for information Saving to Osaka, Welsh Office, IBB,  
Department of Industry

VISIT BY THE SECRETARY OF STATE FOR WALES TO JAPAN

1. The Right Hon Nicholas Edwards MP, Secretary of State for Wales, visited Japan from 21 February until 3 March. His main purpose was to encourage Japanese investment in the UK, in particular in Wales. He also took every suitable opportunity to emphasise the British Government's full support for the EC Council of Ministers' statement of 17 February on EC/Japan trade relations and urged Japanese Government and business leaders to take action to respond to the Community's concerns.
2. The Secretary of State's programme which covered both the Tokyo and Osaka metropolitan areas included meetings with seven companies already established in Wales (Sony, Matsushita, Hitachi, Hoya, Aiwa, Takiron and Sekisui). He also called on firms which are potential investors in Britain: Yuasa, Showa Denko, Munekata, Nittan, Toshiba, TDK Electronics, Hitachi Maxell, Akai Denki and Sanyo. He did not call on the Nissan Motor Company although he publicly emphasised the welcome given by the British Government to Nissan's decision, subject to a feasibility study, to establish a substantial car manufacturing facility in Britain. He did, however, meet Mr Okuma, the Executive Vice President of Nissan, at dinner at my house and at a meeting with the Keidanren, the Japanese equivalent of the Confederation of British Industry. He also had a meeting with the Electronics Industries Association of Japan and spoke at luncheons/receptions hosted by the British Chamber of Commerce, the Chartered Bank, Barclays Bank and the Touche Rosse company in Tokyo and by the Kankeiren in association with other Kansai organisations and the British Chamber of Commerce in Osaka. When in Tokyo he called on Mr Tanaka, the Minister for International Trade and Industry, to whom he explained HMG's economic policies. In Osaka he called upon the Governor of Osaka Prefecture.
3. The visit coincided with a decision by the Yuasa Battery company, subject to the satisfactory conclusion of detailed negotiations, to establish a factory at the Rassau industrial estate near Ebbw Vale which will eventually employ 270 workers. No decision was forthcoming during the visit from Munekata/Showa Denko about their projected joint venture to manufacture plastic containers for TV sets in South Wales.

/But

RESTRICTED

RESTRICTED

But the Secretary of State was able to allay anxieties, felt particularly by Munekata which has no previous experience of operating abroad, about establishing a factory in Britain. Following the visit the President of Munekata wrote to the Secretary of State seeking reassurance on some points which continued to bother him. It seems likely that a decision on whether to set up in South Wales will be taken shortly.

4. Most of the companies operating in Wales spoke warmly about their UK operations, but the Presidents of Hitachi and Matsushita spoke frankly about their concerns respectively about UK labour relations and quality of locally supplied components. These concerns were shared by almost all the companies the Secretary of State visited. Labour relations in particular was the theme of an extensive discussion at the Keidanren. Mr Griffiths, Chairman of the Welsh TUC, took a prominent part in this and his quotation from a contract between management and labour in connection with the establishment of a Japanese enterprise in Wales where it was stated that neither management nor unions "will be a party to any external disputes" was effective. Mr Griffiths proved himself a valuable last minute addition to the Secretary of State's party. I hope that other UK Ministers who may visit Japan for inward investment purposes will be accompanied by similarly articulate exponents of moderate British trade unionism.

5. One of the points made by the Governor of Osaka during the Secretary of State's call on him was that Japanese companies would prefer detailed information on exactly where their industrial activity could fit into the UK scene rather than receiving general exhortations to invest in Britain. This point was not made elsewhere during the visit, but there are increasing signs here that our approach to inward investment from Japan needs to be differentiated and sophisticated.

6. Three members of the Development Corporation for Wales led by their Chairman, Sir Idwal Pugh, were in Japan during the visit and participated in some items of the programme.

7. The Secretary of State made a number of effective short presentations and speeches. He took every opportunity to hammer home the welcoming environment in Britain for Japanese investment. I trust he found the visit both useful and informative.

CORTAZZI

FCO/WHITEHALL  
FED

**THIS TELEGRAM  
WAS NOT  
ADVANCED**



Japan

MBM

PRIME MINISTER

72  
26/2

13/2/81

You will remember that I wrote to Nicholas Edwards about the dinner arranged for him with Nissan at the Ambassador's home during his visit to Japan. I took the view that Nicholas had departed from an understanding he had made with Norman Tebbit to avoid any suggestion of pressure upon Nissan to go to any particular part of the country.

2 I regret that I misled myself, from the Ambassador's telegram, into thinking, without checking with Nicholas, that it was Nicholas who had initiated the idea of the dinner. In fact I find that it was the Ambassador.

3 I was wrong, therefore, to suggest that Nicholas had departed from an understanding.

4 I am copying this to Nicholas and to Norman Tebbit.

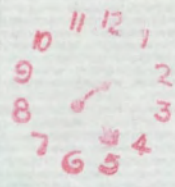
KJ.

K J

24 February 1981

25 FEB 1981

5.



COMMUNICATIONS

NY

① MR ALEXANDER: TO SEE

STODDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Lineil Union)



WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

PERSONAL

~~XXXXXXXXXXXX~~

②

*Handwritten initials*

*Prime Minister*

16 February 1981

*Keith*

To be aware of the Edwards'

sharp reaction to Sir K. Joseph.

*1/12/81*

I was surprised to receive your letter of 13 February about the Nissan project because I have taken scrupulous care to ensure that the British Government's position is absolutely clear; and I have to say that I resent the unfounded suggestion that undertakings to Norman have been broken.

On three public occasions before you wrote, at the DCW Japanese lunch, the DCW dinner and at Welsh Questions I specifically stated in the clearest terms that the decision on location would be Nissan's and that the British Government would not attempt to influence it. My remarks, which went quite as far as anything that Norman has said, were widely reported; indeed I have been criticised in the Welsh Press for my attitude. This morning at a press conference and in subsequent TV and radio interviews I emphasised the Government's attitude in the most emphatic terms and I doubt whether you or Norman would have wished me to say more than I did on those occasions. Furthermore at two meetings with the Japanese Ambassador in recent weeks I have left him in no doubt at all as to my position in this whole business.

I agreed with Norman that a formal visit to Nissan in Japan should be avoided but that it would be absurd, discourteous and politically impossible to avoid seeing the Company's representatives during my Japanese visit, not least because arrangements had been made to see them long before I had any knowledge at all of the Nissan project. I therefore warmly welcomed the suggestion of the Ambassador (and it was his suggestion not mine) that the best way of avoiding embarrassment was for a meeting to take place during a private dinner at the Embassy, though it may well be that Nissan representatives will also be present at one or other of our presentations. That will be for them to decide, not me.

/The Ambassador's

The Rt Hon Sir Keith Joseph BT MP  
Secretary of State for Industry  
Ashdown House  
Victoria Street  
LONDON





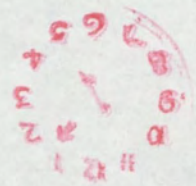
The Ambassador's proposal seemed a sensible way of dealing with the problem and one which would minimise the political difficulties. I think that any change in these arrangements at this stage would be likely to create a very damaging impression with the Japanese and I would have thought that it was more than sensible to leave these arrangements in the hands of the Ambassador who has great experience of Japanese attitudes.

On reflection I am sure you will agree that your suggestion that I cannot be relied on to put the Government's position clearly is unjustified. I very much welcome the idea of further discussions about the co-ordination of inward investment operations, but I must say that on this occasion there has been the closest liaison and co-operation at every stage.

/ I am copying this to the Prime Minister.

J. — av

Neck



17 FEB 1984

FILE

VLB

*Japan*

16 February 1981

The Prime Minister has seen your letter to me of 10 February, about our general policy of encouraging new investment from Japan. She has noted the points made by your Secretary of State.

M A PATTISON

Richard Riley, Esq.,  
Department of Industry.

*Dr*

cc Mr Dwyer

Japan  
TZ 16/2



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

13 February 1981

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
Welsh Office  
Gwydyr House  
Whitehall  
London SW1A 2ER

~~cc Mr Dwyer~~  
cc

~~Mr Alexander~~  
to see

Mr.

Mr Alexander

Mr

Mr ✓

NISSAN

As you know, both Norman Tebbit and I are anxious to maintain a consistent posture towards Nissan and its proposed investment in the UK. I understand that Norman had a word with you recently to explain these fears and you helpfully agreed that, during your visit to Japan, you would not attempt to contact Nissan. You did not, of course, rule out the possibility of meeting representatives of Nissan amongst others at social functions.

2 Tokyo telegram Indus 49 (copy enclosed) suggests, however, that you have specifically asked the Ambassador to arrange for you to have a small, private and informal dinner with Mr Okuma at the Residence. It may be that the Ambassador misunderstood your telephone call but the suggestion that there should be either a small social gathering or a formal call on Nissan does raise the possibility that our clearly established policy and your undertakings to Norman have been broken.

3 The present arrangement exposes us to a double embarrassment. If the dinner is called off - as I would have preferred - we would create the risk of serious misunderstanding with the company. If, on the other hand, the dinner goes ahead we must do everything to avoid giving the company the impression that there is pressure being placed on them to locate the factory in Wales. If you were to give Nissan the impression that we as a Government were pushing them to Wales (as Rootes was pushed to Linwood and Ford to Halewood) the success of our efforts to bring the company to the United Kingdom would be prejudiced. At the very least representatives of other Japanese companies with inward investment potential should be at the dinner.

4 Instances like this strengthen my view that we need to take a much stronger line to improve the co-ordination of the approach

/taken ...

PERSONAL



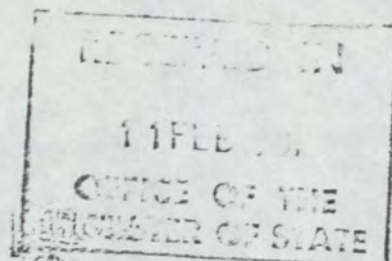
taken by Departments and Ministers to inward investment proposals. There is a danger in speaking with diverse voices and we must avoid promoting the interest of one part of the country at the expense of others.

5 I am copying this letter to the Prime Minister.

*4*  
*W. E. M.*

*Kear*

DWF G133/10  
OO DOI/INDUS



GR 500

RESTRICTED  
FM TOKYO 100900Z FEB

cc.

TO IMMEDIATE DOI/INDUS  
TELNO INDUS 49 OF 10 FEBRUARY

FOR MOUNTFIELD  
X YOUR TELNO INDUS 44: NISSAN

1. I SAW OKUMA THIS AFTERNOON . HE WAS ACCOMPANIED BY KUME, A MANAGING DIRECTOR, AND MIHARA, HIS PRIVATE SECRETARY.
2. OKUMA SAID THAT NISSAN HAD JUST APPOINTED ANOTHER OF THEIR MANAGING DIRECTORS, ISAMU KAWAI, TO TAKE CHARGE OF THE UK FEASIBILITY STUDY. KAWAI AND A SMALL TEAM WOULD VISIT THE UK EARLY IN MARCH.
3. NISSAN HAD ALSO DECIDED TO EMPLOY MCKINSEYS TO HELP WITH RESEARCH FOR THE FEASIBILITY STUDY, BUT THE DIRECTION OF THE FEASIBILITY STUDY WOULD BE IN NISSAN'S AND NOT MCKINSEYS' HANDS. THE SUPPLY AND PRODUCTION SIDE OF THE STUDY COULD ONLY BE DONE BY NISSAN. MCKINSEYS MIGHT BE IN A POSITION TO PROVIDE SOME ASSISTANCE ON THIS ASPECT BUT IT WAS NOT REALLY THEIR JOB. THEIR TASK AT PRESENT WAS TO DO A MARKET RESEARCH SURVEY IN THE UK AND OTHER EC COUNTRIES. MCKINSEYS MIGHT ALSO BE HELPFUL LATER IN ADVISING ON LOCATION. ON ALL ASPECTS NISSAN WOULD <sup>PREFER</sup> PROPOSE THAT THE BRITISH GOVERNMENT'S CONTACTS SHOULD BE PRIMARILY WITH THE NISSAN FEASIBILITY STUDY TEAM OR THROUGH THEM.
3. OKUMA SAID THAT REQUESTS FROM COMPONENT SUPPLIERS SHOULD BE REFERRED TO KAWAI, PREFERABLY AFTER HE HAD GONE TO LONDON.

OKUMA ENTIRELY AGREED THAT EARLY CONTACT WITH TOP TRADE UNION OFFICIALS WAS DESIRABLE. ALTHOUGH HE COULD NOT COMMIT HIMSELF AT THIS STAGE, HE WAS THINKING OF ACCOMPANYING KAWAI AND THE FEASIBILITY TEAM TO LONDON IN EARLY MARCH. THIS WOULD ENABLE HIM TO INTRODUCE KAWAI TO MR TEBBIT AND ALSO TO CALL ON MR MURRAY AND OTHER TRADE UNION LEADERS. I STRONGLY ENCOURAGED HIM TO DO THIS. I ALSO MENTIONED VISIT BY MR MOSS EVANS TO JAPAN IN LATE MARCH AND I SUGGESTED THAT OKUMA MIGHT LIKE TO MEET HIM.

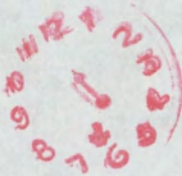
5. I ALSO MADE THE POINTS TO OKUMA ABOUT LOCAL CONTENT IN THE FINAL PARAGRAPH OF YOUR TELEGRAM UNDER REFERENCE. HE MADE NO SUBSTANTIVE COMMENT. REFERRING TO REPORTS OF ADVERSE REACTION IN FRANCE HE SAID THAT WHEN HE MET LORD TRENCHARD IN NOVEMBER HE HAD STATED NISSAN'S UNDERSTANDING THAT THE RESPONSIBILITY OF REBUTTING CRITICISM BY OTHER EC GOVERNMENTS WOULD LIE WITH THE BRITISH GOVERNMENT. HE SEEMED OTHERWISE BROADLY SATISFIED WITH THE PUBLIC RECEPTION GIVEN TO THE PROJECT BOTH IN BRITAIN AND THE COMMUNITY. I MADE THE POINT THAT THE MAINTENANCE OF A WELCOMING CLIMATE FOR THE PROJECT BOTH IN BRITAIN AND THE REST OF THE COMMUNITY COULD NOT BE DIVORCED ENTIRELY FROM THE CONCERN BEING EXPRESSED IN THE COMMUNITY, PARTICULARLY IN BENELUX, ABOUT THE LEVELS OF JAPANESE CAR EXPORTS.

6. I EXPLAINED TO OKUMA THE POLITICAL PRESSURES FROM THE REGIONS ABOUT NISSAN'S CHOICE OF SITE. OKUMA SAID THAT THEY HAD THREE POSSIBLE SITES IN MIND INCLUDING ONE IN WALES. HE CONFIRMED THAT ANOTHER WAS IMMINGHAM, BUT DID NOT SAY WHAT THE THIRD WAS. HE SAID THAT THEY WOULD DELAY A DECISION ON LOCATION UNTIL THE LAST MOMENT. IN THE LIGHT OF A TELEPHONE CONVERSATION WHICH I HAD LAST NIGHT WITH S OF S FOR WALES I ASKED OKUMA IF HE WOULD COME TO A VERY SMALL INFORMAL DINNER WITH MR EDWARDS AT MY HOUSE ON 24 FEB. HE READILY ACCEPTED. MR EDWARDS WILL NOT, THEREFORE, NEED TO CALL ON NISSAN.

CORTAZZI

NNNN

13 FEB 1981







From the Secretary of State

CONFIDENTIAL

John Wiggins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
London, SW1P 3HE

2  
Ami Hiroshi  
Trade are doubtful  
whether we, on our  
own, can take  
tougher action against  
the Japanese.

I just don't think we  
deserve a realistic view.  
Unless we with Community take  
action we shall succeed  
one of our of getting hold  
of the advantages and all  
the disadvantages of liberalisation.

11 February 1981

Dear John

ANGLO-JAPANESE TRADE AGREEMENT

In his letter of 11 December Tim Lankester recorded that my Secretary of State had agreed to look at the possibilities of limiting Japanese import penetration and in particular to examine the option of invoking the Anglo-Japanese Trade Agreement. I am sorry that you have not had a reply sooner, but this subject has been examined extensively in connection with EC/Japan trade relations, about which my Secretary of State has written to the Foreign Secretary today.

The agreement referred to is the Treaty of Commerce, Establishment and Navigation between the United Kingdom and Japan of 1962 (the Anglo-Japanese Trade Treaty). The first protocol to this Treaty permits either contracting party, subject to consultations, to restrict the imports of the other on conditions modelled on those of Article XIX of the GATT - ie in circumstances where increased quantities of imports cause or threaten serious injury. Notice would have to be given to the Japanese that we were concerned about the imports and we would be required to enter into consultations within seven days of our notice in order to seek mutually acceptable solutions. Failing such a solution we could take unilateral action after 30 days following the start of the consultation, in which case the Japanese would be free to retaliate.

Should  
not be  
difficult

There are three principal obstacles to this route. First, although the Treaty predates Accession we are not confident that the United Kingdom has power to invoke its provisions independently, and we believe that the Commission would have (and certainly would claim) the right to take part in any consultations with the Japanese which we instigated. This would effectively mean that we should have to convince the Community in advance of the justice of our case. On the other hand, the existence of the Treaty entitles us to expect a favourable reaction from them when protection is needed. We may not of course share the same view of what constitutes the need for protection. The only precedent is special steels, where Japanese penetration grew from virtually nothing to over 5% over 5 years and the Commission agreed to negotiate for us a VRA which gave the Japanese a volume representing just over 3% of the 1978 market.

CONFIDENTIAL



*From the Secretary of State*

CONFIDENTIAL

Secondly, it is essential to bear in mind that about a third of Japanese imports - including the most sensitive - are covered by voluntary restraint arrangements. Having the Treaty in the background has, we believe, enabled us to get undertakings at the industry level which would otherwise not have been available, and so far it has been possible to avoid rigid Community scrutiny of these arrangements. If we were to invoke formally the Treaty to deal with any specific sectors of imports, we should assume that, by placing our relations with Japan on a different basis, we would be liable immediately to lose the benefit of these existing voluntary restraints, covering cars, consumer electronics, special steels and pottery. And the Community could not be expected to rescue us in these other areas without our going through all the procedures to show that imports had increased to such an extent that serious injury had resulted.

Thirdly, our exports to Japan which amounted to nearly £600m in 1980 would be put at risk. High quality wool cloths (Japan is our best market) and Scotch whisky (Japan is our second best market) would be obvious targets for retaliation.

These three obstacles pose the question whether the Treaty has any formal value. It is our view that its existence adds weight to our discussions - and those of our industries - with the Japanese. Whatever our doubts about the ease with which it could be invoked, the Japanese do seem to regard it with respect. But we do not see advantage in recourse to its provisions at this stage.

The French have two weapons in their armoury. First, they have 27 formal quotas on a number of products, (including certain consumer electronics products) which predate the Treaty of Rome; quotas actually in existence are obviously much more remote from Community review than any new initiative, though the changing pattern of imports over the years has eroded the significance of these quotas. Secondly, the French language must inhibit trade links; since English tends to be the second language of the Japanese, the United States and the United Kingdom are obvious targets for Japanese exports. Furthermore the French consumer has a greater propensity to buy national products than the British consumer (for example, in the case of cars) and dealers in French goods are permitted to deal roughly with the importing community. The stories of French car distributors who find that a proposed transfer of dealership in Japanese cars threatens their membership of the local Rotary Club are probably founded on fact! There is no obvious way that we can easily introduce such similar invisible barriers to Japanese imports.

CONFIDENTIAL



*From the Secretary of State*

CONFIDENTIAL

Of course, given Japan's lack of natural resources it is inevitable that she will seek to run a surplus on her manufactured trade, and the restriction of imports of Japanese goods to the Community could have the effect of diverting them to third markets where they may well be in competition with us. We ought therefore to take advantage of any opportunity we get to persuade the French and Italians to drop their own quotas and take a fair share of Japanese imports. But the prospects for this are decidedly slim.

I am sending copies of this letter to Tim Lankester (Number 10), George Walden (Foreign and Commonwealth Office), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

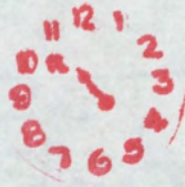
*Yours sincerely,*

*S. Hampson*

S HAMPSON  
Private Secretary

CONFIDENTIAL

192 FEB 1981





*copied to  
N. Edwards Muri Ab.*

**DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB**

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

(10 February 1981

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Prime Minister*

*Do you want to react?*

*No. not.*

*MAP  
12/2*

*Dear Mike*

*See*

*S/S Wales*

*Muri-Ab.*

In the recent correspondence concerning the Secretary of State for Wales' visit to Japan next month, my Secretary of State has noticed references to the sensitivity of inward investment from Japan. He fully recognises this. At the same time, he points out that when British firms object to particular proposals on the ground that they are themselves already supplying that market satisfactorily, they are looking at the position from their own point of view; other interested parties may not entirely agree with them.

2 Ten years ago there were virtually no Japanese owned manufacturing enterprises in Britain; now there are two dozen of them (in addition, of course, to the larger number of Japanese banks, trading companies and sales and service operations established here). This compares with around 1,000 US-owned and nearly 300 German owned manufacturing enterprises in Britain. We have identified Japan, along with the United States, West Germany and Switzerland, as a high priority country for the promotion of Britain as a location for direct industrial investment. In view of Japan's increasing internationalism and the large potential benefits to the British economy from closer links with Japanese industry and technology (including inward investment but also other forms of collaboration), this is surely right.

3 On the question of how our inward investment effort in Japan should best be conducted, and the role of Ministers in it, there may be room for further discussion. It may be that a more selective approach by sectors of industry is needed. But in the last analysis investment decisions are taken by companies for their own commercial reasons, and this is something we should encourage when Japanese companies are considering investment in Britain. My Secretary of State hopes therefore that the references in your two letters to John Craig to the interests of established manufacturers are not to be taken as casting doubt on our general policy of encouraging inward investment from Japan.

4 I am copying this letter to the recipients of yours.

*Yours ever Richard Brit*



*Japan*

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

3 February 1981

George Walden Esq  
Private Secretary to the  
Foreign and Commonwealth Secretary  
Foreign & Commonwealth Office  
Downing Street  
London SW1

*Dear George,*

NISSAN

Now that a public announcement has been made about Nissan's intentions to invest in the UK, all papers classified "Secret" can be downgraded as appropriate. I should be grateful if you would inform the Tokyo Embassy.

2 I am sending copies of this letter to Nick Sanders (10 Downing Street), John Wiggins (HM Treasury), Robin Birch (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

*Yours sincerely,  
Iain*

IAIN P MORRIS  
Private Secretary



2 February 1981

The Prime Minister has asked me to thank you for your telegram, and has noted your comments about the possible location of the proposed Nissan plant in Northern Ireland.

TPL

J.A. Phillips, Esq.



4  
Superior

mf

27502 CABOFF GT  
747657 LAUREL G

THE RIGHT HONOURABLE MRS M THATCHER - PRIME MINISTER

I WAS DELIGHTED TO HEAR ANNOUNCED ON THURSDAY'S EVENING NEWS OF THE POSSIBILITY OF DATSUN CARS BEING MADE IN GREAT BRITAIN BY THE NISSAN MOTOR COMPANY.

WE, AS DATSUN DISTRIBUTORS FOR THE NORTH OF IRELAND, REQUEST THE FEASIBILITY PROBE TO BE EXTENDED TO NORTHERN IRELAND. THE UNEMPLOYMENT HERE IS ONE OF THE HIGHEST OF ANY E.E.C. COUNTRY AND THE QUALITY OF UNEMPLOYED INCLUDE VERY HIGH ENGINEERING SKILLS. THESE SKILLS, COUPLED WITH THE EQUIPMENT AND FACTORIES READILY AVAILABLE, COULD QUICKLY BE ADAPTED TO PRODUCE COMPONENTS FOR THIS OPERATION.

I TRUST THAT NORTHERN IRELAND WILL BE GIVEN SERIOUS CONSIDERATION IN ANY NEGOTIATION

SIGNED

J A PHILLIPS  
CHAIRMAN  
PHILLIPS (DATSUN DISTRIBUTION) LIMITED  
226 YORK STREET  
BELFAST  
BT15 1HD

747657 LAUREL GM

See page 5.

Nissan

PA (Nissan)

TRANSCRIPT OF PRESS CONFERENCE HELD ON THURSDAY, 29 January 1981  
by Mr Norman Tebbit, MP, Minister of State for Industry and  
Mr Masataka Okuma, Executive Vice-President of Nissan Motor Company Ltd  
at the Department Of Industry, 123 Victoria Street, London SW 1

Mr Tebbit:

Gentlemen

Mr Okuma on my left here has been the guiding spirit, I think behind this project, alongside and from our side, Lord Trenchard, who as you know is now at the Ministry of Defence but was involved in this project for long before I came into this Department. You will have seen the statement which I made in the House. It is, I think, at this stage very hopeful and is the culmination of a great deal of the work which is done all the time to encourage investment into Britain and I had it very much in my mind as I was speaking at a seminar in Switzerland yesterday about inward investment to Britain that today I would be making this statement in the House of Commons. I don't think you want me to go through the statement again and I would be very happy and I know Mr Okuma, Mr Kume and Mr Mihara would be very happy to answer your questions as well.

Q.

like it to go Mr Tibbett?

We would like it to go to an assisted area.

Q ...

And that's for the company to decide. I don't want to impose conditions on the company which would damage the chances of this project going through and being profitable. So far as the amounts of money are concerned, the grants which will be payable the assistance is exactly the same as would be offered to any other company British or foreign doing the same thing.

Q. ...

I think I would like to stick very precisely by saying it will be treated like any other company British or foreign, because for example, there are things like training assistance which could come if it went to some parts of the country things of that sort so I wouldn't want to mislead you.

Q. ...

Mr Tibbett replied:

Mr Okuma hasn't yet decided how much it will cost him to build the factory and put the machinery in so we can't make an estimate.

Q.

Mr Okuma replied

At the present time our estimate is £200m or more for equipment and plant excluding working *capital*.

Q

Mr Okuma replied

That is impossible to say at the present time because it depends on in what area we are going to build plant and the degree of grant is different in case of so-called special development area and development area.

Q.

Mr Okuma replied

We have searched three areas but we have not yet decided.

Q.

Mr Okuma replied *or*

Ah yes, a special/ordinary development area

Q.

Mr Tibbett replied

Could I ask gentlemen that you not all ask questions together and ask them rather clearly, because Mr Okuma and his colleagues speak much better English than I do Japanese, but sometime some of you from special development areas may have accents that he is not totally familiar with. ...

Q.

Mr Tibbett replied

No. The enterprise zones are not sufficiently large to accommodate the sort of factory which Nissan have in view.

Q.

Mr Okuma replied

Well I have the same experience in case of the United States and we are now going to build something of a plant in the State of Tennessee

Q.

Mr Okuma replied

The question as to the location came up in the United States because of the now commercial considerations if I visit a certain area naturally the price of the land is to rise and so and so. So I cant say at the present time.

Q.

Mr Tebbit replied

I think you got it fairly clearly that Mr Okuma and I are being very quiet about that matter

Q.

Mr Tebbit

Well the first thing I hope that going to happen is that we shall import less than 860,000 motor cars which is what we imported last year and that would be beneficial to the British economy as a whole and I think that it could have very beneficial effects on the motor industry because I am sure that everyone would learn from what Nissan do in Britain how to improve their own performance not least the manufacturers of components who I think will gain immensely from the experience of tendering to Nissan in the same way that perhaps many companies in another field have gained from doing business with Marks & Spencers. The purchaser can help the industry from whom he buys enormously.

Q

Mr Tebbit

If I may say so, that is a question you should ask the European industry.

(Question was whether Government had studied impact on European industry)

4.  
Q.

Mr Tebbit

Well we hope that it will mean that instead of us having quite so many ~~more~~<sup>fair</sup> examples Volkswagen cars built in Germany by Turkish labour come to Britain but we will have rather more Nissan cars built by British labour going to Germany and that would seem very fair in a competitive world and I know our German friends are very keen on good fair free competition.

Q.

Mr Okuma

Well, we are going to build a manufacturing plant in Britain and this is also local ~~plant~~<sup>content</sup> level is substantial around 60% eventually rating 80% when perfected. This is the British company which manufactures motor cars here in the United Kingdom, so as any other company which manufactures motor cars in Great Britain this company also naturally should export its products to EC countries and other areas.

Q.

Mr Okuma

We have no intention to attack *European* area more strongly Just as I said earlier We will want to build a manufacturing plant in Britain and manufactured goods will be sold in Great Britain as well as to overseas markets.

Q.

(Question is about impact on inter-industry restraint talks).

Mr Okuma

I think that it is nothing to do with export from Japan, because now this is a British company which manufactures motor cars in Britain so as the other car manufacturers in Britain do this company can do I think so.

Q.

Mr Okuma

Well I do know our name the name of Datsun is very well received and I believe respected our products are well received, and our customers appreciate us. And also we have very good dealer network throught the United States, United Kingdom and we have well qualified labour force to my judgement. We have here in the United Kingdom good components

Nissan.

industry and besides Japan and the United Kingdom have excellent historical relationships and also we have many cases of success of other Japanese companies who have their factories in United Kingdom. This fact suggest to us that the United Kingdom is the right place to invest and also I have confidence in the long term economic strength of the United Kingdom and also I would like to emphasize that we have been mostly welcome by the British public; and it is right to say that we should go to a place where we are welcome.

Q.

Mr Okuma

In eventual/final stage that is to say 200,000 units a year reaching 80% *local* content level, from 4000 to 5000 employees will be employed and of course besides these in-direct employment will be increased by automotive components industry and etc.

Q.

Mr Okuma

Since many *of years* Nissan has been considering to have our manufacturing facilities in some place in the European area however it was since the middle of last year Nissan began serious study or consideration as to planning to invest in the United Kingdom. We have some investment in Italy with Alfa Romeo, limited investment in Italy with Alfa and also limited commercial vehicle arrangement in Spain with Motor *Iberia* but this is limited investment therefore investments in the United Kingdom is the major investment in the European area.

Q.

Mr Tebbit

This is a matter for Britain to encourage inward investment and I believe that every country in Europe does the same.

Q.

Mr Okuma

For the reasons which I mention a little time ago we choose the United Kingdom would be the best place to invest, of course we have compared various things and matters with other countries but our conclusion was the United Kingdom is the best place to go.

Q.

(Question about grants available) and whether HMG had sought agreement of EC Commission before welcoming Nissan

Mr Tebbit

We haven't discussed as has been explained the project in detail but Mr Okuma knows very clearly what is available through our regional policy and our policies for the assistance of industry and he knows that those aids are agreed and approved by the European Commission.

Q.

(Question: does figure of £200m or more include engine plant - is it a total figure?)

Mr Okuma

The total amount.

Q.

(Relative to comparison with assistance given to Ford engine plant)

Mr Tebbit

Sir Harold Wilson is no longer Prime Minister

Q. Could we have some guidance on how much it will cost the British Taxpayer?

Mr Tebbit

No not at this stage. No its simply not possible the scale of grant is different in a SDA to an assisted area so really until we know precisely where the plant goes and the balance of the investment between buildings and equipment and things of that sort it is simply not possible to say.

Q.

Sorry I meant Mr Callaghan.



Q.

Mr Tebbit

No I can't say because the whole essence of selective aid is that it is decided on the precise basis of the project when the project comes forward so I cannot say in advance and give the answers to what are at the present moment hypothetical questions.

Mr Okuma

I appreciate very much the grant system of the British Government but I can safely say that grant is not the major reason for us to choose the United Kingdom.

Q.

Mr Okuma

Well things that I have mentioned before.

Q.

Mr Okuma

Now it has nothing to do with however I can say that this company will be a British company therefore its problems can be solved in the United Kingdom Ec other countries. Nothing to do with the any form of restraint arrangements towards direct imports.

Q.

*(About impact on voluntary restraint arrangements)*

Mr Tebbit

I think that I can't say, these are arrangements between the two industries and no doubt they will go on what we are looking at is a plant which if all is successful and lets make that plain all the time that the commitment is to a feasibility study of this stage, if all is successful it will come into production towards the end of 1984. Well who knows what arrangements there will be then.

Q. (Has Nissan considered collaboration with other manufacturers who may have excess capacity in the UK?)

Mr Tebbit

I think because Nissan is coming to build an extremely modern fully up to date plant to produce their motor cars and what ever is that the other plants and the other companies must make their own arrangements. There are 800 or there were 860,000 imported motor cars sold in Britain last year its up to Vauxhall, Leyland, Fords Talbot to get into that market.

Q. (About development of UK design facilities)

Mr Okuma

In the first stage of course models which will be produced in the United Kingdom are the models which Nissan Motor Company back in Japan have developed. However we have the idea I dont know how many years it takes but eventually we want to develop what shall I say the capabilities to design its own motor car here in the United Kingdom, but this sort of thing can only be done after you know this company's manufacturing operations, ~~It will~~<sup>is</sup>, you know, on stream.

Q.

Mr Okuma

No No No.

Q.

Mr Okuma

Engines and transmissions will be within the company manufactured and probably body panels will be also within the company.

Q.

Mr Okuma

Well not answering to that question but rather I will refer to what kind of components or parts will be locally manufactured or procured. Standard parts and semi-standard parts, large trim parts will be locally produced and of course an assembly of engines transmission axel and steering will be done within the comapny with some parts purchased inthe United Kingdom or EEC.

And as to body welding, painting and assembly operations will be done within the company. This is the first stage that is to say 60% and when we reaches 80% additionally body panel will be within the company and also machinery of engine parts such as block, heads and so on will be done within the company.

Q.

Mr Okuma

We had the intention to build our own manufacturing plant in the United Kingdom however we could not know whether the British Government welcomed us and support us therefore we approached the British Government to seek the British Governments whether their response on our intentions and very fortunately we could find out that the British Government welcomed Nissan and supported us strongly. Therefore we decided to launch a feasibility study. Until now we have not approached any local person, or any local companies except the Government. This is a true fact so far. Therefore our final decision will be made after the feasibility study is completed and the outcome of the feasibility study is to be found out satisfactory.

Q. *(Any other talks with Japanese manufacturers?)*

Mr Tebbit

Again we dont deal with hypothetical questions. I think rather the question would be now whether seeing the intention of Nissan provided all goes well to build a plant in Britain other manufacturers would take the view that they wanted to enter into this market here in competition with Nissan as well as Leyland and our other manufacturers. Now I dont know what their commercial judgement would be and before I could say what our response would be I want to see who came forward with what sort of ideas. Again it is a very hypothetical question.

Q.

Mr Tebbit

Again one of the requirements for any operation of this sort is confidentiality and I am very happy to say that it was only the day before delivery that the 9 month pregnancy which had been involved in this project was discovered and if I were to be engaged in any talks with any other companies the last thing I would do would be to make a statement about them in a Press Conference here today.

Q.

Mr Tebbit

I don't think that follows at all. I think you are assuming that we are not going to be able to buy into that 860,000 motor cars that were imported into Britain last year. Why are you all so negative. It really is quite extraordinary.

Q.

Mr Tebbit

No. Nonsense. Absolutely untrue. If Nissan could only bite into its own market it would never have established a market here in the first place.

Q.

Mr Tebbit

What I would say is that every country in the Common Market is looking for inward investment in manufacturing industry we are and I hope we shall secure it and as I say that these motor cars will be built by EEC citizens and not by non-EEC immigrant labour.

Q.

Mr Tebbit

I have the same degree of confidence as Nissan. That is to say that I know that Nissan want to do it I also know that the feasibility study is to be conducted and I specifically

referred in my statement in the House today to two key areas (which would have) on which the company would have to be satisfied. The ability of the local component manufacturers to respond to Nissan's requirements and the company's convictions about the stability of good industrial relations and clearly that would be a matter for the company to decide when it talks to some of those involved.

Q. 7

Mr Okuma

No No NO I haven't meet any problem on this particular subject, if you have a million pounds that is good enough.

Q.

Mr Okuma

Including everything, but you know inflation is going up and nobody knows how much it will proceed. So taking the safer side like I said £200,000 000 or more.

Q.

Mr Tebbit

Well we would like to see as many exported as possible and thats going to be a challenge to all of us sofar as the advantage on balance of payments goes that depends how successful we are in exporting and how successful the British component industry is in supplying and indeed how successful for example British Steel is in supplying, because as you all know that today British Steel supply a great deal of steel to Leyland but I think not nearly so much to Ford. So, you know we have just got to be sufficiently competitive to meet the requirements of Nissan to manufacture in this country, our industry has got to be that competitive and if we cant do that here we are going to import ready made motor cars inevitably.

Q.

Mr Okuma

Nothing is ruled out but at the present time we are thinking what shall I say, greenfields site operation.

Q.

*( : Talks with Talbot)*

Mr Okuma

No discussion, no negotiations has been carried on regarding what is the name? - Linwood, no no nothing. Just false information appearing in the newspaper.

Q.

Mr Tebbit

We support all inward investment unless we can see that it would be damaging to the British economy. Of course we were aware that if we rebuffed Nissan and said we didn't want them to come here that they would naturally go to some other country in Europe. Of course that is a common experience isn't it? I must close this before too long.

Q. Do you have any plans to raise the money in Britain or would the money you would find come from Japan?

Mr Okuma

This investment is the largest investment of Nissan outside Japan and I think this investment is the largest investment of a Japanese manufacturing company in Europe, therefore very detailed study is needed and of course as we discussed some time ago grant is available and this would assist our finance.

Q.

Mr Okuma

That kind of thing is also dependent on the detailed study in the future.

Q. How large an area

Mr Okuma

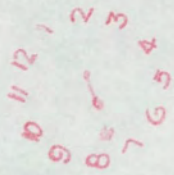
We are now considering 800 acres of single units of 800 acres

Mr Tebbit

Thank you very much gentlemen, ladies and gentlemen I very much hope somewhere towards the end of 1984 Mr Okuma may feel able to invite you to the factory to see the first cars coming off.

Thank you very much.

FEB 5 1981





~~SECRET~~

VLB



FILE Japan

26 cc FCO  
HMT  
CDL  
D/M  
D/T  
CO CPRS

10 DOWNING STREET

From the Private Secretary

28 January 1981

RC Ingham  
Hoskyns  
Watson

The Prime Minister has seen your letter of 27 January about Nissan and is content with the draft statement enclosed with it.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Robin Birch (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), David Wright (Cabinet Office) and Robin Ibbs (Central Policy Review Staff).

T. P. LANKESTER

Peter Mason, Esq.,  
Department of Industry.

~~SECRET~~

see lnd to hro  
3/2/81

HC

SECRET

25



SECRET

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State  
PS/Norman Tebbit

*cc Mr Lyden  
Mr Hodgson  
Mr Wolfson*

*Prime Minister*

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Yes Mr.*

*Content?*

*27* January 1981 *27/1*

*Dear Tim*

NISSAN

I attach a draft statement which my Minister (since our Secretary of State may not have returned to the office by then) intends to make to the House of Commons on Thursday 29 January.

The terms of the statement were agreed this afternoon at a lengthy meeting with Nissan chaired by my Minister. It was the result of detailed negotiation and in Mr Tebbit's view represents the most positive statement of their position to which Nissan was prepared to agree and the least fulsome endorsement by HMG. It is thus not really open to amendment unless of course the Prime Minister is in strong disagreement with its terms.

Officials here will be having further talks with Nissan over the next 24 hours to ensure that back-up questions from the press are answered with a common voice. I should be grateful if you would seek the Prime Minister's approval of the statement.

I am copying this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Robin Birch (CDL), Richard Dykes (Employment), Stuart Hampson, (Trade,) David Wright (Cabinet Office) and Robin Ibbs (CPRS).

*Yours ever  
Peter Mason*

PETER MASON  
Private Secretary

**SECRET**

With permission, Mr Speaker, I would like to make a statement about the motor industry

The Nissan Motor Company has approached Her Majesty's Government to seek their views upon the company's intention, subject to a feasibility study, to establish a substantial car manufacturing operation in the United Kingdom. The Government have given a warm welcome to Nissan's proposal and are prepared in principle to give them their approval and support.

Nissan's proposals are to start building a car manufacturing plant, including an engine manufacturing facility, in a Development Area or Special Development Area in 1982 and to begin production at the end of 1984, reaching the full figure of 200,000 cars a year by 1986.

It is Nissan's intention to achieve a very high local content involving UK and other EEC suppliers; the local content at the start of production would be 60% and the company's objective would be to increase this to 80% as soon as practicable after full production is reached. The company is confident of achieving a high level of exports from the UK.

The feasibility study is expected to last 4 months and to cover a range of matters including location. Two matters

SECRET

SECRET



of special importance in Nissan's decision will be the competitiveness of local component manufacturers and the prospects of establishing a good structure for industrial relations.

The Government wish the company well, and hope the study will reach a satisfactory outcome.

SECRET



*Japan*

*24*

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213.....6400 .....  
Switchboard 01-213 3000

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

*Alamy's R*  
*Ant* *207*

19 January 1981

*Keith Joseph*

QUICKSILVER

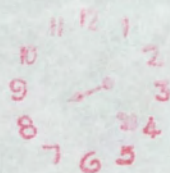
Thank you for your letter of 16 January.

Announcement of this investment may very well trigger some unhelpful reactions and we shall need to see that leading trade unionists concerned are prepared for it and try to get them to receive it constructively. I think that the three names you mention are the most important in this context but I should like Len Murray's advice on this as well as on the handling of the presentation in relation to union susceptibilities. I have made arrangements to see him tomorrow together with Norman Tebbit. I shall of course put it to Murray in strictest confidence which I am sure he will honour. We can go on from there to fix the further meeting for 28 January - subject only to what happens with the company the day before.

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

*Yours*  
*Keith*

20 JAN 1981







DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

16 January 1981

The Rt Hon James Prior MP  
Secretary of State for Employment  
Caxton House  
Tothill Street  
London SW1

*Jim*  
QUICKSILVER (i.e. NISSAN) *IL*

You will recall the oral report I gave to E Committee on 18 December about a major inward investment in the car industry. To preserve security we have adopted the code-name "Quicksilver" to describe this project.

2 Subject to a satisfactory outcome to further talks with the company provisionally planned for 27 January, the most likely day for announcement is 29 January, when I would propose to make a statement in the House of Commons. I am naturally giving much thought to handling the presentation of this; it is essential to avoid ill-considered reactions from prominent people which might well influence disproportionately the climate in which the announcement is received. By careful and selective briefing in advance I am sure such reactions can be minimised, if not avoided altogether.

3 Top of the list is the need to ensure that the Trades Unions are properly forewarned and adequately briefed, and it is on this particular aspect that I write to seek your advice and assistance. To my mind the three obvious candidates for such briefing are Mr Murray, Mr Evans and Mr Duffy, though you may well think there are others who might be included.

4 There are two principal constraints. Firstly, security: knowledge of this project has been severely restricted because of the fear that a leak might generate the very kind of criticism we are seeking to avoid, and thus even force the company to back out. Secondly, we cannot be sure that the way is clear until the further talks with the company on 27 January, when we hope to tighten up their assurances on local content and export intentions, the matters on which we can expect the strongest pressure from interested parties in the UK. I do not think general briefing for Mr Evans and Mr Duffy in advance of these talks would be fruitful even if it were not ruled out on security





grounds. However, it might well be sensible to give Mr Murray earlier warning (perhaps on a Privy Counsellor basis) and ask him to arrange a meeting with the others on, say, 28 January. In any case I would think it best for you to take the lead in any such conversations with trade unionists; the Department of Industry would of course provide an appropriate speaking note, and perhaps it would be best for Norman Tebbit and a senior official concerned with the project to be present also.

5 I understand that Mr Derx in your Department has already been consulted on this and feels that approaches to the Unions along these lines would be helpful and constructive. There is no doubt that this announcement is going to be controversial, both domestically and internationally and it is essential that it should be presented in its proper light from the outset.

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

*Lawson*

*Kear*



DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

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12

PS/ *Secretary of State for Industry*

16 January 1981

Tim Lankester Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London SW1

*cc Mr Lykan*

*Dear Tim*

*R  
 WJ*

NISSAN

The company has now been informed of the Government's decision as proposed in my Secretary of State's minute of 22 December to the Prime Minister. This is just to let you know that if all goes well the probable date for a public announcement will be Thursday 29 January. My Secretary of State would propose to make a Parliamentary Statement on that day. I will let you know when arrangements have been firmed up.

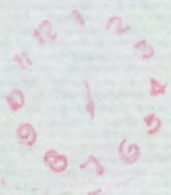
I am copying this letter to John Wiggins (HM Treasury), George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

*Yours ever*  
*Catherine*  
 CATHERINE BELL  
 Private Secretary

DEPARTMENT OF INDUSTRY  
ARROW HOUSE  
111 VICTORIA STREET  
LONDON E1W 8BB  
MIDDLESEX DISTRICT W 11  
BUTCHERS OF THE



1861 JAN 96



COMMISSION

MR GAFFIN

Mr. [unclear]

Albanese

(CF)

You and Bernard will not be aware of the enclosed papers. In view of the sensitivity of all this, please could you return when you have read them.

Japa

R

30 December, 1980

SECRET

File

21

CH



cc: Mr Hoskyns

10 DOWNING STREET

*From the Private Secretary*

30 December, 1980

NISSAN

The Prime Minister has read your Secretary of State's minute of 22 December and, subject to other colleagues' views, she agrees with his proposals for letting Nissan know of the Government's decision on their investment plan in Britain.

In view of the continued sensitivity of the company's proposal, the Prime Minister trusts that absolute confidentiality will be maintained until the announcement which is planned for some time towards the end of January.

I am sending copies of this letter to John Wiggins (HM Treasury), George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

J. P. LANKESTER

I Ellison, Esq  
Department of Industry

SECRET

SECRET

PRIME MINISTER

NISSAN

Following the meeting of Ministers under your Chairmanship on 11 December, E Committee formally approved on 17 December the proposals on Nissan in my minute to you of 9 December.

2. The way is now therefore clear to tell Nissan that the Government welcomes and supports in principle their intention to invest in the United Kingdom.

3. It was agreed at your meeting on 11 December that careful attention would have to be given to handling, and that the decision should be announced as soon as possible, but not before the announcement of the Government's decision on BL's 1981 Corporate Plan.

4. We have a commitment to inform Nissan in early January of the Government's decision on their proposal. The longer the interval between Nissan's receipt of the information and an announcement, the greater the risk of a leak. Nissan's offices are shut for the Japanese New Year holiday from 28 December until 4 January inclusive, so the earliest date on which they could receive a letter is 5 January.

SECRET

/5. ...

*I think the need for  
confidentiality will be  
emphasised in it.*

*cc. A. Duquid.*

*Prime Minister*

*Again, subject to  
Mr. James' views? -*

*general approach seems*

*sensible.*

*DL*

*22/12*



5. I propose, therefore, that we should communicate the Government's welcome to Nissan via the Ambassador in Tokyo on 5 January. It is proposed that at the same time Tom Trenchard should invite Mr Okuma back to this country for final discussions in the third or fourth week of January, leading to an announcement, probably by a statement in the House, before the end of January. This assumes that Ministers will reach final decisions on BL's Corporate Plan, and that I shall announce them to the House, in the week beginning 11 January or the one beginning on 18 January.

6. I think that we should press for Mr Okuma to stay in London for the announcement in order to handle press enquiries made about Nissan's point of view and so that we can ensure coordination between the Government's and the company's comments. The date of 5 January for informing the company is proposed as being the latest which would enable arrangements to be made for Mr Okuma to come to London in the third week of January, if appropriate, while minimising the risk of a leak.

7. If you and other colleagues are content with these proposals, officials will need to agree the terms of the Government's welcome during the early part of the week beginning on 28 December, with a view to conveying them in a telegram for our Ambassador in Tokyo to transmit on 5 January.

SECRET



3.

8. I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Trade, Robin Ibbs and Sir Robert Armstrong.

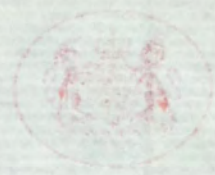
KJ.

K J

22 December 1980

Department of Industry  
Ashdown House,  
123 Victoria Street  
LONDON  
SW1E 6RB





22 DEC 1980



20

01-493 6030.

EMBASSY OF JAPAN,  
46, GROSVENOR ST.,  
LONDON,  
W1X 0BA

*Ly. Am*

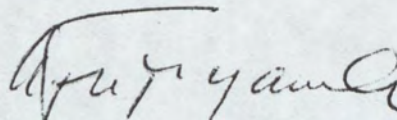
December 1980

Dear Sir,

Following the good response to the report on Japan/EEC relations I would like to draw your attention to a document which outlines the relationship between our two countries.

I hope that you will find this background material useful and should you require further explanation, please do not hesitate to contact Mr. Y. Hatano, Director of the Japan Information Centre.

Yours sincerely,



Naraichi Fujiyama  
Ambassador

## UK-JAPAN RELATIONS

### Overall View

In recent years interdependence between nations has grown. The recognition of the need for industrial democracies to co-operate in dealing with the problems of world politics and economy has deepened. Against this background the United Kingdom and Japan have been endeavouring to reinforce further their friendly and co-operative relations over a wide range of diversified areas.

A closer relationship, of course, presupposes the furtherance of mutual understanding between the two nations through personal contact. The visit of Queen Elizabeth II and the Duke of Edinburgh to Japan in May 1975, and the visit of the Emperor and Empress of Japan to the United Kingdom in October 1971, reminded the two nations of the long tradition that they both share. British Prime Minister Margaret Thatcher's visit to Tokyo in June 1979 and Japanese Prime Minister Takeo Fukuda's visit to London in May 1977, both attending the seven-nation economic summits, as well as the many visits by Cabinet Ministers, Parliamentarians, business leaders and trade missions testify to the growing depth of UK-Japan political and economic relations. (The latest figure for annual visits two-way is reaching 300,000 annually.)

Japan, an industrial democracy, realises its responsibility to work for the preservation of peace in the international community and the improvement of the welfare of mankind. - It is hoped that the two countries will intensify their co-operation in striving to achieve this target. Japanese Foreign Minister Masayoshi Ito's visit to the United Kingdom in early December was a sign of this increased co-operation.

### Economic Relations

Economic relations are growing in every field, but particularly in trade, investment and industrial co-operation. Last year our bilateral trade was roughly \$4,800m., more than double the \$2,300m. of 1975.

The volume of trade between the United Kingdom and Japan in 1979 was 16.3% of that between Western Europe and Japan as a whole, making the United Kingdom Japan's second-largest trading partner in Western Europe, next to the Federal Republic of Germany.

UK-Japan trade has been in Japan's favour. To redress this imbalance and to expand bilateral trade, Japan has been co-operating with the United Kingdom in its efforts to increase exports to Japan in such ways as dispatching import missions to the United Kingdom.

Average Japanese tariffs - as actually applied to mining and manufactured products, excluding petroleum - are lower than those of the United States and the EEC. With regard to non-tariff barriers, Japan has accepted all of the agreements and codes of the Tokyo Round of Multilateral Trade Negotiations. As such, the Japanese market is one of the most open in the world. Depending on the export efforts of the United Kingdom, there would be plenty of room in the Japanese market for UK products.

Although often overlooked, Japan has been running a deficit with the United Kingdom in areas of invisible trade, such as shipping, insurance and tourism. Japan's deficit in these invisible fields is larger than its trade surplus. As a result, the United Kingdom has a current account surplus vis-à-vis Japan, as seen in the following table.

Japan's Current Account Balance with the UK

	1977 \$m.	1978 \$m.	1979 \$m.
Trade	1,080	1,095	1,368
Invisible Trade	-1,361	-1,458	-1,978
Transfers	-24	-28	-26
Current Account	-305	-391	-636

Source: Bank of Japan.

Investments between Japan and the United Kingdom are steadily increasing. British investments in Japan totalled £133m. as of the end of March 1980.

The cumulative total of Japanese investments in the United Kingdom as of the end of March 1980 was \$1,823m., covering 589 projects and accounting for roughly half of Japanese investments in Europe (\$3,893m.). More than 200 Japanese companies have moved into the United Kingdom, contributing to the creation of jobs and local development.

Cultural Relations

To enhance mutual understanding and further strengthen friendly relations Japan is actively promoting cultural exchanges with the United Kingdom. The Japan-United Kingdom Cultural Agreement, signed in Tokyo on 3rd December 1960, sets forth the basic framework for cultural exchanges between the two countries.

With the back-up of Government support and encouragement there has recently been an increasing number of visits between the United Kingdom and Japan from scholars, journalists and artists. Japan and the UK also sponsor each other's activities, including various performances, seminars, exhibitions, etc. These cultural exchange programmes have considerably helped the people of the two countries to understand each other.

A major art exhibition of the Edo period is scheduled to be held at the Royal Academy from October 1981 to February 1982, under the auspices of the Japan Foundation and the Royal Academy. This will be the largest exhibition of Japanese art ever staged and is expected to go a long way towards deepening the interest in, and the understanding of, Japanese culture amongst the British public.

Japan has been accepting British teachers of English language on a long-term basis since 1977, and their work is greatly appreciated by the schools and corporations that employ them. These British teachers are directly contributing towards mutual understanding between the young people of the United Kingdom and Japan.

Recognising the need for permanent facilities for Japanese studies in the United Kingdom, Japan has provided a special fund for the promotion of Japanese studies to the University of Sheffield, and has co-operated in the establishment of the Centre for Study of International Comparative Economics at the London School of Economics, and the Centre for Japanese Studies at Oxford University.



file  
Jafar  
JD  
bcc: Mr. Haslam  
19

10 DOWNING STREET

From the Private Secretary

11 December, 1980.

Dear Sir,

NISSAN

As you know, the Prime Minister held a meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretary of State for Trade, and the Lord Privy Seal to discuss the Nissan proposal. Robin Ibbs was also present. They had before them Sir Keith's minute of 9 December.

Sir Keith said that he was convinced that Nissan's proposed investment would bring very considerable net benefits to the UK economy. It appeared that the UK was their first choice, but they were almost certainly negotiating with other EEC countries; and if the Government did not welcome them, they would certainly go elsewhere. Provided colleagues agreed, he would tell Nissan that the Government would welcome their proposal; Nissan would then undertake a detailed feasibility study, and his Department would at the same time negotiate the most stringent undertakings possible with the company - particularly on components and exports. A final decision by Nissan might be expected in the Spring.

In discussion, it was argued that it would be fruitless to try to identify closely the impact of the proposed investment on BL and other UK car manufacturers since, if Nissan did not come to the UK, these companies would have to face increased competition from a Nissan operation in Europe. On the other hand, an announcement in favour of Nissan would almost certainly make it more difficult for the Government to withdraw support from BL: the trade unions would link the arrival of Nissan to the rundown of BL, just as they had argued that an investment here by Hitachi would destroy our television manufacturers. It would be important to delay the announcement of the Government's decision on Nissan until the Government was ready to announce its decision on BL. If it were announced earlier, there could be such an outcry from the unions that Nissan might be persuaded not to come here after all. It was also pointed out that the Commission would have to be informed, but this could be done just a few hours before the announcement. It might also be a good idea for the Prime Minister to inform President Giscard in advance.

/ Summing

SECRET

- 2 -

Summing up, the Prime Minister said that she and her other colleagues present strongly endorsed Sir Keith's proposal. It would have to be approved formally by E Committee. The proposal should be put to E Committee by Sir Keith orally at the meeting scheduled for 17 December when the BL corporate plans would be discussed. Careful attention would have to be given to handling. The decision should be announced as soon as possible, but not before the announcement of the Government's decision on BL. The Commission would have to be informed just before the announcement, but she did not propose to warn President Giscard separately. In the meantime, it was most important that the proposal should not be disclosed.

I am sending copies of this letter to John Wiggins (HM Treasury), George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Sir Robert Armstrong and Robin Ibbs.

In view of the sensitive nature of what was discussed, I would be grateful if you and other recipients would give this letter very limited circulation.

*[Handwritten flourish]*

*T. Laker.*

I.K.C. Ellison, Esq.,  
Department of Industry.

SECRET

*NPW*

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

11 December, 1980.

Dear Stuart,

At the end of the meeting which the Prime Minister had with your Secretary of State and other Ministers this morning, the Chancellor of the Exchequer referred to the discussion he had had with the delegation of senior French industrialists earlier in the week. He said he had been impressed by their determination to ensure that Japanese import penetration into France was held in check. He fully understood the practical and political difficulties of our taking tougher action against the Japanese, but he felt that there could be scope for emulating the French and doing more than we were at present. He said that your Secretary of State might consider the possibilities.

X Mr. Nott said that, although there would indeed be considerable difficulties, he was prepared to look at the possibilities. In particular, he would examine the option of invoking the Anglo-Japanese Trade Agreement, which pre-dated the Treaty of Accession.

I am sending copies of this letter to John Wiggins (HM Treasury), George Walden (Foreign and Commonwealth Office), Ian Ellison (Department of Industry), and David Wright (Cabinet Office).

Stuart Hampson, Esq.,  
Department of Trade.

Tim Laker.

CONFIDENTIAL



PRIME MINISTER

17

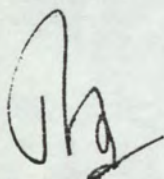
NISSAN

1. As the papers make clear, the Nissan deal should bring us very substantial benefits: in the short term, it is a very welcome expression of confidence; in the medium term, there are large economic benefits; and in the longer term, Japanese standards of efficiency should have a healthy impact on supplying and competing companies. If the site is fully developed, it could become one of the biggest car factories in the world.
2. We have only two comments on the deal:
  - (a) Timing. We can see no reason to delay further discussions with the company until January. It is reported that the Nissan/Volkswagen deal was devised in a very short time. We are in competition for this project with other countries who will be very eager to get it. The sooner we indicate a positive reception to the Japanese - and start the negotiating process on terms - the better.
  - (b) Presentation. Another reason for moving swiftly is the need to avoid a leak. This project is extremely attractive if presented in the right light. But the BL unions are quite likely to object to it and exaggerate the potential damage it will do to BL. We need to get our arguments in first - rather than risk a leak which attempts to suggest the deal is some shady, defeatist alternative to supporting our home-grown industry. If this view is expressed loudly by the unions, it could put Nissan off altogether.
3. Implications for funding BL
  - 3.1 We agree with Keith that the possibility of the deal does not itself provide a basis for refusing to support BL. We do not see any need to hold up a decision in principle on Nissan while the BL funding request is considered. Our main recommendation on BL will be, as before, that the company stands very little chance of successfully implementing its Plan and that the best

**SECRET**

outcome would be for it to find a more successful partner. The ideal solution would be a complete takeover. If this cannot be achieved, BL should at least begin a relationship which leads eventually to a full-scale merger. We must make it very clear to Edwardes that finding a strong partner is his top priority over the next 12 months. This would be true regardless of the Nissan prospect, but its arrival can help us to take - and to sell - a more realistic view of BL. It will look increasingly dispensable. One of the main reasons for supporting BL up to now has been the dependence on it of the UK component industry. Nissan provides an alternative in the medium term. This will help us to be firmer in pressing BL towards other companies or even facing up to its closure if this proves impossible. In short, the arrival of Nissan will give us more room for manoeuvre on what has proved so far an intractable problem.

4. I am copying this minute to Keith.



JOHN HOSKYNS



PRIME MINISTER

NISSAN

1 In my minutes of 6 August, 28 October and 20 November I

outlined the results of exploratory talks with Nissan about

the possibility of its investing here, of Richard Bullock's visit

to Japan and of meetings with senior representatives of Nissan

at the Department of Industry.

## BACKGROUND

2 Officials from the Treasury, the Foreign and Commonwealth Office, the Departments of Industry and Trade and the CPRS have now considered Nissan's outline proposals and their report is attached. I also attach a copy of Nissan's own submission.

Nissan seeks our agreement in principle to welcome a project of the general kind it has described. The Department has undertaken to give Nissan an answer early in January, and it will be necessary to announce that decision fairly soon thereafter, probably before the end of January. If our decision were favourable, Nissan would then proceed to a full scale feasibility study (including a study of sites and detailed discussions with possible suppliers which is why announcement is necessary). On the basis of this study which would take about three months Nissan would take a final decision whether to proceed, and seek our formal endorsement, without which it would not go ahead. If the decision is positive, construction would begin in 1982 with first production in late 1984 building up to full capacity of 200,000 units by 1986.

cc A. Dequid

16

Ann Smith

This is for discussion on Thursday morning. You may like to look at it tonight in view of speech-writing tomorrow night.

MS.

N

9/12



## GENERAL ASSESSMENT

3 The report by officials firmly recommends welcoming Nissan and I fully endorse that view. There would be substantial net benefits to the economy, particularly the vehicle component industry. The investment would play a significant role in improving our overall bilateral relations with Japan and would be a major coup for regional and inward investment policy. It would certainly boost the prospects for further inward investment from Japan and location in a Development or Special Development Area - particularly if it were a steel closure area - would bring obvious benefits. From all these points of view the only realistic option is to welcome the project; by the same token, a refusal would be gravely damaging.

4 Moreover, Nissan's proposals are on such a large scale that the intangible benefits would be considerable. Nissan would bring high technology production methods and successful managerial techniques to this country and could help to demonstrate that high productivity can be achieved in the UK environment. The announcement of Nissan's intentions would be a vote of confidence in the UK economy by a major world company; it would confirm that overseas companies were prepared to believe that standards of output comparable with other countries can be achieved here. This in itself could work as a challenge to workforces elsewhere in the country, especially in the vehicle components industry.

## NISSAN'S EUROPEAN INTENTIONS

5 The note by officials identifies a number of important issues affecting our decision. These are, however, dominated by the



judgement that, if Nissan does not come to the UK, it would build a similar plant elsewhere in the EEC and that, in that event, most of the less favourable consequences of a plant in the UK (on the rest of the UK car industry, and particularly on BL) would follow. If Nissan did go elsewhere in the EEC, it is arguable that the UK might benefit since Nissan would not then concentrate its marketing effort on the UK as it plainly intends at present. Against this it can be argued that the UK is already by far Nissan's biggest market in Europe with the strongest sales organisation, and Nissan would undoubtedly look to the UK market as a major outlet for a plant located in, say, Belgium or the Netherlands. Subject to considerations of our policy towards the EEC, therefore, it follows that we might as well seek the benefits of having the plant here.

#### NEGOTIATING TACTICS

6 On the assumption that we negotiate the best deal we can with Nissan, I am particularly concerned about the question of local content. Nissan has declined to enter into a firm commitment about when it will reach 80% local content but has said its objective is to secure this "when practicable". I think it possible that we can secure a better commitment and I intend to explore this possibility. "Local content" in theory means "EEC content" but I intend to ensure that Nissan is in no doubt that we expect a very high proportion of local components to be sourced from the UK.

7 I am also concerned about Nissan's intention to produce a single model to secure the economies of scale. This would, on Nissan's

/present ...



present view, mean selling an additional 135,000 units a year in the UK of a type of car of which it imports only about 15,000 units a year at present. It is possible that, in order to balance its model range, Nissan may seek increased direct imports of other models. Nissan appears to need to sell as many as 150,000 units a year in the UK because it currently sells only about 50,000 medium cars a year in other European markets and its dealer network elsewhere is much less good than here. Nissan agrees that its current 50,000 exports are on the low side and that, if it strengthens its European sales organisation, there is a good prospect of increasing this figure in practice. However, if Nissan could be persuaded to build two models instead of one (and this could probably be done without major economic penalty), this would help it to increase its exports to Europe from the UK and to lessen the disruptive impact on the UK market. I propose therefore to explore this possibility further.

#### GOVERNMENT FINANCIAL ASSISTANCE

8 Nissan is likely to seek selective financial assistance (SFA) as well as regional development grant (RDG); it may be looking for up to £20m of SFA in addition to RDG of £26m to £38m, the maximum to which it may be entitled depending upon location. Negotiations about a precise figure could not begin until after the feasibility study but I propose to limit SFA to the minimum necessary to bring Nissan here on acceptable terms and to say at this stage only that we shall apply the new criteria for SFA in the normal way. Even if the total cost of regional assistance

/amounted ...



amounted to, say, £50m, it would be spread over several years. Our recent decision to make addition provision for selective assistance should ensure that assistance to Nissan could be accommodated within the Department of Industry's PES programmes.

#### RESTRICTIONS ON DIRECT IMPORTS FROM JAPAN

9 Nissan seeks relaxations from the voluntary restraint arrangements (VRA) in respect of imports of the model(s) to be produced here for one year before production begins. Department of Trade officials think that, if the VRA has not by then been replaced by mandatory unilateral or EEC restrictions, the Nissan investment will lead other Japanese manufacturers to break the VRA irreparably, and to flood the UK market with direct Japanese imports even before Nissan's investment comes on stream. I do not necessarily agree with this analysis and I would welcome John Nott's views. In the first place, the delay between announcement of Nissan's plans and production start-up would be over 3 years, and that in itself argues against an immediate breakdown of the VRA, especially at a time when there is severe political pressure on Japan to export prudently. Secondly, we have made it clear that, if the VRA ceases to work effectively, we do not exclude more formal controls. In the event that the VRA does cease, the pressures for some form of mandatory restraint would be strong and I do not think we can assume that we shall necessarily be able to resist them, or that we shall not be able to secure some other arrangement to mitigate the effects of Japanese competition. In any case, all the pressure is now on the Japanese to tighten, not weaken, their restraint on direct exports; and I would not expect that

/atmosphere ...



atmosphere to change overnight when Nissan's intentions are made known. It is up to us to adopt a firm stance and ensure that restraint continues to be effective. It is the threat of controls which has pushed Nissan towards its investment decision, and, as you have yourself suggested (your Private Secretary's letter of 29 September), it is open to us to use the threat of import controls on Japanese cars in relation to inward investment. I propose we should adopt a firm stance at this stage towards Nissan's request for relaxation of the VRA and that we should say only that we shall be as helpful as circumstances permit at the time.

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#### EEC CONSIDERATIONS

10 A decision to welcome Nissan would certainly be unpopular with our EEC partners. Peter Carrington's view, which I strongly endorse, is that we should take our decision on the merits of the case by reference to UK interests and then consider how best to present it tactically. His officials suggest that it would be helpful tactically to give the Commission and the French a day or two's prior notice and that you yourself might send a message to the French President. I agree with this view but careful handling would be needed to avoid a leak before we make our announcement.

11 Whatever the reactions of our partners, we would be able to make the point domestically that the deal was tangible evidence of the benefits to the UK of membership of the European Community; Nissan had chosen the United Kingdom because it gave them access to the whole European market. If we were outside the Community, it is very unlikely that Nissan would have given the United Kingdom serious consideration as a base for this substantial investment.





## EFFECT ON BL

12 Although the net effects of a Nissan investment are likely to be adverse for BL, I do not think these constitute a reason for rejecting the Nissan proposal. The probability of Nissan going elsewhere in Europe is a major consideration (but the economic analysis carried out by officials suggests that the UK should benefit overall even if there were no prospect of Nissan going elsewhere). We must, however, consider whether a decision to welcome Nissan would lead us to take a less favourable view of BL's Corporate Plan and funding proposals. It is difficult to carry out any detailed analysis of which company would suffer most from increased competition from Nissan. It may be that Talbot and even Vauxhall would be more vulnerable than BL in the mid-car range by the time the Nissan plant reached full production in 1986. If we approve the BL Plan, the new LM10 car, which is due on stream in early 1983, will be in production and the LM11 (due in early 1984) will compete most directly with the Nissan car. An alternative view is that BL is a small and relatively weak company, with its mid-car already late, and that it would be disproportionately vulnerable. Most officials favour the view that we should assume Nissan will affect motor companies roughly pro rata to their market share in the mid 1980s. On that basis, BL would lose perhaps one percentage point market share to Nissan, concentrated in the mid-car sector. The adverse impact on the economics of the LM10 and 11 would, on this basis, be significant but not in itself critical to the overall viability of BL. Sir Michael Edwardes has said that he would not fear competition from a Nissan



subsidiary properly established in the UK. It is worth noting that the benefits Nissan would bring to the UK component industry would help BL since a strong UK component sector could help reduce its costs. Nissan would also be prepared to buy components from BL on appropriate terms.

13 I shall circulate the report of the inter-departmental group on the BL Corporate Plan shortly. The majority view is that there is a reasonable chance - but no more - of the Corporate Plan carrying BL through to a position by the mid-1980s which would fall short of full commercial viability but which would relieve the Government of primary responsibility for funding and which might conceivably enable BL to attract major collaboration or even external shareholders. On that view (supported by the detailed analysis in the attached report by officials) and given the scale of other uncertainties, the net adverse effects on BL of a Nissan investment in the EEC - whether in the UK or elsewhere - are not a major factor and are unlikely to swing the balance of advantage decisively either way. An alternative view is that the BL Corporate Plan's prospects of success are slim but that PSBR and broader factors make it too difficult for us to refuse funding for the initial part of the Plan and to accept early closure. On this view too, the Nissan investment (though worsening the prospect for BL) does not constitute a sufficient reason for rejecting the Plan for BL's volume cars operations. The Nissan investment would become a decisive factor only if we judge that the choice between backing the BL Plan and immediate closure is minutely balanced.



14 In any case, the Nissan project is not a certainty. It is a proposal, which, if we agree in principle, is still subject to a feasibility study and a final decision by Nissan. It would not begin production until late 1984 and then at a level less than half that of BL's volume car production. If we decided to refuse to fund BL, we should precipitate its immediate collapse and would gravely weaken the components industry in the period before Nissan starts up production. This could make it hard to achieve Nissan's 80% local content target at an early stage at least in the UK. In short, I do not think it would be politically feasible or industrially practicable to turn down the BL Plan because of the impact on it of the Nissan investment.

#### CONCLUSION

15 Subject to your agreement and that of colleagues, therefore, I conclude that:

- (i) we should agree in principle to Nissan's proposals, subject to its feasibility study;
- (ii) we should negotiate as stringent undertakings as possible ~~particularly~~ on local content, model range, exports, voluntary restraints on imports, and selective financial assistance; and
- (iii) in considering the possible courses of action on BL's Corporate Plan, we should not regard the net adverse effects on BL of a Nissan investment in the EEC (whether in the UK or elsewhere) as a major factor - given the scale of other uncertainties - or one likely to swing the balance of advantage decisively either way.



16 I am sending copies of this minute and attachments to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Trade, Robin Ibbs and Sir Robert Armstrong.

*I. Elia*

K J

9 December 1980

(Approved by the Secretary of State and signed in his absence)

Department of Industry  
Ashdown House  
123 Victoria Street

PROPOSED INVESTMENT IN THE UK BY NISSAN MOTOR COMPANY  
REPORT BY OFFICIALS

1. This note looks at the main implications arising from Nissan's proposal and examines in detail the likely economic and industrial impact both generally and on BL in particular. It also draws attention to areas for further negotiation with the company and possibly for further consideration in the light of developments. It has been prepared in conjunction with the FCO, Treasury, Department of Trade and the CPRS.

THE PROJECT

2. Nissan's submission of 17 November 1980 is attached. Briefly, it proposes to establish a greenfield plant on an 800 acre site in a Development Area or Special Development Area to produce 200,000 medium-sized cars per annum (a new front-wheel drive Datsun Violet in the 1.6 - 2.0 litre range). Assuming final Government approval in Spring 1981 (following a feasibility study to be undertaken if the Government gives approval in principle in early January), construction would start in 1982 and production in 1984, at 80,000 units with 60% local content. Full production would be reached in 1986, with the aim of attaining by then 80% local content including engine manufacture; the intention would be to export about 25% of production. Direct employment by 1986 would be over 4000. The cost of the investment is put at £275 million (1980 prices; £1 = 550 yen). The intention is to develop a principal manufacturing base in Europe; and we think that the site being sought is large enough for eventual annual production of 500,000 cars. At that level, equivalent to Nissan's largest plant in Japan, it would be one of the biggest car factories in the world.

/up to

NISSAN'S POSITION IN THE WORLD

3. Nissan is the world's fourth largest vehicle producer, behind only GM, Toyota and Ford. Its annual car output is almost

2 million, twice the UK's entire output. 50% of its production is exported, half to the USA and a quarter to Europe. The UK takes a half of European exports giving Nissan a 6% market share; this is very largely due to an efficient UK-owned marketing operation, Datsun UK, which is at arms length from Nissan but with an exclusive franchise (it has been fully involved in the present discussions). European market share, including the UK, is, however, barely 2%. Along with other Japanese motor manufacturers Nissan is clearly very worried about the vulnerability of its exports to restrictions and in response to this it appears to be developing a fairly ambitious strategy of consolidation overseas. Recent examples are its announcement of a pick-up plant in the USA, the joint-venture with Alfa-Romeo and the acquisition of a substantial equity stake in Motor Iberica of Spain. On top of these relatively modest developments has now come the news of a cooperation deal with Volkswagen. The UK venture must be seen as part of this process although it appears to be the biggest step overseas yet contemplated by any Japanese manufacturer. It will be a major development in the world automotive scenem and, as with VW/Nissan, will attract worldwide comment. One important consequence of it might be to push Toyota as well into a decision on European investment sooner rather than later.

4 In view of the possible implications of the proposed VW/Nissan cooperation arrangements for the UK project, our Embassy in Tokyo has sought to clarify the position with Nissan. Nissan said that it had always had in mind the possibility of cooperation with VW, especially in view of already fruitful collaboration between the two in Australia. VW was in many respects similar to Nissan in size, dependence upon exports, and philosophy. All that was being looked at now was the possibility of the production of VW cars in Japan, which would be done under licence rather than as a joint venture. Other studies would be made later of possible collaboration on vehicle and production technology. Nissan stressed that this had no direct bearing on the UK project. It wanted an EEC manufacturing base and the UK offered the best prospect for this. Manufacture in Germany was not an option; it was disadvantageous because of high wage costs, dependence upon imported labour and, in particular, stringent worker participation legislation which was not Nissan's way of doing things at all. This is reassuring, and accords with our own assessment. It will however be important to keep a close watch on the position, especially when Nissan begins discussions with component suppliers. It will be interesting and

relevant also to observe public and industry reactions to this deal; these may well have a significant bearing on the response to an announcement that Nissan was investing in the UK.

#### GENERAL ECONOMIC ASSESSMENT

5 Detailed consideration of the possible impact on BL's LM10 programme is given in paras 12-17 below. Three factors need to be borne in mind at the outset of this section of the report:

- i Nissan has not yet taken a firm decision to proceed; this depends upon a decision in principle by HMG, the results of the subsequent feasibility study and public acceptability.
- ii It is very likely that Nissan will invest elsewhere in Europe during the 1980s if it is not given a welcome in the UK. It has certainly been looking at Belgium and the Netherlands, even if the UK has emerged as the front-runner. Wherever it invests in Europe, the strength of its UK marketing operation and market share makes the UK the likely number one sales target.
- iii Five years is a long time for confident predictions of market trends and prospects. Competition in the car industry is sure to intensify further, especially in Europe; by 1985 we might even be faced with direct

exports from the USA. In other words, in considering the impact of the Nissan operation on the existing UK motor industry, it is important not to think of Nissan as an isolated occurrence. The whole European competitive environment is going to be very tough indeed.

6 For the past decade at least the UK motor industry has been declining in importance and performance relative to its overseas competitors and to other sectors of the UK economy. Most forecasts predict a further decline in the level of motor manufacture in the UK over the next 5-10 years. Whilst it would be difficult to argue that a domestic motor industry was essential for national economic success the sector, despite its problems, seems well suited to the UK in many respects; particularly given the strength of the motor vehicle component industry. Our firm conclusion is that given efficient operation, in the absence of clear alternatives on the scale necessary and in spite of the increasing level of competition in the world, motor vehicle manufacturing continues to be a suitable activity for UK investment. The emphasis, however, must be on efficient operation. All the evidence suggests that Nissan is one of the most efficient and competitive car manufacturers in the world. In principle it is a most suitable company to welcome to the UK.

7. The benefits of additional motor vehicle manufacturing to the UK economy, in terms of additional output and employment, could be substantial; the benefits will lie not just in the assembly operations but more generally across the motor component industry and its suppliers. But the net benefits to the UK economy will depend on the precise nature of the Nissan operation - local content, scale of production, export levels and choice of models produced. All of these we must regard as open to further negotiation. Much also depends on what may have happened to the voluntary restraint arrangements by 1984: whether they remain in their present form, are replaced by Community-wide measures or more formal national restrictions, or whether they may have simply ceased to exist. Our aim must be to take as firm a line as possible with Nissan on the issues mentioned above in order to maximise UK benefits and gain presentational advantage.



8 The present evaluation is however based on the project details as set out in Nissan's submission. The longer-term estimate for local content - 80% - has been assumed, with 150,000 vehicles for the home market and 50,000 for export. It is also assumed that, following the Nissan investment, all imports of other Japanese manufacturers will still be subject to voluntary restriction to their current market shares. It is further assumed that in the event of its investment in the UK not proceeding, Nissan would continue to satisfy UK demand by exporting from Japan. The more likely alternative position is that Nissan would invest elsewhere in Europe with duty-free access to the UK. But there is little need to cost the effects to the UK economy of this; because in that case the UK would suffer all the disadvantages of intensified competition and increased market penetration with none of the benefits of increased employment in assembly work and probably few of the benefits of additional component supply.

9 The bare facts of the project as set out by Nissan may well give an over-pessimistic view of the benefits to the UK economy. In the first place the 25% export proportion looks on the low side and it is more than possible that in the event Nissan will produce two models since it will be hard to sell 150,000 of the same model in such a competitive sector of the market : this would be 75% of the sales volume of the Cortina, whose market position has been built up over many years. Nissan has confirmed in discussion that 25% is a conservative figure and we think it is open to be increased provided the European dealer network is improved and UK production quality is up to scratch. Moreover, Datsun UK has said privately that it would be impossible to sell so many Violets in the UK and that more will have to be exported; and if possible its aim (though this is likely to be contested by Nissan's present European agents) is to get Nissan's European franchise for itself. But for the purposes of this exercises it is best to stick to the 25% figure and err on the pessimistic side.

10 One final assumption concerns the detailed competitive effects of increased Nissan output on competitors' models. The distribution of displacement of existing models between manufacturers and between models will depend on the various models'

competitive strength in 1985/86 and the financial strength of the car manufacturers. It is of course impossible to be precise about such things. By the time Nissan would be starting UK production, BL will have already introduced two new models - LM10 and LM11 (three models including the Bounty); and other manufacturers will have modernised their range (Ford, for example, with the Cortina replacement). Other Japanese companies may have invested in Europe, and there is the spectre of direct exports from the USA. It would be spurious to speculate about relative competitiveness. The working assumption is therefore that the increased output sold by Nissan on the UK market would be at the expense of all suppliers (except remaining Japanese suppliers who are constrained by voluntary restraint) in proportion to their pre-Nissan share of the upper-medium-car segment of the UK market. The pre-Nissan shares of the market are taken roughly to be the current shares. The importance of this assumption in the case of BL is examined in greater detail in paragraphs 13 - 18 below. It is worth noting that if indigenous UK car production continues to decline as forecasters are predicting, then this proportionality assumption will again lead to conservative estimates of the benefits to the UK economy. Reinforcing this point is the thought that if 80% local content/ Nissan output would be far more 'British' than most of the Talbot and Vauxhall cars in this segment which were displaced; since most of these cars are now simply assembled from kits.

/equalled  
80% UK  
content  
(but see  
para 24 ),

11. On these assumptions it is estimated that Nissan production in the UK would lead to an increase in UK car output of around 125,000 cars per annum from 1986 onwards. This net total is made up from Nissan production of 200,000 and displacement of existing UK production of 75,000. Based on this level of UK displacement a net increase in employment of around 10,000 is estimated. This is made up from gains to employment of 4,350 at Nissan, 21,000 at suppliers to Nissan, and losses of 7,900 at UK assemblers and 7,900 at suppliers of UK assemblers. Nissan may however consider it desirable to source some of its supplies from mainland Europe in order to smooth the path for its exports to other EEC countries, in which case the employment benefits to

the UK would be reduced. The employment benefits in the supplying industries are partially offset by the very high labour productivity of the Nissan plant compared with the domestic manufacturers displaced but by the same token the Nissan activity should be considerably more commercially viable than those it displaces. The conclusion then is that even on conservative estimates, the Nissan proposal will yield substantial benefits to the UK economy. The analysis underlying this conclusion and figuring is set out in the paragraph below.

12 Table 1 summarises the production estimates for the upper medium car market. Forecasts for the size of the total UK car market vary between 1.55 million and 1.9 million cars in 1986 and it is estimated that the upper-medium car segment will account for between 465 thousand and 700 thousand cars. With currently achieved market shares and export ratios total UK production for the UK medium car market will be between 242 thousand and 365 thousand in 1986 if the Nissan investment did not go ahead. Nissan currently exports around 15,000 Violets to the UK. It is assumed that with voluntary restraint, this figure would not change much. Variant I of the 1986 forecast assumes that Nissan continued to supply the UK from Japan: it is the base case. Variant II assumes that the Nissan investment in the UK goes ahead: this means an additional 135,000 Violet cars for the UK (150,000 less 15,000) which displace UK and non-Japanese exports in proportion to their market share in this segment of the market. Other Japanese exports are held at their 1979 market shares under voluntary restraint. The final now gives total UK output for the UK upper medium-car market in the two cases, yielding a net increase of 75,000. In addition, UK car production would be increased by Nissan's 50,000 exports from the UK, giving a total increase in UK car production of about 125,000.

The UK Market for Upper Medium Cars

	1979 Actual	'000		1986 Forecasts	
		Without Nissan UK		With Nissan UK	
		I	II		
1 Total UK Market Size - all Cars	1716	1550	1900	1550	1900
2 The UK/ <sup>Upper</sup> Medium Car Market	521	465	700	465	700
3 of which BL	62	59.4	89.3	40.1	71.1
4 i FORD (Cortina) UK produced	119	105.7	159.0	71.4	126.5
ii Tied Imports	74	65.7	98.8	44.4	78.6
5 i TALBOT UK Produced	55	48.8	73.4	33.0	58.4
ii Tied Imports	2	1.8	2.7	1.2	2.2
6 i VAUXHALL UK Produced	32	28.5	42.8	19.3	34.1
Tied Imports	14	12.5	18.8	8.4	14.9
7 IMPORTS from Europe	109	96.8	145.5	65.4	115.8
8 IMPORTS from Japan excl Violet	36	32.0	48.1	32	48.1
9 IMPORTS of Datsun 'Violet'	16	14.2	21.3		
10 NISSAN (UK) Production of 'Violets' for the UK market	na	na	na	150	150
11 Total UK Production for UK upper medium car market	269	242	364.5	314	440.1

## EFFECTS ON BL

13 The conclusion reached above concerning the net benefits of Nissan production depends on the assumption that UK production will be displaced only in proportion to its existing market share. But is this assumption realistic, particularly in relation to BL? There are two distinct fears here. First, models may not be competitive in 1985/86, so that BL would be the main loser and would suffer displacement greater than in proportion to its market share. Second, even if BL displacement were no greater than in proportion to its market share, the loss in volume might be sufficient to make unviable its medium-car investment programme. In either event the loss of an otherwise viable BL Cars would offset any benefits from the Nissan operation.

14 The first argument is that given the competitive state of BL it would bear the main brunt of the increased competition, which would be sufficient to jeopardise its recovery programme. Few would contest that this argument would have carried considerable force during the past five years or so or if Nissan had planned to start production in the next two years; but at BL's present stage of recovery the argument is seriously weakened. Its ability to withstand any increase in competition will depend very largely on the relative merits of the competing model ranges at the time it occurs - ie in 1985/86. By that time BL is assumed to have the LM10 and the LM11 (with which the Violet will compete most directly). If the Metro and the Bounty have meanwhile helped to re-establish BL's reputation for making attractive, good quality reliable cars and the LM10 and LM11 are well received, BL should be strong enough to withstand any additional competition that locally based Nissan operation would offer. That is Sir Michael Edwardes's view. On the other hand, if its new models fail to obtain consumer acceptance, it is reasonable to doubt whether BL will survive even without any additional competition from a locally based Nissan. Theoretically there is an intermediate possibility where BL is still thought to be on the road to recovery in 1986 but very vulnerable and still in need of Government support; but it is doubtful whether this is a realistic possibility unless the Government were prepared to continue to inject large sums of public money into the company beyond even what is now being sought. A more realistic possibility in such circumstances is that domestic Nissan production would hasten the decline of a BL/beyond recovery.  
already

15 This leaves the second aspect which is whether a proportional fall in BL's output would be sufficient to jeopardise its viability. We have analysed this possibility in some detail. Our view is that although the increased level of competition on BL would certainly be more than minimal, we do not think it would be critical. There is no question but that this increased competition would make the task facing BL, and other indigenous producers, more difficult. On central estimates of market size in the mid-1980s BL could stand to lose up to 19,000 cars per annum from 1986; but we do not believe that this loss in volume would be sufficient to make unviable what would otherwise have been a viable operation. Profit and cash flow of BL would however, be reduced. This conclusion is based on the analysis in the paragraphs below.

16 By 1985/86 the BL car which would be competing directly with the new Violet would be the LM11. From BL's submission on the LM10 investment programme it would appear that BL is planning for peak domestic sales of the LM11 of just over 74,000 per annum, or about 12.8% of the expected medium car market segment: this compares with the 12% share held by Marina in 1979. If existing suppliers apart from the Japanese are displaced in proportion to their market shares in this segment, then BL could stand to lose around 19,000 LM11s per annum. The figuring is set out in Table 2 which takes BL's central forecast of market size and the associated size of the upper-medium car market in 1985/86. It can be seen that these forecasts of market size lie roughly mid-way through the range of outside forecasts as given in table 1. If the new Violet turns out to compete also with the LM 12 (Princess replacement 1985) the total effect on BL would not differ much from these estimates but the effect would be spread across two models.

CENTRAL ESTIMATE

Total UK market	1,650,000
Total size of upper-medium market	580,000
Peak BL sales of LM11 assuming NISSAN project does not go ahead	74,000
Peak BL sales of LM11 assuming NISSAN project does go ahead	55,300
<hr/>	
Loss of peak BL sales of LM11	18,700

17 To judge the importance of this loss for BL, a shortfall of 19,000 cars per annum represents 25% of anticipated home sales of the LM11 or 17½% of total LM11 sales (domestic sales plus exports). In terms of economies of scale and viability, however, the LM11 should be viewed in the context of the total mid-car family given the common design and development, floor pans and componentry. As a proportion of total LM10/LM11 peak sales, the LM11 shortfall resulting from the NISSAN project could be about 9%. In the wider context of total BL home sales and the throughput for the dealer network, such a shortfall represents 5% of forecast 1985 output of BL Cars for the home market. BL's total market share would fall by 1-2 percentage points.

18 These estimated losses (which as noted above verge towards the pessimistic) are clearly significant and would certainly add to the burdens faced by BL. They should not in themselves, however, mean the difference between the viability and non-viability of the mid-car family investment programme. With NISSAN investment the total joint peak output of LM10/LM11 should be hovering around the 200,000 mark. While this is admittedly at the lower end of the spectrum to reap economies of scale in volume car manufacture, it should not involve BL in significant cost penalties. As Sir Michael Edwardes has emphasised in his covering letter to the 1981 Corporate Plan, the BL Cars investment programme cannot be regarded as a normal commercial proposition: on strictly commercial grounds it would not attract support. There are numerous and serious problems to be overcome if the programme is to prove commercially successful. Set in this context, the additional burden of increased competition from NISSAN is clearly adverse, but it is not likely to be sufficient in itself to swing the balance of advantage between accepting and rejecting the BL Corporate Plan.

19 It is important to stress the wide margins of error associated with an evaluation of this kind. The car market in the second half of the 1970s has consistently proved more buoyant than expected, and even modest changes of assumption about the position in the mid-1980s could alter the LM10/11 family's prospects markedly. Likewise, Nissan would not be BL's only competitor, either in the UK or in Europe. The removal of Talbot and, perhaps, Vauxhall from the UK scene would, for example, change the picture considerably. Moreover, as has already been mentioned, the reasonable likelihood of Nissan investing elsewhere in Europe if not in the UK, would still expose BL's domestic sales to extra pressures because Nissan would be building on its strength in the

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UK market wherever in Europe it was located. Sir Michael Edwardes has emphasised that BL cannot object to fair Nissan UK competition in the 1980s based on UK manufacture with a high degree of local content, and it would be untenable to argue simply that LM10/11 might fail just because of one competitor's actions in the mid-1980s, more especially since that competitor's plans are (a) not yet firm decisions and (b) open, we think, to modification and alteration by expansion of the model range it is proposed to produce. In the mid-1980s the LM11 will be a newer car than the Violet, which goes into production in Japan in 1981, and we have no grounds for doubting that it would not be fully competitive in its market sector, as Metro is clearly proving to be in its sector.

#### OTHER INDUSTRIAL POLICY CONSIDERATIONS

20 What Nissan is proposing will be the largest single manufacturing investment to date by a Japanese company in the West. Moreover it will mark a major turning-point in the Japanese motor industry's approach to the European market. The project will attract world-wide comment and will be thought to presage further similar developments in Europe and elsewhere. This raises a number of important foreign and trade policy considerations which are dealt with below in paras 27-29. The point to stress here is the importance of the case for inward investment policy generally and particularly in respect of Japan. If Nissan is welcomed by HMG and the project goes ahead smoothly, it is bound to boost the prospects for other Japanese investment in the UK, and serve to emphasise our position as the most favoured location for this in Europe. A rejection would be extremely damaging indeed. It would reverse our policy of welcoming inward investment; it would certainly become widely known, and probably put an abrupt end to the considerable success we have achieved in this field. From this point of view, almost as damaging as rejection would be the lack of a clear decision from HMG; the worst thing would be to string the Japanese along and subsequently make difficulties: the Hitachi issue still rankles and our views on this have been probed carefully by Nissan. Its attitude is summed up by the maxim that it does not invest where there is opposition.

21 A major Nissan investment in the UK would also help point the way to a more constructive relationship with Japan in which investment, industrial collaboration and containment of the problem of Japanese imports must feature prominently.

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22 On the other hand we must face the fact that the announcement of Nissan's intentions will cause an outcry in sections of the motor industry and the trade unions concerned. There is no easy way around this except careful presentation. Ford UK, in particular, will be very concerned since Nissan will pose a greater threat to its predominant position in the medium-car sector than to BL. It will cause great difficulty for Talbot, arguably the most marginal car producer in the UK anyway. Nissan, or simply the prospect of it, may well give PSA the excuse it needs to pull Talbot out of the UK, or, if it has not done so already, decided not to invest in a new car at Linwood. In short it is fairly probable that everything which goes wrong in the British motor industry from 1981 on will be blamed on Nissan. This will have to be countered on its merits, but the important consideration, if Nissan is welcomed in principle, is the impact a hostile press may have on Nissan itself. Our guess is that any hint of a Hitachi-type situation developing will make Nissan withdraw. It all adds up to the need for the most careful presentation indeed.

#### LOCAL CONTENT

23 The crucial element in this will be the local content question, and clear undertakings from Nissan which can be stated publicly will be essential. Nissan are under no illusions on this point and there is no doubt that what is involved is a full and proper manufacturing operation; and being able to point to full engine manufacture as an integral part of the plan will be presentationally very helpful. The reaction to the BL/Honda deal has shown clearly enough how easily prey the local content question is to ill-informed opinions; and the same industry is involved again. Even at 80% local content there is bound to be a fair amount of criticism, and because of this there will probably be trouble over Nissan's commitment to 80% only "when practicable". It has been clearly emphasised to the company that this is an area which might have political difficulty for Ministers and on which we may well need to talk further with the company.

24 Although in theory "local content" means "EEC content" we have stressed clearly to Nissan that the UK is part of the EEC and that we expect a very high proportion of local content to be UK-sourced. The UK components industry would soon know if things were otherwise. Nissan does we believe have this point fully on board, and has said in discussion that the majority of local components would be from the UK. Nevertheless this is an area which will require careful and discreet watch as matters progress, especially in the light of the cooperation deal with VW, which may well lead in the future to joint work on components.

25 It will be necessary to go to some lengths to encourage the components industry to look constructively at the opportunities provided by a Nissan investment. There is a serious risk that Nissan will come back to the Government in spring 1981 to say that the 80% target is receding because it cannot get what it wants from the UK industry at the right price. This must be avoided at all costs.

26 One possibility which will have to be explored is the prospect of UK exports to Japan of components to be used by Nissan in the UK. This might be particularly important not only from the economic, but also from the presentational point of view if it does seem in due course that Nissan's local content targets are proving difficult to fulfil, for whatever reason. Moreover, we should aim to encourage Nissan to utilise such UK components in Japan as a sign of good faith in advance of UK production start-up. This point has certainly surfaced in respect of Nissan's proposed manufacturing operation in the USA, and the same pressure needs to be exerted here.

#### REGIONAL POLICY

27 The significance of the project for regional policy is self-evident. Nissan is seeking a site in a Development or Special Development Area and since 800 acres are required there are unlikely to be many suitable. Although several location possibilities are mentioned in the company's submission, the front runner at the moment appears to be Immingham, South Humberside. This would have good port facilities, and might well be an attractive location in view of the proximity of BSC Scunthorpe. It may also be helpful that there is no tradition of car assembly in the area at all. A final decision on location will not be taken until the feasibility study is under way; Nissan is aware of and resigned to the fact

that it will be besieged by regional organisations once the project is announced. That might be a good thing if it encouraged possible opponents to mute their criticism in the hope of local advantage. The Government's position must be that within broad criteria choice of location is for Nissan to make, but informally we shall have to give much back-up advice on matters such as infrastructure, labour availability and manpower training. If the chosen site were Immingham, we think it unlikely that there would be a public expenditure problem regarding the financing of the necessary infrastructure, eg in roads. The local authority would also doubtless do everything possible.

#### GOVERNMENT FINANCIAL ASSISTANCE

28 Nissan has requested "favourable treatment" on this, but we think this really means that it be treated no differently in this respect from any UK company. That is not in question. Given a Development Area location we estimate that RDGs of up to £26 million would be payable, depending on the pattern of the investment; this could rise to £38 million in a Special Development Area. If selective assistance under Section 7 was sought on top of this the total figure could rise to about £45 million and remain within EEC limits. Section 8 assistance could also be available, but this is a less attractive option than Section 7 because of the need to notify the Commission in advance.

29 It is not possible to say at this stage whether selective assistance

would be necessary or not. This depends on the detailed programme to emerge from the feasibility study, and we shall have to leave the question open. In so far as Nissan wants to establish itself in the UK, we are probably not in an international "bidding-up" situation and this will influence our view of additionality and give us a strong negotiating position. On the other hand however we must recognise that Nissan is by no means tied to a UK investment if, as we believe, its intention is to get into the EEC as a hedge against tighter restrictions on direct exports from Japan. Our judgement at present is that Nissan does not regard selective assistance as an <sup>essential</sup> element in its plan, but this view may have to be revised as things go forward. Our aim would be to negotiate the very minimum assistance necessary to ensure the project went ahead in the UK.

#### EEC IMPLICATIONS

30 The current proposal would not infringe community regulations although it might be claimed to have infringed the competition rules if any public statement contained specific commitments by Nissan on export targets or local content. Nevertheless our European partners are certain to be deeply concerned at the implications for their own car manufacturers, and as with the UK components industry, it will be up to Nissan as much as HMG to smooth its own path to acceptance as a European manufacturer by giving clear undertakings about local content etc. And the more Nissan could promise, for example, over voluntary restraint of its direct exports to Europe the easier the task would become. HMG must take responsibility for smoothing Nissan's path at the political level in Europe, but it must be made clear to Nissan that it must handle its own public relations carefully too.

- 31 Whatever the legal position the French are certain to be particularly strongly opposed to the deal. The practical consequences of their opposition, coming unfortunately at a time when we are trying to improve Anglo/French relations, are hard to predict and we suggest that HM Ambassador Paris should be consulted (with suitable discretion). The line to take/would appear to be that encouraging genuine investment by the Japanese is a better way of improving trading relations with Japan than merely imposing limits on Japanese exports and is in no way inconsistent with the Community's industrial and trading policies. The initial view of Foreign Office officials is that the French, and the EC Commissioner for Industry (currently

/with our  
European  
partners

Commissar Davignon) should be informed a day or two before any public announcement. In view of their special susceptibilities the message to the French might take the form of a Prime Ministerial message. Very careful regard will need to be had, if this course is adopted, to the avoidance of a leak.

#### RELATIONS WITH JAPAN

32 The implications of Nissan's investment for bilateral relations with Japan were touched on in paragraph 21. An important consideration in view of current EC/Japan developments is that the Japanese might be tempted to interpret a welcome to Nissan as indicating that we were a softer touch on the question of car imports or that there were now differences between our interests vis-a-vis Japan and those of other EEC Member States which they could exploit. We must therefore maintain our firm line on trade issues and demonstrate our continuing interest in bringing the full weight of the Community to bear in order to achieve a healthier EC/Japan economic relationship.

33 The key issue in this context is the voluntary restraint arrangement (VRA) on car exports from Japan. Quite what impact the Nissan investment, and even the mere announcing of it will have on the VRA is hard to foresee. For the purposes of the economic assessment in this report, it has been assumed to remain in force as now; or (if the VRA itself has collapsed by then) to have been replaced by mandatory restraints - unilateral or EEC - of equivalent effect. The view of the Department of Trade is that it is highly arguable whether the VRA will still be in force. The Nissan investment would put arrangements with Japanese suppliers on an entirely different footing. Nissan itself may well be content to see restrictions on its Japanese competitors. But even if the latter were then prepared to continue the VRA (we cannot tell) they would press to fill the vacuum in imports left by Nissan. It is also bound to affect attitudes to collective EC restraint, but fruitless to speculate what our Community partners would settle for. A further factor in a possible breakdown is a request to us by Nissan for the VRA to be relaxed for a year before UK production starts in respect of the model or models to be produced in the UK to permit market development. This may well have to be conceded but any precise arrangements cannot be foreshadowed at this time, and the issue will have to be left open in discussions with Nissan. As with selective assistance we do not see this as a stumbling-block at this stage; the request comes essentially from Datsun UK. In the event it may be the kind of issue which can be resolved with a suitable quid pro quo - UK component exports to Nissan in Japan, for example.

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CONCLUSION

- 34 There is much scope for tough negotiation and bargaining with Nissan once a decision in principle has been taken by the Government. It wants to come to Europe and the project is of major importance to the company. There will be net benefit to the UK economy if the investment goes ahead as proposed, and it is open to us to maximise those benefits. There are risks involved because of the competitive impact on the UK car industry, but our assessment is that these are not critical in themselves and are discounted by the likelihood of investment by Nissan elsewhere in Europe if there is not a welcome from the UK. The implications of not welcoming Nissan would be serious for UK/Japan bilateral relations generally and would have a disastrous effect on inward investment policy. Although we believe it is possible to negotiate firmer commitments with Nissan than so far indicated on local content, exports, model policy and so forth, it must be recognised that from the company's point of view this is a major, high-risk investment and one which is essentially mobile in Europe. Nissan will not come here, not only if we do not welcome them or public opinion is hostile, but also if we seek to impose conditions which it considers excessive. But there are long enough lead-times to steer things the way we would like them to go.

Department of Industry  
8 December 1980

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# NISSAN MOTOR CO., LTD.

SECRET

17-1, 6-chome, Ginza, Chuo-ku  
Tokyo, Japan

Masataka Okuma  
Executive Vice President

November 17, 1980

## COMMERCIAL - IN CONFIDENCE

Lord Trenchard M.C.  
Minister of State  
Department of Industry

Dear Lord Trenchard:

In this letter we are pleased to set out our preliminary programme for investing in Britain. We also attach, for your information, a more detailed Aide Memoire.

Nissan's intentions are to contribute to the British economy both technically and economically by manufacturing cars in Great Britain. This would involve:

- ¶ Establishing and operating a factory on a 'green-field' site, located in either a development area, or a special development area.
- ¶ Producing a medium-sized car from the Nissan range which should be complementary to, and not directly competitive with, BL's new models. The model would sell mainly in the United Kingdom but a significant share would be exported to the EEC.
- ¶ Using many British-manufactured components in order, eventually, to achieve over 80 per cent local content and to create many new jobs.

The project, to implement these intentions, has the following characteristics:

1. Large scale. The final production capacity of the factory will be about 200,000 cars a year. (The factory will consist of a car assembly plant incorporating: a paint plant, a welding plant, a stamping plant, a unit assembly plant, a machine plant and so on). A flat land area of about 800 acres will be needed. Direct employment will be about 4,350 people at full capacity, with 80 per cent local content.

2. Location in an area of high unemployment. The sites under consideration are Immingham (Humberside), Corby, Kirkby (Merseyside), South Wales and the North East. At least one of these sites, Immingham, appears to be a distinct possibility for the project.

November 17, 1980

3. High local content of 60 per cent in the initial stage will gradually be increased to 80 per cent

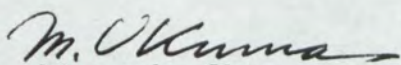
- From the beginning the standard and semi-standard parts will be of British or EEC manufacture. As far as possible non-standard parts will also be purchased or produced in Great Britain or the EEC. Castings, forgings and other parts will be purchased from BL if competitive in quality and price.
- Stamped parts will be locally produced using an economic production method matching the output level.

4. Technology transfer from Japan to the U.K. The U.K. design development function will be enlarged in the future. Nissan will transfer its design and production engineering 'know-how' and its production, quality and cost management methods.

5. Tight schedule. Provided the U.K. Government approves the project by the Spring of 1981, construction would start in 1982 and production start-up will be at the end of 1984. Full production will be achieved about 2 years after production start-up. An alternative schedule could be considered which would bring production start-up forward by 6 months, but with only 40 per cent local content intially.

Nissan believes that this investment will be commercially sound - and bring significant benefits to the U.K. economy as well. The Aide Memoire sets out some preliminary order-of-magnitude estimates of the local employment (direct and indirect) and balance of payments impact of the project. At our meeting we would like to discuss the prospects for Her Majesty's Government announcing their support in principle for the project. A feasibility study will be required before a definitive proposal can be prepared. This will involve detailed discussions with suppliers and so forth; and the support of HMG will be needed before these discussions can move ahead.

Yours sincerely



Masataka Okuma  
Executive Vice President

Attachment



POSSIBLE NISSAN INVESTMENT  
IN UK

1. Nissan is considering a large investment in assembly capacity in Europe to protect its current and potential market position. The total investment will be some £275 millions\* and will fund a major, modern production facility designed to be cost competitive with those of other European manufacturers. Construction of the plant for Nissan could begin in 1982 and at least 1,000 workers at peak will be directly involved in the £30 million construction phase; and orders for plant and machinery will amount to an estimated £145 millions. Longer term, the project will provide 4,350 jobs directly and up to an estimated 30,000 indirectly in the European steel and automotive component industries.

2. Nissan now plans to invest on a greenfield site in the United Kingdom. It will incur all the financial risks of the enterprise itself to ensure complete management control - so that the project can be organized to give the highest probability of competitive and financial success. Within these constraints Nissan is anxious to cooperate fully with the EEC (and U.K.) automotive industries. For the convenience of Her Majesty's Government (HMG) this Aide Memoire explains in turn

- a) The scale of Nissan's planned investment: the project will realize internationally competitive scale economies
- b) The reason why Nissan prefers a U.K. base
- c) Nissan's grounds for anticipating the support of the British Government for the project.
- d) The need for public support in principle for the project from HMG, before a detailed programme and investment proposal can be prepared.

SCALE OF  
THE PROJECT

3. In order to attain competitive cost levels, Nissan's production volumes must be high enough to achieve the economies of scale available to its world-scale competitors in the U.K. market. Only specialist luxury models commanding a high selling price can be competitive on a smaller scale. Nissan is therefore prepared to make a major investment.

- 3.1 Capacity. The final production capacity of the factory will be about 200,000 cars per year of a single model (the factory will consist of a car assembly plant incorporating: a paint plant, a welding plant, a stamping plant, a unit assembly plant, a machine plant and so on). Thus, the plant will be large enough to achieve internationally competitive unit costs.

\* - Throughout this document figures are based on an exchange rate of £1 = 550 yen and on 1980 prices

- 3.2 Employees. In addition to the immediate employment created by the construction contract, (at least 1,000 direct jobs at peak) the project would employ approximately 4,350 workers at full capacity (assuming 80 per cent local content). Approximately 3,700 of these will be hourly paid. An estimated 30,000 jobs in the European steel and component supply industries will also be protected, most of them (hopefully) in the United Kingdom.
- 3.3 Site. A flat land area of approximately 800 acres will be required, out of concern for the environment and to ensure an efficient layout of plant and facilities. A single 800 acre location is preferred to reduce factory overheads, to allow for future expansion of the local content and production volume and to provide for inventory storage, since cars are often subject to fluctuations in demand. Location close to a port and with good road and rail communications is desirable.
- 3.4 Schedule. A feasibility study is required before a definitive proposal can be prepared. Nissan will start work on the detailed planning as soon as the project receives Government approval. From this time until production begins, approximately 3-4 years will be required. Thus, initial production could start in 1984 and would be 80,000 cars per year employing 1,500 employees (directly) rising to full capacity and employment after two years. Employment in supplying industries would increase from some 24,000 in 1983 to approximately 30,000 in 1985.

REASONS FOR  
PREFERRING A  
U.K. BASE

4. Although attractive incentives are available from other European locations - e.g., Belgium and the Netherlands, Nissan would prefer to invest in the United Kingdom for sound commercial reasons.

- 4.1 There is a stronger market position in the United Kingdom to safeguard and build on. Nissan is stronger in the United Kingdom than in other European markets with a 6 per cent share in 1979. More than 500,000 of its cars are now on the roads in Britain. To protect this position Nissan will manufacture a medium size car in the United Kingdom.

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This model has been chosen because it competes in one of the largest European segments (and one in which import penetration in the U.K. is high) and in the fleet market and will therefore have good export potential. It will not compete with the new BL Metro project. It is estimated that a significant part of production will be exported, mainly to other EEC countries.

4.2 The United Kingdom has an internationally competitive automotive component industry. As far as price and quality constraints allow, components will be locally sourced. The local content should rise from 60 per cent when production starts to 80 per cent in two stages. At this time, the value of bought-in components will be an estimated £230 million per annum, mainly sourced from the U.K. Initially standard and semi-standard parts will be purchased from the United Kingdom or other EEC suppliers if no suitable U.K. source can be found. Naturally to diffuse the concerns of other EEC countries, some parts will be sourced from them. Unit assembly, e.g., engine and transmission, is planned to start early on. The possibility of purchasing unit assemblies locally will be considered if quality standards can be achieved by EEC suppliers. Stamped parts will be produced in the United Kingdom (using British steel), subject to achieving economic production methods for the output level. The table shows the two-stage build up that Nissan now envisages.

TABLE 1: BUILD-UP OF NISSAN U.K. PRODUCTION

Stage	Approximate Local Content	Local Operation and Content
1.	60%	<ul style="list-style-type: none"> <li>- Purchase of standard/semi-standard parts and of large trim parts in UK/EEC</li> <li>- Assembly of engine, transmission, axle and steering with <sup>some</sup> parts purchased in UK/EEC</li> <li>- Welding, painting and assembly</li> </ul>
2.	80%	<p>In addition to Stage 1</p> <ul style="list-style-type: none"> <li>- Production of body panel in U.K.</li> <li>- Production of the engine, transmission, axle and steering in U.K.</li> </ul>

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This schedule has the advantage of a high level of local content from production start-up. An alternative schedule could be considered, that would bring forward the production start-up date by six months. This would, however, necessitate a lower initial level of local content, as shown in Table 2.

TABLE 2: ALTERNATE BUILD-UP OF  
NISSAN U. K. PRODUCTION

Stage	Approximate Local Content	Local Operation and Content
1	40%	<ul style="list-style-type: none"> <li>- Purchase of standard/semi-standard parts and of large trim parts in U.K. /EEC</li> <li>- Welding, painting and assembly</li> </ul>
2	60%	<p>In addition to Stage 1</p> <ul style="list-style-type: none"> <li>- Assembly of engine, transmission, axle and steering with parts purchased in U.K. /EEC</li> </ul>
3	80%	<p>In addition to Stage 2</p> <ul style="list-style-type: none"> <li>- Production of body panel in U.K.</li> <li>- Production of the engine, transmission, axle and steering in U.K.</li> </ul>

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4.3 A suitable site appears to be available with a pool of workers with most of the necessary skills. Of the sites that have been examined so far\* Immingham in the Humberside Development Area appears to have some important advantages for Nissan

- Several 800 acre sites are available in an area already designated for industrial use - so there is no need to redesignate agricultural land. No other U.K. location appears to provide 800 acres on a single site.
- The sites have good rail, road and international air communications (particularly via Amsterdam) and there are good deep water port facilities with the possibility of a private jetty.
- The land itself is flat, well drained, with main services (electricity, water etc.) available, and protected by a sea wall. It will have to be piled however; but this should be reflected in the price to be paid per acre.
- An adequate supply of all categories of labour appears likely to be available locally although bus services will probably be required to bring workers from Scunthorpe and Hull.

Other sites can, of course, still be considered when detailed discussions can take place with Local Authorities.

4.4 Many Japanese companies have already invested in Britain. Although on a smaller scale than Nissan, this shows that Japanese production and commercial practices can flourish in the U.K. environment - and also that Japanese expatriate managers and their families are made welcome. This experience base will also be very helpful in ensuring that Nissan adapts smoothly and sensitively to British custom and practice.

#### BENEFITS FOR THE U.K. SHOULD BE SUBSTANTIAL

5. Nissan believes that the project holds promise of major benefits for the U.K. economy and would provide a boost to business/public confidence at an opportune moment. While the precise impact cannot be assessed until a detailed programme has been decided, the project will have a positive balance of payments impact on both the capital and trading accounts; as the following preliminary estimates show.

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\* - In Corby, Merseyside, Solihull, South Wales, the North East, West and Central Scotland.

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TABLE 3: POSSIBLE IMPACT ON CAPITAL ACCOUNT  
(£ million - at 1980 prices)

PRELIMINARY

Total Investment	275
Less estimated grant on eligible assets say (25%-35%)	45-60
Less 25% financed in the U.K. (assumption for illustrative purposes only)	70
Approximate net contribution to U.K. . balance of payments on capital account	145-160

6. In addition, it would be reasonable to assume (based on conservative projections of the effect of the project's impact on import levels) that the U.K.'s Trade Balance would improve by about £200 million (at 1980 prices and exchange rates) once the plant is operating at or near its planned capacity.

7. In addition to the positive effect on the Balance of Payments, the project will create direct jobs in an area of high unemployment, and indirect jobs in industries now in serious trouble. 4,350 direct jobs will be created and an estimated 30,000 jobs in component and supply industries, at full capacity and assuming 80 per cent local sourcing. Some increased employment would materialize quite soon as construction begins in 1982. Government revenues would also benefit from a higher tax base.

- 7.1 Nissan will locate its plant in an assisted area in support of the Government's regional policy. Almost 30,000 people (10.4 per cent of the working population) in Humberside were unemployed on September 5, 1980, 10,000 more than a year previously.
- 7.2 Other factors being equal, Nissan will give preference in sourcing decisions to suppliers located in assisted areas so that jobs can be preserved or created in these regions.
- 7.3 Jobs would be protected at British Leyland (BL) through component sourcing contracts. Provided consistent price, quality and delivery arrangements can be made with BL, as many components as possible will be sourced from them.

8. Other more qualitative benefits would also be available to the U.K. from the project, which would demonstrate a new approach to labour relations. It will show that a British industry can produce competitive products with modern methods and appropriate manning levels. At full capacity some 46 cars per worker will be produced annually, well in excess of levels now achieved in Europe, even allowing for differences in the degree of vertical integration.

9. In addition, Japanese design and production technology would be transferred to the United Kingdom. Although initial design and development work will be centred in Tokyo, consideration will be given to transferring the activity related to UK production to the United Kingdom in the future. Professional engineers and skilled workers will be temporarily transferred from Japan, to oversee and train personnel in the United Kingdom, at each stage of the project - i. e., construction, production start-up, model change, etc. Additionally key U.K. workers will be sent to Japan for technical instruction and in-plant training.

NEED FOR PUBLIC  
SUPPORT IN PRINCIPLE  
FROM HMG

10. For Nissan an essential prerequisite to further progress with the project will be public support from HMG: Nissan is not willing to risk even the appearance of predatory investment against local wishes because:

- The project is economically risky and local commitment at every level is vital to success. Nissan does not want to see the project become a political 'football'.
- Public Government support will be important to minimise the impact of any opposition. Domestic manufacturers may not welcome a new and efficient competitor - and some Trades Unions may also oppose the productivity targets required for successful operation.
- Nissan is unwilling to commit funds to investments in hostile markets. The pressure for off-shore investment is increasing across the board. As Nissan's recently announced USA truck facility illustrates, Nissan faces a range of investment opportunities outside Japan and is not prepared to commit funds if local support is not forthcoming. The exceptional drain on Nissan management resources that would be required in such circumstances would not be acceptable.

11. Nissan cannot make further progress in assessing the attractiveness of individual locations or the practicality of component supply arrangements in the U.K. without being specific about the scale and details of the project. Without the support in principle, of HMG for the project, Nissan will not be able to proceed further with a detailed feasibility study. An early response would enable Nissan to proceed toward a final decision.





DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

28 November 1980

The Rt Hon John Nott MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
London SW1

*Dear Sir,*

NISSAN

Thank you for your helpful and positive letter of 14 November.

2 It is clear that you, Peter Carrington and I agree about the EEC implications of Nissan's proposals. As you will have seen from my minute of 20 November to the Prime Minister, Tom Trenchard has now had further talks with Nissan, and our task is now to give the company a clear response with the minimum of delay. Officials from the Department of Industry will be in touch shortly with the other Departments concerned to take matters forward.

3 I am copying this letter to the Prime Minister, Peter Carrington, Geoffrey Howe and Robin Ibbs.

*Kevin Keene*

SECRET

HS



cc: FCO  
DO1  
DOT  
CPRS

10 DOWNING STREET

From the Private Secretary

27 November 1980

NISSAN

The Prime Minister has read the Chancellor's minute of 26 November and agreed that the Report which is being prepared to examine the NISSAN proposal should cover the points he suggests.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Ian Ellison (Department of Industry), Stuart Hampson (Department of Trade) and Gerry Spence (Central Policy Review Staff).

I. P. LANKESTER

Peter Jenkins, Esq.,  
H.M. Treasury.

SECRET

*M. P. W.*

*Amhurst*

13

*cc Amhurst*



*You have already agreed but Sir Keith should report to a*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

*Small group of colleagues (presumably those mentioned below) on this. We can ask him to cover the point*

PRIME MINISTER

NISSAN

*Yes not*

I was very interested to see from Keith Joseph's minute of <sup>at X</sup> 20 November that Nissan have confirmed their interest in a substantial investment in the UK.

2. It is no doubt right to take a non-committal line in any initial defensive statement, although any reference to a substantial operation on a greenfield site in a development area or special development area is bound to arouse great public interest. Such a development would be seen as a major coup, and it may be that the balance of advantage will lie in supporting the project, particularly if Nissan would otherwise go ahead in some other part of the EC.

*12  
26/11*

3. But before we reach conclusions on giving Nissan approval in principle I should like to be sure that we have considered all aspects. If Nissan provide business for UK component suppliers that will be very welcome: but are we sure the effects on BL itself have been adequately considered, bearing in mind that an adverse effect on BL may cost the taxpayer money? I suggest that officials of the departments concerned should be instructed to consider urgently the likely effect both on other UK car manufacturers, notably BL, and on the UK component industry, and the public expenditure consequences of a regional incentive package for Nissan, in their report. Keith Joseph's proposal for recommendations by mid-December should fit in well with our consideration of the BL Corporate Plan.

*X*

4. I am sending copies of this minute to Peter Carrington, Keith Joseph, John Nott and Robin ibbs.

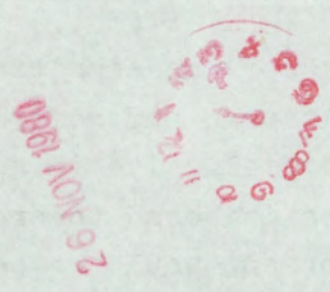
*gh*

(G.H.)

26 November 1980



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CAROLINE

Please arrange a meeting for Ministers and officials mentioned in this letter.

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

25 November 1980

BF 18.12.80

NISSAN

The Prime Minister has read Sir Keith's minute of 20 November, and would be glad if your officials would now consult with officials in other Departments with a view to making a full report by about the middle of December. She does not wish this report to be circulated beyond the Departments to whom Sir Keith's minute was copied. We will be in touch with you to arrange a meeting to discuss it.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury), Stuart Hampson (Department of Trade), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

I. K. C. Ellison, Esq.,  
Department of Industry.

T. P. LANKESTER

arranged for  
Thursday 19 Dec  
at 0930.

ES. 28/11





in cars with the rest of the Community. However, as you will have noted in our recent discussions, Nissan set their face against publicly declared export targets. They are prepared to say only that a substantial part of production will be exported, without specifying how much or where to; your point may therefore be met.

4 As far as Nissan's exports to Europe from Japan are concerned, those to the UK will have to be reduced appropriately, and the company is under no illusions on that score. But as far as reductions in direct exports to the rest of the Community are concerned, I am very doubtful whether that would be negotiable even if it were desirable. In what is bound to be a complex negotiation, I think we shall have to concentrate on the issues which really matter to the UK; in any case, Nissan has stressed that it does not control the sourcing policies of its independent dealerships.

5 I am sending copies of this letter to the Prime Minister, Geoffrey Howe, John Nott and Robin Ibbs. |

*Law*

*Kear*







SECRET

*Disc. Ministry Japan*

*of Mr. Hoshino  
Mr. Iyama*

*A further report on  
the Nissan proposal.  
Sri Keita will now  
prepare a report for  
Ministers so that  
he can  
let Nissan  
know our  
decision  
on whether  
to welcome  
them.*

PRIME MINISTER

NISSAN

1 In my minute of 28 October I reported on Richard Bullock's visit to Tokyo to discuss Nissan's proposal to invest in the UK. Tom Trenchard and officials had further meetings with Nissan on 18 November and this minute reports the progress which has been made.

2 Nissan have confirmed the interest, which they expressed to Richard Bullock in Tokyo. They have indicated that, provided we approve their ideas in principle, they intend to undertake a detailed feasibility study, with a view to taking a final decision by the middle of next year. The feasibility study would include detailed discussions with UK component manufacturers. At this stage, however, Nissan are prepared only to undertake that local content of the vehicles made here would be 60% initially, rising to 80% "when practicable". This is less satisfactory than a firm commitment to 80% local content but Nissan's reservations are understandable from a commercial point of view. Nissan would not be pushed into a stronger commitment at this stage, but we shall need to consider carefully whether they can be pressed further.

*12  
..  
2/1*

3 Nissan are prepared to set themselves export targets and to tell us what these are (one quarter of their capacity might be for export) but they are adamant that precise figures should not be included in any public announcement of their plans.

/They ...

SECRET



They are in fact taking a somewhat conservative view of likely exports, partly perhaps because of the inadequacies of their distribution network in the rest of the EEC. Export targets will need to be discussed in more detail if we decide to support Nissan's ideas in principle.

4 Tom Trenchard explored further whether Nissan would be prepared to consider a joint venture with BL. They indicated that they had examined this possibility but were totally - and apparently irrevocably - committed to a greenfield operation and to maintaining complete control of their venture. They are, however, willing to look to BL as a potential supplier of components subject to price, quality and delivery.

5 Nissan have been told that we will try to let them know the Government's decision early in January. Although there are several issues which need to be considered in more detail, Tom Trenchard believes and I agree that the strong balance of advantage is likely to lie in supporting this project. I propose, however, that Department of Industry officials should now consult officials in other Departments, so that I can make a full report with recommendations to colleagues by about the middle of December.

6 Because an increasing number of people are coming to know of the discussions with Nissan, there is a real risk that

/knowledge ...



SECRET

3

... knowledge of them will leak. Officials have therefore agreed  
... with Nissan the enclosed defensive press briefing. I also  
... enclose a copy of a preliminary draft of the statement which  
the Department of Industry and the company would propose to make  
if in due course we decide to accept Nissan's ideas in  
principle.

7 I am sending copies of this minute only to Peter Carrington,  
Geoffrey Howe, John Nott and Robin Ibbs.

KJ

K J

20 November 1980

Department of Industry  
Ashdown House  
123 Victoria Street

SECRET



Preliminary draft of defensive statement if needed

The Government confirms that the Nissan Motor Company (the manufacturer of Datsun cars) has approached it about the possibility of investment in a substantial car manufacturing operation on a greenfield site in a development area or special development area in the UK. The proposal being considered by the company could involve up to 200,000 cars a year, with a very high local content; a significant part of the output would be exported. On both sides, the discussions are still entirely exploratory and there are no commitments.



Preliminary draft of a possible announcement of agreement in principle

(the manufacturer of Datsun cars)

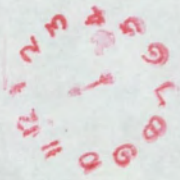
HMG and the Nissan Motor Company have reached agreement in principle on the establishment by Nissan of a facility to be located in a development area or special development area to manufacture up to 200,000 cars a year, including an engine manufacturing plant. Nissan is currently carrying out a detailed feasibility study of the project.

Assuming a satisfactory outcome to the feasibility study, the intention would be to commence building a plant in 1982 and to commence production at the end of 1984 at a volume of 80,000 cars a year building up to the full figure of 200,000 by 1986.

It is Nissan's intention to achieve a very high local content involving UK and other EEC suppliers with whom they will be entering into discussions during their feasibility study; the local content at the start of production would be 60 per cent, and the company's objective would be to increase this to 80 per cent when practicable.

The company is confident of achieving a high level of exports from the UK.

20 NOV 1980



Japan  
COPY NUMBER: 2 OF 10 COPIES

From the Secretary of State

SECRET

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London, SW1E 6RB

14 November 1980

*Dear Secretary of State*

NISSAN

Your minute of 28 October to the Prime Minister drew attention to the Community dimension of the proposed Nissan investment. I have asked --- my officials to look at the proposals from this angle, and a note by them is attached.

The size of this proposal clearly means that it will be a major test for the Community's attitude to its common market and for its nerve on inward investment in sensitive sectors. Let us be in no doubt that we can expect no spirit of European generosity to welcome Japanese investment in Britain. If we believe that it is in the national interest for Nissan to come to the United Kingdom we must do three things.

First, the "Community proofing" must make absolutely sure that we have left no loopholes for other Member States to exploit and to use the Treaty to prevent the success of the arrangement. Secondly, we must not let our approach be dogged by an obsession with the letter of the Treaty. We are working for the best deal for Britain, and we must be as ingenious as our partners would be in defending it. Thirdly, we must remember that we are not in a strong position: we

SECRET



*From the Secretary of State*

SECRET

need Nissan more than they need us, and if we try to tie them down with conditions to pacify existing United Kingdom producers or to mollify our European partners we shall see the whole project slip through our fingers.

It would help if my officials could be kept closely in touch with the negotiations as they advance, so that as more detail is known the points in the note can be kept in view against the considerations I have listed above.

I am copying this letter to the Prime Minister, to Peter Carrington, Geoffrey Howe and Robin Ibbs.

*Yours sincerely,*

*John Nott*

JB

JOHN NOTT

(Approved by the Secretary of State  
and signed in his absence.)

SECRET



NISSAN INVESTMENT IN THE UNITED KINGDOM: COMMUNITY CONSIDERATIONS

Our partners' attitude will be determined by three things.

First, the prospective challenge in their home and European export markets, including United Kingdom. Nissan say they envisage United Kingdom production replacing their direct exports first to the EC and later to EFTA and that they would be ready to agree export targets with the United Kingdom Government. We shall need to handle this carefully - not simply to head off challenge on free circulation and competition policy, but to minimise political reaction in other Member States. An exclusive European franchise for the United Kingdom plant by an agreed date might be a more acceptable approach.

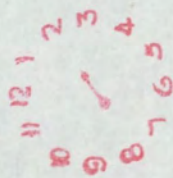
Second, our partners will react to whether there are any pickings in the deal for them. Nissan have already commented that they envisage 'local' content would include purchase elsewhere in the EC and not exclusively in the United Kingdom. We seem to have pointed out that United Kingdom components would be 'local'. As to the 'regulatory' soundness of this argument, the competition rules need careful thought, but we shall have to watch that we do not push our political luck too far on this one. Might we not do better to get an 'understanding' about selected United Kingdom priorities? I understand we are already pressing hard on engine units. And let us recognise Nissan may start looking for a more accommodating Community partner if we are too inhibiting for them.

Third, some of our partners will be hostile anyway but even more so if they see the deal as the thin end of the wedge undermining Japanese apprehension of Community solidarity. The advantages of the deal to United Kingdom look much too important to allow this to weaken energetic pursuit of the negotiations. Any of our partners - including France - despite anything Giraud said - would do the same if it suited their book. As the Foreign Secretary points out, it looks as though Alfa Sud have already done so in Naples. Nonetheless, we want to reduce the risk of France - or others - rushing into restrictive attitudes or of prolonged legal action thereafter. The French will present a big problem. This is another reason why it is worth looking at an exclusive European franchise for United Kingdom production. We would be more optimistic of getting this from Nissan than particular export shipment levels. And it would make it just that more difficult for other EC States to take and certainly to sustain restrictive action. It could be presented as linking industrial co-operation and new Community jobs with fewer exports to the Community from Japan.

Miss M J Lackey  
WEG

13 November 1980

11 4 NOV 1980



LN



FCS/80/158

SECRETARY OF STATE FOR INDUSTRY

NISSAN

1. In your minute of 28 October to the Prime Minister, you asked for my views on the possible effects of a deal with Nissan on our EEC relationships in general and with those in France in particular.
2. If a decision is reached to go ahead with this investment I see no reason why we should encounter serious difficulties with the Commission, although we will need to ensure that the deal meets Community regulations. I understand that John Nott is examining this aspect. Nor should we have any difficulties with the majority of our partners in the Community. The Italians are apparently themselves setting up a link between Nissan and Alfa; though we know little about it, it could provide a useful precedent. The Germans, despite public concern about the rapid rise of Japanese car imports, are politically committed to a free market. But we can expect a stormy ride with the French. Giraud, the French Minister of Transport, warned against Japanese investment in the motor industry at the Anglo-French Summit in September. The French will therefore seize on any Nissan deal to argue that it is yet another success by the Japanese in finding a back door for their exports to the Community. Although it seems that Michael Edwardes is ready to face this competition, the French will probably be genuinely concerned about the effect Nissan competition would have on their already weak Peugeot-Citroen subsidiary in the UK, Talbot, and in other Community markets including France itself.
3. If it is decided for sound economic and industrial reasons that the Nissan investment should go ahead, I see no reason why we should be deterred by these French concerns.

/It

Japan 9  
 1. Mr. Alexander  
 2. Smith  
 FCO comments on the Nissan proposals. (Nissan are visiting London on 18 November for further talks: you will remember that this is very sensitive commercially).

MS

D.  
4/11



It seems to me that we have a good case of our own, which we should be ready to defend vigorously. It would, as a first step, be tactically sensible to give the French advance warning when agreement has been reached with Nissan. We should explain to them that we share their concern about the level of imports from Japan: and that, by encouraging genuine Japanese investment of this kind in the Community, we are developing a responsible relationship with the Japanese, which will make it easier to persuade the Japanese to open their markets to European imports.

4. If we are to take this line with the French, there are two steps that I would advise. First, we shall need to ensure that, in any agreement, Nissan translate their undertaking to reduce their exports to the UK into a firm promise. In addition, I wonder if we could consider seeking some understanding that their direct exports to the rest of the Community would also be reduced (though of course this would have to be in terms which avoided any implication that there might be a limit to the share of our community partners' markets which UK built Nissan cars could eventually enjoy). Such an undertaking would cut much of the ground from under the French argument. We should, at the same time, aim to ensure that the drop in exports by Nissan is not simply taken up by other Japanese car manufacturers. Secondly, we should avoid any public statement by Nissan on export targets for the UK operation. Whatever might be agreed privately, statements of this kind might well get us into difficulties with the Community's competition rules, and would provide a focus for strong criticism from France and our other community partners.

5. Finally, I would want to stress the danger, which you recognise in your minute to the Prime Minister, of stringing the Japanese along and subsequently making difficulties. This

/would be



would be very damaging for long term development of a more constructive and stable relationship with Japan in which investment, industrial collaboration, and containment of Japanese car imports into the UK must feature strongly.

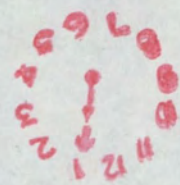
6. I am copying this minute to the Prime Minister. Geoffrey Howe, John Nott and Robin Ibbs.

C  
/

(CARRINGTON)

Foreign and Commonwealth Office

10 November 1980



10 NOV 1980

GR 600

CONFIDENTIAL [w] CONFIDENTIAL

FM TOKYO 050945Z NOV 80

TO PRIVDITY FCO

TELEGRAM NUMBER 630 OF 5 NOVEMBER

INFO PRIORITY UKREP BRUSSELS, BONN, PARIS, WASHINGTON

SAVING ALL OTHER EEC POSTS AND OECD PARIS

ECONOMIC RELATIONS WITH JAPAN

1. WE ARE FACING A £1000 MILLION VISIBLE TRADE DEFICIT WITH JAPAN THIS YEAR. FOR THE FIRST TIME IN 5 YEARS THE JAPANESE HAVE FAILED TO KEEP TO THEIR SHARE OF THE BRITISH CAR MARKET AS AGREED IN INDUSTRY TALKS. OUR EXPORTS TO JAPAN ARE STAGNANT AND SEEM LIKELY TO FALL RATHER THAN RISE IN THE NEXT 12 MONTHS. OUR INVISIBLE SURPLUS OF £300 MILLION IS ALSO UNDER PRESSURE. JAPANESE INDUSTRIAL INVESTMENT IN BRITAIN IS INCREASING BUT THE PACE IS SLOW AND THE BENEFITS AT PRESENT LIMITED. THE JAPANESE ARE INVESTING HEAVILY IN NEW TECHNOLOGY WHICH WILL PUT THEM FURTHER AHEAD. THE PROSPECTS FOR FUTURE YEARS IS NOT GOOD.
2. AGAINST THIS BACKGROUND AND THE FORTHCOMING NOVEMBER FOREIGN AFFAIRS COUNCIL DEPARTMENTS WILL BE REVIEWING OUR POLICY AND IT MAY BE HELPFUL IF I SET OUT THE POSITION AS SEEN FROM HERE.
3. OUR OBJECTIVES REMAIN TO:
  - (A) REDUCE THE TRADE IMBALANCE AND INCREASE OUR EXPORTS TO JAPAN:
  - (B) REDUCE THE PRESSURE FROM JAPANESE IMPORTS PARTICULARLY IN SENSITIVE SECTORS, AND
  - (C) POLITICALLY MAINTAIN JAPAN'S PRO-WESTERN STANCE.
4. NEITHER OF OUR FIRST TWO OBJECTIVES IS BEING ACHIEVED. I HAVE WRITTEN TO CAINE IN THE DEPARTMENT OF TRADE WITH SUGGESTIONS FOR CHANGES IN OUR EXPORT PROMOTION STRATEGY. IN PARTICULAR WE MUST GO ON URGING THE MAJOR BRITISH FIRMS NOT ALREADY REPRESENTED HERE TO BECOME MORE INVOLVED WITH THE JAPANESE (TO EXPAND THEIR EXPORTS TO JAPAN, TO BUY JAPANESE TECHNOLOGY, TO WORK WITH JAPANESE FIRMS IN THIRD MARKETS AND TO DEVELOP JOINT VENTURES HERE, IN BRITAIN AND ELSEWHERE). BUT WHATEVER CHANGES WE MAKE IN OUR EXPORT STRATEGY, THEY WILL TAKE TIME TO HAVE AN IMPACT AND IN THE SHORT TERM THE IMBALANCE IS LIKELY TO GET WORSE. WE MUST THEREFORE PRESS THE JAPANESE HARD TO EXERCISE RESTRAINT NOT ONLY IN CURRENTLY SENSITIVE SECTORS SUCH AS CAR AND CONSUMER ELECTRONICS BUT OTHER AREAS WHERE THEIR TECHNOLOGY AND PRODUCTIVITY IS AHEAD OF OURS AND A THREAT DEVELOPS. THE POSITION ON (C) IS SATISFACTORY BUT THE DANGERS ARE LONG NOT SHORT TERM. JAPAN RECOGNISES THAT FOR THE PRESENT SHE NEEDS WESTERN ESPECIALLY US, SUPPORT BUT A "ROGUE ELEPHANT" JAPAN SCENARIO REMAINS A POSSIBILITY IN THE LONGER TERM.
5. JAPANESE OBJECTIVES SEEM TO BE TO (A) MAINTAIN MAXIMUM SCOPE FOR THEIR EXPORTS OF MANUFACTURED GOODS IN WORLD MARKETS (FREE TRADE POLICIES HAVE SUITED THEM WELL SINCE THEY HAVE ACHIEVED A COMMANDINGLY COMPETITIVE POSITION IN IMPORTANT SECTORS): (B) GIVE PRIORITY TO ECONOMIC RELATIONS WITH THE UNITED STATES SO THAT

CONFIDENTIAL

/ THESE

CONFIDENTIAL

THESE DO NOT DETERIORATE TO A POSITION IN WHICH THEY MIGHT SERIOUSLY PUT AT RISK POLITICAL AND DEFENCE RELATIONS AND (C) DEAL WITH THE EUROPEAN PROBLEM IN A LONGER TIME FRAME, PLAYING ON DIFFERENCES OF APPROACH AMONG MEMBERS OF THE COMMUNITY AND AGREEING TO THE MINIMUM OF EXPORT RESTRAINT WHICH THEY CONSIDER NECESSARY TO AVOID PROTECTIONIST MEASURES.

6. ON THE WHOLE THE JAPANESE HAVE SUCCEEDED IN ATTAINING THESE OBJECTIVES BUT THEY FEAR THAT AFTER THE US ELECTIONS, ESPECIALLY IF THE ITC REPORT ON CARS GOES AGAINST THEM, THEIR PROBLEMS WITH THE UNITED STATES WILL INCREASE. THEY ARE BEGINNING TO RECOGNISE THAT THE PRESSURES IN EUROPE ARE GROWING RAPIDLY BUT THEY DO NOT ENTIRELY TAKE THE COMMISSION SERIOUSLY AS A NEGOTIATING PARTNER AND STILL HOPE BY PROCRASTINATION AND MINOR CONCESSIONS TO KEEP THE EUROPEANS FROM EXERCISING EFFECTIVE AND CONCERTED PRESSURES ON THEM. AS FOR 5 (A) THEY PIN THEIR FAITH IN THE GATT SYSTEM BELIEVING THAT THE REST OF THE WORLD WOULD SUFFER JUST AS MUCH AS THEY WOULD FROM THE CHAOS WHICH WOULD ENSUE IF THE SYSTEM BROKE DOWN.

7. IT SEEMS TO ME THAT WE NOW NEED TO:

i) DEFINE SPECIFICALLY WHAT WE WANT FROM THE JAPANESE AND CAN REALISTICALLY EXPECT TO GET FROM THEM;

ii) GET OUR MESSAGE ACROSS TO THE JAPANESE CONSISTENTLY AT ALL LEVELS.

iii) AT THE SAME TIME ANALYSE WHAT MEASURES WE CAN IF NECESSARY TAKE TO DEAL WITH JAPANESE IMPORTS ENSURING THAT WE TAKE FULL ACCOUNT OF THE INEVITABLE RETALIATION; BUT NEVER THREATEN UNLESS WE REALLY MEAN WHAT WE SAY (THE JAPANESE WILL RUMBLE US AND OUR VOICE WILL COUNT LESS IN FUTURE); IF POSSIBLE GIVE THE JAPANESE THE CHANCE TO MAKE CONCESSIONS WITHOUT LOSS OF FACE IE PRIVATE RATHER THAN PUBLIC PRESSURE;

iv) WORK FOR AN EFFECTIVE AND UNITED EUROPEAN POSITION SO THAT THE JAPANESE CANNOT DIVIDE AND RULE;

v) LIAISE CLOSELY WITH THE AMERICANS ON THE JAPANESE ECONOMIC THREAT.

8. PLEASE SEE MIFT ABOUT THE LEAD UP TO THE FOREIGN AFFAIRS COUNCIL.

FCO PASS SAVING ADDRESSEES

CORTAZZI

(REPEATED AS REQUESTED)

THIS TELEGRAM  
WAS NOT  
ADVANCED

**FINANCIAL DIST:**

**FED**

2

CONFIDENTIAL



SECRET  
COMMERCIAL IN CONFIDENCE

✓ M Hoskyns

PRIME MINISTER

NISSAN

In my minute of 30 September about the talks being conducted in response to feelers from Nissan, I reported that the company had asked officials in this Department to visit Tokyo for further discussions. Richard Bullock has now returned from this visit and the purpose of this minute is to let you know where matters stand. It is essential that knowledge of Nissan's proposal is restricted to the smallest possible circle, but I do think it is now right to inform Geoffrey Howe, and also Robin Tobs, in view of the strategic industrial considerations involved. I hope we can all take special steps to ensure that there is no leakage of this exceptionally sensitive information.

2. We shall not know until 18 November, when Nissan plan to visit the UK again, whether they will indeed put forward outline proposals. However, Richard Bullock's visit confirmed that Nissan's interest in a major UK investment is serious. The company's President, Mr Ishihara, went out of his way to emphasise his personal commitment, and the importance of the proposal from Nissan's point of view. If the plan went ahead, the UK should become Nissan's principal centre of operations in Europe.

Ann-Christie

An encouraging report on Richard Bullock's discussions with Nissan. But there may be problems vis-à-vis B.L. Nissan's outline proposals are expected on 18 Nov.

NB

28/10

SECRET  
COMMERCIAL IN CONFIDENCE



2.

3. Nissan's present ideas are more attractive than those first outlined to us in July. They have in mind a greenfield plant to produce 200,000 Cortina-sized cars a year, starting at 80,000 units in 1984 and reaching full capacity in 1986; the plant would employ over 4000. An engine plant would be included from the outset, and because of this the local content could start at about 60% rising to over 80%. The company would agree export targets with us, providing for a significant volume to be exported to European markets. I attach a copy of a letter Richard Bullock has sent to Mr Ishihara confirming the substance of their discussions.

4. Although Nissan expressed a preference for a greenfield site, in response to questioning they said they were prepared to consider partnership with an existing British firm. Subsequently they volunteered that they were exploring the possibility of collaboration with BL; their consultants who have been in touch with this Department's officials say that this could mean anything from the acquisition of a redundant BL plant to full collaboration on a particular model. In between lies the possibility of collaboration on major components. However, there is no indication whatever that they would be interested in taking over the BL Cars business and indeed this seems unlikely in the extreme. My present guess is that, having examined the possibility of collaboration, they will come down firmly on the side of a greenfield project.



3.

5. I felt it right for Michael Edwardes to be told of these developments, and Sir Peter Carey has done this. Michael's view was that a greenfield project - provided local content was over 80% - was entirely acceptable : it would compete with BL, but it would do so on fair terms and in a market sector big enough to accommodate both. The additional strength that a Nissan operation would give to the components sector would be of positive assistance to BL. As for collaboration, he would be quite willing to release the Solihull plant (due to close anyway in the mid 1980s), or to supply or collaborate on major components such as the larger size of engines. He was, however, vigorously opposed to closer collaboration e.g. on a joint model. Given BL's existing collaboration with Honda and the talks with a German company of which you are aware, even to explore closer collaboration with Nissan would destroy the German connection and with it the prospect of wide ranging collaboration and even of eventual merger; BL could not afford such promiscuity, which would run counter to the most promising approach to a long term resolution of the problem of BL Cars. Moreover, collaboration on a joint model would not reduce significantly if at all BL's funding requirement and would be commercially irreconcilable with maintaining the BL dealer network essential not only for the LC10 but for the Metro as well. Finally, Michael expressed acute misgivings - based partly on his dealings with the



company over the sale of BL's Belgian plant at Seneffe - about Nissan's motives and real intentions. Nissan were exploring many other European possibilities, and would use their discussions with HMG deliberately to the tactical disadvantage of BL on the LC10 programme. Though these issues must be explored carefully, I think we must acknowledge there is much force in what Michael said on model collaboration.

6. There are many issues to be considered before we can reach firm views on how to respond to Nissan when they put outline proposals to us on 18 November. We shall need to respond fairly quickly, and in order to avoid lasting damage to the prospects of Japanese inward investment generally we shall have to respond firmly: the worst thing of all would be to encourage Nissan, and then at a late stage make major difficulties. This means, inevitably, that our consideration will have to proceed in parallel with work on BL's 1981 Corporate Plan, which has just reached me. In view of the need for tight security, our work on Nissan - and even knowledge of it - will have to be kept to a much narrower circle. Another major aspect, on which Peter Carrington will want to comment, is the possible effects of a big Nissan investment here on our EEC relationships in general, and those with France in particular.

7. I am sending copies of this minute to Geoffrey Howe, Peter Carrington, John Nott and Robin Ibbs.

KJ

**SECRET**

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 6802  
 SWITCHBOARD 01-212 7676



Mr T Ishihara  
 Nissan Motor Co Ltd  
 Tokyo

21 October 1980

cc . Mr Mountfield  
 Mr Cammell

Dear

*T Ishihara*

I found my discussions last week with you and your colleagues most interesting, and I hope they were also helpful to you.

As you will have already heard from our embassy, the date of November 18 is acceptable to us for the next round of discussions in London with Mr Okuma.

The main purpose of this letter is to put on record my understanding of what I was told by Nissan about your current thinking with regard to your possible investment in the UK, and also the comments which I made in relation to this. I hope this will help to prevent any possible misunderstanding.

Whilst the project is at present known only to a limited number of people within Nissan, you made clear your personal commitment to it, and its very great significance for Nissan. The intention is that if the British Government agrees to a Nissan investment in the UK, the UK should become Nissan's principal centre of operations in Europe.

The present plan is for a plant to produce 200,000 units a year of a F/F Cortina-size car; assuming approval was given in time for a decision to go ahead to be taken by March 1981, production would start in 1984 at 80,000 units, increasing to 150,000 in 1985 and 200,000 in 1986. At that stage the plant would employ 4350 workers.

The factory would be built from the beginning to include an engine manufacturing plant though production of engines might not begin until a year later; however, in order to maximise from the start the local content, it might be possible to bring forward the start of engine manufacture so that it began at the same time as car production (which might have to be delayed by 6 months to match).

With regard to the question of local content, Nissan's original suggestion was that this would start at 40% and rise to something more than 80%. When I indicated that the figure of 40% would be likely to be criticised in Britain as very low, it was suggested that by bringing engine manufacture forward

**SECRET**



as mentioned above, it should be possible to achieve a local content of 60% from the start of operations.

Nissan indicated that they envisaged that the local content would include purchases from other EEC countries in addition to Britain. I pointed out that since Britain was a full member of the EEC, then provided the local content was high enough, even if it was wholly of British origin, the other EEC members would have to accept that there was a satisfactory local European content. From the point of view of acceptability to British opinion, it would clearly be important that the UK content should be as high as possible.

Nissan said that production from the UK plant would replace direct exports from Japan to EEC and EFTA markets, probably starting with the latter first. Nissan would be prepared to agree export targets with the British Government. Nissan's preference was for a "green fields" site, and McKinsey's were, on a very confidential basis, seeking suitable sites of some 800 acres. But Nissan's position was not rigid, and they were prepared to consider the possibility of some form of partnership or collaboration with a company already established in Britain. At our final meeting, you specifically said that Nissan were undertaking a study of possible collaboration with BL.

You emphasised to me that if the British Government gave approval to a Nissan investment in the UK, you hoped that it would be prepared to defend its decision robustly in the face of possible criticism from some quarters in Britain and elsewhere in Europe. I said that I was sure that the Government would do so; but it would clearly be essential that the project was one which could readily be defended, and such matters as high local content and high export targets would be of critical importance. And if Nissan wanted to be accepted as part of the European motor industry in the same way as were the operations of Ford and General Motors, it was obviously desirable that their operations should eventually be equally comprehensive and in particular include not merely manufacture and assembly but complete design and development of new models for the European market. Nissan indicated that this would be acceptable as a longer-term objective.

I emphasised that the decision on whether or not to give approval was essentially one for Ministers. In some respects, sensitivities about Japanese imports to and investment in Europe had increased since Mr Okuma's visit to London in July, and political as well as economic and commercial factors would be important: the decision for the British Government would therefore be more difficult. At the present time, only



a very small number of Ministers were aware of Nissan's interest, and they had not given any consideration to the matter: in fact they could not do so until they had the formal proposition from Nissan which Mr Okuma would be bringing to London for the next round of discussions. I hoped that thereafter the British Government would be able to reach a decision in principle quite quickly, since there were obvious dangers of a leak which Nissan had emphasised would be very embarrassing particularly in relation to the negotiations with the US Government about Japanese imports into America. It would therefore seem desirable for an announcement to be made as soon as possible after a decision in principle was reached.

As an official, I could not in any way commit British Ministers, nor indeed predict what their view might be. My comments should not be interpreted as in any way being requests from the British Government, but suggestions about how Nissan's proposals might be made as acceptable as possible to all sectors of British public opinion. In the end, everything would depend upon the details of the proposition to be put forward by Nissan; whilst the political sensitivities had increased, the latest proposals outlined by Nissan were significantly more attractive than the original proposals outlined in July, and whatever Nissan eventually put forward formally would be studied with serious interest by British Ministers.

We look forward very much to seeing Mr Okuma again in London on 18 November.

Yours *sincerely*

*R. H. Bullock*

28 OCT 1980





SECRET



Foreign and Commonwealth Office

London SW1A 2AH

*Paul* *Michael - 7*  
*to me*  
*Japan*

2 October 1980

*Dear Ian,*

*R  
3/2*

Possible Japanese Investment in the Motor Industry

Lord Carrington has seen a copy of Sir Keith Joseph's minute of 30 September to the Prime Minister. He is content that Mr Bullock's visit to Japan should go ahead. He hopes, however, that the visit can be handled with the greatest discretion. It could, apart from any domestic repercussions, lead to a serious row with the French if NISSAN's proposal became known prematurely. Lord Carrington also believes that Ministers will need to consider the Community implications very carefully before any final decision on this project is taken.

I am sending a copy of this letter to Tim Lankester (No 10).

*Yours etc*

*Paul*

(P Lever)  
Private Secretary

Ian Ellison Esq  
Private Secretary to the Secretary  
of State for Industry  
Department of Industry  
Ashdown House  
Victoria Street  
LONDON

SECRET

2 OCT 1980



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COMMERCIAL IN CONFIDENCE

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6

2 October 1980

This is to confirm that the Prime Minister is content for Richard Bullock to go to Tokyo immediately for discussions with Nissan on the lines proposed in your Secretary of State's minute of 30 September.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and Stuart Hampson (Department of Trade).

T. P. LANKESTER

I.K.C. Ellison, Esq.,  
Department of Industry.

SECRET  
COMMERCIAL IN CONFIDENCE

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SECRET  
COMMERCIAL IN CONFIDENCE



PRIME MINISTER

Informed Industry  
PM approved JIP 2.10  
Yes not

cc. J. Hoskyns.  
1. Mr Alexander  
2. Prime Minister  
Agree that Richard Bullock should go to

POSSIBLE JAPANESE INVESTMENT IN THE MOTOR INDUSTRY Tokyo for discussions with Nissan? (The

1. In my minute of 6 August I told you of Nissan's <sup>Fyo. on contact</sup> possible interest in establishing a car assembly operation in <sup>provided the</sup> this country, and said that we would be continuing exploratory <sup>talks are</sup> discussions with them. Nissan are expected to come back to <sup>kept</sup> us about the end of October to say whether they wish to pursue <sup>confidential</sup> the matter seriously with us. They have asked for two or three <sup>and that</sup> officials to go to Tokyo in the next week or two for discussions <sup>they imply</sup> intended to help them reach conclusions. They have specifically <sup>no</sup> invited Richard Bullock, who as you know is the Deputy Secretary <sup>commitment</sup> here whose responsibilities include the motor industry, and who <sup>at this</sup> led the discussions with Nissan in July after Tom Trenchard had <sup>stage</sup> left.

2. I have considered this proposal in the light of both our general policy of encouraging inward investment beneficial to the UK economy and the strong feelings which Japanese investments provoke both in this country and in France. (You will remember emphasis which M Giraud and indeed the President and M Barre placed on the importance of keeping Japanese imports and investment at bay). There is a risk that Nissan would interpret our sending a senior official as a positive sign from our side, with the possibility of embarrassment if at a later stage we decided we did not want Nissan. On the other hand, if we turned down Nissan's request, we might give them the impression that we



were seeking to discourage them, which I certainly would not wish to do at this stage.

3 I do not think that by going to Japan Richard Bullock would cause any misunderstanding. He would make clear that his visit was quite without commitment and indeed I do not think the Japanese would expect anything different; their opening discussion was with Tom Trenchard, and they will certainly expect any formal Government reaction also to be at Ministerial level. And they also understand that unless and until they come back to us with a specific proposition (in preparation for which they have asked for the visit) there is no basis for Ministers to form a view. It would be no bad thing to take this opportunity of reiterating the importance which we would attach to a very high British component and manufacturing content if we were even to consider a Nissan investment here.

4 On balance I think it is right that we should agree to Nissan's request, but before doing so I thought I should give you and the two colleagues whom I informed previously of Nissan's approach the opportunity of comment. Since the Japanese could misinterpret a delay in replying to their invitation to Richard Bullock I would prefer to authorise his visit before the end of the week.

5 Copies of this go to Peter Carrington and John Nott.

/When ...



When and if Nissan indicate a formal wish to proceed further, we shall need to involve other colleagues but at this stage I think we should still limit knowledge of Nissan's interest to the minimum.

KJ.

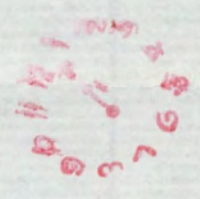
K J

30 September 1980

Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB



1 OCT 1980



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Japan  
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6 COPIES.



b.c. J. Hoskyns

10 DOWNING STREET

*From the Private Secretary*

26 August 1980

POSSIBLE JAPANESE INVESTMENT  
IN THE MOTOR INDUSTRY

---

The Prime Minister has seen your Secretary of State's minute of 13 August. She has commented that she agrees very strongly about the need to use an agreed proportion of British components in any assembly operation in this country.

I am copying this letter to Paul Lever (Foreign and Commonwealth Office) and Ian Ellison (Department of Industry).

ARB

Stuart Hampson, Esq.,  
Department of Trade.

SECRET





PRIME MINISTER

cc Mr Hoskyns  
 Agree very shortly about the need PRIME MINISTER  
 to use our components. MB.  
 To see  
 MS  
 13/8

POSSIBLE JAPANESE INVESTMENT IN THE MOTOR INDUSTRY

I was extremely interested to see Keith Joseph's minute to you about the approaches his Department had received from Japanese car manufacturers who are considering establishing assembly operations in this country. 6.8.80

Whilst recognising that this is a sensitive issue and that some account must be taken of the effects on BL of increased Japanese involvement in the United Kingdom industry, I hope that every encouragement can be given to both Nissan and Toyota to invest in this country. Such investment is likely to provide a welcome stimulus to component manufacture which despite its present difficulties is, in my view, likely to be far more important to our economy in the long-term than the assembly of cars.

In my view we should try to negotiate from the outset an agreement with the Japanese that Government grants etc could only be available on the basis that an agreed proportion of components were sourced from British industry.

We still have to deal with the problem to which the Price Commission drew attention in their report on car parts: motor manufacturers impose conditions on their franchised dealers requiring the exclusive use of their own components for replacements, and now that the majority of cars are imported these conditions exclude our components industry from a growing part of the replacement market. After further study the Director General of Fair Trading has decided to refer this practice to the Monopolies and Mergers Commission for a short inquiry which, if they reach



an adverse conclusion on it, will give me the power to prohibit or regulate the practice.

I look forward to hearing further details from Keith about the Japanese approaches.

I am copying this minute to Peter Carrington and Keith Joseph.

Department of Trade  
13 August 1980

*N. McInnes*

pp J. N.  
(approved by Mr Nott and  
signed in his absence by  
his Private Secretary)



SECRET

COMMERCIAL - IN CONFIDENCE

*Japan* <sup>2</sup>

Qa 05104

To: MR LANKESTER

*MBAM*

*R*

From: J R IBBS

*878*

Possible Japanese Investment in the Motor Industry

1. I have seen the minute dated 6 August from the Secretary of State for Industry to the Prime Minister. I support the line he is taking in responding to the Japanese, being sensitive to the potential Community reaction, and in doing further studies on such information as is available. He rightly points out the importance, when thinking of a possible Japanese assembly plant, of aiming to ensure that British manufactured components would be used. A key part even of preliminary thinking needs to be examination of ways in which such a plant could be used to minimise damage arising from the disappearance of the weakest parts of BL's range. I do not expect the 1981 plan to remove my doubts about the long term viability of their volume car business.

2. Toyota is the largest Japanese producer of cars with Nissan the next largest. As an indication of scale, I understand the output figures for May were 295,000 cars for Toyota and 223,000 for Nissan. The other Japanese manufacturers have substantially smaller output. I naturally wonder whether Toyota have also been planning a European assembly plant, quite apart from the perhaps fortuitous move by Aston Martin to involve them or has at this stage European assembly been allocated to Nissan?

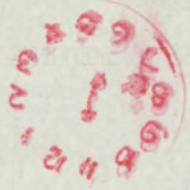
3. I am sending a copy of this minute to Sir Robert Armstrong.

*JR*

8 August 1980

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- 8 AUG 1980



SECRET

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file

ds



10 DOWNING STREET

*From the Private Secretary*

8 August 1980

The Prime Minister has read your letter of 6 August about MG Abingdon, and agrees that - in the light of Mr. Butler's letter to Robert Adley - there is no need for Sir Keith Joseph to write as well.

**J. P. LANKESTER**

Mrs. Catherine Bell,  
Department of Industry.

B



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

6 August 1980

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Ann Butler*

*I think Mr Butler's  
letter to Robert Adley  
(attached) is good  
enough. Amn?*

*Dear Tim*

*mb*

MG ABINGDON

The Prime Minister mentioned to my Secretary of State earlier today that Robert Adley had spoken to her about the fate of Abingdon and had urged that the Government should welcome the Japanese interest.

*12  
9/8*

2 I understand that the Prime Minister asked that the Secretary of State should write to Mr Adley, saying that the Government welcomed Japanese interest. Coincidentally, however, Adam Butler here wrote today to Mr Adley along these lines. I enclose a copy of Mr Butler's letter.  
...

3 In view of Adam Butler's letter the Secretary of State does not consider it necessary for him also to write to Mr Adley. Perhaps you would be kind enough to confirm that the Prime Minister is content.

*Yours sincerely  
Catherine Bell*

CATHERINE BELL  
Private Secretary

SOS to sue



DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 6401  
 SWITCHBOARD 01-212 7676

From the  
 Minister of State

The Hon Adam Butler MP

Robert Adley Esq MP  
 House of Commons  
 London  
 SW1A 0AA

6 August 1980

Copies to:

PS/All Ministers  
 Mr Binning  
 Mr Mountfield O/B  
 Mr Bowder  
 Mr Cunnell (on file)

Dear Robert,

Thank you for your letter of 1 August.

There is clearly still a considerable measure of misunderstanding between us as to the Government's position on MG at Abingdon and our policy towards inward investment from Japan. As I am sure you must appreciate, we are bound to look at any proposed inward investment in the vehicle industry in the context of the industry as a whole; having said that, our attitude is broadly to welcome investments which are in the national interest and to deal with each case on its own merits. David Mitchell's answer to your PQ was a straightforward statement of our approach.

As I have explained to you and to Mr Curtis, we would not wish to interfere in any deal between Aston Martin and their associates and BL involving the future of Abingdon and it would be quite wrong for you to interpret our position as opposition to the combined bid; it is not. To do so publicly could be extremely damaging to your cause, and to government policy.

I should tell you in confidence of one further development. Our Ambassador in Tokyo has made helpful contact with the two parties concerned, and following representations from Mr Curtis we are preparing the ground for "diplomatic" contacts in London.

Yours  
 Adam

ADAM BUTLER

R.166s  
RTA

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COMMERCIAL IN CONFIDENCE

Prin Smith



Mr Hodgson

MW

To note at this stage: but some promising initiatives from the Japanese.

PRIME MINISTER

POSSIBLE JAPANESE INVESTMENT IN THE MOTOR INDUSTRY

You will wish to be aware of two approaches which have been made suggesting possible interest on the part of Japanese car manufacturers in establishing assembly operations in this country. The first has come direct from Nissan - who make Datsun cars - and the second involves Toyota indirectly and has been made by Aston Martin Ltd.

2 Nissan's Vice President in charge of International Affairs called to see Tom Trenchard on 31 July to explore our attitude to a green field site assembly operation for 60,000 to 120,000 Datsun cars. He explained very frankly his company's fears about protectionism and sought guidance on how Nissan would be expected to operate to gain acceptance here and within the EEC. Tom made it clear that in principle the Government welcomes inward investment which benefits the UK economy; he also provided answers to a number of detailed questions. Nissan have gone away to think things over and expect to come back to us towards the end of October. I believe that they have a serious interest and that this country is the front runner in any investment with Spain as a poor alternative.

3 The Aston Martin-Toyota case is more complicated. The approach has been made by the British company on the basis that a new company would be formed with Toyota in control to acquire BL's MG facility at Abingdon as the first stage of a larger operation

/which ...

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COMMERCIAL IN CONFIDENCE





which could also include an assembly facility in existing premises at Kilmarnock. Aston Martin have made earlier approaches to BL about Abingdon and this latest interest, which also involves the trading company Mitsui, may simply be a new attempt to obtain the funds needed to achieve Aston Martin's purpose. The company sought an unqualified British welcome before visiting Japan and contacts between our Embassy in Tokyo and Mitsui and Toyota give the impression that, whilst Toyota is interested in anything Aston Martin proposes, the initiative comes from the British company.

4 The line to both Nissan and Aston Martin has been that the Government is prepared to look at any specific proposition on its merits. It has been made clear in the case of a vehicle assembly plant that the extent of local purchasing will have a significant bearing on the acceptability of Japanese investment both in this country and in Europe. In the case of Aston Martin, we have said that we would do nothing to interfere with a commercial deal with BL about Abingdon but would want to consider very carefully anything which went beyond that. I need hardly say that our Community partners - who regard us as having let in a Trojan horse in the BL/Honda deal - are likely to react quite violently to Japanese investment in the UK vehicle industry.

5 An important consideration in all this, apart from Community reaction, must be BL. Nissan are likely to be seeking further guidance at about the same time as I receive the 1981 Corporate

/ Plan ...



Plan. BL's future in the middle range volume car business will be a key element. At its simplest, if this looks unpromising, the idea of Japanese investment on the right terms will be attractive. Equally, if there are real prospects that BL will have fully competitive models by 1983, when Japanese assembly could be expected to commence, there should be ample scope both to push back imports and to sell into Europe. The actual effects, however, will depend on the Plan and our reaction to it. BL itself can be expected to regard Japanese investment as extremely unwelcome.

6 The impact on our component industry, currently suffering from the low level of home production and facing difficulty in export markets, is also a matter of great importance. It would obviously welcome an increase in UK production which provided new sales opportunities but would look askance at simple assembly of largely imported components, particularly if there were to be a further reduction in demand from BL at the same time.

7 Whilst major Japanese investment here in motor vehicle manufacture is likely to be a particularly sensitive issue, and there could be particular problems with our European partners, nevertheless I believe it is right to follow the same pragmatic policy here as with other inward investment proposals, namely that if, overall, they contribute positively to our economy, we welcome them. The extent of UK component content and added value, the proportions of output which would respectively be  
/exported ...



exported and displace imports, and the implications vis a vis BL are all factors which will have to be taken into full account in evaluating the overall effect on the economy of any major Japanese investment in motor vehicle manufacture here.

8 I have asked for studies of the possibilities to be set in hand, as far as this is practicable without any specific detailed proposals. We shall continue exploratory discussions with the Japanese. I will of course come to colleagues before there is any question of commitment.

9 I am copying this minute to Peter Carrington and John Nott but not to other colleagues at this stage in view of the need to confine knowledge of these discussions to the minimum number of people; Nissan strongly emphasized to us the need for extreme secrecy, and if there were to be a leak, there would be a real risk that they would withdraw. Scottish Office Ministers have been alerted to the Aston Martin proposal and we are keeping them informed separately about that case. Robert Adley is also involved in this latter case and there must be a real danger that this will lead to unwelcome publicity about Aston Martin and Toyota, but this should not apply to the Nissan interest.

KJ

K J

6 August 1980

Department of Industry  
Ashdown House  
123 Victoria Street

16 AUG 1980

16 AUG 1980

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*Japan 2*

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FM TOKYO 170750Z MAY 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 178 OF 17 MAY, 1979

INFO SAVING TO EEC POSTS, WASHINGTON AND OTTAWA

*Prime Minister**But  
17/5*

## COMMERCIAL AND ECONOMIC RELATIONS WITH JAPAN

1. THE KEEN INTEREST SHOWN BY SENIOR JAPANESE MINISTERS IN CALLING ON MINISTERS IN LONDON IS ENCOURAGING AND COMPLIMENTARY. THE JAPANESE ARE ANXIOUS AT THE FORTHCOMING SUMMIT TO AVOID CRITICISM OF THEIR OWN POLICIES AND PRACTICES, IN BOTH TRADE AND ECONOMICS. THEY BELIEVE THAT WE HAVE BEEN ONE OF THEIR KEENEST CRITICS IN EUROPE. BUT THEY RESPECT OUR EXPERIENCE AND JUDGEMENT IN INTERNATIONAL AFFAIRS, AND MANY OF THEM CLING TO THE BELIEF THAT WE MAKE GOOD NATURAL PARTNERS FOR THEM.
2. THEY FEEL THAT THEY ARE GETTING INTO A MUCH MORE DEFENSIBLE POSITION FROM WHICH TO COUNTER FOREIGN CRITICISM. THEIR SEASONALLY ADJUSTED SURPLUS ON THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS FOR THE FIRST QUARTER OF THIS CALENDAR YEAR GAVE AN ANNUAL RATE OF LESS THAN US DOLLARS 1.5 BILLION, AS COMPARED WITH A RATE OF US DOLLARS 22 BILLION FROM THE FIRST QUARTER OF 1978. THEIR CAPITAL EXPORTS LOOK LIKE CONTINUING TO RUN AT ABOUT US DOLLARS 1 BILLION PER MONTH. THEIR SURPLUS WITH THE US IS SHRINKING, BUT WITH THE EEC OBSTINATELY PERSISTS. THERE ARE MANY UNCERTAINTIES ABOUT THIS YEAR'S OUTTURN, BUT CONFIDENCE IN THE JAPANESE ECONOMY IS NOW STRONG AND DEMAND IS STANDING UP WELL. INFLATION REMAINS A POTENTIAL DANGER, WITH RISING OIL AND COMMODITY PRICES, BUT THERE IS A DETERMINATION TO CONTROL IT. THE JAPANESE AUTHORITIES HAVE RESISTED THE RECENT TENDENCY OF THE YEN TO WEAKEN.
3. THEY CAN ALSO CLAIM THAT THEY HAVE MADE A MAJOR EFFORT TO CONCENTRATE IN THEIR ECONOMIC POLICIES ON THE STIMULATION OF DOMESTIC DEMAND, AND THAT THE GROWTH RATE FOR THE CURRENT FINANCIAL YEAR, WHICH WAS SET IN THE BUDGET AT 6.3% OF GNP IN REAL TERMS, IS ATTAINABLE SEMICOLON THERE ARE INDEED SIGNS THAT FOR FISCAL '78 IT WILL BE CLOSE TO 6%. LAST YEAR'S SHARP INCREASE IN IMPORTS OF MANUFACTURED GOODS AS A PROPORTION OF TOTAL IMPORTS WAS ALSO /TO B

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TO BE WELCOMED AND IS LIKELY TO BE SUSTAINED, IF AT A SLOWER RATE. AT THE SAME TIME, THEY REMAIN WILLING TO EXERCISE CONTINUED RESTRAINT OF EXPORTS IN SENSITIVE SECTORS. THEIR AID DISBURSEMENTS IMPROVED SUBSTANTIALLY IN 1978.

4. THEY HAVE MADE SOME IMPRESSION ON THE PSYCHOLOGICAL RESISTANCE TO IMPORTS WHICH HAS CHARACTERISED THE JAPANESE ECONOMY IN THE PAST, AS WELL AS REMOVING OF REDUCING SOME PRACTICAL BARRIERS. THE FEDERATION OF ECONOMIC ORGANISATIONS (KEIDANREN) WHICH REPRESENTS JAPANESE INDUSTRY POWERFULLY IN THE FORMULATION OF JAPANESE POLICIES, SUPPORTS THE GOVERNMENT ON THESE MATTERS AND HAS INDEED IF ANYTHING BEEN PUSHING THEM FORWARD, CERTAINLY NOT HOLDING THEM BACK. THIS IS A FACTOR WHOSE SIGNIFICANCE HAS NOT BEEN FULLY RECOGNISED BY JAPAN'S TRADING PARTNERS. IT DOES NOT REMOVE RESISTANCE TO IMPORTS IN SPECIFIC CASES, BUT IT MEANS THAT JAPANESE INDUSTRY IS FORMALLY COMMITTED TO AN OPEN MARKET POLICY AND THAT KEIDANREN OFFICIALS WILL HELP TO OVERCOME OBSTACLES. ADVANCE TARIFF CUTS FOLLOWING THE CONCLUSION OF THE MTNS WILL WORK IN THE SAME DIRECTION.

5. THERE IS A TENDENCY NOW, EVEN AMONG RESPONSIBLE JAPANESE, TO FEEL THAT THEY HAVE DONE MOST OF WHAT THEY WERE ASKED TO DO BY THEIR INDUSTRIALISED TRADING PARTNERS. THEY WOULD LIKE TO SEE MORE ABUNDANT EVIDENCE OF A DETERMINATION ON THE PART OF WESTERN INDUSTRIALISTS TO MAKE THE MOST OF THE OPPORTUNITIES WHICH NOW EXIST IN THIS LARGE MARKET, WITH ITS CONTINUING GOOD GROWTH PROSPECTS. WHILE IT WOULD BE RIGHT TO SUSTAIN PRESSURE ON THE JAPANESE, IT REMAINS MY VIEW THAT PRESSURE IS MOST EFFECTIVE WHEN IT IS DIRECTED AT SPECIFIC POINTS IN PRIVATE NEGOTIATIONS. I BELIEVE THAT SOME PUBLIC ACKNOWLEDGEMENT ON OUR PART THAT THE JAPANESE GOVERNMENT ARE MOVING IN THE RIGHT DIRECTION, IN ENCOURAGING IMPORTS OF MANUFACTURED GOODS FROM THEIR INDUSTRIALISED TRADING PARTNERS, WILL ASSIST THEM TO GO FURTHER RATHER THAN LEAD THEM TO CONCLUDE THAT THE PRESSURE IS OFF.

/6. IT

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MS.

6. IT ALSO REMAINS MY VIEW THAT WHATEVER FURTHER MEASURES THEY MAY BE INDUCED TO TAKE, JAPAN WILL NEVERTHELESS REMAIN THE MOST DIFFICULT AND COMPLEX OF OUR INDUSTRIALISED MARKETS AND THAT IN WHICH THE GREATEST EFFORT IS REQUIRED FOR A RETURN WHICH THOUGH ULTIMATELY VERY RESPECTABLE IS LIKELY TO BE SLOW IN COMING. CONDITIONS FOR OUR EXPORTERS TO JAPAN ARE HOWEVER NOW MORE FAVOURABLE THAN THEY HAVE EVER BEEN, AND I HOPE THAT MR ESAKI'S VISIT CAN BE USED TO DEVELOP RECOGNITION OF THIS IN BRITAIN. WHEN I SAW HIM ON 16 MAY, I SUGGESTED THAT HE SHOULD ENCOURAGE BRITISH INDUSTRIALISTS TO MAKE THEIR OWN SERIOUS ASSESSMENTS OF THE MARKET POTENTIAL HERE AND OF POSSIBILITIES OF INDUSTRIAL COLLABORATION, SUCH AS THAT ON AEROENGINES OF WHICH SIR K KEITH HAD SPOKEN TO HIM EARLIER THIS WEEK. IF IT COULD BE ARRANGED FOR HIM TO MEET SOME LEADERS OF THE CBI WHILE HE IS IN LONDON, I BELIEVE (PROVIDED THAT THE OCCASION WAS APPROACHED IN A CONFIDENT AND CONSTRUCTIVE SPIRIT) THAT THIS COULD BE MOST HELPFUL. THERE IS A DANGER, WHICH I HAVE NOTED BEFORE, THAT TOO GREAT A CONCENTRATION ON MACRO-ECONOMIC PROBLEMS, ON THE DEFENSIVE ASPECT OF OUR RELATIONS WITH JAPAN, ANZATCTTHE ADMITTED DIFFICULTIES OF THIS MARKET, MAY LEAD BRITISH INDUSTRY TO HOLD BACK WHEN IT SHOULD BE PRESSING FORWARD.  
FCO PAS S ALL SAVING ADDRESSEES  
WILFORD

[REPEATED AS REQUESTED]

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