 Copy No 1 of 12 1

cc A. Duguid

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

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.

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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.

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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 ...

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

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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

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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.

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.

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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

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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.

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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.

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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. Elison

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 /up to 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.

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 occurence. 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/ [/equalled 80% UK content (but see para 24),] 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.

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 row 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.

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The UK Market for Upper Medium Cars

		1979 Actual	'000 1986 Forecasts: Without Nissan UK (I)		With Nissan UK (II)	
1	Total UK Market Size - all Cars	1716	1550	1900	1550	1900
2	The UK/Upper 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,/its 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 already beyond recovery.

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.

Table 2

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
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

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.

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 beseiged by regional organisations once the project is announced. That might be a good thing if it encouraged possible opponents to mute their cticicism in the hope of local advantage. The Government's position must be that within broad criteria choise of location is for Nissan to make, but informally we shall have to give much back-up advice on matters such as intrastructure, 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 intrastructure, 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 essential 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

Commisser 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 - unilaterial 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 of 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 Datsum UK. In the event it may be the kind of issue which can be resolved with a suitable <u>quid pro quo</u> - UK component exports to Nissan in Japan, for example.

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.

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.

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

M. Okuma

Masataka Okuma
Executive Vice President

Attachment

AIDE MEMOIRE

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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, <u>before</u> 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 <u>Capacity</u>. 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.

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

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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 in1984 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~~ 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.

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%	- Purchase of standard/semi-standard parts and of large trim parts in UK/EEC - Assembly of engine, transmission, axle and steering with some parts purchased in UK/EEC - Welding, painting and assembly
2.	80%	In addition to Stage 1 - Production of body panel in U.K. - Production of the engine, transmission, axle and steering in U.K.

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%	- Purchase of standard/semi-standard parts and of large trim parts in U.K./EEC - Welding, painting and assembly
2	60%	In addition to Stage 1 - Assembly of engine, transmission, axle and steering with parts purchased in U.K./EEC
3	80%	In addition to Stage 2 - Production of body panel in U.K. - Production of the engine, transmission, axle and steering in U.K.

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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.

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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 John,

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.

Ever,
Keith

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