

*✓ Mr Ingham
Mr Walters
Mr Orquid*



DEPARTMENT OF INDUSTRY
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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
concrete agreements
as to content
and timing of
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

File

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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



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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



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Japan



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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

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

R.

1981

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.

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

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.

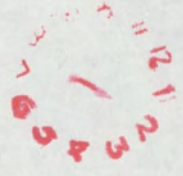
Feasibility Study Team

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 not 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', with a stylized flourish above the first few letters.

NORMAN TEBBIT



6 APR 1961

