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JU359
Secretary of State for Trade and Industry

22 May 1986

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David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister 2
Mr Channon seems to be
taking absolutely the right
line.
Princess Diana is not
opening the plant. You are.
DWS
23/5.

Dear David,

NISSAN

The Prime Minister mentioned Nissan to my Secretary of State recently and he thought it would be helpful for her to have a report on the current position.

Nissan have now put proposals setting out the basis on which they would be able to proceed with Phase 2 of the project. These reflect the following factors:-

- the commercial need to achieve viability for the Washington operation within a reasonable period. Output of 100,000 units a year is the threshold for this;
- build-up of production to these levels in the required time-frame depends on sales to the domestic market. Exports will not be possible until left-hand drive models (and reasonable European content) are available in Phase 2;
- the company's UK distribution system cannot, however, handle sudden large jumps in sales (zero to 90,000 in three years) particularly with the single model originally envisaged.

The company have therefore decided to introduce a second model but, to permit manageable development of sales and of the UK distribution network, they are also pressing for some relaxation in the terms governing Phase 1 set out in the 1984 Heads of

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Agreement. Specifically they want:-

- a Phase 1 cars to be treated as UK production and not as imports even though local content would be below 60%, significantly so in the early years. On revised volumes, this concession would apply to around 119,000 cars in the period 1986-90 of which some 60,000 units would be involved over 1987 and 1988;
- b in addition, to import an extra 25,000 built-up cars from Japan above their normal allocation, spread over 1987 and 1988. These imports would be necessary to achieve a reasonable model mix;
- c to have more time to reach 80% local content in Phase 2 production - 2 years instead of 18 months.

Under Nissan's proposals, there would be certain other changes to the project. Phase 2 production would start in 1989 rather than 1990 and output would eventually reach 120,000 cars a year instead of 100,000. In return for concessions on the treatment of Washington Phase 1 output, and for the additional imports required, Nissan would commit to full engine manufacture in the UK (only engine sub-assembly is currently envisaged). This would improve opportunities for UK suppliers of engine systems and components and, as the engine facility would only be half utilised in meeting the needs of the UK plant, substantial exports of UK-built engines to the company's overseas plants would be a possibility. No additional direct employment would be involved at Washington but, with local content comfortably exceeding 80%, the spin-off for the automotive components sector would be significant.

While the proposed engine plant is attractive, my Secretary of State has decided that the Nissan request for fundamental changes in the Heads of Agreement should be firmly rejected. The prospect of an additional 85,000 "Japanese" cars on the UK market over the next two years would be fiercely resisted, particularly by Ford and ARG, and a fresh public row with the motor industry would be a certainty. Concessions would also undermine the common approach which the Government has tried hard to maintain towards all Japanese-linked investment in the motor industry i.e a minimum of 60% local content at start-up of production for vehicles to be regarded as "British"; and 80% to be reached after a short transitional period. More generally, waiving important safeguards built into the Heads of Agreement would be criticised as yet further evidence that "Understandings" with foreign companies, whether Japanese or American, have little value.



Nissan will be given this response at talks with officials on 23 May. My Secretary of State does not believe that a tough approach will lead to any major upset with Nissan or their withdrawal from the project, to which they are deeply committed. Phase 2 seems certain to go ahead if over a longer timescale but with the strong commercial pressures on Nissan, particularly those arising from the appreciation of the Yen, the differences in the end may prove marginal. The only real loss might be the engine-machining plant but the benefits of this do not outweigh the risks inherent in showing weakness to the Japanese.

Mark Addison also asked about Press reports that the Princess of Wales would shortly carry out the official opening of the Washington plant. In fact, neither the Prince nor the Princess of Wales has any plans to visit Nissan in the UK, although they did call on the company during their recent tour of Japan. The position remains therefore that the opening of the Washington plant will be undertaken as agreed by the Prime Minister on Monday 8 September 1986.

Yours sincerely,

Bradley

CATHERINE BRADLEY
Private Secretary

BM.



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10 DOWNING STREET

From the Private Secretary

29 May 1986

NISSAN

The Prime Minister was grateful for the account of discussions with Nissan given in your letter to me of 22 May.

Mrs. Thatcher very much agrees with the tough line being taken by your Secretary of State.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry

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