CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

28 September 1983

CC NO

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

NBPM

MES 28/9

Dear Nigel,

NISSAN AND REGIONAL ASSISTANCE CHANGES

I am writing to confirm the outcome of our telephone conversation following your letter to me of 12 September, now that the negotiations with Nissan have been brought to a successful conclusion.

2 When we spoke, you had seen a copy of the note that officials here had prepared on the implications for public expenditure and for the PSBR of my proposal that transitional arrangements for changing the RDG scheme should be framed so as to preserve RDGs for the Nissan project and for others in equivalent circumstances. In view of the difficulties we both saw in adopting an approach which singles out Nissan for specially favourable treatment, you were able to accept my proposal, subject to your officials confirming - as they subsequently did - that they accepted my officials' estimates of a total net PSBR cost of about £20m but of no public expenditure cost compared with the estimates provided by the Anson report since this had assumed pound-for-pound offsetting selective assistance for changes in RDGs.

3 As we agreed, I will of course seek to ensure that the criteria are framed in a way that limit the benefit of the transitional provisions to as small a class of cases as possible. Once we have agreed what the RDG changes will be, this will be a matter for detailed discussion between officials in our two Departments.

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

Yours ever,

Cecil

JAPAN: Nissan
Pt 3



CC NO.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 September 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Dear Cecil

NISSAN AND REGIONAL ASSISTANCE CHANGES

Thank you for your letter of 9 September, which puts forward a new proposal raising rather different issues from the set of proposals to which my letter of 8 September was addressed. What it involves is a major decision about the transitional arrangements to be adopted if colleagues agree that we should implement the proposed RDG reforms. We cannot allow this one project, on which I recognise you need a quick decision, to prejudice these reforms to which we must look, as I know you agree, for substantial public expenditure savings.

It is clear that your new proposal, of which a proper costing has yet to be done, will be expensive, both in public expenditure and PSBR terms. Our hopes of achieving substantial and early savings on RDGs depend upon a strict approach to the transitional arrangements: certainly not more than £1 of selective assistance for every lost £1 of RDGs, and in some cases less or none at all. As I understand it, you are proposing that in every case where an offer of selective assistance has been made, entitlement to be associated RDGs should be preserved. This is not just full £ for £ compensation but involves lower tax revenue too, since RDGs are non-taxable.

I must confess I am not greatly reassured by what you say about the value for money of the Nissan project. The very large cost-per-job figures which I mentioned in my earlier letter related a projected 2,750 jobs at Nissan to regional assistance of £87 million or £112 million, depending on whether Nissan went to a DA or an SDA. The figure you quote, including possible additional employment in components and ancillary industries, is speculative. I gather that it depends, for example, on an assumption that Nissan manages to export 20 per cent of its output. This must be highly questionable in view of the recent Italian and French action against the Acclaim. The figure also assumes that productivity in the UK components industry remains at present levels and that all of Nissan's 80 per cent local content quota is bought from UK firms even though the definition of local content encompasses the EC.

Even if your figures are soundly based, it would be misleading to compare them with the normal cost-per-job ceilings, which relate to direct employment. All projects may have multiplier effects but their effect on net employment in the economy at large is much less clear-cut.

CHANCELLOR OF THE EXCHEQUER

The fact of the matter is that the Nissan project is highly capital-intensive. There may, as you say, be reasons other than employment which would make it worthwhile to attract it to the UK. I have been prepared to pay the previously agreed public expenditure price (though with some misgivings) in order to do so. But I must resist a proposal which would have the effect of prejudicing across the board the hoped-for savings from reform of RDGs.

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

Yours ever
Nigel

NIGEL LAWSON

Japan: Relations Pt3

S/C.NO. Prime Minister (2)

MS 9/9

Mr. Scholar

I have told Mr. Micklin and Miss O'Mara that the PM read and noted the Sec. State's letter without commenting further. I said that I hoped that the Chancellor and the Sec. of State would negotiate an accommodation without involving the PM to adjudicate.

FERB 12.9.


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JU456
Secretary of State for Trade and Industry

9 September 1983

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Chancellor,

Thank you for your letter of 8 September 1983 about Nissan.

2 The talks with Nissan have just resumed and it is now clear that a deal is "on". They have accepted the SFA offer of 10% (averaged over the two phases of the project) and met our wishes on local content. I foresee no difficulty in resolving subsidiary issues and the company are confident of overcoming resistance from their own trade union.

3 However the documentation to be discussed next week includes a draft letter given to them, with Ministerial authority, last year containing an assurance that if the RDG regime were to change we would give favourable consideration to the provision of additional SFA. Nissan understood this to mean that they would be fully compensated for any net adverse change i.e they would receive full RDGs or the after-tax equivalent in SFA. Their latest financial forecasts have been prepared on this basis. We therefore have the choice either of honouring that understanding or, as you propose, pulling back and warning Nissan that full compensation will not after all be available.

4 I am sure that on the latter basis we should lose the project. Nissan have with the greatest difficulty been brought to accept our offer of SFA, and to warn them now that they stand to lose a large part of the RDGs they had been expecting (which are worth roughly twice SFA for each percentage point, because of the tax benefit passed through the lessor) would completely over-shadow the much smaller margins which have been the subject of these difficult negotiations.

5 The question is whether the project is still worth what we judged it to be just two months ago. You believe that it is not and give "cost per job" figures to support this view. The calculations you quote are, however, on a highly questionable basis which greatly exaggerates the value of the offer. On the basis of the most up-to-date figures, my Department has estimated that the net employment effect will be a gain of about 6000 jobs, giving a cost per job of £14,600 (in a Development Area) or £18,700 (in a Special Development Area). Although not strictly comparable this is not significantly out of line with the

£15-20,000 per net job anticipated under our proposed new regional policy. The cost per job calculations of course take no account of the "dynamic" benefits we would expect from a Nissan presence here, particularly the higher standards of performance they would stimulate among the assembly and components sectors.

7 I am convinced that our commitment to Nissan is such that we have no option other than to pay Nissan what they have been led to expect. We must, therefore, protect their position when we decide on transitional arrangements for the changes in the RDG scheme we are planning.

8 When we changed regional policy in 1979, limited selective assistance was available to companies who would - because of reductions in expected RDGs - otherwise have cancelled their projects. Those who found themselves so committed to projects that cancellation was not a feasible option received no selective assistance. This caused widespread resentment within industry who considered we had acted in bad faith. Contrary to the position in 1979, selective assistance is now negotiated as the minimum necessary, taking into account RDG, to induce a project to go ahead, and the Government is therefore much more closely committed to the specific offers of assistance made. If the new transitional provisions followed the 1979 model, I would expect the resentment in industry to be if anything stronger than in 1979.

9 I therefore propose that we should devise transitional arrangements which give Nissan the rates of RDG and SFA they are expecting, which cannot be held to give unduly preferential treatment to Nissan by comparison with others in equivalent circumstances, but which are drawn as tightly as possible consistent with these constraints.

10 This means that the savings arising from changes in the RDG scheme would come through more slowly than we might have expected. But the important thing is that very significant savings will still be achieved in the short-term, and all the expected savings in the longer term.

11 The main talks with Nissan resume on Tuesday 13 September; the negotiating team must be in a position by then to handle this issue. I hope that you can agree to what I propose.

12 I am sending a copy of this letter and, for completeness, a copy of yours (and of the note by officials which we both received) to the Prime Minister, in view of her close interest in this project.

Yours sincerely,

Jonathan Spencer

pp CECIL PARKINSON

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

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 September 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Dear Cecil

**NISSAN**

My officials have shown me the paper that you have been given about Nissan and the regional assistance changes.

I think that we must tell Nissan that they will receive only £ for £ compensation for lost RDGs, despite the risk of losing the project. Grossing-up would mean a cost per job of up to £67,500 if Nissan went to an SDA. This is five to six times greater than the highest cost per job limit which officials have been contemplating in the review of regional economic policy. There must be a limit to the amount that we are willing to pay to entice Nissan to the UK. I recognise that our previous SFA offer, and our willingness to maintain it despite the tax cost to the Exchequer of leasing, represented an implicit decision to pay this much for the project. My concern is that grossing-up is not simply a different way of presenting this cost but could result in our paying even more.

Providing full compensation for Nissan is potentially very repercussive, and runs the risk of losing a substantial part of the savings we have been expecting from the regional review. It is impossible to estimate the knock-on effect of conceding grossing-up for Nissan on other projects but I am advised that it could be up to £50 million per year. This is in addition to the already enormous bill that we are facing and, given the probability that the banks will shelter the additional leasing payments from tax, we are unlikely to receive any additional tax receipts to offset against the cost.

In the light of the damage that grossing-up could do to our new regional policy, I am firmly of the view that we must restrict compensation to the £ for £ formula.

Yours
Nigel

NIGEL LAWSON

# NISSAN PROJECT AND REGIONAL ASSISTANCE CHANGES

## Introduction and Summary

1 This paper, prepared in consultation with the Treasury, describes a dilemma that the Department faces in trying to conclude discussions with Nissan at a time when major changes in regional policy are being planned. In negotiating the final deal with the Department, Nissan will be relying on assurances which they sought earlier about protecting the project against possible changes in RDG. If in the event Nissan's expectations about the degree of protection offered by those assurances were not fulfilled, the future of the project would be jeopardised and the Government would be open to accusations of having negotiated with Nissan in bad faith. However, it may be impossible to provide the protection which Nissan require without repercussions for other projects, thus putting at risk some of the public expenditure savings expected to accrue from the regional policy changes.

2 For reasons explained in the paper, we consider that the Government is already committed to offsetting any reduction in RDG for the project by an increase in Selective Financial Assistance (SFA). The question now is whether that offset should be limited to £ for £ or whether Ministers agree that the increase in SFA should be <u>greater</u> than the reduction in RDG to allow for the difference in tax treatment. SFA is taxable; RDG is not.

3 A decision on this is needed before the next substantive discussions with Nissan start on Tuesday 13 September.

If Ministers decide that the offset can include an allowance for the different tax treatment, the negotiations can proceed as planned. Any questions Nissan raise about the risk of possible changes to RDG (as they have earlier) can be met in good faith with confirmation that the Department will leave Nissan no worse off as a result. If Ministers decide that the offset cannot be more than £ for £, we believe that this must be made clear to Nissan before negotiations are concluded. If the Department concluded and announced a deal with Nissan without exposing to them the intention to limit offsetting SFA to £ for £, this would jeopardise the project as soon as the regional policy changes were public and lay the Government open to accusations of bad faith and we therefore recommend against it. On the other hand exposing to Nissan now an intention to limit offsetting SFA to £ for £ of any RDG lost would itself in all probability result in the project being lost.

The Nissan project and the 'Letter of Comfort'

4 Negotiations with Nissan over their prospective UK plant have been proceeding for two and a half years since the announcement of their feasibility study in January 1981. During discussions in late July this year the outline of a deal (described at Annex 1) was struck at working level. What we hope will be the final stage of negotiations is due to start on 13 September when the documentation should be finalised.

5 During their talks with the Department early in 1982, Nissan were worried that changes in the availability of RDG after they

had committed themselves to the UK project might substantially reduce the Government assistance available to their project. The then Secretary of State stressed to Nissan that the Government could not bind itself or its successors not to change regional assistance. Nonetheless, as part of the negotiating process with Nissan, he indicated that he was prepared to offer a limited reassurance to the company, in the terms of the draft letter of comfort attached at Annex 2.

6 This letter was provided at a point when negotiations on the project were at a critical stage, and was recognised to be one of the crucial elements in a package which was later that year described by Nissan as having a "broad measure of agreement". Its wording was carefully drafted to avoid explicit commitment; but in tabling the letter it was recognised on the Government side that there was a moral commitment to compensate Nissan in the event that the level of RDGs for the project were reduced.

7 At that time, the question of whether such compensatory assistance would have to take into account the different tax treatment of RDGs and SFA was not explored in detail. The issue did not seem likely to arise very starkly, since Nissan's UK project would not be in a tax-paying position for at least 15 years.

8 Since then the position has changed. The project under discussion in 1982 was not approved by Nissan's Board and the current project is both smaller and explicitly in 2 phases. Secondly Nissan are now proposing to lease most of the

assets, which considerably improves their return on the project. Thirdly, the prospect of major changes to RDG (in terms of structure as well as coverage) has become much firmer following the interdepartmental review (see below para 11 et seq). However, at no stage has the Department given Nissan any indication that the reassurances in the letter of comfort could not continue to be relied on and Nissan will be expecting a letter of comfort in similar terms to Annex 2 to form part of the final documentation.

9 Leasing and "grossing up"

A critical development in the Nissan project since February 1982, is the introduction of leasing. The Government has encouraged Nissan to adopt the leasing route. Leasing both reduces Nissan's initial cash outlay and allows them to receive, through reduced rentals, the benefit of most of the tax allowances which the lessors are able to claim but which would not otherwise be available to Nissan because of their lack of taxable profits in the UK.

10 This, combined with the non-taxable nature of RDG, leads directly to the present problem. The leasing company in setting its rental charged to Nissan is able to deduct the RDG which it would receive from its net of tax expenditure. If the RDG is withdrawn or reduced, the leasing company will recoup this by increasing Nissan's rental payments. But when the tax effects are taken into account, the increase in rentals is likely to be greater than the reduction in RDGs - perhaps up to double. Therefore if offsetting SFA were limited

to £ for £, Nissan would be worse off. To put them in a position where they were not worse off might effectively mean paying them as much as £2 additional SFA for every £1 reduction in RDG. (The actual grossing up factor would depend on the terms of the leasing deal, the extent of non-leased assets and Nissan (UK)'s tax position - none of which can be immediately established - but can be assumed to be close to two.)

Regional Assistance Changes

11 Ministers are to consider, in September, the second report prepared by officials on regional economic policy, which includes recommendations to change RDGs. If Ministers endorse these changes, or others similar in character, legislation may be introduced in this Session to give effect to the changes starting from mid-1984. One of the aims of the changes is to achieve a substantial saving in public expenditure on regional policy as early as possible.

12 The extent to which these changes would reduce RDGs on the Nissan project depends on the character of the proposed new scheme, the timing of the changes and the length of the transitional period. Nissan expect to receive RDGs at 15% (or 22% if they locate in an SDA) on expenditure of £350m ie £52½m - £77m RDGs. The associated employment forecast is for 2,754 jobs. If for example the new scheme imposed a £10,000 per job ceiling on grant, Nissan's RDGs would be reduced by between £25m and £50m. Even if RDG changes were delayed, the profile of expenditure puts Nissan's Phase II expenditure after any likely date for changes to RDGs.

If the area in which the project is located were to lose its RDG status entirely before Phase II of the project went ahead, the loss of RDGs would be between £45m and £66m.

13 A number of other companies face a similar position to Nissan in that they will have negotiated SFA for projects which may straddle the RDG changes. They too will lose some of the RDG they were relying on, and will look for selective assistance to meet the gap in funding. None will have had this explicitly provided for in the package of assistance. Some have already approached the Department for assurances, although none have been given, beyond an indication that adequate transitional arrangements would be normal in the event of major changes to the RDG scheme. On past precedent if, as a result of such changes, a project were put in jeopardy, there would be fresh negotiations about the extent of SFA which might be provided. The question of grossing up would then be an element in that fresh negotiation.

14 We have in the past not conceded that projects jeopardised by changes to RDG's should receive compensation at more than £ SFA for £ RDG. Additional SFA in such circumstances has been individually negotiated as the minimum necessary to allow the project to proceed, and the £ for £ figure has not been exceeded.

Options

15 One option based on this precedent is therefore to conclude the Nissan deal on the basis of the existing letter

of comfort with the intention that, when the regional policy changes were announced, Nissan would be offered addit SFA on the basis described at paragraph 14 above, ie £ for £ without any grossing up for the different tax treatment. However it must be very doubtful whether it would be accepta to proceed in this way given the way the Nissan negotiations have developed.

16 Nissan might well be expected to argue

(i) that the Government, having encouraged them to follow the leasing route, must have known what effect the planned RDG changes would have on the financing of the project;

(ii) that the Government must have known that Nissan, having sought specific reassurance, regarded the lett of comfort as saying that they would be left no worse off;

(iii) that to compensate for loss of RDGs only on a £ for £ basis would leave them worse off;

(iv) that therefore the Government had negotiated the deal in bad faith.

17 This would have repercussions not only for the Nissan project, but for inward investment from Japan and elsewhere. The Government's reputation for fair dealing could be damaged Officials could not recommend such a course.

18 A second option is to make it unequivocally clear now, before Nissan make their decision, that we will be prepared to compensate Nissan for any loss of RDGs only to the extent of £ for £.

19 Officials engaged in the negotiations with Nissan believe that this course would lead at least to an hiatus in the negotiations, and probably to loss of the project in some acrimony. That Nissan have sought for and obtained assurances on the availability of compensation assistance, and the difficulty of the negotiations over marginal changes in the overall terms of assistance available to Nissan, do not suggest that the company would be prepared to proceed with the substantial losses represented by only £ for £ compensation. Nissan could claim publicly and with some justification that they had committed resources and considerable amounts of public reputation to pursuit of the UK project, only to find the UK Government changing its position at the eleventh hour.

20 Treasury officials believe, however, that this risk has to be balanced against the possible cost of going beyond £ for £ (see paras 25 and 26). They are inclined to the view that, if Nissan's expectations cannot be met without a substantial increase in public expenditure, it may be right at this stage to attempt to secure the project on the clear understanding of additional SFA £ for £ for any loss of RDGs, recognising the risk that this would entail.

21 The third option is therefore to decide now that the Government is prepared to ensure that the regional policy changes leave Nissan no worse off ie taking into account the different tax treatment of RDG and SFA.

22 We have identified two possible methods of achieving this:-

I <u>A contract between the Secretary of State and Nissan</u> guaranteeing that RDGs would be paid on their project at the current rates.

II <u>Additional SFA</u>, to be negotiated at the time of the RDG announcement, but expressly on the "no better no worse" principle (ie including grossing up);

23 Method I would require specific provision in the relevant legislation to amend RDGs. A general transitional provision preserving RDGs for projects to which companies were already committed would seriously jeopardise a large part of the public expenditure savings that are intended to accrue from the RDG changes. Limiting the protection to projects that had received a contractual commitment would precisely fulfil Nissan's expectations and mean that the benefit could be confined to the Nissan project as long as no other grant applicant were given a similar commitment, thus avoiding any public expenditure repercussions. Treasury would therefore be in favour of this route.

as seems likely
24 However, if/it were clear during the passage of the Bill that this provision were intended to cover only Nissan, the question of hybridity would arise. Hybridity is a matter

intention, rather than the wording of the Act. In this case, intention would clearly be to treat Nissan differently from others in a similar position and the House authorities (who rule on hybridity) might well decide that it was hybrid. This would seriously delay passage of a Bill, add to controversy and would be extremely difficult to defend. The Government would be seen as having acted in bad faith with all RDG applicants (especially those with SFA offers) other than Nissan, to whom preferential treatment would be extended.

25 Method II would also clearly fulfil Nissan's expectations, by the Department responding quickly and positively to Nissan's request for additional SFA when the RDG changes were announced. The main objections are on grounds of public expenditure. By letting Nissan enter the deal on a firm assurance that they would be left no worse off as a result of any RDG changes, it would leave the Department no room to manoeuvre on the tax issue thus resulting in additional public expenditure* for the Nissan project alone of up to £25m for a DA location, up to £50m for a SDA location - considerably more if by the time Phase II starts the location no longer attracts RDG at all. These figures could lift the total assistance to the project - leaving aside the tax benefits obtained through the leasing deal - to as high as £112m (£162m for an SDA location) equivalent to £40,000 (£60,000) per job. This contrasts starkly with much lower cost per job figures contemplated generally in the proposals to reform regional assistance.

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* Normally such an increase to allow for the difference in tax treatment would be offset by an increase in tax revenue (although not necessarily in the same financial year). But to the extent that the leasing companies would be able to find further leasing business to cover their tax liability on the increased rentals, this offset would not occur and the PSBR would rise accordingly.

26 There could also be repercussions for other projects affected by RDG changes (including changes to the AA map as well as to the scheme itself). It must be assumed that whatever deal is agreed with Nissan will become public knowledge, including the fact that for the first time the Department had offered compensation 'grossed up' to allow for the different tax treatment. Once this precedent was established, it would weaken the Department's ability to resist claims for similar treatment in other cases where the loss of RDGs was accepted as putting a project in jeopardy. It is not possible to make a sensible guess at how many cases there might be where the tax position of companies justified their claiming grossed up compensation for RDG. But if more than 4 or 5 major projects were involved the additional cost referred to in para 25 could be increased substantially. This would conflict with the intention to achieve major and early public expenditure savings from the RDG changes.

Conclusion

27 Officials do not regard any of the options as free of serious difficulty and, given the conflicts of regional, public expenditure and industrial policy in this case, have not been able to agree any single course of action to recommend to Ministers.

28 If, as we recommend, Ministers rule out on grounds of bad faith the possibility of telling Nissan nothing further at this stage and offering only £ for £ when the regional

changes are announced, the choice is as follows:-

(a) tell Nissan now that they will receive only £ for £ compensation for any loss of RDGs - this avoids additional public expenditure and creates no new precedent for other cases, but could result in loss of the project;

(b) give Nissan a contractual commitment to RDG as such regardless of regional policy changes - this too avoids additional public expenditure and runs no risk for the project, but raises the question of hybridity and bad faith for all other firms affected by the changes; or

(c) confirm to Nissan that they will be left no worse off as a result of any RDG changes with the intention of meeting the grossed up cost - this again avoids any risk to the project, but could add substantially to public expenditure both directly and through its implications for the treatment of other projects.

29 In view of the need for a decision before negotiations restart on 13 September, Ministers may wish to discuss these options with officials. Treasury officials will be putting the paper to the Chancellor who may wish to comment.

DTI

2 September 1983

NISSAN PROJECT

The principal elements of the current proposal, as discussed in Tokyo, are:-

(i) A project in two phases, with a break-point in 1987 (when Nissan would decide whether to proceed with a full manufacturing operation) but also a clear progression to production of 100,000 units in 1990. There would be a general reference to the possibility of production eventually reaching 200,000 units per annum.

(ii) A commitment in Phase II to achieving 80% local content within 18 months of the start of full manufacture.

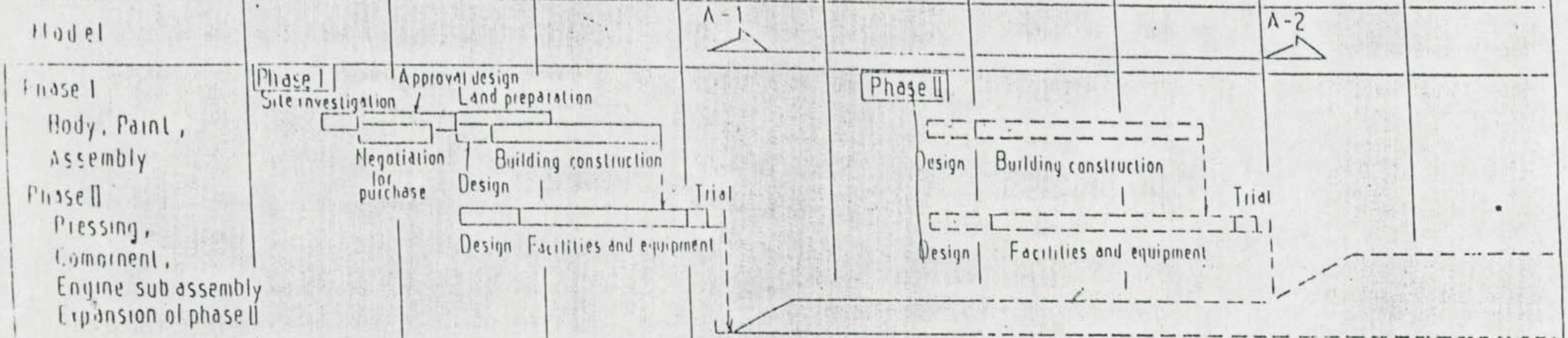
(iii) Production during the Phase I assembly operation to count as built-up imports for the purposes of the SMMT/JAMA voluntary restraint arrangements on Japanese cars. (This first stage is itself an unprofitable operation and makes sense only as a stepping-stone to Phase II).

(iv) Selective financial assistance on Phase II of 11½% (agreed negotiating margin 12%), equivalent to 10% over the project as a whole, on top of RDGs at 15% or 22% (Nissan have not decided amongst their selected sites, which include both DAs and SDAs).

Capital investment of £350 million, phased as indicated in the attached outline plan totalling £50m in Phase I and £300m in Phase II. Nissan expect to lease all or the majority of the assets.

## SCHEME FOR CONSTRUCTION AND PRODUCT[illegible]

JULY, 198[illegible]




| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|---|
| Production plan (cars/year) | 0 | 0 | 0 | 12,000 | 24,000 | 24,000 | 24,000 | 81,000 | 100,000 |
| Target local content (%) | — | — | — | — | — | — | — | 70 | *80 |
| Capital investment (£ million) | 0.0 | 23.1 | 28.3 | 0.0 | 70.5 | 92.7 | 135.3 | 0.0 | 0.0 / 349.9 |
| Employment at year end (person) | — | 64 | 296 | 433 | 429 | 617 | 1,851 | 2,795 | 2,754 |

* by mid-1991

ANNEX 2

Chairman
/Nissan (UK) Ltd/

Dear Sir

1 Please refer to the offer letter relating to assistance under Section 7 of the Industry Act 1972. In addition to Section 7 assistance, Regional Development Grants (RDGs) will be available in respect of approved capital expenditure incurred on assets provided for the purposes of the project at the plant (as defined in the offer letter). At present, the rate of RDGs is 15 per cent in a Development Area and 22 per c in a Special Development Area.

2 At the meeting on 18 February 1982 between Nissan and the Secretary of State for Industry the continuing availabilit of RDGs was discussed. The Government cannot commit itself or its successors to making no change in the general statutory arrangements for industrial and regional support. Moreover in the event of such changes, modifications in one aspect of these arrangements might be offset by modifications in another. However in the event of any change to the RDG Schem which affects adversely the company's eligibility for RDGs without offsetting benefits in other aspects of industrial and regional support, the Government undertakes that favourable consideration will be given to the provision of additional assistance under Section 7 of the 1972 Act according to the criteria applicable under that Act.

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# THE NISSAN PERSPECTIVE

Nissan

**August, 1983**

## *The Road Towards World Cooperation (Beyond Protectionism)*

*Mr. Masataka Okuma, Senior Advisor of Nissan Motor Co., Ltd., delivered a speech on the Internationalization of the Auto Industry on August 25, 1983, at the International Conference for Moral Re-Armament held in Caux, Switzerland. Mr. Okuma's speech is presented below.*

As I have long worked in the auto industry of Japan, and have been involved in its corporate management, I would like to approach today's theme from the aspect of the "Internationalization of the Auto Industry" speaking from my own first-hand experience.

### Small Cars' Ascendancy

Today the world auto industry is undergoing a wrenching transition. Soaring automobile fuel prices and subsequent continuing long-term worldwide economic stagnation have wrought great changes in the world's needs for automobiles, bringing to the forefront of the world auto market the fuel-efficient, high-quality, reasonably priced small car. This trend has its strongest impact on the U.S. auto market which had long revolved around sales of large cars.

The major producing nations of the auto industry, which was born in Europe at the end of the nineteenth century, included the United States by the early twentieth century. Still later, after the World War II, Japan joined their number. Forming three distinct production zones, the Japanese, U.S. and European auto industries developed in their respective ways largely depending on the differing characteristics of their home markets, and the industry steadily moved into the developing nations of the world. This was the historical pattern followed by the industry until the time of the first oil crisis.

### Response to Global Competition

Before the Japanese auto industry joined the world market, the world auto industry had already entered the age of competition on a global scale. Under the stringent conditions created by the protracted slump in auto sales resulting from the oil crises, however, the automakers of each nation were compelled to revamp almost every single aspect of their operations in order to maintain and strengthen their long-term competitive power as well as to respond to the changes in the market. At present, a technological revolution is underway in the industry as a result of the introduction of industrial robots; organizational changes are being implemented, productivity is being boosted, and labor-management relations are being

"...In addition to exports to the European and U.S. markets local production should also be undertaken... Endeavors of this kind expand employment opportunities and contribute greatly to the development of the region."

improved. This drive to make improvements is not limited to the automakers of one nation alone, but also is linked to the efforts mounted by the auto manufacturers as well as the auto parts industry in all automobile producing nations. It seems obvious, then, that the degree of interdependence within the world auto industry is becoming increasingly greater.

**Key Industry Status**

Automaking is and will continue to be a critically important strategic basic industry for each of the producing nations. It plays a vital role in a nation's gross national product, export activity, transportation, technological development and in employment in particular. For this reason, nations whose auto industries in the past have been the driving force behind economic growth and social development have come to expect further development and growth in this sector for the future. This type of expectation is shared by both developed and developing nations.

As I noted already, the restructuring of the world auto industry triggered by the oil crises has seen each nation continue to direct massive efforts towards the revitalization of its auto industry. In this process the Japanese auto industry, which has long specialized in small cars for reasons including road conditions in Japan, has registered great progress. While Japanese cars have been well received by the world's auto users, European and U.S. automakers have sustained serious blows from the prolonged worldwide recession and resultant slump of automobile sales. This was particularly evident after the second oil crisis. The continually expanding problem of automotive trade friction between developed nations, I believe, is an unfortunate by-product resulting from the process of the revitalization of their auto industries. It is truly regrettable that Japan's automakers have been unfairly blamed for causing this trade friction and have been singled out as a target for international criticism.

**Means for Coprosperity**

What should the world auto industry do to check the alarming trend of protectionism and promote coexistence and coprosperity between each of its member industries through increased interdependence? What must it do to revitalize the world's economy and provide customers everywhere with the fuel-efficiency, high-quality and reasonable price they are looking for in their cars?

Speaking from my experience to date, I would like to describe for you my vision of the internationalization of the auto industry and the direction in which it must head.

First, because the auto industry is such a strategic industry for each nation, it is necessary to maintain and develop harmonious auto trade relations so as not to disrupt the order in trading partners' markets. In addition to exports of fully assembled vehicles to the massive European and U.S. markets, local production should also be undertaken, and the new companies thus formed should then put down roots as part of the local auto industry. Endeavors of this kind expand work and employment opportunities at the local level and contribute greatly to the development of the region. Likewise, it is necessary to cooperate with the auto industry policy of the developing nations to encourage local production, and in this way act as a lever for the development of their industries. Through efforts like these, it will become possible for the auto industry to contribute to the economic and industrial development of these developing countries. At the same time, I believe, it will become possible to supply automobiles which are optimally matched to the needs of the market.

**Collaboration with Competitive Spirit**

Second, it is necessary to forge collaborative arrangements between automakers transcending national boundaries.



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"...The degree of our mutual dependence is continually rising ... the free exchange of products, parts, technology and capital across national borders must be assured."

These arrangements, of course, must permit both parties to reap benefits in terms of management and contribute to the strengthening of each company's competitive power. From the viewpoint of providing customers with automobiles that are worth more, it is vital for us, on the one hand, to collaborate on product development and production, while, on the other hand, continuing to compete against one another for sales. As examples of the framework for such cooperation, there are technology exchanges, joint research and development, joint vehicle production and parts provision to maximize benefits arising from economies of scale, to name but a few.

Acting under this type of philosophy, Nissan Motor Co. has made internationalization a major part of its corporate strategy and development of its enterprise.

For example, we have set up joint production with Alfa Romeo in Italy, and, in this way, I believe we are playing a part in the promotion of industry in southern Italy. Just this past June, our U.S. pickup truck plant went on line, expanding employment in a region perennially short of jobs. At this moment, we are going ahead with preparations to produce Volkswagen Santana in one of our plants and sell them on the Japanese market. This model is aimed at helping to expand the sales of foreign cars in our domestic market.

These are but a few examples of directions in which the Japanese auto industry is internationalizing. At the same time, this is illustrative of the general state of development of the auto industries in each of the developed nations. I also believe that methods such as these are one of the few ways in which the auto industries of the world can mutually assist each other's progress, coexist and even become prosperous in the current difficult economic climate.

**Free Trade for Growth and Prosperity**

While this internationalization is necessary, it also must be pointed out that a number of other points must be abided by.

Today, in an international socioeconomic complex in which the degree of our mutual dependence is continually rising, the free exchange of products, parts, technology and capital across national borders must be assured. For this purpose, it is necessary that the principle of "free trade" be widely accepted and put into practice on an international basis. Looking at events around us today, however, we can see numerous instances where without resorting to "self-help" to overcome difficulties, industries have tried to avoid competition by erecting protectionist barriers. Experience in the past two or three years has shown just how protectionism reduces international trade and may prolong the world recession. More than ever before, nations must try to understand their respective perspectives and never forget the principles of free competition and free trade. They must all affirm that this is the only way to bring about healthy economic development and bountiful lifestyles. And they must keep competition fair among themselves, bearing in mind these principles.

**International Personnel, As Well As Products**

Lastly, speaking as a man who has devoted his life to his company and his industry, I hope you will permit me to tell you my ideas about what can, and indeed must, be done for world cooperation and development in the years to come.

There are two ways in which those of us in the private sector can contribute to world cooperation.

First, we can provide the world with products we have taken pains to develop and produce to match the needs of the market. Thanks to its mobility and convenience, the automobile is the most

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favored means of land transport today. It is an international product that is used by people the world over for their daily commuting and transport needs. We hope to contribute to the improvement of people's daily lives and greater economic development by furnishing them with automobiles.

Second, by fostering the growth of more truly international people within our companies we can further insure that international cooperation will in time bear fruit. At a time when the economic climate is such that if nothing is done protectionism will only spread, the rearing of internationally minded company personnel is a task of the utmost urgency. These must be people who are not bound by feelings of mere self interest, but who are capable of taking into consideration the diverse interests and ways of thinking of people the world over. This is one mission of companies today, I believe.

There are now eleven companies independently manufacturing motor vehicles in Japan. Rising from the devastation of World War II, they devoted massive human and financial resources to their task of rebuilding the industry while seeking technical assistance from U.S. and European automakers, and finally succeeded in providing the market with fuel-efficient, high-quality, reasonably priced small cars.

The Japanese car, which represents the crystallization of the ingenuity and inventiveness of our industry, has been well received by customers all over the world, and as an international product has spread to nearly every corner of the globe. As one who has experienced the hardship and sacrifice involved in this process from the inside, this fact gives me a feeling of joy.

### Need to Close International Perception Gap

When I think of how international our products have become, however, I am troubled by one persistent question. How well do the people of the world understand the Japanese who produced these products? I have long worried about the existence of this gap in perception, and sincerely hope that the Japanese will be better understood abroad. At the same time, I am painfully aware of the fact that we must devote greater effort to the process of internationalizing ourselves in order to see world cooperation become a reality in the future.

Of course I don't expect this process of internationalization to take place overnight. It will, no doubt, require time and persistence. Nevertheless, having spent my entire working life in Japan's automotive industry, I am optimistic that though the steady advance of internationalization we will be able to play a role in world cooperation.

The industrial session of the International Conference for Moral Re-Armament was held from August 23 to 28, 1983 under the theme "Preconditions for a Healthy Economy," attended by industrialists, trade union leaders and politicians from 32 countries. As well as several speeches by invited guests, the conference program included a variety of activities and discussion centered on international exchange and cooperation.

**Main speakers:** Mr. Masataka Okuma, Senior Advisor, Nissan Motor Co., Ltd., Tokyo, Japan.
Dr. Olivier Giscard d'Estaing, Vice President, INSEAD
Prof. James Thwaites, Lavel University, Quebec, Canada.

**Panel:** Mr. Neville Cooper, Director, Standard Telephones and Cables Ltd. England.
Mr. Richard Tritter, President, On-Site Medications Inc., U.S.A.
Mr. Christer Hall, Committee member of Swedish Trade Union, Congress, Sweden.



NISSAN MOTOR CO., LTD.
17-1, Ginza 6-Chome, Chuo-ku, Tokyo 104
Telex: NISMO J22503
Tel: (03) 543-5523