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PRIME MINISTER

I promised at Cabinet today to let you and Geoffrey Howe have the current position on exports of UK-built Nissan cars to France, Italy and Spain, for the Rhodes summit. This is a prime example of how those who criticise our stance towards the Community are only too ready to bend the rules when it suits their purposes.

2 The Nissan factory in Sunderland is now producing cars with a local (EC) content level of over 70 per cent, more than fulfilling their commitment to us to reach a 60 per cent local content level on average in 1988. Exports to EC markets began earlier in the autumn. These are so far on a small scale, but should exceed 30,000 in 1989 including up to 6,500 cars to France, 3,500 to Italy and 3,000 to Spain.

3 The French Government told us earlier this year that there would be no obstacle to the cars entering the French market; and indeed the first deliveries have now reached French showrooms without difficulty. However, France has insisted that until the cars reach an 80 per cent level of EC content they will be counted against the informal quota under which imports of Japanese cars are limited to 3 per cent of the market. My position has been that, at over 60 per cent EC content, the cars clearly qualify under Community law to be treated as products of EC origin. Though there is at present no specific Community origin rules on cars, that is the level defined for EC/EFTA trade.

4 Following unavailing protests to my French opposite number, I wrote to Arthur Cockfield in September to ask for the Commission's support. His reply merely relayed French assurances that the cars were free to enter and invited me to let him know

if any difficulties were encountered. It did not not include - as it should have - a clear Commission statement that the cars qualify to be treated as of EC origin. Meanwhile the indications are that the French position remains unchanged.

5 The Italian Government share French anxieties about the cars, but have so far avoided committing themselves. First deliveries have reached the Italian market without mishap, but there remains a danger that they will be counted against the formal Italian quota on imports of Japanese cars.

6 As for Spain, a first consignment reached the country two weeks ago, and Nissan's Spanish importer was told they would be counted against the formal Spanish quota for vehicles of non-European origin. In view of this, the importer refused to accept the cars and cancelled his order for the next shipment.

7 Last Friday, I wrote again to Arthur Cockfield setting out my understanding of the position in all three countries; formally asking him to investigate the reported actions of the Spanish Government; and urging him to answer the central question, namely whether the Commission consider that the cars should be regarded as of EC origin. But there is no sign that we shall have a satisfactory reply before Rhodes.

8 The integrity of the internal market is under attack, and needs to be upheld. Not only Nissan themselves, but other potential Japanese investors in the UK, need to be reassured that if they live up to their commitments to us on EC content - as Nissan have - the UK will fight to ensure that their products do not face discrimination in other EC markets.



the department for Enterprise

9 Since the Italians have not yet declared themselves, our best targets at present are the French and the Spanish. And we must maintain pressure on the Commission not to shirk their responsibilities, since this is the surest way to a quick solution.

10 I am copying this minute to Geoffrey Howe, Nigel Lawson and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to be 'Nigel', is written over the faint, circular watermark of the Royal Coat of Arms.

D Y

1 December 1988

Department of Trade and Industry