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TO IMMEDIATE FCO

TELNO 56

OF 121147Z JANUARY 89

INFO ROUTINE UKREP BRUSSELS, ROME, MADRID, TOKYO

FRAME EXTERNAL

NISSAN(UK) EXPORTS TO FRANCE

SUMMARY

1. THE FRENCH INDUSTRY MINISTER CONFIRMS IMPLICITLY THAT THE LINE TAKEN BY HIS OFFICIALS WITH US AND WITH NISSAN'S FRENCH IMPORTER HAS HIS BLESSING. THE FRENCH INTEND TO CONTINUE COUNTING NM(UK)'S PRODUCTS AGAINST NISSAN'S QUOTA. I HAVE REGISTERED FIRMLY THAT THE PRIME MINISTER AND YOU WILL BE DISAPPOINTED AT THIS DISCREPANCY WITH THE ASSURANCES GIVEN BY THE PRESIDENT AND M ROCARD THAT THE PROBLEM WAS RESOLVED AND WILL WANT TO CONSIDER FURTHER ACTION. PRIME MINISTERIAL MESSAGE RECOMMENDED.

DETAIL

2. I CALLED ON THE INDUSTRY MINISTER, FAUROUX, ON 11 JANUARY. I SAID THAT THE PRIME MINISTER AND YOU HAD BEEN PLEASED TO BE TOLD BY PRESIDENT MITTERRAND AND M ROCARD THAT THERE WAS NO LONGER A PROBLEM OVER NM(UK)'S EXPORTS TO FRANCE. THEY HAD UNDERSTOOD THIS TO MEAN THAT NM(UK)'S PRODUCTS WOULD BE TREATED IN ALL RESPECTS NO DIFFERENTLY FROM ANY OTHER CARS MANUFACTURED WITHIN THE COMMUNITY, AND IN PARTICULAR THAT NO CONNECTION WOULD BE MADE BETWEEN SALES OF NM(UK) CARS IN FRANCE AND ANY ARRANGEMENTS FRANCE MIGHT HAVE FOR CARS OF NON-EC ORIGIN. THEY HAD THEREFORE BEEN PUZZLED TO HEAR THAT WHEN NISSAN'S IMPORTING AGENT, RICHARD, SAW MINISTRY OF INDUSTRY OFFICIALS ON 22 DECEMBER HE HAD BEEN TOLD THAT UNTIL FURTHER NOTICE HE SHOULD COUNT ANY CARS IMPORTED FROM NM(UK) AGAINST HIS 1989 QUOTA. THIS APPEARED TO RUN COUNTER TO THE ASSURANCES MINISTERS HAD BEEN GIVEN. I HOPED FAUROUX COULD TELL ME THAT THERE HAD BEEN A MISUNDERSTANDING AND THAT IN THE LIGHT OF THE ASSURANCES GIVEN BY PRESIDENT MITTERRAND AND M ROCARD NM(UK)'S EXPORTS WOULD NOT BE COUNTED AGAINST NISSAN'S QUOTA.

3. FAUROUX SAID HE HAD DIFFICULTY IN UNDERSTANDING WHY FRANCE'S QUOTA ARRANGEMENTS WITH NISSAN SHOULD BE OF CONCERN TO US. SURELY WHAT MATTERED TO US WAS THAT NM(UK)'S PRODUCTS SHOULD ENTER THE FRENCH MARKET WITHOUT RESTRICTION. THIS WAS HAPPENING. WHAT THE

FRENCH AGREED WITH JAPANESE COMPANIES LIKE NISSAN WAS ANOTHER MATTER. THEY COULD NOT BUT FEEL FREE TO SET NISSAN'S QUOTA AT WHATEVER LEVEL THEY THOUGHT APPROPRIATE AND COULD PERSUADE THE COMPANY TO ACCEPT.

4. I SAID THIS WAS AN ARTIFICIAL ARGUMENT. MINISTERS HAD A RIGHT TO TAKE AN INTEREST IN THE ARRANGEMENT BETWEEN FRENCH OFFICIALS AND NISSAN'S IMPORTER BECAUSE THE PRACTICAL EFFECT OF COUNTING NM(UK)'S CARS AGAINST NISSAN'S QUOTA WAS TO EQUATE UK EXPORTS TO JAPANESE EXPORTS AND THUS SUBJECT UK EXPORTS TO RESTRICTIONS. MOREOVER IT WOULD CLEARLY BE WRONG FOR US TO FAIL TO INTERVENE ON BEHALF OF A COMPANY WHICH HAD BROUGHT EMPLOYMENT TO AN AREA OF INDUSTRIAL DECLINE, WAS HELPING INSTIL EFFECTIVE MANAGEMENT PRACTICES AND WAS HONOURING THE CONDITIONS WE HAD SET FOR ITS OPERATIONS IN THE UK.

5. FAUROUX SAID IT WAS IN NISSAN'S HANDS WHETHER OR NOT THE FRENCH ARRANGEMENT HAD THE PRACTICAL EFFECT OF RESTRICTING NM(UK)'S EXPORTS. NISSAN WERE FREE TO SET THEIR EXPORTS FROM THE UK AT WHATEVER LEVEL THEY WANTED. HE WENT ON TO SAY THAT HE KNEW OF THE EXCHANGE BETWEEN THE PRESIDENT AND MRS THATCHER AND OF THE INTERPRETATION WE PUT ON IT, FROM THE AIDE MEMOIRE LEFT WITH MINISTRY OF INDUSTRY OFFICIALS ON 9 DECEMBER. HE HAD NOT, HOWEVER, HAD A DIRECT ACCOUNT FROM THE PRESIDENT OR M ROCARD OF THEIR EXCHANGES WITH BRITISH MINISTERS AND HAD NOT RECEIVED ANY INSTRUCTIONS WHICH WOULD JUSTIFY A LINE DIFFERENT FROM THE ONE HE HAD TAKEN.

6. I SAID MINISTERS WOULD BE DISAPPOINTED THAT FAUROUX HAD NOT BEEN ABLE TO RESOLVE A DISCREPANCY BETWEEN THE ASSURANCES THEY HAD BEEN GIVEN AND THE LINE TAKEN BY MINISTRY OF INDUSTRY OFFICIALS. THEY WOULD WANT TO CONSIDER FURTHER ACTION BEARING IN MIND THAT THE COMMISSION HAD TOLD US IN WRITING THAT IN THEIR VIEW THERE WOULD BE NO JUSTIFICATION FOR TREATING NM(UK)'S PRODUCTS DIFFERENTLY FROM ANY OTHER VEHICLES PRODUCED WITHIN THE COMMUNITY.

7. FAUROUX SAID THE FRENCH WOULD BE IN TOUCH WITH THE COMMISSION SHORTLY. THEY WERE OWED A REPLY TO A LETTER THEY HAD SENT IN EARLY NOVEMBER IN WHICH THEY HAD ASKED THE COMMISSION TO LOOK INTO NM(UK)'S LOCAL CONTENT LEVELS. HE UNDERSTOOD THAT WE WOULD WANT TO REFLECT FURTHER. HE REMAINED OPEN TO FURTHER DISCUSSION.

COMMENT

8. FAUROUX'S PARTING SHOT WAS CLEARLY INTENDED TO BE CONCILIATORY, BUT HIS BASIC MESSAGE WAS UNAMBIGUOUS: DESPITE THE ASSURANCE GIVEN

BY THE PRESIDENT AND M ROCARD HIS MINISTRY INTENDS TO CONTINUE OBLIGING NISSAN'S IMPORTER TO COUNT NM(UK)'S PRODUCTS AGAINST HIS QUOTA UNTIL 80 PER CENT LOCAL CONTENT IS REACHED.

9. NOW THAT THIS MESSAGE HAS BEEN CONFIRMED AT MINISTERIAL LEVEL, I RECOMMEND THAT THE NEXT STEP SHOULD BE A MESSAGE FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND REMINDING HIM OF THE ASSURANCE GIVEN AT MONT ST MICHEL ON 30 NOVEMBER, (CONFIRMED BY ROCARD'S SUBSEQUENT CONVERSATION WITH YOU), EXPRESSING SURPRISE AND CONCERN THAT THE LINE TAKEN BY FAUROUX AND HIS OFFICIALS WAS AT VARIANCE WITH IT, AND ASKING HIM TO LOOK INTO THE QUESTION ONCE MORE WITH A VIEW TO CONFIRMING AT OR BEFORE THE ANGLO-FRENCH SUMMIT ON 27 FEBRUARY THAT THE ASSURANCES WOULD BE HONoured AND THAT NMUK EXPORTS WOULD BE TREATED IN ALL RESPECTS AS COMMUNITY VEHICLES.

10. I WOULD RECOMMEND THAT YOU YOURSELF SEND A COPY OF THE LETTER TO ROCARD REINFORCING THE MESSAGE. THERE WILL BE AN OPPORTUNITY FOR THE PRIME MINISTER TO RAISE THE SUBJECT WITH ROCARD WHEN HE VISITS LONDON ON 8 FEBRUARY.

11. FCO PLEASE ADVANCE PRIVATE SECRETARY, KERR, ARTHUR (ECD(I)): PS/LORD YOUNG, COCHLIN, BOWEN, BRIDGE, NEVILLE-ROLFE (DTI): LAVELLE, ALTY (CABINET OFFICE).

LLEWELLYN SMITH

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