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Japan 8



✓ M Hoskyns

Ann White
An encouraging report
on Richard Bullock's
discussions with Nissan.
But there may be problems
vis-à-vis IGL. Nissan's
outline proposals are
expected on 18 Nov.

NS

PRIME MINISTER

NISSAN

In my minute of 30 September about the talks being conducted in response to feelers from Nissan, I reported that the company had asked officials in this Department to visit Tokyo for further discussions. Richard Bullock has now returned from this visit and the purpose of this minute is to let you know where matters stand. It is essential that knowledge of Nissan's proposal is restricted to the smallest possible circle, but I do think it is now right to inform Geoffrey Howe, and also Robin Tobs, in view of the strategic industrial considerations involved. I hope we can all take special steps to ensure that there is no leakage of this exceptionally sensitive information.

28/10

2. We shall not know until 18 November, when Nissan plan to visit the UK again, whether they will indeed put forward outline proposals. However, Richard Bullock's visit confirmed that Nissan's interest in a major UK investment is serious. The company's President, Mr Ishihara, went out of his way to emphasise his personal commitment, and the importance of the proposal from Nissan's point of view. If the plan went ahead, the UK should become Nissan's principal centre of operations in Europe.

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3. Nissan's present ideas are more attractive than those first outlined to us in July. They have in mind a greenfield plant to produce 200,000 Cortina-sized cars a year, starting at 80,000 units in 1984 and reaching full capacity in 1986; the plant would employ over 4000. An engine plant would be included from the outset, and because of this the local content could start at about 60% rising to over 80%. The company would agree export targets with us, providing for a significant volume to be exported to European markets. I attach a copy of a letter Richard Bullock has sent to Mr Ishihara confirming the substance of their discussions.

4. Although Nissan expressed a preference for a greenfield site, in response to questioning they said they were prepared to consider partnership with an existing British firm. Subsequently they volunteered that they were exploring the possibility of collaboration with BL; their consultants who have been in touch with this Department's officials say that this could mean anything from the acquisition of a redundant BL plant to full collaboration on a particular model. In between lies the possibility of collaboration on major components. However, there is no indication whatever that they would be interested in taking over the BL Cars business and indeed this seems unlikely in the extreme. My present guess is that, having examined the possibility of collaboration, they will come down firmly on the side of a greenfield project.



5. I felt it right for Michael Edwardes to be told of these developments, and Sir Peter Carey has done this. Michael's view was that a greenfield project - provided local content was over 80% - was entirely acceptable : it would compete with BL, but it would do so on fair terms and in a market sector big enough to accommodate both. The additional strength that a Nissan operation would give to the components sector would be of positive assistance to BL. As for collaboration, he would be quite willing to release the Solihull plant (due to close anyway in the mid 1980s), or to supply or collaborate on major components such as the larger size of engines. He was, however, vigorously opposed to closer collaboration e.g. on a joint model. Given BL's existing collaboration with Honda and the talks with a German company of which you are aware, even to explore closer collaboration with Nissan would destroy the German connection and with it the prospect of wide ranging collaboration and even of eventual merger; BL could not afford such promiscuity, which would run counter to the most promising approach to a long term resolution of the problem of BL Cars. Moreover, collaboration on a joint model would not reduce significantly if at all BL's funding requirement and would be commercially irreconcilable with maintaining the BL dealer network essential not only for the LC10 but for the Metro as well. Finally, Michael expressed acute misgivings - based partly on his dealings with the



company over the sale of BL's Belgian plant at Seneffe - about Nissan's motives and real intentions. Nissan were exploring many other European possibilities, and would use their discussions with HMG deliberately to the tactical disadvantage of BL on the LC10 programme. Though these issues must be explored carefully, I think we must acknowledge there is much force in what Michael said on model collaboration.

6. There are many issues to be considered before we can reach firm views on how to respond to Nissan when they put outline proposals to us on 18 November. We shall need to respond fairly quickly, and in order to avoid lasting damage to the prospects of Japanese inward investment generally we shall have to respond firmly: the worst thing of all would be to encourage Nissan, and then at a late stage make major difficulties. This means, inevitably, that our consideration will have to proceed in parallel with work on BL's 1981 Corporate Plan, which has just reached me. In view of the need for tight security, our work on Nissan - and even knowledge of it - will have to be kept to a much narrower circle. Another major aspect, on which Peter Carrington will want to comment, is the possible effects of a big Nissan investment here on our EEC relationships in general, and those with France in particular.

7. I am sending copies of this minute to Geoffrey Howe, Peter Carrington, John Nott and Robin Ibbs.

KJ

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Mr T Ishihara
 Nissan Motor Co Ltd
 Tokyo

21 October 1980

cc . Mr Mountfield
 Mr Cammell

Dear

T Ishihara

I found my discussions last week with you and your colleagues most interesting, and I hope they were also helpful to you.

As you will have already heard from our embassy, the date of November 18 is acceptable to us for the next round of discussions in London with Mr Okuma.

The main purpose of this letter is to put on record my understanding of what I was told by Nissan about your current thinking with regard to your possible investment in the UK, and also the comments which I made in relation to this. I hope this will help to prevent any possible misunderstanding.

Whilst the project is at present known only to a limited number of people within Nissan, you made clear your personal commitment to it, and its very great significance for Nissan. The intention is that if the British Government agrees to a Nissan investment in the UK, the UK should become Nissan's principal centre of operations in Europe.

The present plan is for a plant to produce 200,000 units a year of a F/F Cortina-size car; assuming approval was given in time for a decision to go ahead to be taken by March 1981, production would start in 1984 at 80,000 units, increasing to 150,000 in 1985 and 200,000 in 1986. At that stage the plant would employ 4350 workers.

The factory would be built from the beginning to include an engine manufacturing plant though production of engines might not begin until a year later; however, in order to maximise from the start the local content, it might be possible to bring forward the start of engine manufacture so that it began at the same time as car production (which might have to be delayed by 6 months to match).

With regard to the question of local content, Nissan's original suggestion was that this would start at 40% and rise to something more than 80%. When I indicated that the figure of 40% would be likely to be criticised in Britain as very low, it was suggested that by bringing engine manufacture forward

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as mentioned above, it should be possible to achieve a local content of 60% from the start of operations.

Nissan indicated that they envisaged that the local content would include purchases from other EEC countries in addition to Britain. I pointed out that since Britain was a full member of the EEC, then provided the local content was high enough, even if it was wholly of British origin, the other EEC members would have to accept that there was a satisfactory local European content. From the point of view of acceptability to British opinion, it would clearly be important that the UK content should be as high as possible.

Nissan said that production from the UK plant would replace direct exports from Japan to EEC and EFTA markets, probably starting with the latter first. Nissan would be prepared to agree export targets with the British Government. Nissan's preference was for a "green fields" site, and McKinsey's were, on a very confidential basis, seeking suitable sites of some 800 acres. But Nissan's position was not rigid, and they were prepared to consider the possibility of some form of partnership or collaboration with a company already established in Britain. At our final meeting, you specifically said that Nissan were undertaking a study of possible collaboration with BL.

You emphasised to me that if the British Government gave approval to a Nissan investment in the UK, you hoped that it would be prepared to defend its decision robustly in the face of possible criticism from some quarters in Britain and elsewhere in Europe. I said that I was sure that the Government would do so; but it would clearly be essential that the project was one which could readily be defended, and such matters as high local content and high export targets would be of critical importance. And if Nissan wanted to be accepted as part of the European motor industry in the same way as were the operations of Ford and General Motors, it was obviously desirable that their operations should eventually be equally comprehensive and in particular include not merely manufacture and assembly but complete design and development of new models for the European market. Nissan indicated that this would be acceptable as a longer-term objective.

I emphasised that the decision on whether or not to give approval was essentially one for Ministers. In some respects, sensitivities about Japanese imports to and investment in Europe had increased since Mr Okuma's visit to London in July, and political as well as economic and commercial factors would be important: the decision for the British Government would therefore be more difficult. At the present time, only



a very small number of Ministers were aware of Nissan's interest, and they had not given any consideration to the matter: in fact they could not do so until they had the formal proposition from Nissan which Mr Okuma would be bringing to London for the next round of discussions. I hoped that thereafter the British Government would be able to reach a decision in principle quite quickly, since there were obvious dangers of a leak which Nissan had emphasised would be very embarrassing particularly in relation to the negotiations with the US Government about Japanese imports into America. It would therefore seem desirable for an announcement to be made as soon as possible after a decision in principle was reached.

As an official, I could not in any way commit British Ministers, nor indeed predict what their view might be. My comments should not be interpreted as in any way being requests from the British Government, but suggestions about how Nissan's proposals might be made as acceptable as possible to all sectors of British public opinion. In the end, everything would depend upon the details of the proposition to be put forward by Nissan; whilst the political sensitivities had increased, the latest proposals outlined by Nissan were significantly more attractive than the original proposals outlined in July, and whatever Nissan eventually put forward formally would be studied with serious interest by British Ministers.

We look forward very much to seeing Mr Okuma again in London on 18 November.

Yours *sincerely*

R. H. Bullock

28 OCT 1980

