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Members of Lucas Board & Executive

Mr J R Steele
Deputy Secretary
Department of Industry
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Telex: 338681
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9 March 1981
JWW/DEF

Dear John,

As we agreed, I am setting out the various points and requirements which we at Lucas believe to be key with regard to the Nissan UK manufacturing proposals.

Most importantly, although a 60% local content may have appeared to provide for substantial UK component supplies, in fact most of that proportion would be taken up by Nissan's own in-house manufacture.

Even if the local content rises to 80% over a period of time, such a proportion and the approach would be those applicable to emerging countries who need to develop their supply facilities. The UK has one of the leading component industries in the world, with the skills, technology and capacity to supply all of Nissan's needs. We therefore should start from the assumption that their entire component requirements should be supplied from the UK/EEC.

The arrangements currently envisaged will allow and predispose Nissan to supply components not only for themselves but also for BL and for others from Japan. The initial target of the Japanese component suppliers will be the high volume, low variety products and - as with any other competitors looking to establish themselves in a new market - they will offer prices substantially below those ruling in the EEC.

We are convinced of the Government's logic of providing assistance to Nissan, (or to BL) in order not only to provide jobs within the vehicle manufacturers, but also within the supporting component industry. But this aim can only be realised by supporting component suppliers also. With regard to Nissan, this means insisting on a very high local content. The requirement in Italy is understood to be 95% and this would seem to us to be reasonable.

We do not believe that concessions on local content are necessary. The advantages to Nissan of manufacture in the UK far outweigh those available in such countries as Belgium and Ireland and our view is that the UK has a very strong negotiating hand.

You are of course well aware of the "Trojan horse" accusations levelled at the UK by other EEC countries and the only credible rebuttal of these criticisms would be to demonstrate the advantages which will accrue from adopting the approach that I have outlined.

If you can establish an indigenisation programme that will benefit UK suppliers, then we believe that the Nissan project will demonstrably represent an opportunity that we can and should exploit.

Turning to the ability of the components industry to respond effectively, I suggest that the government could help us in the following ways:

because of the current recession many firms may require financial backing. A way of providing it may be to require Nissan to spend some of its government assistance on tooling programmes with local suppliers and also to require that early tranches of cash be applied to setting up homologation facilities in the UK;

it is essential that homologation authority be established in the UK. Experience teaches us that to homologate in Japan will be a long drawn out, frustrating and probably not successful exercise. We can assist materially by making available our own testing facilities so as to speed up the homologation process;

a schedule of components available locally should be drawn up and the components should be mandatorily deleted from initial CKD kits over an agreed short timescale. The market value of each item must be declared by the outset by Nissan, so as to avoid the problems of marginal "deletion" prices;

all products licensed from the UK should be in the CKD deletion kit;

heavy duties should be levied on items deleted from CKD. The extent of the duty should take into account ruling EEC component prices;

local content arrangements should be no less onerous than those to be found elsewhere in the EEC and in Nissan's other markets; our proposals draw heavily on our actual experience throughout the world;

production from the Nissan plant should count towards agreed Japanese import levels until 100% of the agreed local content programme is achieved;

Nissan should agree to arrange for the issue of licences to UK suppliers, on normal commercial terms, from existing Japanese suppliers where this is found necessary because of patents, proprietary items or specialised requirements;

because Nissan will produce the same model in Japan and because Japanese component suppliers compensate for their low OE prices by very high aftermarket prices, they will wish to supply the aftermarket through the Nissan distribution network from Japan. An agreement therefore must specifically permit UK manufacturers to supply branded components to the Nissan parts division, the Nissan dealer network and generally to assure parity of treatment with Japanese suppliers.

As you know, there is strong support for an approach along these lines among the component suppliers and I hope that you will be able successfully to negotiate both the safeguards and the positive benefits.

Best personal wishes,

Yours sincerely,

Jeffrey.



10 DOWNING STREET

MISS STEPHENS

The Prime Minister can discuss this with Sir Keith at their next meeting: this is not particularly urgent.

T

T P LANKESTER

30 March 1981

B/H to Es. on
Monday 6 April.
Es. 3/4

30 March 1981

Dear Ian

The Prime Minister has been sent a copy of a letter dated 9 March from the Chief Executive of Lucas to John Steele (copy enclosed). She is concerned - on the basis of this letter - that we may have negotiated too leniently with Nissan over their domestic sourcing; and she would like to have a word with your Secretary of State about it. We will be in touch to arrange a time.

Yours ever

T P LANKESTER

I.K.C. Ellison, Esq.,
Department of Industry



10 DOWNING STREET

PRIME MINISTER

This letter from Lucas suggests that they are not too happy with Nissan's 60% local content proposal.

Duty Clerk for


T.P. Lankester

27 March 1981

This - it looks to me as if we have made mess of this. Day 1 letter to Keith not

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Ref: A04571



MR. LANKESTER

— You may like to show the Prime Minister, if she has not already seen it, the attached copy of a letter which Lucas have sent to the Department of Industry about the Nissan UK Project.

RA

(Robert Armstrong)

27th March, 1981