

International Trade Committee

Oral evidence: UK trade options beyond 2019, HC 817-iv

Tuesday 28 February 2017

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Members present: Mr Angus Brendan MacNeil (Chair); Liam Byrne; James Cleverly; Mr Nigel Evans; Marcus Fysh; Mr Ranil Jayawardena; Sir Edward Leigh; Chris Leslie; Shabana Mahmood; Toby Perkins; Sir Desmond Swayne.

Questions 622 - 739

Witness

I: Colin Lawther, Senior Vice President, Manufacturing, Supply Chain Management and Purchasing, Nissan.



Examination of witnesses

Colin Lawther.

Q622 **Chair:** Thank you very much for attending this morning. Can we formally ask you to state your name and organisation for the record, please?

Colin Lawther: My name is Colin Lawther. I am the Senior Vice President for Nissan Motor Manufacturing in Europe. My responsibilities are manufacturing, purchasing and supply chain management.

Q623 **Chair:** Thank you, and welcome to the International Trade Committee's hearing this morning. We do appreciate your attendance here. Can I begin by saying that on 21 November 2016, the Government sent you a letter giving certain undertakings regarding the impact of Brexit? What can you tell us about your discussions with the Government, and were you promised anything? That is the six million dollar question on the lips of the public.

Colin Lawther: Six million dollar?

Chair: Maybe it is six million euro.

Colin Lawther: What I can say is the famous letter was a point in time. That was a culmination of a process, and it is a process that has been going on for 34 years. We first started discussions with the Government 34 years ago. We have been building cars in the UK for 30 years and we have had a fantastic relationship with the Government and the officials over the whole of that time, so we have a constant dialogue. I typically visit the Secretary of State every six months and the Department for Business every three months or every six months. We keep in dialogue all the time, so this was not just a specific point in time based on a set of circumstances, it was the end of a long process.

But specifically that process was relating to the replacement model for the Qashqai. The Qashqai is a vehicle that we build in Sunderland and we started building about 10 years ago. It is a really iconic start of the crossover business. We are in the second generation of crossover now and we are now negotiating the third generation of crossover. That is what we announced just before Christmas.

We were approaching the Government from the start of 2016 to explain how we were starting the process for a replacement Qashqai vehicle. We started the process before the Brexit vote and that process culminated in the so-called letter, which was a point in time where we had about eight points that we had agreed with the Government, which were materially important for Nissan to give the parent company in Japan, who make the decision, the opportunity to back Britain once more. So it started from Qashqai pre-Brexit. The content of the letter, the content of the negotiations and the outcomes are probably exactly the same as they would have been, no matter what the vote.



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Q624 **Chair:** You have mentioned a couple of times a point in time. Did Brexit give you any concerns, and if so, what was the nature of those concerns?

Colin Lawther: First, the Brexit vote did give us concerns, clearly. It did not change the discussions—

Q625 **Chair:** What sort of concerns?

Colin Lawther: We made our position very clear before the Brexit vote that Nissan's position was, from a business point of view, from a surety point of view, for stability going forward, that remaining in the customs union was definitely the best outcome.

Q626 **Chair:** Were you given any promise about the customs union?

Colin Lawther: No. Nissan's point before the vote was that clearly it is better for us to stay in. However, even though we explained that to all of our staff, we did not take a political view. We said to our staff, "Look, you have to vote for yourselves and for your families", so we did not take a view.

Q627 **Chair:** So you are quite comfortable outwith the customs union?

Colin Lawther: No, our position is the same as it was before the vote. It would be better to stay in a status quo so that we have surety of business going forward. That would be the best outcome for us at the end of the Brexit process—that we remain in a free trade agreement, we have access to the customs union, and technology is harmonised across Europe. Stay as we are is the ideal solution for Nissan.

Q628 **Chair:** But if the UK ends up trading with Europe at WTO rates or circumstances, are Nissan happy and comfortable with that?

Colin Lawther: The best business solution is to stay as we are.

Chair: I understand that, but are you happy to be trading at WTO?

Colin Lawther: No, we are better off staying as we are. Anything changing from the WTO changes the business circumstances, so we would have to look at the degrees of change and adjust our business to take into account whatever this new trading platform would be.

Q629 **Chair:** Just to be clear, Nissan is a huge company in the UK, with probably the biggest supply chain around. You did not demand of the Government that they would remain in the customs union, there were no demands at all. Do you think it is conceivable that you emboldened the Government in any way, shape or form that they could then go forward and find themselves saying that no deal was better than a bad deal and effectively put the UK on alert for trading at WTO?

Colin Lawther: "No deal is a deal", I guess, is one way to look at that. But from Nissan's point of view we did not demand that the Government stayed in the customs union. It is not in our gift to say that. We made a



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strong request: it is much better for us as a business to stay in the customs union.

Chair: It was a request, okay.

Colin Lawther: It was a request from ourselves, and the Government gave us assurances that that was the Government's intention—

Chair: To stay in the customs union?

Colin Lawther: —that they would have a competitive trading environment at the end of the process. Now, the definition of the competitive trading environment is business for the Government. I would expect that that competitive trading environment is something that does not detriment our business.

Q630 **Chair:** Your chief executive said a commitment was needed for carmakers who export to Europe that there be some kind of compensation for tax barriers that could be established on cars as a result of Brexit. What sort of compensation was Nissan seeking there?

Colin Lawther: I think compensation was misinterpreted in terms of what the CEO said. There was a money connotation in terms of compensation. Nissan is not interested in monetary compensation. Our point has always been that we believe that we have to have a competitive business, and a business that is propped up by grants or incentives is not a sustainable business. So it is not a money question. The CEO was talking about compensatory measures—tax measures or infrastructure measures or competitive measures.

Q631 **Chair:** A lower corporation tax?

Colin Lawther: Could be. It could be a whole bundle of solutions. I guess there is not one magic bullet, and the Government will need to come up with a lot of different solutions. Free import duty for parts coming from the customs union, for example, in and out, would be one example; an automotive-specific trade deal would be another example.

Q632 **Chair:** The Government said they did not offer a compensation package in any way, shape or form. Could what you were promised be interpreted as compensation?

Colin Lawther: I do not believe so. There was no talk of compensatory measures in the discussions that we had with the Government. It was a simple case of agreeing the steps forward that would allow us to have a competitive trading environment, which was only one of the eight things that we discussed with the Government. It is just one of a bundle of discussions that we had, which culminated at the point in time when you are talking about the letter.

Q633 **Chair:** A final question from me before I go to Nigel Evans. Nissan's chief executive indicated last month that Nissan would re-evaluate the situation relating to its UK investment when the Brexit package comes.



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What criteria do you expect to use to evaluate or re-evaluate the situation when indeed the Brexit package comes?

Colin Lawther: As I said, we made a decision on the replacement for the Qashqai car, but also we bundled a brand-new car into that announcement. Based on a set of circumstances, we made a decision that it was better to replace Qashqai in the UK and bring a car from Japan and produce it in the UK. So we have a base business situation, which is based on a set of circumstances. As those circumstances change—and we will not wait until the end of the process—we will continually review the decisions that we take based on anything that materially changes. At the moment we have a set of circumstances that we are quite happy with, and we have made our decision and we will honour that decision and go forward. But if anything materially changes, then we would review constantly.

Q634 **Chair:** The material change would be what—WTO, no customs union?

Colin Lawther: It is the whole suite of the articles that will be discussed as part of Brexit.

Q635 **Chair:** Can you give me a couple of points in that suite?

Colin Lawther: The big point from us is mainly free trade agreements. That is the big-ticket item, if you like—how we see progression towards having a competitive business environment. As with any international business or any responsible business, it is our duty to our shareholders to review the business situation as circumstances change. At the moment we are still going ahead, and I do not believe we can see anything that is going to knock us off course, but as circumstances change we will continually review our position.

Q636 **Mr Nigel Evans:** You have described the very close relationship between yourselves and the Government before the referendum was announced—and indeed post that—and it sounds incredibly sensible to me. Nissan came out publicly for the United Kingdom to remain within the European Union and your company wrote to every one of your workers to advise them of that. Was that a decision that Nissan made themselves or was it on the advice of the Prime Minister?

Colin Lawther: No, it was not. There was no advice from the Prime Minister at all. This was in consultation with the company counsel. In the Sunderland plant we have 7,000 people employed, there are 28,000 in the supply base and there are about 40,000 people across the whole of the UK. For the people in the plant, people in our R&D centre in Cranfield, people in our styling studio in NDE in Paddington and the sales staff, we wrote to them outlining the company's position. We decided that in consultation with the workers.

Obviously we were under a lot of pressure to take a political view. If you read the letter and you know what we said at the time, we specifically did not take a political view. In fact, we said, "We will not tell you how to



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vote. That is a matter for yourself only". That is the position we took. We took a lot of criticism for that, because as a business we firmly believed and still believe it would have been better to stay in, but it is not for us to decide the political direction for the country.

Q637 Mr Nigel Evans: Yes, but clearly Nissan is vitally important for Sunderland and for that community there. Were you therefore surprised that the people of Sunderland voted in the way that they did, that they had more confidence about Nissan operating outside of the European Union than Nissan has?

Colin Lawther: I get asked this question a lot, especially from the executives in Japan, as you can easily imagine. The reality of the answer is there are 7,000 people working in the plant in Washington, and a very small percentage of those 7,000 people live in the constituency in Sunderland that was declared first. So the people who work in the plant were not part of that constituency. There are more than half a million people in the area, and we feed people typically from as far away as 50 or 60 miles. Basically, very few people who work in the plant were part of the Sunderland community.

Q638 Sir Edward Leigh: I want to go back to the Chairman's questioning about the letter, because I am Chairman of the Public Accounts Commission and we had Sir Amyas Morse, Comptroller and Auditor General, in front of us. He was specifically asked about whether a contingent liability had been incurred by the Government to Nissan. This letter has not been given to the Comptroller and Auditor General, he has simply been allowed to read it. There is a freedom of information request to release the letter to Nissan, and the Government has deferred this freedom of information request. Presumably you will confirm today that there is no side letter?

Colin Lawther: Correct, there is no side letter.

Q639 Sir Edward Leigh: There were no verbal assurances?

Colin Lawther: No verbal assurances.

Q640 Sir Edward Leigh: There is no contingent liability in this letter?

Colin Lawther: There is no contingent liability in this letter, correct.

Q641 Sir Edward Leigh: Why has the letter not been released?

Colin Lawther: From our point of view, one of the elements of the letter is governmental support to Nissan. The support part of the letter relates to competitiveness enhancement of the plant to make sure that we can drive the plant forward. As you know, the plant is one of the top plants in the world, the Renault-Nissan alliance. We are always in the top 10, and probably the fifth best plant in the world and the second biggest plant in the alliance, so we have to keep running forward and we have to improve our competitiveness.



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The ask that we made for the Government in terms of competitiveness support would have been exactly the same pre and post-Brexit vote. We were already putting forward things we needed to do to receive support from the Government to improve our competitiveness. Those strategies, and there are a number of strategies in there, are commercially sensitive to us because that gives us a competitive advantage against some of our competitors.

Having said that, all of the asks that we have made comply with state aid rules. They give value for the taxpayer and they comply with the Commission regulations. As we develop those and they become mature, they will appear in the public domain. Everything that is in the letter, as far as we are concerned, will and can appear in the public domain in the future. We are just sensitive about the Government support items.

Q642 **Sir Edward Leigh:** So this is a letter that involves some sort of Government grant, does it—

Colin Lawther: Correct.

Sir Edward Leigh: —to boost investment in the factory to make your product more competitive; what, in terms of innovation, or producing cars quicker, or—

Colin Lawther: Innovation, the environment, skills, all under the RGF banner. It is all—

Q643 **Sir Edward Leigh:** There was no discussion around the fact that if, as will happen, Brexit takes place and there is no customs union and no remaining in the single market, you may therefore be taxed on importing cars into the European Union? There was no discussion around that possibility, which would lead to a greater grant being given to you, or that that would affect in any shape or form the level of grant to boost competitiveness?

Colin Lawther: Correct. We have not approached the Government for any propping-up grant or non-competitiveness support. As I said earlier, from my point of view and from Nissan's point of view, there is no point in propping up a non-competitive business, because in the fullness of time it will just come back and bite you. We need to find a way to remain competitive.

Q644 **Sir Edward Leigh:** Just to make this absolutely clear, this discussion that you had around Greg Clark was around getting help from the Government to boost competitiveness, but it did not relate in any shape or form to Brexit—it was totally separate from Brexit discussions.

Colin Lawther: The monetary support that we are asking from the Government under RGF would be exactly the same pre and post the Brexit vote.

Q645 **Sir Edward Leigh:** You were asked earlier by the Chairman about this comment by your chief executive, which has led to some confusion, as I



think you acknowledged, when he said that there was, “a commitment for carmakers who export to Europe that there is some kind of compensation” for tax barriers. You told me absolutely clearly and explicitly that this money you are going to receive for competitiveness has nothing to do with the outcome of the Brexit negotiations. Can you confirm that you are not looking for any other compensation—let’s call it that, I know you do not like the word—in terms of tax help or anything else? Nothing else?

Colin Lawther: In terms of compensation there is no link between the RGF funding for competitiveness that we have asked for and Brexit.

Q646 **Sir Edward Leigh:** What about tax breaks?

Colin Lawther: We have not asked for any tax breaks. All we have agreed with the Government is that they will provide a competitive landscape for us to trade in in the future. That suite of counter-measures is within the Government’s domain, not our domain. We trust that the Government will give us a competitive landscape.

Sir Edward Leigh: Thank you for answering those questions. I think you have been very clear, but if you want to add anything more, I am happy.

Colin Lawther: Yes, I have one more additional area. If you look at the success going forward, I would say there are three areas to it. It is incumbent upon Nissan to make sure that we are competitive in a global environment, so that our plants are very efficient, we are efficient in energy usage and labour usage and material usage and we build high-quality cars very efficiently. That is our job. The Government’s job is to make sure that we have a competitive landscape in terms of trading environment. The Government needs to do that.

The third element is by far the most important element, I think, in the landscape going forward. Where I do believe that Government is underfunding, and I do believe that there should be more assistance, is in the supply chain. If you look at the cost of a car, typically it is 70% bought-out parts. The parts that go in the car denominate the value of the car. The manufacturing cost of Sunderland is 7% of the cost of the car, so it is quite small. Then you have inbound and outbound logistics. 70% is from the supply base. If you look at the supply base in the future, the UK supply base is not competitive globally and it is in danger of becoming not competitive from a technology view in the future.

As we move to EV, autonomous drive and high-technology manufacturing, if you look at the technology that goes in those cars—high-definition cameras, high-capacity processes, electric motors, batteries—all of that does not exist in the UK at the moment. Nissan has a battery plant because we built one by ourselves.

Q647 **Sir Edward Leigh:** This is a very serious point you are making, but it is not to do with Brexit, it is to do with the nature or the structure of the industry and the previous Government support.



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Colin Lawther: It is, and I think—

Sir Edward Leigh: What you are saying is that irrespective of whether we are in a customs union and the market or not, what you are looking for is support in this area to make you more competitive. That is what you are saying, is it?

Colin Lawther: Nissan will not succeed in the future, with or without Brexit, unless the Government does something to help our supply chain. That was part of the discussions we had in the famous letter.

Q648 **Sir Edward Leigh:** You made it quite clear to me you did not therefore ask for any particular compensation in terms of Brexit, whatever the negotiations come to. But the obvious last question I have to ask you, then, is this: are you saying that whatever the results of the Brexit negotiations, the Nissan plant is safe in the United Kingdom?

Colin Lawther: No, I would not say that at all.

Q649 **Sir Edward Leigh:** Why not, then?

Colin Lawther: If you look at the history of the Nissan plant in Sunderland, this is not an apocalyptic moment to us.

Q650 **Chair:** What sort of question mark hangs over Nissan post the Brexit negotiation?

Colin Lawther: I think you are asking a question about the behaviour of Nissan. It is our responsibility—and it is my responsibility—to the 7,000 people in the plant and the 40,000 people in the UK to come up with a strategy that mitigates whatever circumstance we have that is within our control. If you look back at the history of the Sunderland plant, there have been many bumps along the way and we have always found mitigating circumstances or alternative strategies to make sure our business is competitive going forward. Obviously at the moment there is a wallpaper book of different scenarios, and from the business, of course, we have evaluated some of the extremes.

Q651 **Chair:** It would be useful at the moment if you could outline where the question marks are, because if not, the Government is in danger of heading towards a very bold point. They head towards that point, they reach that point and they do a certain action, and then Nissan turns around and says, "This is the point that we just cannot follow", and then Nissan ups sticks and goes. Where is the point where Nissan says, "We cannot accept this, we cannot live with this"? What is the Brexit question mark that you are alluding to?

Colin Lawther: I cannot predict the future, but my intention would be to avoid that by doing what we can to make sure that we still survive in the future. Of course there are question marks—

Q652 **Chair:** Yes, but what are we avoiding?



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Colin Lawther: There are three main strategies, as I explained. First is for ourselves to be competitive, and we have asked for Government support using RGF, which will be in the public domain in the course of time.

Q653 **Chair:** But that is an internal company matter. What are you avoiding the Government doing?

Colin Lawther: We expect that the Government will honour the agreements we have had with them, and if we can prove additionality then they would support that. I am sure that will happen. We have a history where that is positive and that will happen.

The second point is that we need the Government to invest in the supply base, to onshore suppliers back to the UK who left many years ago. That is the second critical factor. The third critical factor is a competitive trading base. Those are the three points.

Q654 **Chair:** There is nothing in the Brexit negotiations that worries you then, so we will not hear Nissan coming back and saying, "The Government got us to WTO. That is a problem. We are upping sticks"? That will not be a problem?

Colin Lawther: WTO is clearly worse than today's conditions, of course.

Chair: Exactly, which is why I asked the question.

Colin Lawther: If you take a practical example, a practical example is Nissan X-Trail. I am not sure whether you know an X-Trail. It is a big Qashqai, a four-wheel drive, currently built in Japan in Kyushu. We have a plant in Kyushu on the south island of Japan. We export that car from Japan to Europe with 10% import duty. That car is profitable, we have had a very successful history with it and we have been importing it under those business conditions for a long time.

Q655 **Chair:** The reason I am probing in these questions is that I do not want to reach a situation where the UK Government have done X and Nissan says, "This is the X that we did not want them to reach". But you are not outlining what that would be just now. It would be really useful, as the Government go forward, if we all knew whether there is a risk point that Nissan cannot accept. There does not seem to be. There does not seem to be anything that is going to emerge from the Brexit negotiation that Nissan are going to say, "No, that is a problem".

Colin Lawther: I am sure we can find a way around any of the problems. Let me just—

Chair: So therefore there is no problem?

Colin Lawther: There is a deterioration in profit. We will still have a profitable business, but there will be a deterioration in profit. If you take the X-Trail case, it is made in Japan, exported to Europe. Then we decided, as part of the announcement, is it better making the car in



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Japan or is it better making it in Europe? We decided it is better in Europe than in Japan. We made that decision based on free trade agreement—it is 10% better from our customer point of view. It reduced the cost of the car and increased our profits. It is better in a free trade situation.

Secondly, we are at least three months closer to the customer, so we can build the car to customer order, we can customise the car, we can add value and increase our profits. The third area is that we do not have six weeks'-worth of inventory sitting on the water, so our free cash improves by \$250 million. So it is better to build the car in Europe than it is to build it in Japan. Even though Japan was a very profitable business case to us, it is better to build it in Europe because it is more profitable.

Q656 **Chair:** You avoid the 10% tariff and the timings and the rest of it.

Colin Lawther: 10% tariff, closer to the customer, build to customer order. Now, to take your second point, if the UK is now like Japan, if you are now in the same situation as we are in Japan, we will still have the advantages of being closer to the customer, we will still have the advantages of all the free cash, so building in the UK is still better than building in Japan. Then the question is: is there anywhere in Europe we can build the car that is better than building it in the UK? We do not believe there is. We do not believe there is a better solution for us at the moment.

Q657 **Chair:** Thank you. Before I move to my colleagues—a number of colleagues want to come in—when does the letter stop being commercially sensitive?

Colin Lawther: When the RGF investigations have finished. I had the discussion with—

Q658 **Chair:** At that point you would have no problem with the letter being published?

Colin Lawther: Absolutely not.

Q659 **Chris Leslie:** We will come to the discussion about supply chain and parts and components, but I just wanted to know factually, how many Qashqai do you currently produce and sell into the EU market—I guess the EU 27? What is the number of vehicles, finished vehicles, you sell?

Colin Lawther: In 2015 we built 293,000 Qashqais. This year we have invested in putting Qashqai on to production line number 2 to increase the capacity, and this year we will build 320,000 Qashqais. Of those 320,000 Qashqais, 20% are domestic UK, about 20% are exported outside the customs union and 60% to Europe.

Chris Leslie: 60%?

Colin Lawther: 242,000 or 243,000.

Q660 **Chris Leslie:** If we ended up with a 10% tariff, that would be effectively on that 60% to Europe and to the other 20% beyond.



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Colin Lawther: Correct.

Q661 **Chris Leslie:** But definitely you have no tariff currently. That will go up by 10% on that 60%?

Colin Lawther: Yes, 240,000 cars.

Chris Leslie: That was for clarification. I will come back later and talk about that.

Q662 **Toby Perkins:** You have made it clear, Mr Lawther, that so far your requests in terms of RGF are the same as they would have been before Brexit. That is unsurprising, because nothing has changed yet. At this moment there are no tariffs on your products, there are no additional taxes on products you buy in from the supply chain that are made in Europe, and customs arrangements are exactly what they were before. But I maybe heard something different from what the Chairman did. What you are saying is, if those factors changed, then your business decision might have to change.

If there were taxes in the future on exports, if there were taxes on products you bought from the supply chain that were not within the UK or if there were difficulties in the customs arrangements, then potentially the deal is off, because the deal that you have signed up to at the moment is on the basis that nothing has changed. If things changed, then the deal you have done as part of RGF might have to change.

Colin Lawther: I would not say the deal is off. I think the industrial strategy direction that we have taken is pretty sound, but we might have to do things. We receive a lot of parts from the EU at the moment, so it is euro-denominated. If we have to pay 3% or 4% import duty on those parts, that means it could be better to buy those parts in GB pounds in the future, so it could mean localisation to the UK would be one of our strategies.

Q663 **Toby Perkins:** You were just saying that some of those products are not even available in the UK.

Colin Lawther: Some are. For example, alloy wheels we get from the centre of Germany. You can imagine in the centre of Germany alloy wheels are not the cheapest in the world, so there must be business opportunities for some commodities. On top of that, there are a lot of technologies that we are receiving from the Far East. Most of the advanced manufacturing, electronics, technologies, including EV and autonomous drive, are coming from China, Korea, Japan, and there is a huge opportunity for Europe to localise that componentry in the future. That is the type of business strategy that we will continually review. It is more a footprint of where we get our parts from.

Q664 **Toby Perkins:** The key point I am making is that at this moment nothing has changed from your business perspective, because the environment has not changed. If the environment changes, then you will review it at that moment.



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Colin Lawther: We will certainly review it. We trust that the Government's declared intention to have a competitive trading environment is where we will end up. If there is evidence or there is a decision to change that, we will review the business case. We might not change our strategy; we might. I do not know. It depends on what the circumstances are.

Q665 **Toby Perkins:** So you cannot offer any guarantees. Understandably, you cannot offer any guarantees until you know what the environment is that you have been asked to operate in.

Colin Lawther: We will not change our strategies. "Guarantee" is a bit of a strange word, but we have made our decision to move forward with Qashqai and X-Trail built in Sunderland. That is the best part of more than 400,000 cars in one shot.

Toby Perkins: Over?

Colin Lawther: It is a six-year model life normally—typically a six-year model life.

Q666 **James Cleverly:** Mr Lawther, since the referendum everything seems to be seen through the prism of Brexit, so there were just a number of points that I want to clarify to put your company's actions into context. You said earlier on that you as a company have had regular meetings with Government since the inception of Nissan's plant in Sunderland, and that continued through the Brexit process and you envisage that will continue beyond the Brexit process, is that right?

Colin Lawther: Yes, I would hope so.

Q667 **James Cleverly:** As part of those negotiations, you have, over those 34 years, let the Government know what actions you think Government should and could be taking to make the car industry in general and Nissan in particular more profitable, sustainable and that kind of stuff, is that fair?

Colin Lawther: Yes. We make direct representations through the Department of Business.

Q668 **James Cleverly:** Yes, and have done long before Brexit was ever on the horizon?

Colin Lawther: Yes, for more than 20 years in my knowledge, in the times that I have been working in that field.

Q669 **James Cleverly:** It has been noted in Committee, and I think it will be noted more widely, that you said you are unwilling to give a cast-iron guarantee or a blank cheque to Government for Nissan's sustained presence in Sunderland. That is a fair representation of what you said?

Colin Lawther: You mean in terms of what would it cost to keep Nissan in Sunderland?



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James Cleverly: Yes. When people have said, "Can you guarantee that irrespective of what happens, there will always be a Nissan plant in Sunderland?", you have said you are unwilling to give that kind of guarantee.

Colin Lawther: I wish I could, but the automotive business is incredibly competitive. We are talking about 2026, 2027. I am sure that we have visibility to 2026, 2027, and then we have to competitively bid for cars beyond that period. I am sure if we just keep doing our job correctly, as we have been doing for the last 30 years, we will be successful.

Q670 **James Cleverly:** That point that you have just made, has that always been the case with regard to Nissan? If Brexit had never happened and we were having this conversation, and if the UK Government's regulatory environment or tax environment or industrial environment dramatically changed for whatever reason, would it be fair to say that you would be just as unwilling to give a cast-iron guarantee of Nissan's future presence? You are saying that decisions Governments make influence decisions that manufacturers make. That has always been the case, that is the case and will inevitably be the case?

Colin Lawther: Yes. No difference.

James Cleverly: Brexit or no Brexit.

Colin Lawther: Brexit or no Brexit. When I talk about surety of production for cars to 2026, 2027, that is normal business. It was a more local press to the north-east, but last Friday we launched a new extra-large press, a 5,000-tonne press, to press body sides and roofs. Those investments only come around once every 25 years. The first one we put in in 1990 is worn out now. We have just introduced a new press, a £37 million investment. That is a 25-year investment. So from our point of view, we expect to be here in 25 years' time, because we are investing a lot of money in replacing all of the kit that is now wearing out that we put in from 1985 to 1989 as we grew from a one-line to a two-line plant. Our industrial investment is now 25 years in the future, but our model allocation will be this car plus six years.

Q671 **Mr Ranil Jayawardena:** Mr Lawther, you have said this morning that the main thing for you is free trade agreements. Clearly the Government, and I believe the rest of the country, wants a comprehensive, bold and ambitious free trade agreement with the European Union. Would you be able to highlight some of the key features that Nissan really believes are critical to such an agreement from your perspective as a business?

Colin Lawther: I am talking automotive sector only: free trade of componentry coming in, free trade of cars going out in both directions. I will explain why that is important to us in a moment. Also from a vehicle homologation point of view, for example, we have at the moment whole vehicle type approval. One of the member states will homologate a car and that homologation will then count for the other 27, so you do not need to homologate a car in every country, which probably costs the best



part of £500,000 per homologation. In the event of the split, the UK whole vehicle type approval will apply to the rest of the customs union, and then also that will apply to the rest of the world. That is one example. There is also emissions regulation, emissions testing protocol, crash testing, in-cab testing—we would want the UK to harmonise with Europe, and then we would be bundled together from a technology cluster point of view. So parts duty coming in, car duty going out in both directions, and harmonising the technology.

Why duty is important for Nissan, but also for the UK consumer, is for example that I have a plant in Barcelona that produces a Navara one-tonne pick-up—a fantastic car, number one pick-up in Europe, doing really well. The UK is the biggest market for the Navara pick-up truck. We do not build pick-up trucks in the UK, so in the event of a 10% duty on pick-up trucks coming into the UK either the price would go up and the UK consumer would have to pay more for the pick-up trucks or the volume would go down, so it is bad for the UK consumer also. It is bad for me as a business because I am trying to import cars, but it is bad for the UK consumer at the same time.

Q672 Mr Ranil Jayawardena: Clearly reduction in tariffs generally is a good thing across the world, and I will come to that point in a second around other free trade agreements. You have talked about harmonisation of regulation, but can you give any examples of harmful, burdensome regulation that you currently face that would benefit from this Government wanting to take back control of determining those regulations and repealing or amending them significantly? I think Digby, Lord Jones, estimated this at something between £1 billion and £4 billion a year when he gave evidence to this Committee.

Colin Lawther: To be perfectly honest, that is a little bit outside my scope of expertise. Nothing that I am aware of, but we will certainly come back to you with any material asks in that area.

Q673 Mr Ranil Jayawardena: That would be very helpful—a written answer just to highlight some of the regulations that you think are hindering your business, as we naturally in the process going forward want to support your business.

Taking the step from the EU to the rest of the world, you said WTO is worse than today's conditions. That can be true; it might also not be true. If it was WTO with the EU, then yes, clearly that is correct, and that is why we both want to see a free trade agreement with the European Union. But WTO terms, having left the EU, could mean that we are better off with trade elsewhere because we also have the ability to negotiate free trade agreements with the rest of the world, which we currently do not have. You have talked about how you do not want to have cash sat on the seas, but equally, does our ability to create FTAs with other markets open up new opportunities for the Sunderland plant?



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Colin Lawther: This is certainly an area that we are particularly interested in. At the moment 20% of our production goes outside the customs union, and we export to more than 130 countries globally. Last year the Sunderland plant started to export to China and to America for the first time, so we have opened up the export door from the UK to America, which is quite interesting for us. Opening up further businesses is very much of interest to us.

Q674 **Mr Nigel Evans:** What is the tariff on cars from the UK to America?

Colin Lawther: 10%.

Q675 **Mr Nigel Evans:** It is 10%. That is still very profitable?

Colin Lawther: Yes.

Q676 **Mr Ranil Jayawardena:** One final question, if I may. The Commonwealth Secretariat said that an FTA between the UK and India, for example, could increase trade overall by 25% to \$7.8 billion. Crucially, exports of UK products such as cars would be expected to rise. I take your point about cash on the seas. The distance between Japan—as in your example a moment ago—and the UK is not necessarily beneficial in this example, but even if no special deal is struck with the EU, would you agree that there is a potential net benefit for the car industry if the right FTAs are struck with other countries? Whether that is true or not, what should be the priority countries for FTAs from the point of view of Nissan, and indeed, if you can answer this, the broader automotive industry in this country?

Colin Lawther: That is a great question. If you take the point about America, cars we are shipping to America are premium cars. If we were shipping very cheap cars to America, it would not make sense. A few years ago I had the pleasure of running Africa, Middle East and India, so I know our Indian plant in Chennai very well. Up until six months ago we were exporting Micra. We moved Micra from the UK to India because, frankly, the UK should be building large, high-spec, high-technology, high-value cars. So we moved the Micra to India and because the car is quite low-cost, low-margin, that cash on the seas really wipes out a lot of the benefit. So if it is a very small car coming from overseas, there is not much benefit. We have just moved the car to the centre of France, so we are now building the car in our Renault plant in Paris. That car was sales-launched this month.

It depends which car. The market in India is very small, cheap cars. Not many people have cars. It is a market that is growing rapidly. I do not see personally any huge business advantage from the Sunderland plant exporting to countries like India, because they are developing countries where you should be building cars inside the country, for the country, appropriate to the country.

I think we just need to be careful with where we are talking about. If you are talking about South Africa, it is a different question. Definitely a free



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trade agreement for South Africa is very important to us. But this is a two-way door, remember. I am not protectionist in any way, but if you look at the free trade agreement with Korea and how that has changed the landscape, Korean manufacturers have gone from 0% market share to 6% market share since the introduction of a free trade agreement, which is great for competitiveness, but the door opens both ways.

Q677 Liam Byrne: Could you just give us a sense of what proportion of parts are imported?

Colin Lawther: That is another great question. You are getting right to the nub of some of the issues here. If you look at the GB pound content of the cars produced in Sunderland, it is only around about 15% we pay in GB pound content, because we get a lot of sub-component parts. In automotive we have tier 1 suppliers, which are the big suppliers to us, and then we have tier 2, 3, 4 and 5, which we call tier N. Tier N suppliers bring their sub-componentry from all over the world. The sub-componentry, the tier N—the tier 2, 3, 4 and 5 suppliers—are bringing a lot of components into the UK, which are then being assembled into bigger modules that we are taking into the car.

If you look at the currency we pay in, we pay in pounds, but if you look at the currency footprint, the currency footprint could be yen, dollar, euro. What we strongly want to do is to increase the tier N content of parts built in the UK, and those suppliers tend not to exist at the moment. From Nissan alone we would like to spend something like £2 billion more per year on parts from the UK, assembled in the UK for supply to Nissan.

Q678 Liam Byrne: So 85% by value is coming in from outside.

Colin Lawther: Is non-GB pound.

Q679 Liam Byrne: Why do you want to build up the local supply base?

Colin Lawther: For many reasons. I will give you a couple of them. The first one is that we have done a lot of studies, and building a car to a customer order is much more profitable than building a stock car, putting it in a field and then trying to sell it with discounts later. You are trying to sell somebody a car they do not want.

We have done a lot of studies with Harley-Davidson, with Nike, with ZARA, with many different companies who are building to customer order. If a customer can configure the car online—so they can go online and place the order online—we commit the car to the production line and we build it. It might have sidebars, it might have decals, it might have coloured inserts. All of that is value added to Nissan. So the more agile we are to the customer, the more we can enhance the value of the car to the customer so we make more profit.

To do that, the suppliers have to be right on your doorstep. The suppliers have to be able to react immediately to the orders coming in over the



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internet. If you have a supplier in China, you have to have a lot of parts on the water, or you can imagine if you had to build every variant of car, you would have warehouses bigger than London.

Q680 Liam Byrne: If we get an FTA without a customs union, we are going to quickly get into problems with rules of origin. The SMMT told us that to get around those rules you need about 50% to 55% local content. You are in quite a lot of trouble if you are importing 85% of your parts.

Colin Lawther: Our declared targets and part of the contract we signed up to for the car is to be compliant with rules of origin for new Qashqai and new X-Trail. So we need to increase the level of GP pound content to comply with rules of origin under any circumstances. It is our job to do that, but when you look at the supply base, not all of it is in place. That is where we are asking the Government to help us.

Q681 Liam Byrne: How worried are you about rules of origin coming into force? It sounds like quite a big threat to your business if there is not that local supply chain yet in place.

Colin Lawther: It could be. It depends whether in the end we bundle with the other 27 member states. Rules of origin are Europe plus UK—that is the ideal solution. If the UK is alone, we have a lot of work to do. We have a lot of work to do on two fronts. The first one is just traditional car building, and we know what we need to do to increase the level of GB pound content.

The second is much more dangerous, I think, which is in EV. In the UK, for example, automotive builds 2.4 million internal combustion engines per year and we export 85% of them, and it is £7 billion worth of manufacturing. The Automotive Council and SMMT are committing to 50% of the production of vehicles being EV by 2030, so 2.4 million internal combustion engines will drop to 1.2 million, so the UK has to replace that with something or just lose the business and lose the jobs.

We need to replace it with EV technology, so that is batteries, motors, inverters, reducer gearboxes. We need to do that because we are losing the internal combustion engines from the economy, but more important, from our point of view, is that if we do not have the EV content in the cars—that EV content I am talking about, the electric motor, the power inverter, the reducer gearbox and the batteries—that is 50% of the car. If you are importing 50% of the car, which is the EV powertrain, there is no way you are going to be able to achieve rules of origin, so we have to really power the EV technology in the UK.

Q682 Liam Byrne: That is very useful. There has been some talk about creating a sectoral customs union. Is that something could work for the automotive industry? Is it feasible, is it a good idea?

Colin Lawther: I think so, yes. I think for automotive it would work.

Q683 Liam Byrne: The other idea that has been discussed is the diagonal



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accumulation of origin principle, which is beginning to get into some quite esoteric interpretations of rules of origin. Any comment on that?

Colin Lawther: No, you would need to explain that to me. It is a new concept to me.

Q684 **Liam Byrne:** At the moment when you look at your risk register as a business, how high up the list is Government investment or lack of necessary investment in developing the supply chain?

Colin Lawther: I will answer the question you did not ask first: the direct support from the Government to us in RGF funding is really important, but it is not a major factor. Supply base I think is a critical factor. I think it is one of the critical success factors and if we do not, as a country, invest in the supply base, my fear is that it could be a house of cards effect. We need to have the supply base in place.

Q685 **Liam Byrne:** Do you have a gut feel for the order of magnitude of investment that is needed to grow that supply chain business?

Colin Lawther: From a Nissan-specific point of view—

Liam Byrne: I mean from public support.

Colin Lawther: Yes, I will answer your question. From a Nissan point of view, we are working with the Government, the Highways Agency, the Automotive Investment Organisation, South Tyneside and Sunderland City Council, and we are building an international advanced manufacturing park. All those organisations have done great work in improving the road structure, taking the land out of green belts, giving it enterprise zone status, and investing in providing the canvas for suppliers to come and help us with the vision of suppliers being next to the plant to build a customer order, to really add value. That plant should be advanced manufacturing jobs, so I would like to see it be electronics, high-definition cameras, along with alloy wheels and glass or whatever else could come to it.

For that, for Nissan only, the chief executive of Sunderland City Council has written to the Secretary of State for Business and also the Chancellor, saying that she believes—and obviously we are party to that—we need about a £100 million overall UK fund, following something like AMSCI, which ran out in 2015, which is an advanced manufacturing fund from the public domain. You have to comply with state aid rules, and you have to prove additionality. It would be £100 million for the UK, which each sector, from the west midlands north, could draw from.

We think about £40 million. We have enough suppliers interested in coming from overseas to the UK and suppliers who want to expand and consolidate their businesses to take about £40 million.

SMMT and AIO think it should be higher. They are thinking £120 million, £130 million, £140 million. I made the request to the Automotive Council last week and at the moment the Chancellor is in a very difficult position.



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The Chancellor is saying no money. My strong request from the automotive industry is that we should put a £100 million fund together quickly—maybe more, if the SMMT is right—to repower the supply base for the whole of the automotive industry to be competitive, to give us the flexibility that in the end, under any circumstances, we are in charge of our own destiny.

Liam Byrne: That is very useful, thank you.

Q686 **Chris Leslie:** I am just trying to get this in layman's terms. A new Qashqai, if I was to buy it, is about £22,000 or £23,000, something like that, around that ballpark. I don't want to get into quibbling too much, and obviously I would try to barter you down a bit.

Colin Lawther: Of course, there is always a friends and family discount.

Chris Leslie: Let's just say, for sake of argument, you are selling that into those other European 27 countries. We fall back on to WTO rules in that hypothetical situation with no FTA. Obviously we hope we can get an FTA, but if we cannot, it is the 10% tariff that we were talking about before. I think you said before that 60% of those Qashqais that you produce go into the EU 27, which is about 192,000 vehicles, something of that order. So that £22,000 vehicle, if it gets 10%, in pound terms it goes up to £24,200, a £23,000 vehicle goes up to £25,300. It is adding on that 10% of the cost potentially for the end retail customer in the EU 27. I am just trying to get a sense of the competitiveness of that vehicle. That sort of price hike for customers in the EU 27 shopping around, comparing it to BMW, small SUVs or Audi or Mazda or whatever it is, would definitely detract from your competitiveness in price terms.

Colin Lawther: If we just put the straight 10% on the cost of the car and put that as a sticker price, I am not sales and marketing, but it would be pretty disastrous, I think. Nissan would have to absorb some of that. We would have to absorb some of that loss and we would do it by feature, so we would have to explain why the car was worth more than some of our competitors. We are fortunate with Qashqai in that it is the segment leader, so it has a very strong brand image and it is quite profitable for us. But to answer your question, you are talking a £400 million, £500 million, £600 million impact, something like that.

Q687 **Chris Leslie:** I was going to say about £422 million. I just totted it up in terms of 192,000 vehicles with that extra 10%, £422 million. That is a heck of a lot for you to absorb.

Colin Lawther: Yes, absolutely, so we would need to reduce the cost of the car by being competitive, because we have to drive that down as much as we can, pass on as little as we possibly can to the customer and keep driving our brand image up.

Q688 **Chris Leslie:** But it would not just be that end retail price that would be going up, because all of those components in the supply chain, the parts and so forth, would also potentially have a tariff on them being imported



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into your manufacturing. I have a figure of between 2.5% to 4.5%. Is that what you understand?

Colin Lawther: Yes, but what we would expect is a quid pro quo agreement, so we would pay 2% or 3% duty on the parts coming in. When we export the cars back to the countries where the parts come from, euroland, we get the money back. So that would be duty-neutral. That would be one of our requests.

Q689 **Chris Leslie:** If there was a deal, that is.

Colin Lawther: If there was a deal.

Q690 **Chris Leslie:** If there was no deal though and WTO arrangements, you would pay it on both ends.

Colin Lawther: We are into a wallpaper book, but our request would be make it duty-neutral. Having said that, we would then have to have 100 people doing customs processing.

Q691 **Chris Leslie:** Before we come to those rules of origin checking and processing, I am just looking at the absolute cost. In that scenario of no deal, no free trade arrangements, no quid pro quo, falling back on WTO arrangements, you would have to pay to import all those things. You said it was about 85% of your vehicle that is not sourced within the UK.

Colin Lawther: Not paid in GP pounds, yes.

Q692 **Chris Leslie:** Yes. Effectively, for about 85% of your components you would have to have, if it was WTO, a duty of up to about 4.5%.

Colin Lawther: Yes, your logic is correct. Our strategy is to increase the amount of GP pound content to reduce that exposure, so we are doing that.

Chris Leslie: Absolutely, you would have to do that.

Colin Lawther: But it is just mathematics, and the magnitude is correct.

Q693 **Chris Leslie:** I think it is important sometimes to state some of the obvious factors, because although we are all aiming for an FTA, it is important that people understand the consequences of no FTA, of a WTO arrangement, which would be 10% on the retail sales back into the EU 27, plus potentially that 4.5% on your supply chain, which would add another £100 million, or whatever it is, into your costs, so potentially £500 million end to end. Please take this opportunity to explain the effect that that would have on your domestic UK business.

Colin Lawther: Yes, we have made that point in almost exactly the same way to the Department for Business. That would mean our business would be of that magnitude less profitable. We are fortunate in that our actions over the years have driven us to be a brand that is quite sustainable and quite profitable. Maybe we could survive with that—maybe. Some of our other competitors, I feel, would not be able to



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survive with that level of anti-competitiveness from a cost point of view, so it is quite dangerous from an automotive sector point of view.

Q694 **Chris Leslie:** It seems to me from your business model that £500 million of extra costs simply from those tariff arrangements alone—components and final sales—is existential.

Colin Lawther: Yes, so we would have to find compensatory measures from our own business point of view: more localisation of parts, different destinations for cars outside the EU and so on.

Q695 **Chris Leslie:** We should put a lot of effort, then, from the public policy perspective, into making sure we get that free trade agreement. How do you feel about this idea that no deal is something we could have as an option?

Colin Lawther: No deal is a deal. You might not like it, but it is a deal.

Q696 **Chair:** Yes. It is £500 million question, I think.

Colin Lawther: Yes, it is for us. As I said, it is very important to us that we have a competitive trading environment. If you go to the worst extreme, that means that is profit we would not have, or we would have to reduce the volume because we put the price of the car up and the volume went down just because of market demands, or we would have to ship the cars further afield with cash tied up on the water and so on.

Q697 **Chair:** What was your profit last year?

Colin Lawther: Profit last year? I am not sure. I will have to come back to you on that. I know what it was, but I am not sure what we told the—

Q698 **Chair:** It brings me into an interesting area because I understand your taxable profits last year were £170 million. I understand and I have been told—it has come across my radar screen—that vehicles made in Sunderland are sold to Nissan Switzerland at cost price plus a small mark-up, and that then alters the taxable profits and corporation taxes that are paid. Your profits in the UK are £170 million and you are looking at a £500 million hit from a possible scenario that has been painted there. Where does that leave you?

Colin Lawther: The UK is one of our most profitable markets, as you would imagine—

Q699 **Chair:** Is that because you are using Switzerland as a vehicle, if you will pardon the—

Colin Lawther: No, if you look at the cost of cars in Switzerland it is much more—

Chair: I know, but are you using Switzerland as a tax vehicle to pay corporation taxes there?

Colin Lawther: No, no, no.



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Q700 **Chair:** You do not pay corporation tax in Switzerland on vehicles made in Sunderland?

Colin Lawther: Our head office is in Switzerland. I am not sure of the actual tax arrangement, but our head office is in Switzerland.

Q701 **Chair:** Could you come back to us and clarify that point?

Colin Lawther: Sure.

Q702 **James Cleverly:** My colleague has put forward a number of scenarios based on a projection of what the future might look like, but there seems to be a glaring hole in the whole conversation around that, because it seems to be predicated on all else being equal. Of course, all else is not equal, so we have had a significant devaluation of the pound, which means with UK domestic procurement of UK-produced products there is a different financial dynamic there. Also, the other big thing of course, if we do go on to WTO rules, is the fact that it is going to affect vehicles imported into the UK. So how many of the UK-produced Nissan models have direct competitors that are also produced in the UK?

Colin Lawther: I don't know. I am going to have to come back to you. Not so many.

Q703 **James Cleverly:** Yes. So it is probably not none, but it is not many?

Colin Lawther: Very few.

Q704 **James Cleverly:** So for most of the vehicles, if someone is going on a motor vehicle shopping spree, either online or in showrooms, any tariff effect on Nissan ticket price is going to be more than offset by the fact that even if your prices go up, the vehicles that they would be doing a direct comparison against will have gone up more, because they are almost certainly going to be imported with a 10% tariff, all else being equal?

Colin Lawther: Yes, all else being equal. If you just take mainland Europe, if you assume that all the cars are denominated 100% in euros, when they come to the UK they are 10% more expensive. That is just 10% more expensive. In current conditions, 85% of our cars are euro-denominated. We don't pay the import duty, so we would be more competitive in the UK, sure.

If you look at the UK total industry volume, it is up to 3 million, so 2.5 million say, and we produce 1.5 million cars in the UK at the moment and we export most of those cars. Domestic sales of the UK automotive industry are 500,000 to 600,000, or something like that; import cars are 2 million, so 2 million cars coming in would be less competitive than they were before. For sure, there must be an opportunity for cars built in the UK for sale in the UK. There must be an opportunity for us there.

Q705 **James Cleverly:** So tariffs do what tariffs always do, which is push up the cost to the consumer, but if we are talking specifically about Nissan's



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self-interest, a move to WTO tariffs would push your product prices up to the consumer but push your competitors' product prices up by more. So the consumer loses out. Of all the people that lose out, they lose out the most. You lose out the least and your international competitors lose out as well.

Colin Lawther: In the UK alone, yes.

Q706 **Chair:** Just a quick question before I go to Nigel Evans. On the pound, you buy 85% of your stuff. But given the fall of the pound by 10%, was that good news or bad news for you? What would you like to see happen to the pound, just purely out of interest?

Colin Lawther: I think that stability of currency is the most important, so if the pound changes we make money, and if the pound changes we lose money.

Chair: When the pound fell by that 10% to 11%, was that good or bad for you?

Colin Lawther: It was good for cars produced in the UK and sold outside the UK, bad for Nissan because we import cars. Net/net it was slightly worse.

Q707 **Mr Nigel Evans:** Who owns Nissan?

Colin Lawther: Who owns Nissan? It is shareholder company owned and registered on the Nikkei Stock Exchange.

Q708 **Mr Nigel Evans:** Renault has—

Colin Lawther: A 44% stake.

Q709 **Mr Nigel Evans:** A 44% stake. How many people do Nissan employ in France, roughly?

Colin Lawther: Tens. Maybe 10 or 20, something like that.

Mr Nigel Evans: What do you mean, 10 or 20?

Colin Lawther: Nissan people working in Renault.

Mr Nigel Evans: No, but in France, how many—

Colin Lawther: I will need to come back to you. We have an independent sales network, so Nissan—

Q710 **Mr Nigel Evans:** It is all sales, no manufacturing there at all?

Colin Lawther: No Nissan manufacturing at all.

Q711 **Mr Nigel Evans:** Only on parts?

Colin Lawther: Only on supply of parts; not Nissan's parts.

Q712 **Mr Nigel Evans:** Supply of parts, because you have mentioned that 85% of the vehicle is coming in from other countries. Is most of that from



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within the European Union?

Colin Lawther: We have high-technology parts coming from Asia, so we receive some engines from Japan—very small now—and we receive cameras, electronic control units, brake control units. The high-technology electronics come from Japan, mainly, and a little bit from China, so we are mainly yen-based—mainly yen and euro.

Q713 **Mr Nigel Evans:** It would be really useful if we could have a breakdown of a typical car, just to work out where it comes from, because it brings up this question: what is British? It is pretty complicated. I am just wondering; you will have jobs throughout the whole of the EU where there are sales of vehicles, parts and so on. Are they lobbying their Governments as much about having a zero-tariff free entry into the UK as we are about having the return?

Colin Lawther: Yes. We are talking to the big suppliers and they are as worried as we are that if the UK industry drops in volume, their supply volume drops. They are as worried as we are that their business will drop.

Q714 **Mr Nigel Evans:** When we talk about it in the United Kingdom it is all about how we are going to fall off a cliff and nobody else is, but it hits both sides, that if there are retaliatory tariff measures it hits the European Union as much as it would hit the United Kingdom.

Colin Lawther: Yes.

Mr Nigel Evans: Both sides would have to look again.

Colin Lawther: On supply, but more importantly on imported labels obviously, so OEM. The suppliers who supply us are worried, but the suppliers who supply OEMs who supply into the UK are more worried because they supply more parts to OEMs who are supplying into the UK, the Germans, the Italians, the French and Spanish. They get hit both sides.

Q715 **Mr Nigel Evans:** Great, so we have that on the record. As far as your sales of cars into the United States of America are concerned, even with a 10% tariff it is profitable for you to do that?

Colin Lawther: Yes, it is, but this is our Infinity division, which is a premium product. We are selling premium product cars into America. I don't know the numbers, but I can easily imagine that a Micra might not be profitable in America, so a very low-cost car would probably not be profitable.

Q716 **Mr Nigel Evans:** Are you manufacturing in the United States, Mexico and Canada?

Colin Lawther: Not Canada. We have big plants in Mexico, two big plants in America: Smyrna, Tennessee and Canton, Mississippi.

Q717 **Mr Nigel Evans:** Do you foresee that if there is any trade deal between



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the United Kingdom and the United States of America, it may provide opportunities for you for export of vehicles to America that you currently don't export to America?

Colin Lawther: We have an open export route to America now, so if there is a profitable business case there is no reason why we couldn't expand it.

Q718 **Mr Nigel Evans:** So a tariff-free trade deal between the United Kingdom and the United States of America would open up new opportunities.

Colin Lawther: It could be of benefit to us, yes.

Q719 **Mr Nigel Evans:** Does research and development solely take place outside the UK, or do you have an R&D division within the UK?

Colin Lawther: Yes. We have an R&D division in Cranfield, in Bedfordshire. We have 1,000 engineers employed in that organisation, and they are doing some research and development work for autonomous drive and EVs for us.

Q720 **Mr Nigel Evans:** They are all solely on the future of the motor vehicle industry, as far as what you are going to manufacture for the future?

Colin Lawther: Yes, they are all for the future. For example, Qashqai was styled in Paddington. It was fully engineered in Cranfield and it was built in Sunderland, so that car was fully engineered and designed and built in the UK and the Cranfield engineers did that.

Q721 **Mr Nigel Evans:** That is an intellectual property that has a massive value for Nissan.

Colin Lawther: It has a massive value for Nissan, it does, but also what we are finding now, if you look at EV technology, is that battery technology, for example, was born in the UK. A lot of the universities in the UK are leading in the field, so from a Nissan point of view it is very important to us to be close to leading universities to make sure that we have fast access to intellectual property that we can turn into commercial ventures. For the UK to have a very strong university research culture is important to us from an R&D point of view also.

Q722 **Mr Nigel Evans:** Finally, on the future of vehicles, autonomous driving, flying cars, goodness knows what—the potential is all there. You will have an opportunity—just so we can understand—and you bid for that money in order to be able to get that spent in the United Kingdom to either do R&D or to manufacture?

Colin Lawther: Yes, we do. We bid for that money from a central R&D pot, and it is based on technology packages. You can imagine EV and autonomous drive has many technology packages, so what we do is try to find out where the UK has some centre of excellence and buddy up our R&D colleagues with the centre of excellence. We make a business case and bid for the money from Japan. They allocate us the job.



Q723 **Mr Nigel Evans:** Who will we be competing against for that money?

Colin Lawther: We are competing mainly against Japan. Renault is our business partner and Renault has a big technical centre in Paris. It is probably almost as big as the technical centre we have in Japan, but we tend to work between Japan and ourselves. We don't bid against Renault, so it is Japan.

Q724 **Mr Nigel Evans:** So the importance for the future is how we can put forward a very strong business case against another country outside the European Union.

Colin Lawther: Yes.

Q725 **Toby Perkins:** We will shortly begin an inquiry into trade relations with the US. I am interested in what the components of some future trade relationship with the US would be. Presumably as few barriers as possible.

Colin Lawther: We already export to America, and we export under a series of hurdles and barriers. Removing those hurdles and barriers would help us, so clearly it is an important market. It is an emerging market for us, the first time in 30 years we have exported to America.

Q726 **Toby Perkins:** In terms of that relationship with the States you are, with premium product, able to be competitive even with the tariffs that are attached. What proportion of the value that Nissan does in America would be product made in the UK compared to what you make in America or Mexico?

Colin Lawther: I am not sure I can completely answer your question from a UK point of view. Let me answer it from a Japan point of view. I mentioned earlier that we have a plant in Japan in Kyushu Island. The Kyushu plant is very similar to NMUK, so it makes Qashqais, it makes X-Trails and it makes some other products. Historically, 60% of the product from Kyushu has been exported to America, and NMUK and Kyushu are very close in terms of competitiveness. Nissan has had a very successful model exporting from Kyushu to America. NMUK should be no worse, maybe potentially slightly better under the same 10% import duty conditions. So any improvement in conditions would increase the gap between Japan supply and UK supply.

Q727 **Toby Perkins:** Yes. What can you tell us about the domestic US market? How is it that we are able, despite the tariffs, to be competitive? Is it because we are more efficient? What can you tell us about what those opportunities might be given the way the US manufacturing market works?

Colin Lawther: We are importing a premium car at the moment, so premium brand is opportunity. If you have all the premium makers, whether they are UK or German, there are a lot sold in America, and more premium cars with a Europeanness—the word does not exist, but cars that have a European feel to them. American cars tend to have a



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feel, a comfort level in them. European cars tend to be sharper, more focused, more technologically advanced. If you look at the—

Toby Perkins: You might say the US cars are slightly obese.

Colin Lawther: More comfortable.

Toby Perkins: More comfortable, right.

Colin Lawther: If you also look at it from a Nissan point of view, we have a big plant in Smyrna, Tennessee. Smyrna, Tennessee is very similar to NMUK but it is already at super-plant status, so it is already producing 600,000 cars per year. So it is completely full, the plant in America. Nissan's business is still growing, so Nissan has to take a decision—invest in America or use spare capacity elsewhere in the world. So there is an opportunity for us.

Q728 **Toby Perkins:** In terms of the product that is currently made in the UK, what would be alternative markets that you would particularly like to see the UK pursuing free trade arrangements with?

Colin Lawther: We already export to 130 different destinations. I can't imagine we would want to expand that. In some of those destinations a free trade agreement would give us an advantage.

Q729 **Toby Perkins:** Which would be the key ones?

Colin Lawther: I will have to come back to you on that from a business point of view. We will come back to you with which is the most important to us.

Toby Perkins: That would be useful, yes.

Q730 **Sir Edward Leigh:** Can I carry on the conversation you had about rules of origin with my colleague Chris Leslie? I am still a bit confused about it, because 40% of the car is sourced in the UK. It can depend on different manufacturers and it might be anything between 20% and 50%. The political editor of "Sky News" probably doesn't know a lot about making cars but he does write quite well. What he says is, "What this business model will not be helped by, and indeed, will not survive, is the need to check in every part and sub-part imported from Europe for its origin. Just-in-time delivery means a part delayed by two hours can shut down an entire automotive production line. The idea that a customs officer at Felixstowe, or Rotterdam or Southampton or wherever will be checking the widgets shipped into Sunderland to make the new Nissan model is as far from car industry expectations of competitiveness as can be imagined".

Is what he is saying right? Is that right, what he is writing, and is that going to cause you a severe problem or is there some way around this that I have not quite spotted yet? He says that that means that we are bound in the end to join a customs union. I know you are not going to comment on that, it is politics, but I just want to know whether he is right in his idea of what goes on in Rotterdam or Southampton.



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Colin Lawther: I think he is completely right, based on my experience from other parts of the world. If you take the Sunderland plant as an example, we hold about a half a day's stock inside the plant itself and then obviously that is continuously replenished. Every day we use about 5 million parts, so 5 million parts have to come into the plant. They have to get fitted to the right car, and we build two cars every minute. Those two cars every minute have to go on to a transporter and disappear. So you have 5 million parts coming in every day and you have half a day's worth of stock. Any disruption to that supply chain is a complete disaster.

We are talking about plant efficiency, downtime efficiency—to be world class, we have to be 97% efficient. We are talking about two, three, four, six minutes a day of downtime on the production line; more than that is a disaster. If you start talking about interruption of supply of parts for hours, that is completely off the scale.

Q731 **Sir Edward Leigh:** So we absolutely do not want this customs officer in Felixstowe checking the widgets. That we are perfectly agreed on. Where does that leave us then in terms of—

Colin Lawther: What tends to happen is that in today's situation we have some level of intelligence of some port blockade or somebody trying to stop parts coming. We have a military operation where we have to plan alternative routes and stocks of parts. It costs a lot of money to stock parts to make sure that we don't get hit by some small blockade. We would have a huge department that would be trying to make sure that we had parts coming in at the right time. It would be a big business disruption to us if we didn't have free flow of parts.

Q732 **Sir Edward Leigh:** Just for the sake of argument, assume we are not in this customs union, this whatever, and presumably parts are coming in from all over the world; these customs officers are not checking all these widgets, are they?

Colin Lawther: It tends to be based on a confidence factor, so they check 100% and then basically—

Sir Edward Leigh: Oh, it is confidence. So it is common sense.

Colin Lawther: It is common sense and audit.

Q733 **Sir Edward Leigh:** It is an extremely depressing picture that just because we leave the customs union, this chap in Felixstowe is going to be checking every widget, because he knows it either comes from Germany or France to Britain; he pretty well trusts it is properly made.

Colin Lawther: Yes, so today the free flow of goods is very important to us.

Sir Edward Leigh: I will take your viewpoint rather than the political editor of "Sky News". I think you probably know.

Q734 **Chair:** Thank you. It was assumed that you would want to comment on



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what you might want in the future, but I am going to ask you just to do exactly that. If I was to lay it out in no particular order: a customs union, a European economic area, the European free trade area, or WTO: of those four, can you give me a quick ranking, or do you not care?

Colin Lawther: I think you have just done it, haven't you?

Q735 **Chair:** I just read them very randomly. So customs union is the preference, EEA, then FTA and then WTO?

Colin Lawther: Oh, free trade agreements; to stay as we are is by far the most important.

Q736 **Chair:** So that is the single market?

Colin Lawther: Single market, and WTO is at the end of that list.

Q737 **Chair:** In between come customs and then FTA, and EEA in no particular order?

Colin Lawther: Yes. A customs union is very important to us. Some of the models that are around at the moment—

Q738 **Chair:** Of course EEA is the single market. Yes, fair enough. Thank you.

Just to sum up where we are: there are certain things that Nissan cannot assume it will have following Government assurances, and please disagree with any of these. It assumes that it cannot have a guarantee that the EU will agree to what the Government are negotiating, and that that is a very fluid, moving, dynamic situation. I say "agreement"; it cannot be guaranteed that it will have a sectoral customs union. It wouldn't be permissible anyway from the WTO, so that is ruled out. Given what we have been talking about, there is the possibility of border issues, so you cannot guarantee a totally frictionless border, despite how much we hope for that. Is there any assumption at all on automatic access to the EU's existing FTAs?

Colin Lawther: We would have free access to the market—that is what we are assuming we are going to have.

Q739 **Chair:** Then particularly with regard to South Korea, would you like a guarantee that product standards between the EU and the UK will stay the same?

Colin Lawther: We strongly request that they should stay the same, for harmonisation in technology.

Chair: Thank you very much for that, and thank you for your time this morning. You are obviously operating a very impressive plant there, to have 5 million parts coming in and two cars going out a minute. I don't know if there are any friends or family on the Committee here, but some of my colleagues would love to be friends and family. We wish you luck for the future. We hope it goes well. We hope that Brexit doesn't create major difficulties for you and that you find opportunity again in the future



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and continue to grow. Good luck. Thank you.