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Secretary of State for Trade and Industry

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7E

16 February 1984

SECRET

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London SW1

Mr. Fulton  
A.S.C. 16/2

Mr. Turnbull  
You may like to show this to  
the PM before her next tele a tele  
with the Chancellor. PERB 16.2.

D Nigel

As your proposed corporation tax package develops, I have been taking a closer look at its effects in the short and medium run - say up to 10 years or so - on manufacturing industry. As a particular example - because of its high profile in political terms - I have looked at its effects on the Nissan project. It may be useful if I briefly set out the facts.

2 We believe that the net present value to Nissan of Phase 1 and Phase 2 combined of the current tax structure, compared with the structure you are now considering, is in the region of £50m. This is a very large sum in relation both to the total cost of capital expenditure and to total Government financial assistance to the project. The gains to Nissan from the reduction in corporation tax will not be any great comfort: the profit profile shows that it is not until the beginning of the next century that this reduction will actually help Nissan.

3 This is made more awkward as in response to a personal appeal from Mr Kawamata to the Prime Minister for the Government to build a factory and lease it to Nissan, the Prime Minister offered her personal support and the good offices of the Bank of England to secure commercial leasing arrangements to finance the capital expenditure. Although no assurance was given on the continuance of the current corporation tax system and capital allowances, you will see from the attached letters from the Prime Minister that the tax benefits accruing to Nissan through the leasing route were explicitly spelt out. Nissan are in no doubt of the considerable advantage afforded by current leasing arrangements in addition to regional development grants and negotiated selective assistance.

4 To have the advantage of leasing so seriously reduced and so soon after the deal was signed can hardly fail to be regarded by Nissan as at least sharp practice and very possibly as a breach of faith. Because of her close involvement, the Prime Minister's personal credit will be called into question. There is a real





risk that it would lead Nissan to cancel the project. At least we must expect them to seek additional selective assistance to make good the loss.

5 I do not see how we could give sufficient additional selective assistance. To do so would increase the level of aid to the point where the European Commission would have a veto over it. Such action would in any case be virtually impossible to defend when we have emphasised that Nissan is being treated no differently from any other would-be investor.

6 We are therefore facing an unpleasant dilemma. I must say I cannot see much prospect of transitional arrangements to protect Nissan from the effects of the change, since those arrangements would of course have to be available generally to all business.

7 I am copying this letter to the Prime Minister.

*Norman*

NORMAN TEBBIT





10 DOWNING STREET

THE PRIME MINISTER

9 November 1982

Dear Mr Kawamata,

At our meeting in Tokyo, you explained your concern that the UK project would impose a heavy additional financing burden on Nissan. In order to reduce the immediate impact of a UK investment you asked whether it would be possible for the British Government to build and fully equip a factory initially, and to recover the cost from your company over a period through a rental arrangement. I undertook to consider personally whether we could offer a solution to this problem.

As I mentioned when we met in Tokyo, it would be possible for one of the relevant public agencies to build a factory and lease it to Nissan; but it is not the practice under our law for these agencies to equip a factory. So this would not be a complete solution to the problem which you raised.

However, the inquiries which I have made indicate that there is an alternative solution which would achieve the result you are seeking. This is an arrangement that the assets of the project should formally be under the ownership of a group of UK financial institutions who would lease them long term to Nissan on commercial terms. Under such an arrangement, Nissan would in practice remain in effective control of the design, construction and operation of the factory and its capital equipment.

This form of leasing finance is an established part of current corporate financing in the UK. However, Nissan's investment would be of an unprecedented size for such financing, and would in



tain years be likely to absorb a significant proportion of the UK's expected capacity for leasing finance. Nevertheless, with the Government's backing - to which I would lend my personal support - and through the good offices of the Bank of England, who would, at my request, use their best endeavours in bringing together appropriate partners, I believe that there is a good prospect that a suitable consortium of financial institutions could be encouraged to participate in order to facilitate Nissan's investment in this country.

Such an arrangement could also offer some additional advantages. As you know, there are taxation allowances relating to the cost of acquiring buildings and plant that can be set on a favourable basis against profits when assessing a company's liability for Corporation Tax in the UK. Your financial projections presented to the Department have shown that these allowances would not be able to be set against taxable profits for some years. Under present tax law the lessors would be able to set these allowances against their own current profits when assessing their Corporation Tax liability. The financial benefits to them would be reflected in the leasing charges made by them to your company. While the exact terms naturally depend on market conditions, such charges might be expected to offer a significant advantage against the equivalent cost of UK bank borrowings by a prime commercial borrower. In the present market, some part of this benefit might be recognised by, for example, a three year period during which no leasing charges at all would be made, with a commensurate increase in the charges made in ensuing periods. The terms and conditions of such a lease would be a matter for discussion with the lessors.

As you know, I had a meeting on 18 October with Mr Ishihara, whom I was delighted to meet. He expressed the hope that we would be flexible over any conditions relating to exports. I was able to reassure him that we have always understood that you are unable to enter into commitments on the level of exports, though it is our common hope that a significant proportion of the output will eventually be exported.



Finally, may I say how much I appreciated the constructive discussion which we had in Tokyo. I hope in turn that the proposal I have outlined above will be helpful in meeting the anxiety which you expressed about the project. Naturally I should be delighted to arrange for representatives of the Government and the Bank of England to discuss these proposals further with Nissan if you feel that this would be helpful.

With every good wish,

Yours sincerely,

Margaret Thatcher

Mr. Katsuji Kawamata





10 DOWNING STREET

THE PRIME MINISTER

6 January 1983

Dear Mr. Kawamata,

Thank you for letting me know your conclusions on the proposal I put to you in my letter of 9 November.

I was surprised that you concluded that the leasing route did not present a bigger advantage; and just so that there should be no misunderstanding between us I should like to make sure that you are aware that the leasing route is not an alternative to the receipt of Government grants. Under a leasing arrangement the grants would continue to be available; the selective assistance under the Industry Act would be available to the lessee, and the regional development grant to the lessor (though in certain circumstances to the lessee). Where the lessor was the recipient, this would be reflected in a reduction in the leasing charge. Since I was not entirely clear that you had taken this into account in your studies, I have thought it worth clarifying the point.

As you say in your letter, the terms and conditions of any leasing arrangement would have to be negotiated with the financial institutions. My point about the Bank of England was not that they could help you to secure more favourable terms, but that such a leasing arrangement would be extremely large, even by the standards of the City of London, and that the Bank of England's good offices would be helpful in enabling you to secure arrangements on this scale.



As I said in my letter, I am very willing to arrange for experts to discuss with your people these or any other aspects of the project if it would be helpful to you. I still hope that, when you are ready to do so, you will reach a favourable decision on the project which would be to our mutual advantage.

All best wishes.

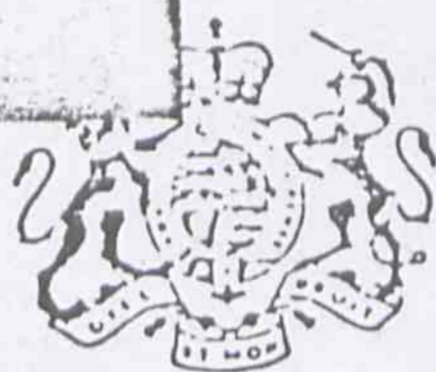
Yours sincerely

Margaret Dehler

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Mr Katsuji Kawamata





10 DOWNING STREET

18 March 1983

THE PRIME MINISTER

Dear Mr Kawamata,

I was grateful for your letter of 17 February 1983; and I have now had a report of the discussions Mr Kawai has had with officials at the Department of Industry, and with leasing experts from the Bank of England and from the City of London, all of which have taken place in conditions of the strictest confidentiality. I can assure you that the knowledge that you put to me a proposition on these lines when we met in Tokyo has been restricted to a very small circle indeed.

I was naturally disappointed to hear of some of the changes in the project which Mr Kawai proposed. But those who took part in the talks on the British Government's side have tried to respond helpfully, provided that our essential requirements can be met. I am glad that Mr Kawai has been able to study the leasing route; I am confident that, despite the unprecedented size of the project, this could be available to you through the good offices of the Bank of England which I have offered, and I am confident also that in terms of net present value this facility should compare most favourably with any alternative financing route. Together with the grants and selective financial assistance we have offered, these add up to a substantial contribution to the cost of the project.

You will have noted, as I have, the welcome signs that the international recession, which I know has contributed to your caution on this project, is at last coming to an end. There have



also been major movements in currencies which are in most respects significantly favourable to this project. But unemployment remains high here as elsewhere, and the pressure for British people to have the opportunity of the jobs involved in producing the goods sold in this country shows no signs of abating. For all these reasons, I warmly hope that we shall soon be able to bring this matter to a favourable conclusion, and I look forward to hearing your conclusions following Mr Kawai's report to you.

Yours sincerely,

Margaret Thatcher.

Mr Katsuji Kawamata



Japan: A-J. Relations  
Pt 4

