

PRIME MINISTER

Attached is the Chancellor's letter to Mr. Tebbit, setting out his views on the impact on Nissan of the company tax package. I do not think Mr. Tebbit will accept the arguments. On reflection, it seems to me disingenuous to argue that nothing needs to be done now because there is no impact on Phase 1. Phase 1 generates a loss for Nissan and they are only undertaking it because there is a high probability that they will move on to Phase 2. If the latter no longer looks profitable under the new regime, they will not undertake Phase 1. Thus the argument that this can all be left until 1986 is not very strong.

A || If the loss of £30-45 million is such as to cause Nissan to cancel the project (and this is not yet firmly established), then it seems to me that the question of transitional arrangements, analogous to those established for regional assistance, will have to be considered. It would be a very poor advertisement for the new package if the first reaction to it were cancellation of a major piece of inward investment.

I also find the statement that the Bank of England will continue to use their good offices to assist Nissan to obtain a competitive leasing package to be rather naive. Certainly the Bank of England can help Nissan obtain as good a leasing package as is available at the time but this will not disguise the fact that such a package will not be as attractive as it would have been under the old regime.

No action at present, to await Mr. Tebbit's response.

24 February 1984

AT

We shall have to act in accordance with 'A' - otherwise we shall be accused of lack of good faith - especially as I was prominent in efforts to persuade Nissan to come here now.

Ch/Ex Ref No B(84)272.....



Treasury Chambers, Parliament Street, SW1P 3AG
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22 February 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

A handwritten signature in cursive script, appearing to read 'Norman Tebbit'.

NISSAN

We had a word about your letter of 16 February last week when you confirmed that, despite the Nissan problems, you still favoured the company tax package I am proposing for the Budget.

Since you wrote, officials from our two Departments have examined the effects of the changes on Nissan in detail with the help of the Bank of England. They have concluded that the package will not affect Phase 1 of the project. However, it appears that the net present value to Nissan of Phase 2 will probably be reduced by £30-£45 million.

While this is a significant figure, I very much doubt whether it will lead Nissan to pull out. For the effect of the package on Phase 1 - which is all that Nissan are committed to at present - is neutral. The company will surely wait until the 1986 break point, built into the existing agreement, before taking irrevocable decisions about Phase 2. It is at that stage that any question of compensation would arise: not now. And only then might we face, because of the Commission, the dilemma you describe.

We agreed last week that Nissan had in effect bought an option on Phase 2. My own view is that whether they decide in 1986 to take it up will depend on a whole range of factors that will only be apparent in 1986, including the prospects for the UK car market, the likely European reaction to UK-sourced Nissan exports and labour relations. While the cost of leasing will undoubtedly be one of the factors they can take into account, I doubt whether it will be decisive. Certainly cost does not appear to be a dominant consideration in their choice of location which I gather we expect



to be influenced more by the suitability of the site and local services than the different RDGs applying in SDAs and DAs.

Finally, as we discussed, it is clear from the correspondence between the Prime Minister and Mr Kawamata that leasing was presented as a way by which the company might minimise the initial expenditure, about which they had expressed concern. My understanding is that Nissan see this, rather than the incidental tax advantages, as the main benefit of leasing. The Bank of England, who will use their good offices to assist Nissan to obtain a competitive leasing package, are still confident that this can be arranged.

A copy of this letter goes to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON