

Dinn Minutes



Prime Minister

Yes - this just
 sort of on, unless the
 terms are considerably
 improved

~~First~~
 The response proposed
 by Mr Tebbitt seems
 sensible. Agree unless
 other colleagues
 dissent?

As you know, a team from Nissan was in London between 17 and 22 July for further talks about their proposed investment. They had several long meetings with Department of Industry officials, and called on me before their departure. 12

2 You will recall that the "welcome in principle" we announced in January was for a full manufacturing plant, to start production in 1984 at 60,000 units and 60% local content, rising to 200,000 units in 1986 and 80% local content "as soon as practicable". At the beginning of the latest talks, the Nissan team tabled a paper setting out the project as they now envisage it after their feasibility study. The key points are: 4/8

- i a request for Nissan to be allowed to import 100,000 built up cars over and above their allocation under the SMMT/JAMA agreement during 1982/84 to "prepare the market";
- ii low volume production to start in 1984, in the form of a kit assembly operation with 30% local content;
- iii a new model to be introduced in 1986, at which point local content would rise to 61%. Volume would also increase, but exports would not start until 1987;
- iv a relatively slow build-up of production, so that 200,000 units is not reached until 1989. Forty-five thousand of those would be exports. Local content could be 80% by this stage, depending on the model mix (though the definition of local content is some way short of an acceptable one);
- v around £52 million in selective assistance in addition to some £75 million it could expect to receive in regional development grants. Nissan were also hoping to have access to interest relief grants (worth a further £35 million) and had allowed for these in their financial projections; but it was explained that these were no longer on offer. This may lead them to increase their bid for SFA;
- vi excluding grants, the project would not generate profits until 1988.

3 This is therefore a three-stage project:

Stage 1, (1982-84): increase Nissan's built-up exports to the UK;



Stage 2, (1984-86): assembly of kits of first model;

Stage 3, (1986-): slow move to fully fledged manufacturing.

✓ In this form, the project seems to me to be both economically and politically unacceptable. The slow build-up of production, the very low levels of local content and the kit assembly stage are all major departures from the outline that we discussed with Nissan last winter, and on which our "warm welcome in principle" was based. It would also be a very unattractive return for the £74 million regional development grants that are being sought, let alone the £80 million plus selective financial assistance.

4 It is possible that the presentation of this unattractive plan is a Japanese way of saying "we have changed our mind". We think it more likely, from the demeanour of the Nissan team and from other signs, that it is (as they insisted throughout the talks) genuinely a preliminary plan open to much further refinement. Some of the difficulties may stem from a feeling of obligation, because of last winter's discussions, to start up production in some form in the UK in 1984. It may be that if production were delayed - say to 1985 or 1986 when they have to make a model change to fit in with their Japanese production plans - they could achieve faster build up and higher local content. There were some signs that extremely conservative cost, pricing and export assumptions had been built in. It is therefore possible that a more attractive project could be devised at the cost of some delay: a start up in 1985-86 would still need a final decision by about the end of 1982.

5 The question of choice of site has been deferred until a decision has been taken whether to proceed at all. There remains a risk that Nissan will examine alternative locations in Europe. This was never explicitly raised in the talks, but our impression was that this is not being actively pursued at present.

6 On the basis of guidance from me, Department of Industry officials gave the Nissan team orally a preliminary response to the proposal in its present form. Briefly, Nissan were told that:

i the project in its present form had some difficulties for the UK;

ii that HMG would not be inclined to press SMMT and JAMA to accede to Nissan's request to exceed its import allocation;

✓ iii that the initial level of 30% local content was unacceptable; a higher level was necessary, even perhaps at the cost of a later start up;



✓ iv that HMG was not prepared to discuss selective financial assistance until it saw a more fully worked-out proposal.

We promised to write to them shortly (at official level) to confirm that this is the Government's view of their interim plan.

7 Subsequently, just before their departure for Japan, the Nissan team withdrew their request for 100,000 built up imports over and above their allocation under the SMMT/JAMA arrangement. They said that this was because of the delicate nature of the SMMT/JAMA relationship, and asked that Ministers should not be told that the request had been made. I have, however, taken the view that it is right for my colleagues to know of the initial request and its subsequent withdrawal, but at the team's request it will not be mentioned in the letter to Nissan.

8 I should be glad to know that the line of the Department's oral response outlined above is acceptable to you and other colleagues; if so, I will arrange for a letter to be sent as promised to Nissan confirming this as the Government's view. We agreed with Nissan that public comment would be limited to the fact that a further round of discussions had been held, and that further talks would be held "later in the year".

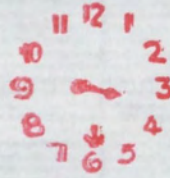
9 I am sending copies of this minute to members of E(EA), Sir Robert Armstrong and Mr Ibbs.

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NT

Department of Industry

30 July 1981

31 JUL 1981



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10 DOWNING STREET

From the Private Secretary

5 August 1981

NISSAN

The Prime Minister has now considered your Minister's minute of 30 July. She agrees that the terms currently proposed by Nissan for their investment in Britain are not acceptable, and that Mr. Tebbit should write to them on the lines he suggests.

I am sending a copy of this letter to the Private Secretaries to the members of E(EA), David Wright (Cabinet Office) and Gerry Spence (CPRS).

L. P. LANKESTER

Peter E. Mason, Esq.,
Department of Industry.

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Japan

C. 4 Dugard



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From the
Minister of State

PS/Norman Tebbit MP

Rainhurst

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

MT

13 July 1981

R 18/7

Dear Tim

NISSAN

Mr Tebbit would like the Prime Minister to know that representatives of Nissan (led by Kawai who led the feasibility team in London) are visiting the UK again this week as planned. They will have a first meeting with officials on Friday 17 July and further meetings next week, including one with Mr Tebbit.

It appears that Nissan are not yet ready for full negotiations. The feasibility study is said not to be complete yet. Although they expect to be able to discuss the results in general, they will not come armed with fully detailed proposals. They are seeking some discussion of financial assistance. They have also sought suggestions for a general adviser and an industrial relations adviser (on which names have been sent). At one stage it seemed possible that Okuma, who led the initial talks in January, might be coming; but this is not now the intention. Whether this indicates that some particular difficulty has arisen is not clear. There have been several hints that Nissan are expecting very tough negotiations on local content and on financial assistance, but our general impression is the plan is still regarded as "live": we do not think, for instance, that they would be seeking advisers on industrial relations if they had already taken a decision in principle against the scheme.

We do not expect any further indications of a possible location at this stage. We intend to use the talks to press forward as far as possible on establishing the details of their plans, and to put across our own requirements for example on local content, where the important issue may prove to be definition and timing rather than the percentage. But it seems likely at present that substantive negotiations will not be until September.

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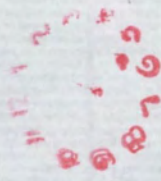
I am sending copies of this letter to the Private Secretaries to members of E(EA), Sir Robert Armstrong and Mr Ibbs.

Yours ever

Peter Mason

PETER MASON
Private Secretary

115 JUL 1981



CO. DEPT. OF...