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PRIME MINISTER

*mb*

NISSAN

Nissan return next week for further talks with my Department about their proposed UK Project. They are expected to table a revised version of the Business Plan presented to us in July which, as you may recall (Norman Tebbit's minute of 30 July) was unacceptable in a number of important respects and which, with your approval, we firmly rejected.

2 Since then there have been further informal discussions in Tokyo which have helped clear the ground and officials expect that the revised proposals will be much closer to those on which our "warm welcome in principle" was originally based. Their general feeling is that Nissan still wish the project to succeed but there are aspects of the project - and of the requirements we have set for it - about which Nissan have genuine worries and on which the company will be looking for some concessions. Thus, while the forthcoming round should take us much nearer to a decision (Nissan expect to reach final conclusions early in the New Year) it is likely to involve some tough bargaining.

3 One of the key areas is local content which is of the utmost importance to the UK components industry as well as being the most difficult for Nissan. I do, however, regard the original "60% rising to 80%" understanding as non negotiable - any lowering of these percentages would be regarded as a dangerous sign of weakness in our dealings with Japan - and I am also determined that we shall have arrangements for measuring and monitoring the project which will stand up to public scrutiny. There are aspects to these subjects where we can safely give

*does this include Japanese components made in U.K.?*

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ground but I believe we must stand firm on fundamentals.

4 The second potentially troublesome subject is the amount of financial aid which we are prepared to give in order to secure the project. In their July Plan Nissan were assuming about £80 million plus of selective financial assistance (SFA) in addition to regional developments grants (RDGs) of around £74 million. Expectations are therefore very high. I have, nevertheless, instructed officials that during the coming talks no initiative should be taken in offering SFA. Rather they should continue to stress that RDGs are the principal, and very generous, form of project assistance; that public expenditure constraints are severe; and that "special features" would need to be present in the project to justify any injection of SFA money. They should also press Nissan to consider alternative means of funding, including the introduction of equity from UK sources. Although this may seem an unhelpful stance (particularly as Nissan know that Ford were treated generously for similar investments on the Escort), I believe it is necessary fully to test out Nissan's willingness to go ahead without special aid. While the project will be a considerable prize for the UK, it also offers Nissan a real opportunity to develop its position as a very substantial supplier to European markets and, despite the obvious risks involved for them, this might be something for which they are prepared to pay quite heavily.

5 Nevertheless, at the end of the day - and this might become apparent during next week's talks - we might have to conclude that a (perhaps significant) tranche of SFA will indeed be necessary in order to secure the project and colleagues should be aware of this. Any substantial level of assistance would require a special addition to Departmental Estimates and the approval of the Industrial Development Advisory Board would also have to be sought.

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6 The timetable for the talks next week allows a break for preliminary consideration to be given to Nissan's proposals and I may need to consult colleagues at short notice during that period. Unless, however, Nissan propose something startling, officials will give only a preliminary response at the end of the talks which would be followed up by a considered written response when I have had the chance to consult you and colleagues.

7 I am sending copies of this minute to members of E(EA), Peter Carrington, Sir Robert Armstrong and Robin Ibbs.

PJ

P J

12 November 1981

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COMMERCIAL IN CONFIDENCE

Department of Industry  
Ashdown House  
123 Victoria Street



of the... for the... and I...  
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12 NOV 1981

Department of Industry  
 Labour House  
 123 Victoria Street



JS

Japan

10 DOWNING STREET

From the Private Secretary

26 November 1981

COMMERCIAL IN CONFIDENCE

Dear Terry,

NISSAN

The Prime Minister has seen and noted the Chief Secretary's minute of 16 November about the negotiations on NISSAN.

I am sending copies of this letter to the Private Secretaries to members of E(EA) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Terry Mathews, Esq.,  
HM Treasury.

JS



To note.  
We are awaiting a  
reply from Patrick Jenkin  
about local content.

MES 17/11

A handwritten signature in blue ink, appearing to be 'L.B.'.

PRIME MINISTER

NISSAN

I have seen Patrick Jenkin's minute of 12 November. It is encouraging that these negotiations are still live, and I hope that further progress can be made in the coming week.

But we shall need to think very carefully about the possibility of selective financial assistance, and I am glad to see that officials have been instructed to make no offer in the current talks. I understand that it is very unlikely that even if we were to agree to making an offer any expenditure would be required before 1983-84; and it would probably be spread over a couple of years. I am sure that it will be possible for the Industry Secretary to accommodate some modest level of assistance within his existing provision, which has been supplemented by an enhanced allocation for future industrial support. That provision, which we have now agreed in the Public Expenditure Survey, must however, <sup>in my view</sup> be regarded as a clear and firm constraint on the size of any offer which may be contemplated.

I am sending a copy of this minute to colleagues on E(EA) Committee and to Sir Robert Armstrong.

L.B.

LEON BRITTAN  
16 November 1981

Japan  
R H



cc:- Mr Ingham  
Mr Duguid

PM DN  
DOE CS, H&I  
WO DO I  
SO  
BOT

10 DOWNING STREET

From the Private Secretary

16 November, 1981

Nissan

The Prime Minister was grateful for your Secretary of State's minute of 12 November.

She has asked what more precisely is meant by "local content" in paragraph 3 of your Secretary of State's minute. She suspects that the 60 - 80% figure includes Japanese components made in the United Kingdom, rather than components made in the United Kingdom by British-owned companies.

Subject to this point she is content with the approach outlined by your Secretary of State, on the basis that there will be an opportunity later to consider the Japanese reaction.

I am sending copies of this letter to the Private Secretaries to the members of E(EA), Brian Fall (FCO), David Wright (Cabinet Office) and Robin Ibbs.

M. C. SCHOLAR

I Ellison, Esq  
Department of Industry



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10 DOWNING STREET

Prime Minister

Mr Jenkin proposes to negotiate hard, on a basis in line with earlier decisions. There will be a chance later to consider the response.

Are you content with the approach he proposes?

MCS 13/11 Yes-but  
Governing Council  
Governing Council  
then does not  
mean British  
Governing Council  
not.