Prime Minister ②

BM

DEPARTMENT OF INDUSTRY

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

Secretary of State for Industry

15 January 1982

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

Dear Chief Secretary

RDG CHANGES

I will not reply at length to your letter of 11 January, since we shall be meeting shortly to consider this whole issue. But there are a couple of points that you have raised on which I must comment so that they are not subsequently overlooked if we decide to go down the 'ceiling' route.

The first is your reference to a fixed ceiling on additional selective financial assistance. I accept that in setting the RDG limit we have to calculate how much additional SFA will be required and then to consider our priorities against that figure as applications are received. But with the best will in the world any estimate made at this stage would be subject to considerable uncertainty and we must face the fact that there may be demands for additional assistance to very worthwhile projects which we would not be prepared to lose. Any limit on additional SFA cannot therefore be totally inflexible and any guidelines we may agree should allow for this.

This is another reason why the present RDG proposals may be an unsatisfactory way of seeking to save £50m a year, especially when coupled with the problems on Mossmoran and Nissan to which you refer. Officials in the various Departments concerned are meeting to discuss Mossmoran urgently and a better assessment may be possible by the time we meet.

On Nissan I am afraid that I cannot agree to your proposal to count any additional SFA offered up to 1984/5 against the gross RDG savings. This ignores the fact that the project falls mainly beyond 1984/5 and is so recent that it is not covered in the RDG estimates anyway. Either way some extra provision will be needed for it if anything falls to be paid in 1984/5, although on present

CONFIDENTIAL

estimates that would be very small. I hope therefore that you can agree that the whole Nissan project must be treated as a separate matter for the purposes of any limit on additional SFA and for any guidelines that we may agree after our meeting.

I am copying this letter to recipients of yours.

Yours sincerely

Richard Riley

PATRICK JENKIN
(approved by the Secretary of State and signed in his absence)

Prime Minister (2)

MCS 11/1

Japan

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Department of Industry
Ashdown House
123 Victoria Street
London SW1

11 January 1982

Dear Patrick,

RDG CHANGES

You sent me a copy of your minute to the Prime Minister of 23 December. There has also been a letter from George Younger to you on 22 December a letter from Nick Edwards to me on 23 December and a minute from Robin Ibbs to the Prime Minister on 24 December.

will request it –
required –

It seems to me essential that we settle agreed guidelines on the provision of additional selective assistance as soon as possible. The longer we delay the more rushed will be the Parliamentary timetable for the bill, and the smaller will be the savings in 1982-83.

In my view we cannot provide for any automatic entitlement to offsetting selective assistance for any company losing RDGs, even for those who are already receiving some selective assistance for a project. It would be impossible to achieve the agreed savings if we followed that route, as I said in my minute to the Prime Minister on 18 December. What we have to do is to establish a system which will enable you and the other Ministers to choose priorities within a fixed ceiling on expenditure.

... I attach a short note by Treasury officials proposing a system along these lines. This seems to me to provide sensible arrangements for achieving our agreed objectives. I hope that we can all reach rapid agreement on the basis of these proposals.

There are two individual cases I should mention: Mosmorran and Nissan. I accept that we must honour the commitments we have made on Mossmorran. But there seems considerable doubt about just what this means in practice. George Younger's letter to you of 22 December argues that we should compensate Esso for lost grant on the fractionater as well as on the cracker. It may be that that is what would be required if Esso are to continue with the cracker, though I am not sure whether our commitments would oblige us to go that far. Before we can agree that an offer should be made on that basis I think we need to see a full evaluation of how much additional selective assistance is likely to be claimed; if, for example, Esso were to claim that they required selective assistance grossed up to reflect the fact that the fractionater is within the PRT ring fence we could be facing an absurd situation where we ended up increasing public expenditure rather than cutting it. Even if the amount claimed is more modest than that it could still pre-empt a very large part of the funds available for selective assistance.

On Nissan, the position is complicated by the fact that much of the proposed expenditure falls outside the present PES period. But in my view the same general principles must apply to Nissan as they will to other companies. Any additional selective assistance offered to Nissan up to 1984-85 to compensate for loss of RDGs should be scored as an offset to the gross saving; the agreed intention is that total expenditure on selective assistance and RDGs together should be £50 million a year less than it otherwise would be. I am not convinced that the offer to Nissan needs to be grossed up to reflect the different tax treatment of RDGs and SFA - and certainly not by the reciprocal of the full Corporation Tax rate. Nissan will be unlikely to pay any UK tax at all in the early stages of the project. In these circumstances the most that could be justified would be to allow for the discounted value of tax payments some years in the future - probably quite a small amount.

One remaining area where potential problems seem likely to arise is over grants to nationalised industries or to other bodies in public ownership. Any extra assistance to these bodies must, of course, score as an offset to the gross savings on RDGs. But I should add that I would be most reluctant to agree to a situation where the bulk of the net savings arose from cuts which were simply passed on within the public sector (and eventually to consumers) in the form of increased charges.

As I said above, I hope we can all reach agreement on these proposals. I should be very ready for us to meet to discuss them. But if it does not seem that agreement is possible on something like these lines then I feel we shall be forced to consider seriously switching to a rate cut in order to achieve the savings agreed. We have only moved away from the proposal of a rate cut because it was agreed that the savings should be secured by the alternative route. I would naturally otherwise have felt obliged to press the rate cuts.

I am copying this letter to the Prime Minister, the Secretaries of State for Scotland, Wales, Energy and Northern Ireland and to Sir Robert Armstrong and Mr Ibbs.

Yours ever,
Leon

LEON BRITTAN

RDG CHANGES: OFFSETTING SELECTIVE ASSISTANCE

Note by Treasury Officials

This note proposes guidelines for the administration of the additional selective assistance to be given to certain projects which will lose RDGs under the new arrangements limiting payments of RDGs on large projects.

2. The agreed objective is to achieve net public expenditure savings of £50 million a year from 1983-84 onwards. To do this it will be necessary to aim for gross savings of RDGs of more than £50 million in order to allow for additional selective assistance. The precise amount which should be provided for additional selective assistance remains to be determined. The RDG legislation will need to be framed in such a way as to produce the appropriate gross savings once the level of offsetting selective assistance has been fixed - though there is clearly an interaction between the two.

3. Once the figure for gross RDG savings and for additional selective assistance have been agreed, the allocation for selective assistance should be treated as a fixed limit on such expenditure. It will cover all additional selective assistance under Section 7 or Section 8 of the Industry Act 1972, and any other offsetting public expenditure on compensation for bodies losing RDGs (if any such compensation is agreed).

4. Applications for additional selective assistance would then have to be considered against common guidelines so that these funds were spent according to agreed priorities. First call on the funds would lie with those projects where explicit Ministerial assurances about the level of RDG payments had been agreed; this applies particularly to Mossmorran and Nissan. For other projects the Treasury proposes the following guidelines:

(i) assistance should be given only if the project would otherwise be in jeopardy, or would be shifted overseas;

(ii) the amount of assistance to be paid would be the minimum necessary to secure the continuation of the project, but in no case more than either:

(a) a fixed sum per job created/saved; or

(b) the amount of RDGs lost.

If the sum allocated for selective assistance did not in the event prove sufficient to provide grant to all projects which met these criteria some further filtering would have to be done. This might involve an explicit choice of priorities.

5. The basis of any offer would, as indicated, be the minimum necessary to secure the continuation of the project. There would be no presumption that the assistance should be as much as the RDGs lost. Any case where it was claimed that the grant should be <u>more</u> than the RDGs lost, for instance to reflect the differing tax treatments of different grants, would need to be treated explicitly as a case outside the agreed guidelines.

6. It would be important that applications throughout Great Britain should be processed on as similar a basis as possible. It therefore seems desirable that the Department of Industry's Industrial Development Unit should co-ordinate all appraisals; the total number would not be large. For projects which are already receiving selective assistance much of the work will already have been done; it will clearly be important in these circumstances that IDU officials should work closely with the appropriate officials in DOI regional offices and in the Scottish Office Economic Planning Department and Welsh Office Industry Department. It would probably be appropriate for officials in those departments to take the lead in discussions with firms concerned with projects in Scotland or Wales.

IA GROUP
HM TREASURY
JAN 1982

JH 101 c A.D. CONFIDENTIAL Prime Minister - to note MCS 6/1

(2)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

6 January 1982

M Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael

NISSAN

My Secretary of State understands that Lord Marsh is attending the reception at No 10 on Thursday evening, 7 January, and thinks that the Prime Minister will wish to know that Lord Marsh has recently accepted appointment by Nissan as their adviser in the negotiations on their UK project. Lord Marsh spent some days in Tokyo just before Christmas (after discussion with officials here) and has seen officials again since then. Officials are going out to Tokyo next week for further "clarification" discussions, which Lord Marsh will be attending on the Nissan side, in preparation for the next - and probably final - round of formal talks in London at the end of January/early February.

2 Lord Marsh has told our Ambassador in Tokyo, and subsequently officials here, that he believes the company were upset by the way the talks went in London in November and that Nissan felt they had been treated somewhat badly and unfairly. This appears to be based on a belief that they were subjected to questioning about their plans which went beyond what other firms interested in investing in the UK would have experienced. Nissan seemed to interpret this as implying a change of attitude by the Government and to be contemplating a decision to pull out if their present proposals or something very like them were not accepted.

3 Officials here do not believe there is substance in these suggestions. Care will be taken to reassure Nissan that the Government's welcome for Nissan remains, as it has always been, a warm one for a project of the kind originally defined. Since, however, the present proposals fall a good way short of that in their attractions for the UK, the Government has to explore ways in which the present plans might be adjusted to yield a package presenting broadly equivalent advantages to those in the original scheme.

4 My Secretary of State suggests that, if Lord Marsh raises this question with the Prime Minister, the Prime Minister might

SECRETARY OF STATE FOR INDUSTRY

assure him that the Government remains enthusiastic about Nissan's proposals on the basis originally described. She might also emphasise that present proposals fall some way short of the original proposals and emphasise the Government's wish that discussions should continue on the friendly basis already established to see if a mutually satisfactory project can be defined.

5 I am copying this letter to Francis Richards (FCO), Peter Jenkins (Treasury), John Rhodes (Trade), Richard Dykes (Employment), David Wright (Cabinet Office) and Robin Ibbs.

Yours ever,

Ian Ellison

I K C ELLISON
Private Secretary

(2)

Prime Minister

You have asked Patrick Jenkin and Leon Brittan to consider how to secure the £50m RDG savings which are now in question. I think it highly likely that this subject will return to you, for adjudication.

MCS 24/12

CONFIDENTIAL

Qa 05759

To: PRIME MINISTER

From: J R IBBS

24 December 1981

Nissan and the Proposed Changes in Regional Development Grants

1. I have seen the minutes from the Chief Secretary and the Secretary of State for Industry on this subject.

2. I strongly support the view that a 2 per cent reduction in Regional Development Grant rates would be the surest way of obtaining the required savings with least danger of putting any projects at risk of being abandoned. I also agree that it would minimise the problem of honouring any specific commitment to a particular level of RDG. I believe that in terms of creating and maintaining industrial confidence a general 2 per cent reduction, while giving rise to some resentment, would avoid the more severe difficulties likely to arise from sudden discrimination against large projects.

3. I am sending a copy of this minute to the recipients of the Chief Secretary's minute.

CONFIDENTIAL

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DOE FCO
SO CO
WO CPRS
DOT
Mr Duguid

10 DOWNING STREET

From the Private Secretary

24 December 1981

Dear Richard,

NISSAN/Regional Development Grants

The Prime Minister was grateful for your Secretary of State's minute of 22 December. She was also grateful for the Secretary of State for Industry's minute, on Nissan and the proposed changes in Regional Development Grants, of 23 December.

The Prime Minister has noted both minutes without comment.

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

Yours sincerely,

Michael Scholar

Richard Dykes, Esq.,
Department of Employment.

CONFIDENTIAL

PV133

cc. A Duguid.

2pp's

CONFIDENTIAL

Prime Minister

MCS 23/12

PRIME MINISTER

NISSAN AND THE PROPOSED CHANGES IN REGIONAL DEVELOPMENT GRANTS

Leon Brittan copied to me his minute to you of 18 December.

2 I recognise that Leon is not arguing against full compensation for Nissan. It nevertheless remains the case with Nissan that if we were not able to maintain the value of the offer I have already indicated to the company, the project would be lost to the UK and this situation is likely to be repeated with other major inward investors. To this extent Nissan is illustrative of a general problem we shall face under the new legislation where, in order to secure important projects, we shall inevitably be driven to making maximum use of SFA. Under these conditions the anticipated savings we are seeking are bound to be much more difficult to achieve.

3 I have a great deal of sympathy for the general point that Leon makes. We shall be under great pressure to make offsetting SFA available on a generous level to avoid the risk of losing projects. But if we give in every time, we shall not achieve the agreed saving of £50 million. It is for just this reason that I

proposed in the first place that the only change that should be considered was a 2 per cent reduction in RDG rates. This would have given us certainty of achieving the required savings without damaging our ability to compete for inward investment projects. Few if any projects would have been put at risk by such a small reduction in grant rates and the need to compensate in the very few cases where commitments to a particular level of RDG has already been given could be contained quite easily.

4 In view of the difficulties that are now generally recognised to flow from a ceiling provision of the kind proposed, I agree that there should be no early announcement and that we should look again at this issue.

5 I am copying this minute to recipients of Leon's.

PJ

P J

23 December 1981

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL

1

Prime Minister

Given your other preoccupations I have not arranged a meeting on this with Patrick Jenkin.

After 4 Jan?

Or would it not be better to let the matter run on existing Ministerial instructions for a while?

MCS 23/12

PRIME MINISTER

Told Industry 31/12 – and that I will not record in writing MCS

Yes not.

NISSAN

In his minute of ~~15~~ December Patrick Jenkin asked his colleagues to agree that he should tell the Nissan team that he could not go beyond the 30% support level which he had offered them.

I am content with this proposal. It would be a blow if the Japanese withdrew as a result, but I should have thought we could defend our stand, particularly if some of the unsatifactory features of the present proposals to which Patrick draws attention in his minute still remained in the revised version he expects to receive next month.

I am copying this minute to members of E(EA) and the Foreign and Commonwealth Secretary and to Sir Robert Armstrong and Mr Ibbs.

NT

N T
22 December 1981

22 DEC 1981

21 December 1981

P.A.

MR SCHOLAR

NISSAN

1. As the Prime Minister says, there are pros and cons. But the disadvantages are all short-term: cost; European reactions; grousing by some UK component manufacturers, etc.

2. There are immediate advantages to set against these. A large new project gives hope and helps to raise confidence. We could do with a solid piece of good news - and I am confident that the welcome would outweigh the carping. But the real advantages are longer-term. We build up a stake for an industry which will still absorb a very large amount of purchasing power in Europe for several decades to come. We import advanced technology, management skills and invigorate our own component industry. Gradually we make it easier to end the BL saga.

3. Sir Keith Joseph's note of 9 December 1980 expresses these points well (see extract). The note by officials said that the project <u>could</u> eventually become one of the biggest car plants in the world. That is looking a long way ahead, but that perspective is what I think should determine our approach at this stage.

AD

ANDREW DUGUID

Extract from KJ's minute of 9 Dec 1980

GENERAL ASSESSMENT

3 The report by officials firmly recommends welcoming Nissan and I fully endorse that view. There would be substantial net benefits to the economy, particularly the vehicle component industry. The investment would play a significant role in improving our overall bilateral relations with Japan and would be a major coup for regional and inward investment policy. It would certainly boost the prospects for further inward investment from Japan and location in a Development or Special Development Area - particularly if it were a steel closure area - would bring obvious benefits. From all these points of view the only realistic option is to welcome the project; by the same token, a refusal would be gravely damaging.

4 Moreover, Nissan's proposals are on such a large scale that the intangible benefits would be considerable. Nissan would bring high technology production methods and successful managerial techniques to this country and could help to demonstrate that high productivity can be achieved in the UK environment. The announcement of Nissan's intentions would be a vote of confidence in the UK economy by a major world company; it would confirm that overseas companies were prepared to believe that standards of output comparable with other countries can be achieved here. This in itself could work as a challenge to workforces elsewhere in the country, especially in the vehicle components industry.

NISSAN'S EUROPEAN INTENTIONS

5 The note by officials identifies a number of important issues affecting our decision. These are, however, dominated by the

/judgement ...

PROPOSED INVESTMENT IN THE UK BY NISSAN MOTOR COMPANY

REPORT BY OFFICIALS

1. This note looks at the main implications arising from Nissan's proposal and examines in detail the likely economic and industrial impact both generally and on BL in particular. It also draws attention to areas for further negotiation with the company and possibly for further consideration in the light of developments. It has been prepared in conjunction with the FCO, Treasury, Department of Trade and the CPRS.

THE PROJECT

2. Nissan's submission of 17 November 1980 is attached. Briefly, it proposes to establish a greenfield plant on an 800 acre site in a Development Area or Special Development Area to produce 200,000 medium-sized cars per annum (a new front-wheel drive Datsun Violet in the 1.6 - 2.0 litre range). Assuming final Government approval in Spring 1981 (following a feasibility study to be undertaken if the Government gives approval in principle in early January), construction would start in 1982 and production in 1984, at 80,000 units with 60% local content. Full production would be reached in 1986, with the aim of attaining by then 80% local content including engine manufacture; the intention would be to export about 25% of production. Direct employment by 1986 would be over 4000. The cost of the investment is put at £275 million (1980 prices; £1 = 550 yen). The intention is to develop a principal manufacturing base in Europe; and we think that the site being sought

/up to is large enough for eventual annual production of/500,000 cars. At that level, equivalent to Nissan's largest plant in Japan, it would be one of the biggest car factories in the world.

NISSAN'S POSITION IN THE WORLD

3. Nissan is the world's fourth largest vehicle producer, behind only GM, Toyota and Ford. Its annual car output is almost

Japan UK relations

FILE

CONFIDENTIAL

cc: DOE
SO
WO
D/TRADE
HMT
EN
EMP
FCO
CO
CPRS

RM

hc: A Duguid
C. Stephens

10 DOWNING STREET

From the Private Secretary

21 December, 1981

NISSAN

The Prime Minister was grateful for your Secretary of State's minute of 15 December about the recent round of talks with Nissan.

As I mentioned to Caroline Varley this morning, the Prime Minister would like to have a brief word with your Secretary of State as to whether the line we are currently taking on Nissan is too tough; or whether it is not. On this, the Prime Minister has commented "Nissan causes problems either way".

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

M. C. SCHOLAR

Ian Ellison, Esq
Department of Industry

CONFIDENTIAL

BK

cc. J. Vereker

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

NISSAN AND THE PROPOSED CHANGES IN REGIONAL DEVELOPMENT GRANTS

I am very concerned about one aspect of Patrick Jenkin's minute of ~~15~~ 17th. December about Nissan. He proposes (on the last page) to offer to make up to Nissan in full in selective financial assistance (SFA) the money which they stand to lose on Regional Development Grants (RDGs) following the changes we plan to make next year. Since SFA is taxable, whereas RDGs are not, he plans to give them <u>extra</u> SFA to maintain the post-tax value of his offer of 30 per cent support towards their investment.

2. I understand that the Scottish and Welsh Offices are thinking along similar lines. They appear to envisage automatically compensating businesses in full (and grossed up to tax if necessary) for the loss of any RDG where SFA has already been offered.

3. If this were to be the general practice it would make it exceedingly difficult - if not impossible - to achieve the savings that we agreed as an important part of the public expenditure review should be made on regional industrial assistance. If these savings are to be made offers of additional SFA will have to be strictly limited, and it is inevitable that some projects which would otherwise have gone ahead will be lost.

4. Unless the three Secretaries of State concerned are prepared to agree upon sensible guidelines for restricting the use of

offers of additional SFA I think we shall be obliged to reconsider our decisions on RDGs, and perhaps turn again to the option of a simple cut in the rates of grant in order to secure the agreed savings. I suggest that we should aim to agree such guidelines before any Statement is made about the intention to legislate.

5. I am sending copies of this minute to the Members of E(EA) Committee, the Foreign and Commonwealth Secretary, Mr Ibbs and Sir Robert Armstrong.

L. B.

LEON BRITTAN
18 December 1981

L.B.

1

Prime Minister

Do you want me to say x?

MLS 18/12

I would rather to have a word with Patrick. Nissan causes problems either way not

MR. SCHOLAR

NISSAN

1. You asked whether we had any vital comments on Nissan. My own view is that the Department of Industry are in danger of trying to drive too hard a bargain with Nissan. I suspect that the Department is a little torn in balancing the advantages of Nissan against the difficult competition that it will pose for existing vehicle producers in the UK, particularly BL. They may even think it would be quite convenient if Nissan went away. But Nissan will pose a strong competitive threat in the UK and European markets whether it locates here or elsewhere in Europe - or even if it continues to export from Japan. Its presence here would not only bring jobs and new investment. It would set new competitive standards to the rest of the UK vehicle and component industry. Once established it could make it easier for the BL saga to be brought to an end.

2. I understand that officials from DoI are going to Tokyo early in January. If the Prime Minister shares my concern that they might be adopting too tough a line, it would be useful for this to be indicated through a letter from you which reaffirmed the Prime Minister's view that while it was essential to get the best available deal, the primary objective should still be to secure this valuable project. You could say that she would be very concerned if our negotiating tactics led Nissan to abandon their interest in the UK before colleagues had had a further chance to study the options.

x

AD

18 December 1981

ANDREW DUGUID

10 DOWNING STREET

Andrew Duguid

Nissan

The PM has seen the 18/12 Nissan minute from PJ without comment. Have you any vital comments?

MCS 18/12

JU862

(2)

CF AD AW

Prime Minister

MCS 16/12

PRIME MINISTER

NISSAN

MS

The recent round of talks with Nissan failed to produce a settlement but further negotiations are planned for London around the end of January.

2 The discussions were based on a revised Plan tabled by Nissan in response to our rejection of their initial proposals in July. Its main features were:-

i Abandonment of the CKD phase with which they had hoped to launch the project (at 30-35% local content);

ii Production start-up in 1986 moving towards full production in 1990, compared with the 1984-1986 time span expected before the feasibility study was put in hand.

iii A definition of local content which, on any given data, pitches Japanese content several percentage points lower than would be produced by the formula proposed by the Department.

iv Project costs of £400 million for which £122 million of SFA would be required in addition to a guaranteed 22% of RDGs (£78 million) - all 1981 prices.

v A willingness to look positively at sourcing the bulk of their capital plant and equipment requirements from the UK (about 30% will need to be imported from Japan).

3 The talks concentrated on the important differences between the project as now defined compared with that outlined in the agreement of principle announed last January - start-up two years later and the build up to full production over a 5 year rather than a 3 year period. The introduction of complete engine manufacture and the achievement of 80% local content is consequently delayed. Underlying these issues was the gap between the two sides on the definition of local content. Officials argued that whereas previously the project would have made a significant impact in the UK by the mid-1980s the full benefits of the investment would not now be felt until towards the end of the decade. This was bound to affect the public's perception of the project and create widespread disappointment given the expectations aroused by the original announcement. Nissan was urged to review the project in order to improve its structure and timing and to consider moving towards the UK definition of local content, which the Department believed was appropriate for a full manufacturing operation.

4 Nissan's response was uncompromising. As seen by them the project had been initiated by HMG and not by Nissan and the company had been assured from the outset that it would be treated in a non-discriminatory fashion. The essential UK requirement had been a local content arrangement on a 60%-80% basis and, subject to agreement on definition, Nissan's plan provided for this. The structure and timing of the project now proposed was the result of a full and detailed feasibility study and reflected what Nissan thought was commercially achievable. Government intervention in the detail of this plan was therefore unexpected and unacceptable. On local content Nissan's formula was internationally recognised (EEC/EFTA) and acceptance of the UK proposal would create serious problems for Nissan in its many other operations around the world.

5 Mr Okuma, the Executive Vice President in charge of the project, re-stated this position when I met him on 23 November. I pointed out that the Government's objective, like Nissan's, was to put together a project which would be demonstrably of unquestioned national benefit as well as one which met the company's commercial requirements. Although we wished to see the project succeed, if a satisfactory agreement between us could not be reached it might be in the interests of both sides to drop the idea rather than to pursue proposals which would not command public support. I suggested that there should be further talks so that a package of improvements could be agreed. Our principal concerns related to timing, where an 1986 start might be acceptable if Nissan could accelerate both the pace of build up to full production and the introduction of engine manufacture. On local content we should be prepared to consider moving towards Nissan's definition but only if Nissan were able to offer improvements on the levels to be achieved - 65%-85% would be the sort of level we should be looking for.

6 On financial assistance, I explained that the normal incentives for inward investors were RDGs and a favourable tax regime. However, if an acceptable package could be produced, the Department would examine the possibilities of selective assistance. Nissan's request for SFA, however, both in absolute and percentage terms, went way beyond the levels which we could possibly accommodate. Although this would require the agreement of colleagues, the maximum we could envisage was around 8% of eligible project costs which, together with RDGs, would guarantee Nissan a 30% Government contribution.

7 Mr Okuma was unhappy with my response and stressed the difficulties for Nissan in considering any significant change in the project as set before us which was the result of painstaking research. He did, however, relucantly agree to look again at the points we had made and these will be the subject of the further talks planned for the New Year.

SECRETARY OF STATE FOR INDUSTRY

8 Although the talks were at times difficult and strained, and there was some risk that these would break down altogether, I believe that Nissan are now ready to accept that we are not putting unnecessary obstacles in their path and that further improvements in the project must be made if it is to secure the full backing of the Government. Having rejected two sets of proposals, it remains to be seen how much further Nissan will feel able to go but I am hopeful that they will come forward with a package which we shall find acceptable. Mr Okuma made clear to me that the 8% figure for SFA was a disappointment and I expect Nissan will wish to negotiate hard on this question when the talks resume. If colleagues agree, however, I propose to state firmly that the 30% support level I have already indicated is the maximum to which we are prepared to go. Within this, the proposed changes in the RDG system will require substantial adjustment in the balance between RDGs and SFA to be made available but, provided we maintain the net post-tax value of this support, as I think we must, I believe it would be very difficult for Nissan to break off the negotiations on the grounds of inadequate Government support. Given the uncertainties, it is not possible at present to quantify this commitment - much will depend on the shape of Nissan's revised proposals - but it is bound to be substantial and consequently unlikely that the sums can be accommodated within the Department's existing provision - particularly for the later years of the PES period. I shall, however, be able to give colleagues a clearer indication of this when Nissan's revised proposals are available at the end of January.

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

PJ

P J

15 December 1981

Department of Industry
Ashdown House
123 Victoria Street

vb

c. DOE
SO
WO
TRADE
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Japa

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

7 December 1981

NISSAN

Thank you for your letter of 2 December about the Nissan project.

The Prime Minister, who saw your letter over the weekend, notes that your Secretary of State will be reporting separately on the outcome of the Department of Industry's latest round of negotiations with the company.

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.

MCS

Ms Caroline Varley,
Department of Industry.

CONFIDENTIAL

JU789

2

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

c/AD

MS

2 December 1981

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

You were right that "local" components are not necessarily British. But, in response to your point, DoI have secured two further protections. You will have an opportunity to comment on the negotiation shortly.

MCS 4/12

Dear Michael,

NISSAN

Thank you for your letter of 16 November about the Nissan project.

2 My Secretary of State will be reporting separately to colleagues on the outcome of the Department's latest round of negotiations with the company.

3 No agreement was, however, reached on the question of the definition of local content. Nissan and the Department have each tabled a formula which would express local content as a proportion of ex works price but there are important differences of detail, for example, the treatment of profits and depreciation. As regards componentry, each formula would of course classify as "local" those components, for example, seating, produced by Nissan at its UK plant. There is at present no Japanese-based manufacturer of components established in the UK so local bought-in components would also be genuinely British, except for relatively small volumes which Nissan intend to purchase from elsewhere in the EEC. In the talks with the company, the Department has nevertheless put forward two proposals which should provide additional security on the point which the Prime Minister has in mind, namely:-

i) that if Nissan UK has a particular requirement for certain components of Japanese design, then it would be willing to make available the necessary licences to enable local manufacture to be carried out by UK companies;

ii) that if in future any components were produced in the UK which themselves incorporated a significant Japanese content, then their treatment under any local content formula would be a matter for discussion between the Department and Nissan.

Nissan has indicated that it envisages no problem in accepting these points. We should, of course, be pleased to give further details if the Prime Minister would like this.

4 I am sending copies of this letter to the recipients of yours.

Yours sincerely

Caroline Varley

CAROLINE VARLEY
Private Secretary