

Prime Minister

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~~CAD~~

The Policy Unit  
Think this a reasonable  
and sensible approach.

PRIME MINISTER

Agree W? Yes  
X? Yes {but - how much?}  
Z? Yes  
in para 6? MCS 26/2

NISSAN

I last reported on the Nissan negotiations in December (my minute of 15 December to you). Since then, officials have visited Tokyo for "clarification talks", and last week the Nissan team headed by Mr Okuma returned to London. Negotiations were conducted by officials, but I had a meeting with Mr Okuma myself at which I made clear the main lines of our position. Nissan had intended this to be the final round, leading if successful to consideration by the Nissan Board and by our own Industrial Development Advisory Board, followed by announcement of a decision in principle and then negotiations on choice of site. In the event, for reasons I believe may reflect internal conflicts in Nissan, Mr Okuma has returned to Tokyo to consider our latest offers, and proposes to respond in two or three weeks; they insist that, if the result is favourable, there should be no announcement until after they have chosen a site (to avoid prejudicing local negotiations) and reached agreement with the unions, so that any announcement would be at least two to three months away.

2 You will recall that the original proposal announced in January 1981 was for a feasibility study on a plant to start at a rate of 60,000 units a year in 1984, reaching full production of 200,000 units a year in 1986, with local (EEC) content of a 60% start and 80% "as soon as practicable" after reaching full



production. Local content was not at that stage defined. After the feasibility study, it became clear that Nissan's timing had slipped, to a start in 1986 and full production in 1990, and that their definition of local content was considerably less favourable (by 6-7%) than ours. In November, I had told Nissan we might accept their definition provided they agreed to figures of 65% and 85% in return; I also said I would be prepared to recommend selective financial assistance (SFA) of 8% (in addition to Regional Development Grants (RDG) at the appropriate rate according to location) provided they moved towards our requirements on other matters including local content and timing.

3 Four main issues remained during the present talks:

(i) timing: under pressure from us, Nissan have agreed to accelerate the start of commercial production to the very end of 1985 instead of early 1986. They will not accelerate full production, though they say they plan to operate at an annual rate of 200,000 units by the end of 1989. They have agreed to bring forward one part of the engine plant (sub-assembly) by one year to 1988. These are presentationally helpful, but little more.

(ii) local content: despite my proposal in November that we might accept Nissan's definition if they increased the percentages to 65% and 85%, Nissan have not only continued to insist on their definition (to avoid



what they see as a very damaging international precedent for Nissan and other Japanese companies investing overseas) but have also refused to accept higher percentages than 60% and 80%. I had hoped to negotiate at least some mention of these higher figures, but it became clear that if we persisted, the negotiation would break off on this point. Mr Okuma has, however, conceded that 60% and 80% should be regarded as minimum figures, and that Nissan's agreement should include a "firm intention to obtain even higher levels". He has accepted a commitment to raise local content between the 60% and 80% levels steadily in line with growth of production, rather than sticking to a low level throughout the build up period which was implied in the company's earlier submissions. We have also been able to negotiate arrangements for annual monitoring of lists of components (actual and forecast), an annual auditors' certificate of local content achieved, and some protective wording on transfer pricing which might affect the calculation of local content. Some of these detailed provisions are somewhat better than we feared we could negotiate. Although we had to make concessions, provided the Nissan Board endorse the package, I believe it is capable of presentation as a reasonable and balanced agreement from the point of view of the UK as a whole including the vehicle and components industries.



(iii) SFA: Nissan sought total assistance of 50% of the £612 million capital cost of the project (estimated outturn prices), in RDGs and SFA combined, which they were aware was the maximum permissible under EEC rules. We have stressed that we will not offer a combined figure irrespective of location, but will offer a percentage grant of SFA which would be additional to RDG at the appropriate rate (22% in a Special Development Area, 15% in a Development Area): this is very important as all but two of the sites we believe they are still considering are in Development rather than Special Development Areas. As to the rate of SFA offer, we offered to increase this to 10% (£61 million) making total assistance of 24-30% (£144-183 million) depending on location (the percentages are not directly additive as eligible costs differ slightly for RDG and SFA). Nissan said this was less than they hoped for, but this did not seem to be as difficult an issue for them as the local content question. Nevertheless I expect them to return asking for more.

(iv) RDG regime: Nissan sought assurances that if the RDG rates or regime changed at some time in the future, we would compensate them in full. We explained no Government could bind itself or its successor not



to change statutory arrangements for industrial and regional support; and that in the event of such amendment, changes in RDGs might be offset by changes in other aspects. But we offered a draft letter saying that if the RDG regime changed in ways not offset by changes in other aspects of support, we would give favourable consideration to increasing SFA in line with the statutory criteria (i.e if the project was in jeopardy). If this is accepted when Nissan have studied the fine print, we shall have got away rather lightly and avoided setting a difficult precedent.

4 It is by no means clear that Nissan will accept these terms. There is some evidence that there are two camps within Nissan, and that the hostile camp may be gaining strength. It is certainly clear that Mr Okuma did not regard himself as having authority to settle. It is hard to judge the reasons for any strengthening of the hostile camp, whether this is being exaggerated for tactical reasons, and how strong may be the contrary pressures from the Japanese establishment to proceed with a major outward investment as a way of easing the trade pressures on Japan. Overall, I would put the chances of a successful outcome to these negotiations as no better than evens, or perhaps very slightly better.

5 If Nissan do accept our terms or something like them, I believe that we shall have obtained a satisfactory deal. It is



true that the timing is later than originally planned by a year  
or so at the start (though Nissan's decision has been delayed by  
a similar amount) and by three years at the full production  
stage; but I do not think this is critical from our point of  
view. The local content arrangements will be criticised both in  
the UK and in Europe, but clearly relate to a genuine  
manufacturing operation including full engine manufacture by  
1990; and can be presented as in line with the original  
agreement in principle. The SFA offer, at 10%, is just about the  
average of SFA offers made under this Administration and less  
than some major cases. It exceeds the internal "cost per job"  
guideline of £7,000 per job (the 10% offer is about £13,000 based  
on the 4,700 jobs created directly in the plant); but on the  
other hand the project has indirect employment benefits for the  
component industry. Allowing for displacement of existing UK  
production, we estimate the direct and indirect net job creation  
at about 7,700 at 80% local content and full production; but  
these calculations are on the basis that if Nissan did not come  
to the UK, they will not come to Europe at all. It is quite  
probable that in fact they would come elsewhere in Europe, though  
not necessarily on the same scale or timescale as planned for the  
present UK project. Equally important, these calculations ignore  
the dynamic benefits of replacing existing inefficient production  
with highly efficient Nissan production, the competitive  
influence on other assemblers, the stimulus and discipline on  
supplying industries, and the demonstration effects of Japanese  
management techniques, production technology, labour relations,



restricted numbers of recognised unions, etc. Nor do they take account of the advantage of a conspicuous vote of confidence in the UK economy under the influence of our general policies. For all these reasons, I believe we must attract Nissan to the UK if at all possible.

6 I hope you and other colleagues will agree that the tentative offers I have authorised are fully justified, and that we should continue our efforts to attract Nissan here. I think it possible that I shall need to increase the SFA offer to a maximum of 12% at the final stage, and I seek agreement that I should do this if it is essential to clinch the deal. I hope colleagues will agree that once the deal has been clinched, we should firmly resist any subsequent attempt to increase our SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area: any inter-regional competition of that kind, or other indication to them that more might be on offer in certain circumstances, would destroy our credibility with Nissan.

*How much is 12%*

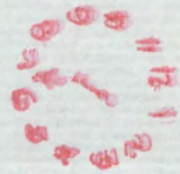
7 I have addressed this minute to you in view of the general strategic and political implications. My officials are in touch with Treasury officials on the financial implications (grant expenditure would not start until the last year of the present PESC period and should be spread over the years to 1990). I am sending copies of this minute to members of E(EA), Peter Carrington, Sir Robert Armstrong and Robin Ibbs.

*PJ*

P J  
25 February 1982



25 FEB 1982



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CONFIDENTIAL

*Japa ds*



10 DOWNING STREET

*bc A. Auguid*

c DOE D/N  
SO D/M  
WO FCO  
TRADE CO  
CS, HMT CPRS

*From the Private Secretary*

1 March 1982

NISSAN

The Prime Minister was grateful for your Secretary of State's minute of 25 February. She agrees that the tentative offers your Secretary of State has authorised are fully justified and that we should continue our efforts to attract Nissan here. She agrees that your Secretary of State should be authorised to increase the SFA offer to a maximum of 12% at the final stage if it is essential to clinch the deal. She agrees, too, that once the deal has been clinched, the Government should firmly resist any subsequent attempt to increase its SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area.

I am copying this letter to the Private Secretaries to the members of E(EA), John Holmes (Foreign and Commonwealth Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

*MCS*

Jonathan Spencer, Esq.,  
Department of Industry.

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*S*



Prime Minister (2)

MCS 9/3

Treasury Chambers, Parliament Street, SW1P 3AG

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

8 March 1982

*P. Jenkin*

*ML*

NISSAN

I have seen your minute of 25 February to the Prime Minister, and her response recorded in her Private Secretary's letter of 1 March.

It seems to me very important that you should stand firm on the conditions you have offered - with the increased SFA offer of 12 per cent if that is essential to land the project. I note that you have had to make concessions on local content and have not been able to persuade Nissan to move above 60 per cent and 80 per cent on their definitions: I think it is essential that you do not concede anything lower than these figures. Equally, I strongly support your proposal that if Nissan do accept your offer of selective assistance you should resist any subsequent attempt to increase the SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area.

I also believe it is important that you should refuse to contemplate going above an offer of 12 per cent SFA. That would already be a fairly generous offer, and while I accept the importance of Nissan's investment there are limits on how much it is worthwhile to spend to attract them. The implications of this offer for your public expenditure programme is something we shall deal with in this year's public expenditure survey.

I am copying this letter to the Prime Minister, to other members of E(EA), to the Foreign Secretary and to Sir Robert Armstrong and Mr Ibbs.

*Leon Brittan*

LEON BRITTAN

-9 MAR 1962

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