

CONFIDENTIAL



JU231
Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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16 March 1983

Robin Butler Esq
10 Downing Street
London SW1

Dear Robin,

NISSAN

Following the Prime Minister's letter of 6 January to Mr Kawamata and his reply of 17 February, a Nissan team visited the Department, as you know, from 3 - 10 March. Officials had three full-day and two half-day sessions with them; of these one full day and one half-day took the form of detailed discussions on the leasing arrangement proposed in the Prime Minister's letter of 9 November 1982. We were assisted in this by the Bank of England, who most helpfully arranged a team of three leasing experts (two from clearing banks' leasing subsidiaries and one from a merchant bank) who explained the leasing mechanism in considerable detail.

2 Nissan had previously given notice through our Embassy in Tokyo, and separately through Lord Marsh, that they intended the talks to be a serious attempt to bridge the gap and help them to achieve a consensus within Nissan. It was quickly apparent that Kawai, the leader of their team, was acting on the specific instructions of Kawamata to explore certain points, rather than in his normal capacity as leader of the feasibility team. Kawai had with him, as part of his team, Goto who for many years has been Kawamata's Personal Assistant. Although Goto is about to take up a new post as head of Nissan's Brussels office, he made it clear that he was on the team as a personal representative of the Chairman. Your own presence at the lunch with the Nissan team appears to have been well received by both Goto and Kawai, as a direct gesture of the Prime Minister's interest in the negotiations.

3 Kawai began by seeking our views on a major slowing down of the development plan. The proposal on which "a broad measure of agreement" was reached early last year involved a production start at end 1985, at a rate of 60,000 units a year and 60% local content, rising to full production of 200,000 units a year at 80% local content by end 1989. The new proposal floated by Kawai was to start in early 1987 (the delay being hardly more than the delay in the decision process), but to build up only to 100,000



by 1989. There would then be a review at that time to decide whether to proceed to 200,000, which might be reached by 1993 or 1994, but with no commitment as to date. The 80% local content level might be reached a couple of years sooner. The model produced might be a small car rather than the mid-sized Stanza proposed previously.

4 We responded that this was a great disappointment, and that it could not even be considered without certain essential features:

a the plant should be announced as a 200,000 unit plant, with a firm date (1987) for production start, and a firm date (1989) for reaching 100,000;

b local content should be no less than 60% in the first year (as before); and there should be a firm commitment to reach 80% by around 1989 irrespective of the level of output (previously 80% had been tied to 200,000 units). We should also need a commitment to 80% on any subsequent individual model within two years of its introduction;

c there should be a commitment to best endeavours to reach 200,000 by 1993 or 1994, though without a firm commitment; and there would also be a firm commitment to review this second stage no later than 1989.

5 Nissan went on to say that they thought the offer of 10% selective financial assistance (which is additional to Regional Development Grants of 15% or 22% depending on location) would not be enough to bring about a consensus within the company. We responded that the offer had been increased last year from 8% to 10% in recognition of the particularly beneficial nature of the project for the UK. A project consisting only of the first stage now outlined would be of more limited national benefit, and would be unlikely to attract assistance as high as even 10%.

6 Although officials had discussed this line with Mr Jenkin before responding, they made it clear to Nissan that they had no authority to make further concessions. They gave it as their personal judgement that Ministers might accept the delayed timing subject to the essential conditions in paragraph 4 above, but that Ministers would not be able to consider or confirm any concessions unless Nissan themselves were able to move quickly to a favourable decision on this basis, including the position on local content and SFA. The parts of such an arrangement could not be considered separately, and we could not be salami-sliced indefinitely.

7 On leasing, we believe Nissan now accept that this route would yield significant benefits in net present value terms. They were politely sceptical about how far this was a Government concession, on the grounds that they might have been able to secure leasing capacity without official support, and said they had been hoping for specially favourable leasing terms as a



result of Government intervention. We explained that though the actual terms would have to be negotiated normally, this would be the biggest leasing operation ever, and that the good offices of the Bank of England would greatly assist an arrangement which, by virtue of its size, might otherwise be uncertain. We also emphasised the importance of the Prime Minister's personal gesture in offering this facility and good offices to Kawamata. The Nissan team still had some residual hesitation about two aspects: the lack of a formal option to buy the assets at the end of the primary lease (which would prejudice the lessors' tax position in respect of the lease); and the possibility that Nissan equity, raised by convertible borrowing in Europe, might prove even more favourable as a financing route than sterling leasing. We are satisfied they now have sufficient detailed knowledge of the leasing route to take an informed view on these matters.

8 The talks were held in a notably cordial atmosphere. There is clearly considerable embarrassment about the continued disagreement within the company, and there were expressions of private regret that such difficulty was still being found in achieving consensus, and of gratitude that we were even willing to consider such changes constructively. The team has now returned to Tokyo to report to the Board, after which some form of response will be made.

9 Officials had the impression that these talks represented a serious attempt to find changes in the project which would be enough to swing Kawamata in its favour; and that efforts were being made to bring the issue to a final decision. On the crucial question of local content, officials were favourably surprised at the impression Nissan gave that 80% local content by 1990 (if not 1989), even at 100,000 units, was not unthinkable. This, if confirmed, represents a marked shift in their thinking, reflecting no doubt the currency changes in particular. Our view is that 80% by 1989 (or at latest 1990), irrespective of output, should be a sine qua non of any agreement; and that although a small cosmetic increase in SFA at the very last stage might be worthwhile to clinch a deal, there should be no question of any significant additional financial assistance.

10 Procedurally, it is for consideration whether the Prime Minister should reply to Kawamata, and if so whether it should be substantive or merely a courtesy reply. On balance we feel the advantage lies in not confirming any potential concessions at this stage, and I attach a draft response which is in only general terms.

11 I am sending a copy of this letter to John Kerr (MH Treasury) and John Holmes (Foreign and Commonwealth Office).

*Yours sincerely,
Jonathan Spencer*

J P SPENCER
Private Secretary

DRAFT REPLY FROM THE PRIME MINISTER TO MR KAWAMATA OF NISSAN

I received your letter of 17 February 1952.

and I have
discussed with
leading experts
on, all of
the most confi-

~~In particular~~ ^(X) I can assure you that
the knowledge that you put to me a
proposition on these lines when we met in
Tokyo has been restricted to a very
small circle indeed.

the
those who ~~had~~ took
Nevertheless
~~we had~~ have tried
to be met. I
financing route;
of the Bank

~~of England which I have offered, so that you~~ despite the
unprecedented size of the project, and I am confident also that
in terms of net present value this facility should compare most
favourably with any alternative financing route. Together with
the grants and selective financial assistance we have offered,
these add up to a substantial contribution to the cost of the
project.

You will have noted, as I have, the welcome signs that
the world changes about us. ^{The} international recession, which I
know has contributed to your caution on this project, is at last
showing ^{coming to an end} some signs of lifting. There have ^{also} been a fundamental
major movements in ^{are} realignment of currencies which in most respects significantly
favourable to this project. ^{But unemployment remains high here as elsewhere,} In Europe as in America, we need to
and the pressure for British people to have the opportunity of the jobs involved in
continue to fight off protectionist pressures which show no signs
of abating. ^{producing the goods sold in this country shows no signs of abating.} For all these reasons, I warmly hope that we shall
soon be able to bring this matter to a favourable conclusion, and
I look forward to hearing further from you your conclusions following
Mr. Kawai's report to you.

DRAFT REPLY FROM THE PRIME MINISTER TO MR KAWAMATA OF NISSAN

I was grateful for your letter of 17 February 1983; and I have now had a report of the discussions Mr Kawai has had with officials at the Department of Industry, and with leasing experts from the Bank of England and from the City of London, all of which have taken place in conditions of the strictest confidentiality. (X)

I am naturally ^{was} very disappointed to hear of some of the changes in the project ^{which Mr. Kawai proposed. But those who took} you asked to be considered. Nevertheless ^{part in the talks on the British Government's side are trying to respond have tried} we shall try to take as constructive a view as possible about ^{respond helpfully,} such changes, provided ^{that} your essential requirements can be met. I am glad that Mr Kawai has been able to study the leasing route; I am confident that ^{be available to you through} this could ^{with} the good offices of the Bank of England which I have offered, be available to you despite the unprecedented size of the project, and I am confident also that in terms of net present value this facility should compare most favourably with any alternative financing route. Together with the grants and selective financial assistance we have offered, these add up to a substantial contribution to the cost of the project.

You will have noted, as I have, the welcome signs that
~~The world changes about us.~~ [The international recession, which I know has contributed to your caution on this project, is at last ^{coming to an end} showing ~~some~~ signs of lifting. There have ^{also} been a fundamental ~~major movements in~~ realignment of currencies which ^{are} in most respects significantly ^{favourable to} favours this project. ^{But unemployment remains high here as elsewhere,} In Europe as in America, we need to ^{and the pressure for British people to have the opportunity of the jobs involved in} continue to fight off protectionist pressures which show no signs ^{producing the goods sold in the country show no signs of abating.} of abating. For all these reasons, I warmly hope that we shall soon be able to bring this matter to a favourable conclusion, and I look forward to hearing ~~further from you~~ ^{your conclusions following} Mr. Kawai's report to you.

Japan: Relation Pt 3

SECRETARY OF THE AIR FORCE

I was pleased to have received your letter of 11 February 1951 and I have now had a report of the discussion with the Japanese Ministry of Education, Science and Culture, and with the Japanese Ministry of Health and Welfare, and with the Japanese Ministry of Finance and the Japanese Ministry of Foreign Affairs, and with the Japanese Ministry of the Interior, and with the Japanese Ministry of the Navy, and with the Japanese Ministry of the Army, and with the Japanese Ministry of the Air Force, and with the Japanese Ministry of the Post and Telecommunications, and with the Japanese Ministry of the Railways, and with the Japanese Ministry of the Shipping, and with the Japanese Ministry of the Commerce, and with the Japanese Ministry of the Industry, and with the Japanese Ministry of the Agriculture, and with the Japanese Ministry of the Forestry, and with the Japanese Ministry of the Fisheries, and with the Japanese Ministry of the Livestock, and with the Japanese Ministry of the Poultry, and with the Japanese Ministry of the Swine, and with the Japanese Ministry of the Cattle, and with the Japanese Ministry of the Horses, and with the Japanese Ministry of the Sheep, and with the Japanese Ministry of the Goats, and with the Japanese Ministry of the Pigs, and with the Japanese Ministry of the Chickens, and with the Japanese Ministry of the Ducks, and with the Japanese Ministry of the Geese, and with the Japanese Ministry of the Fish, and with the Japanese Ministry of the Shellfish, and with the Japanese Ministry of the Insects, and with the Japanese Ministry of the Plants, and with the Japanese Ministry of the Animals, and with the Japanese Ministry of the Humans, and with the Japanese Ministry of the Universe.

MAR 6 1951

12 11 10 9 8 7 6 5 4 3 2 1

It is suggested that the Japanese Ministry of Education, Science and Culture, and with the Japanese Ministry of Health and Welfare, and with the Japanese Ministry of Finance and the Japanese Ministry of Foreign Affairs, and with the Japanese Ministry of the Interior, and with the Japanese Ministry of the Navy, and with the Japanese Ministry of the Army, and with the Japanese Ministry of the Post and Telecommunications, and with the Japanese Ministry of the Railways, and with the Japanese Ministry of the Shipping, and with the Japanese Ministry of the Commerce, and with the Japanese Ministry of the Industry, and with the Japanese Ministry of the Agriculture, and with the Japanese Ministry of the Forestry, and with the Japanese Ministry of the Fisheries, and with the Japanese Ministry of the Livestock, and with the Japanese Ministry of the Poultry, and with the Japanese Ministry of the Swine, and with the Japanese Ministry of the Cattle, and with the Japanese Ministry of the Horses, and with the Japanese Ministry of the Sheep, and with the Japanese Ministry of the Goats, and with the Japanese Ministry of the Pigs, and with the Japanese Ministry of the Chickens, and with the Japanese Ministry of the Ducks, and with the Japanese Ministry of the Geese, and with the Japanese Ministry of the Fish, and with the Japanese Ministry of the Shellfish, and with the Japanese Ministry of the Insects, and with the Japanese Ministry of the Plants, and with the Japanese Ministry of the Animals, and with the Japanese Ministry of the Humans, and with the Japanese Ministry of the Universe.

You will have noted, as I have, the various reports that have been received from the Japanese Ministry of Education, Science and Culture, and with the Japanese Ministry of Health and Welfare, and with the Japanese Ministry of Finance and the Japanese Ministry of Foreign Affairs, and with the Japanese Ministry of the Interior, and with the Japanese Ministry of the Navy, and with the Japanese Ministry of the Army, and with the Japanese Ministry of the Post and Telecommunications, and with the Japanese Ministry of the Railways, and with the Japanese Ministry of the Shipping, and with the Japanese Ministry of the Commerce, and with the Japanese Ministry of the Industry, and with the Japanese Ministry of the Agriculture, and with the Japanese Ministry of the Forestry, and with the Japanese Ministry of the Fisheries, and with the Japanese Ministry of the Livestock, and with the Japanese Ministry of the Poultry, and with the Japanese Ministry of the Swine, and with the Japanese Ministry of the Cattle, and with the Japanese Ministry of the Horses, and with the Japanese Ministry of the Sheep, and with the Japanese Ministry of the Goats, and with the Japanese Ministry of the Pigs, and with the Japanese Ministry of the Chickens, and with the Japanese Ministry of the Ducks, and with the Japanese Ministry of the Geese, and with the Japanese Ministry of the Fish, and with the Japanese Ministry of the Shellfish, and with the Japanese Ministry of the Insects, and with the Japanese Ministry of the Plants, and with the Japanese Ministry of the Animals, and with the Japanese Ministry of the Humans, and with the Japanese Ministry of the Universe.

Mr. Kawai's report to you.

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*MBM
Japan*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 March 1983

J P Spencer Esq
Private Secretary to the
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Dear Jonathan,

NISSAN

The Chancellor has seen a copy of your letter of 16 March to Robin Butler. He agrees with your comment that if Nissan had proposed an investment of this size at the outset we would have been unlikely to have offered as much as 10 per cent selective assistance on top of RDGs. The Chancellor recognises that we cannot now withdraw this offer but at the same time feels that there can be no question of any increase in the quantum of selective assistance.

I am copying this letter to Robin Butler (No 10) and John Holmes (Foreign and Commonwealth Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

Japan: Anglo Relations Pt 3



24 MAR 1983

Prime Minister

Letter reporting on D/industry
talks with Nissan attached
below. Much more hopeful!

FERB 17.3.