DEPARTMENT OF TRADE AND INDUSTRY

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15 July 1983

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Nigel

NISSAN

You and other colleagues will wish to be aware of talks my Department had with the Nissan feasibility study team from 6 - 8 July. The guidance I gave to my officials for these negotiations took account of a short discussion I had with the Prime Minister last week.

2 DTI officials had earlier been warned privately that the Nissan Board regarded these discussions as the final stage of negotiations which should lead - one way or the other - to a decision on the project. In the light of the Prime Minister's correspondence with Mr Kawamata; the approach to Mr Ishihara by Mr Nakasone following her talk with him at Williamsburg; and the clear result of the British General Election, the Board had concluded that an early decision was necessary if the company were to avoid becoming involved in a "political whirlpool" and to retain commercial room for manoeuvre.

3 The Nissan Board therefore decided to develop two alternative plans for presentation to HMG either of which, if accepted, would have the joint agreement of Mr Kawamata and Mr Ishihara and thus secure the consensus within the company which has so far proved elusive. Both Plans, which were presented to my officials last week, would involve investment in an 800 acre site in an Assisted Area and an ultimate planned volume of 100,000 cars, but there is a significant difference between them in concept and in the pace at which the projects would be developed:

i Plan A, which seemed to be Nissan's preferred route, involved initial commitment only to a pilot plant (kit assembly) at low output and low local content, starting in 1986. Its 24,000 unit output would however be counted as imports for the purposes of the SMMT/JAMA understandings. A decision would then be taken by 1987 whether to proceed to full-scale (100,000 unit) production, shown as reaching 70 percent local content in 1990. 10 percent Selective Financial Assistance (SFA) was requested for the pilot plant: SFA for the second phase to be negotiated at the time.

ii Plan B involved an immediate commitment to a full 100,000 unit plant, but to offset the risks seen by Nissan, SFA was requested at 25 percent. Local content would reach 70 percent by 1990, with no firm commitment to 80 percent by any particular date.

4 Both plans as submitted by Nissan would have significant shortcomings when compared with the outline project put forward by Nissan in 1981. Total planned capacity would be only half the 200,000 units then envisaged; no provision would be made for engine manufacture - only assembly; and, partly as a result of the foregoing, the maximum local content indicated would be 70% and not the 80% which formed the basis of the original announcement. Last week Nissan argued that none of these ambitions had been abandoned. If the project went ahead and was successful, output of 200,000 units would be possible in the 1990s but Nissan were unwilling to commit themselves to this now. Volumes in turn affected the economics of engine manufacture and hence local content. It was still Nissan's intention to build up the level of in-house processing and local component sourcing as soon as practicable but the company would have the greatest difficulty in committing itself to a particular time-scale.

5 It quickly became apparent that the Nissan team had been given very little room for manoeuvre on Plan B. They insisted that 25% SFA, or something very close to it, was essential to secure the endorsement of the Nissan Board; and they were equally firm that under Plan B Nissan could not commit themselves to a higher than 70% local content, although the company would offer "best endeavours" to achieve more. The company would have to be similarly non-committal on an engine-manufacturing facility. On Plan A, however, there was some sign of a Nissan willingness to compromise and officials with my agreement therefore provided the team with an outline (copy at Annex A) of the main features which would need to be incorporated to make the plan acceptable to us. It was agreed that these proposed modifications would be referred to the Nissan Board and would form the basis of resumed talks in Tokyo which begin on 25 July.

6 The indications are that Nissan will be ready to show some flexibility but that in the final bargaining the company is nevertheless likely to press hard for some softening of the terms. In that event, I intend to authorise officials to offer certain concessions if this proves absolutely necessary to secure an agreement, notably:

i Project size

The Department has proposed the presentation of the project as a 200,000 unit facility, although implementation would be in three phases with break-points for decision in 1987 and 1990. I believe on balance that announcement of the larger project would still be preferable. It would be closer in ambition to the project we originally announced and would still leave existing UK manufacturers the best part of a decade to adjust product and manufacturing plans to the prospect of a new, potentially very efficient competitor. Nevertheless, if Nissan press hard for the more modest (100,000) project, I do not believe we should resist it;

ii Pilot Plant (Kit Assembly) phase

The pilot plant in its own right is not viable and there would therefore be statutory as well as presentational difficulties in granting it financial support. I therefore propose to offer no SFA for the pilot plant (though the company's eligibility for RDGs in an Assisted Area would be unaffected). Nevertheless under Phase 1 Nissan will incur expenditure of over £50m and, on the understanding that the company decide in 1987 to go ahead with the full project, I believe it may be necessary to make some contribution towards this, by being prepared to offer up to 12% SFA on Phase 2 (equivalent to about 10% on the two phases combined). Officials will be instructed not to go beyond this in Tokyo without prior consultation with London.

The Treasury are opposed to offering this further financial assistance

iii Local Content

The 80% requirement is very important. Since the Nissan talks began it has been applied to other Japanese-linked investment in the UK motor industry including BL/Honda and the Bedford/Isuzu deal announced a week or two ago. It would be quite wrong to relax it now for Nissan. We might however agree that the 80% level should operate from 1991 and not 1990 as currently proposed. This would be defensible and comparable with the phasing we have conceded in other projects. Officials would however refer back to London if 80% even in 1991 was not achieveable.

7 Finally, I should mention that the Nissan team emphasised repeatedly the importance of maintaining confidentiality about the content of the discussions in the run-up to a decision by their Board. They were genuinely concerned that premature

publicity would irritate Mr Kawamata and sour the atmosphere for the critical Board debate. It has therefore been agreed with Nissan that, in response to any Press interest, both sides should take the line that current exchanges are part of the pattern of regular, quarterly reviews established when Nissan postponed a decision on the project in the middle of last year. It is important that we hold to this.

8 I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary and the Secretary of State for Employment.

Yours Ever,

Cecil

PROVISIONS FOR INCLUSION IN A MEMORANDUM OF UNDERSTANDING WHICH WOULD ALSO FORM THE BASIS OF A PUBLIC ANNOUNCEMENT.

1 Subject to a satisfactory outcome of negotiations with trade unions and local authorities, Nissan will in 1983 and 1984 commence design and construction of a plant on an 800 acre greenfield site with an eventual capacity to produce 200,000 cars per annum ("the project"). The plant will eventually incorporate all the features referred to in Paragraph 3 of the draft Memorandum of Understanding.

2 Nissan intends to implement the project in three Phases:

- Phase I: Will involve the establishment of a "pilot plant" for the production of 24,000 units per annum based on the import of kits (to include body panels, engines and gear boxes) from Japan. Production under Phase I will commence in 1986 and will continue through to 1989.

  In the context of the understanding between JAMA and SMMT on exports to the UK, production of cars during Phase I will be treated as though these were built-up imports. HMG's agreement to this provision will depend upon its acceptance by SMMT/JAMA.

  Local content at the outset of Phase I is expected to be a minimum of 25% but, provided this is commercially feasible, Nissan intend to achieve a

steady increase in the level of local content throughout the period.

A decision on whether to proceed with Phase II will be taken by Nissan, in consultation with HMG, in 1987 in the light of the company's experience in operating the plant under Phase I.

- Phase II: Will involve the expansion of capacity and facilities at the plant to provide an annual capacity of at least 100,000 vehicles. Production under Phase II will commence in 1990 at 81,000 units and 100,000 units will be reached in 1991.

During Phase II, press shops component assembly and engine sub-assembly will be incorporated in the project so that at least 80% local content will be achieved by the end 1990. Nissan will use its best endeavours to include facilities for engine machining during Phase II.

- Phase III: Nissan in consultation with HMG will consider whether to proceed with a third Phase not later than the end of 1990. Phase III would eventually provide for a capacity of 200,000 units per annum.

3 After Phase I, Nissan will use its best endeavours to achieve a substantial level of exports.

NOTES

Subject to the appropriate criteria being met HMG will make available the following financial assistance for the project:

(a) Phase I: RDGs only.

Phase II: RDGs and SFA at 10% of eligible project costs.

Phase III: To be negotiated at the time.

In addition HMG, through the Bank of England, will use its good offices to assist Nissan in the establishment of a leasing package in accordance with Nissan requirements.

The definition of local content, and other provisions included in the draft Memorandum of Understanding previously discussed with Nissan, would be included in any eventual agreement between the Department and Nissan concerning the UK project.

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10 DOWNING STREET

From the Principal Private Secretary

18 July, 1983.

Nissan

The Prime Minister has seen the Secretary of State for Trade and Industry's minute of 15 July covering a letter which he has written to the Chancellor of the Exchequer. Mrs. Thatcher has not considered the letter in detail, and the Chancellor of the Exchequer and other Ministers to whom the letter is copied may wish to comment on the details of the negotiating tactics with Nissan. As regards the question of announcements, the Prime Minister agrees that the British negotiating position should not be weakened by pushing for an announcement before the House rises, and that, if there is a successful outcome, we should plan for a signing ceremony and joint press conference in London as early as possible in August. If this takes place before the Prime Minister leaves for her holiday on 9 August, and Mr. Kawamata attends, Mrs. Thatcher would like the opportunity to see him; but would not propose to participate directly herself in the signing ceremony.

E. E. R. BUTLER

Jonathan Spencer, Esq.,
Department of Trade and Industry.

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Prime Minister (2)

Mrs 25/7

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Telephone Direct Line 01-213 6400

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The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON
SW1

25 July 1983

Dear Cecil,

NISSAN

Thank you for sending me a copy of your letter of 15 July to Nigel Lawson about the Nissan project.

I fully support the line which you are proposing officials should take when the talks with Nissan are resumed later this month. I agree that we should go for the proposals outlined in your letter as plan A.

I gather that the number of new jobs likely to be created by the project is no longer on the scale originally envisaged - 2,800 if only phases 1 and 2 are completed compared with the original estimate of nearly 8,000. Nevertheless nearly 3,000 jobs will not be regarded as insignificant in whatever assisted area location is chosen by Nissan.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

Yours
Norman

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Anglo-Japanese Relations pg. 3.

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

20 July 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Dear Cecil

NISSAN

We had a word about our recent exchange of correspondence yesterday afternoon and I promised to think further about your proposal.

In view of the importance you attach to the project, I am prepared to agree to the extra £5 million as a negotiating margin, on two conditions.

The first is that you can assure me that if it is not possible to agree the deal on the terms you propose, there will be no question of the negotiators seeking authority to make any higher offer. The project now under consideration is not as attractive as the one originally presented to us and, as I said in my letter of 18 July, I think we have gone up to, if not beyond, the price it is worth paying for it.

My second condition is that your negotiators should seek the firmest possible assurance from Nissan that if the deal is agreed, they accept that there is no question of their seeking any further assistance when they come to take decisions on the implementation of Phase II in 1987.

Both these points are, of course, subject to the project remaining substantially as now envisaged. If the plans changed, we should naturally have to look at it again.

I am sending copies of this letter as before to the Prime Minister, to Geoffrey Howe, Norman Tebbit and Sir Robert Armstrong.

Yours ever
Nigel

NIGEL LAWSON

Argb Japanese Robots

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

18 July 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Dear Cecil

NISSAN

You wrote to me on 15 July about the line you propose your officials should take in negotiations with Nissan in Tokyo later this month.

I am pleased to learn of the progress that has been made with Nissan and that there is now a good chance of the project coming off. However, there must be a limit to the price it is worth paying to secure the investment and in my view we have reached that point now.

While I am therefore content for our negotiators to offer Nissan the flexibility on project size and local content which you propose, I cannot agree to any further financial assistance beyond that which we have already agreed. Nissan will reap considerable benefits from the tax leasing arrangement through which the project will be financed and this increases considerably the element of public subsidy. The current offer already implies a cost per job of £29,500 and I can see no case for offering any additional selective assistance. I note that Nissan will decide in 1987 whether to proceed with Phase II and that they will be consulting us again then. I suspect they may well seek further financial assistance at that stage and I can certainly see no case for making any concessions now.

I am copying to the recipients of your letter.

Yours ever
Nigel

NIGEL LAWSON

Japan: Anglo Relations

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