



CONFIDENTIAL
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Prime Minister

Yes

mt

Content with X/ if the negotiations go well? (1

imagine that you would

wish to see Mr. Kawamura if he is in London, but I think it would look gimmicky if you took part in the signing ceremony directly.

Yes

mt

JU80

PRIME MINISTER

NISSAN

FERB

15.7.

Our discussion on 8 July took place in the middle of the talks between officials and the Nissan study team. The remainder of these talks went well, and it has been arranged that a team of my officials will have what I hope will be a final round of talks with Nissan in Tokyo, beginning on 25 July. The attached letter to the Chancellor and those few other colleagues that have been involved in this issue sets out the position as I explained it to you, developments since then, and the line I propose officials should take in Tokyo.

2 On the question of announcements, I have considered whether, if the Tokyo talks go well, we could announce at least agreement in principle before the House rises; in many ways this would be the preferable course. However, the Tokyo talks do not begin until Monday 25 July (and cannot be advanced for Nissan's reasons); and to push for an announcement in London by 29 July could weaken our negotiating position on the very important "fine print". While I should not wish to rule out the possibility of an announcement before the House rises if all goes unexpectedly



X well, I think we should make plans for a signing ceremony (if possible involving Mr Kawamata) and a joint press conference in London as early as possible in August. I am arranging for the Embassy in Tokyo to explore this with Nissan, without implying that we think an agreement is a foregone conclusion.

C.P.

C P

15 July 1983



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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

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15 July 1983

JU81

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.

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 achievable.

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

*The Treasury
are opposed to
offering this further
financial assistance*




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.

James East,
Lead

[Faint, illegible handwritten notes]

COMMERCIAL IN CONFIDENCE



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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JUL 1983