

PRIME MINISTER

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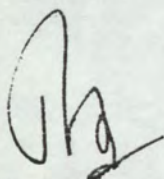
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1. As the papers make clear, the Nissan deal should bring us very substantial benefits: in the short term, it is a very welcome expression of confidence; in the medium term, there are large economic benefits; and in the longer term, Japanese standards of efficiency should have a healthy impact on supplying and competing companies. If the site is fully developed, it could become one of the biggest car factories in the world.
2. We have only two comments on the deal:
 - (a) Timing. We can see no reason to delay further discussions with the company until January. It is reported that the Nissan/Volkswagen deal was devised in a very short time. We are in competition for this project with other countries who will be very eager to get it. The sooner we indicate a positive reception to the Japanese - and start the negotiating process on terms - the better.
 - (b) Presentation. Another reason for moving swiftly is the need to avoid a leak. This project is extremely attractive if presented in the right light. But the BL unions are quite likely to object to it and exaggerate the potential damage it will do to BL. We need to get our arguments in first - rather than risk a leak which attempts to suggest the deal is some shady, defeatist alternative to supporting our home-grown industry. If this view is expressed loudly by the unions, it could put Nissan off altogether.
3. Implications for funding BL
 - 3.1 We agree with Keith that the possibility of the deal does not itself provide a basis for refusing to support BL. We do not see any need to hold up a decision in principle on Nissan while the BL funding request is considered. Our main recommendation on BL will be, as before, that the company stands very little chance of successfully implementing its Plan and that the best

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outcome would be for it to find a more successful partner. The ideal solution would be a complete takeover. If this cannot be achieved, BL should at least begin a relationship which leads eventually to a full-scale merger. We must make it very clear to Edwardes that finding a strong partner is his top priority over the next 12 months. This would be true regardless of the Nissan prospect, but its arrival can help us to take - and to sell - a more realistic view of BL. It will look increasingly dispensable. One of the main reasons for supporting BL up to now has been the dependence on it of the UK component industry. Nissan provides an alternative in the medium term. This will help us to be firmer in pressing BL towards other companies or even facing up to its closure if this proves impossible. In short, the arrival of Nissan will give us more room for manoeuvre on what has proved so far an intractable problem.

4. I am copying this minute to Keith.



JOHN HOSKYNS