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Record of a conversation between the Prime Minister and the Chairman of the Nissan Motor Company at 5.50 on 19 September, 1982.

Present:

Prime Minister

Mr. K. Kawamata

Mr. F.E.R. Butler

Mr. Goto

After initial courtesies, and an exchange about the international economic situation, the Prime Minister asked Mr. Kawamata how he saw the prospects for the Japanese car industry. Mr. Kawamata said that the domestic market in Japan had experienced only slow growth in recent years, and Japanese car companies had had to look abroad for most of their expansion. But the recession had hit both Western Europe and America, and America was particularly affected by high interest rates because so many car sales were made through hire purchase agreements. There was some reason to think that car ownership in Western societies was reaching a ceiling, and that replacement provided the main outlet for sales: when money was short, people deferred replacement. The main areas left for expansion were the newly developing and underdeveloped countries, but many of these lacked the hard currency to pay for exports.

The Prime Minister said that she wanted to tell him how she saw things in the United Kingdom, and to refer to the possible investment by Nissan in Great Britain. She wanted, however, to reassure Mr. Kawamata that she would not do so in a way which would embarrass him: she was aware that the Nissan Board had deferred a decision on the project, and when it came to take the decision it would rightly decide on the basis of what was in the best interests of the Nissan Company. She was not therefore expecting any definite response from Mr. Kawamata, but wanted to explain to him her view of the general situation and her attitude to the Nissan investment.

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The Prime Minister said unemployment in Britain was currently high, and mentioned some of the factors which had contributed to it. One was the reduction of overmanning, both in manufacturing and in administration, which Britain had had to tackle: the rapid increase in productivity in the last year showed the progress being made with this, but it inevitably involved a release of labour. Two other factors were the international recession and the beginnings of the micro-chip revolution. Inevitably in such circumstances there was pressure for more protection for domestic industries, not only in Britain but elsewhere: she mentioned the difficulties which the UK were currently having with the US over steel. For her part, she believed firmly in defending the open trading system; but this would be much easier if overseas suppliers provided jobs in the UK as Britain had had to do in the past in her overseas outlets. Whereas the US had 1,000 manufacturers in the UK, and West Germany had 180, there were only 24 Japanese manufacturers, although their experience and their record was excellent.

The Prime Minister said that Britain was a good country to invest in. It had a stable political system, more stable than any other in Europe at present. The Government was following sound policies, and meant to go on doing so. Controls on incomes, prices and the flow of foreign exchange had been removed. Legislation had been introduced to modernise trade union law. (At this point Mr. Kawamata asked whether it would be possible, if Nissan invested in the UK, to make an arrangement whereby they had only a single union to deal with: the Prime Minister replied that she understood some other Japanese companies investing in Britain had done so.) Britain was a welcoming country for foreign investors, and the dependence of Britain on exports to Europe meant that there was no realistic prospect of Britain leaving the EEC. Mr. Kawamata said that he wanted to speak frankly to the Prime Minister about the picture from his end. The President of Nissan had involved the company in many major overseas projects recently. They had been

considering a major involvement in the US, which was now taking the form of a project for production of trucks and commercial vehicles in Tennessee, although it was not clear that the full planned capital budget could be maintained. There were also projects in Spain, Italy and Germany. These had put a heavy burden on Nissan's financing. They had made a careful examination of the UK project, which had indicated that it would be somewhat more expensive to obtain components there than to transport them from Japan. He would be less than honest if he did not say that he was worried about labour problems in Britain. But above all, Nissan needed to recover any investment made, and he was worried by the prospect that they would not do so for at least ten years.

The Prime Minister said that she fully accepted that Nissan would need to get their money back from any investment. She said that labour relations in the UK were now very good in the private sector, as the Japanese firms which had invested there would testify: she understood that two of them had negotiated no strike agreements. Strikes in Britain in the previous year had been the lowest for 40 years.

Mr. Kawamata said that he wondered whether there was any possibility of an arrangement whereby the British Government would build and equip a factory initially, and make it available to Nissan on rental terms, in order to minimise the immediate drain on Nissan's funds. He was embarrassed to put this proposition, and would readily understand if the Prime Minister did not wish to pursue it. The Prime Minister said that, under the advance factory scheme, factories were built for incoming companies and rented: it might be possible to build such a factory specifically for Nissan. But she was not aware of any arrangement for equipping such factories, and did not think that this was likely to be possible. She reminded Mr. Kawamata

Mr. Kawamata that under existing arrangements grants in the region of 150 million pounds would be available (although part of these were related to the building of the factory), and free depreciation meant that no tax was paid until the capital was recovered. But she was willing to consider personally what further response she could make to what Mr. Kawamata had said.

Mr. Kawamata said that he had not consulted his Board about the suggestion which he had put to the Prime Minister. The Prime Minister asked Mr. Kawamata whether he would like her to respond to him personally in the first instance. Mr. Kawamata said that he would report to the President and Board of Nissan the conversation which he had had with the Prime Minister, and if he had any more to communicate to her, as a result of that report, he would do so personally.

As he took his leave, Mr. Kawamata said that some years ago he had declared to Sir Michael Edwardes his willingness to co-operate with British Leyland. He felt a particular bond with British Leyland and with Britain because Nissan had built up its business in the 1950s operating under licence from Austin Morris. Because of this bond, he had named a model "Cedric" after the character in "Little Lord Fauntleroy". He wanted to explain that he had not pursued the offer of co-operation with British Leyland only because Honda had got in first.

The Prime Minister and Mr. Kawamata agreed on the statement to the Press which is attached to this note, and both sides agreed not to amplify it in any way.

F.R.B.

19 September 1982

The Prime Minister and Mr. Kawamata discussed the world economic situation, the world automobile industry situation, and the current state of the Japanese and British automobile industries.

The question of Nissan investment in Britain was discussed, and the Prime Minister made it clear that she would welcome it.

The details of the conversation are of course confidential.