



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

15 October 1982

Robin Butler Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A

Dear Robin,

NISSAN

The Prime Minister is meeting Mr Ishihara, President of Nissan, at 6.15pm on Monday 18 October. Mr Jenkin will be seeing Mr Ishihara at 5.15pm and will bring him on to No 10.

2 I attach a brief for the meeting, together with an initial analysis for the options for handling the suggestion, put by Mr Kawamata at his meeting with the Prime Minister in Tokyo, for some assistance in postponing the cash burden of a UK investment on Nissan's finances.

3 As you know, there is the slight awkwardness that we do not know whether Mr Kawamata has revealed to Mr Ishihara and his other colleagues in the executive management of Nissan that he raised the financing point with the Prime Minister. In the talks with the feasibility team which took place on Tuesday 12 October, we were told only that Mr Kawamata had reported his discussion in very general terms, but that the substance was confidential: it was unclear (and probably deliberately so) whether Nissan executives did not know the substance of the discussion, or were not willing to debate it. There is something of a dilemma for us here: in order to win Mr Kawamata over to supporting the project, it may be necessary to appear to offer him something which has not been offered to the executive management; on the other hand, by so doing, we take the risk seriously upsetting the executive management and Mr Ishihara in particular. At this stage, we suggest that the Prime Minister should merely sound out whether Mr Ishihara has heard from Mr Kawamata about her discussion, and not reveal the contents to him if it is not clear that he knows the financing point was discussed. If it is clear, the Prime Minister might say merely that we are unlikely to be able to offer any increased financial assistance in total, but that we are very willing to explore the form of the package if there are ways in which it could be of greater help to Nissan in their particular circumstances.



4 I understand that separate briefing will be provided by the Department of Trade on the SMMT/JAMA talks.

5 I am sending copies of this letter to Margaret O'Mara (Treasury), Roger Bone (FCO) and John Rhodes (Trade).

*Yours sincerely,
Jonathan Spencer*

J P SPENCER
Private Secretary

CONFIDENTIAL



PRIME MINISTER'S MEETING WITH MR ISHIHARA, 6.15 PM 18 OCTOBER

POINTS TO MAKE

Sorry to miss meeting you in Tokyo. As you know I had a valuable talk with Mr Kawamata at that time. Your project also figured in my conversation with the Japanese Government.

Mr Okuma kindly explained to us in July the state of your company's thinking on the UK investment. I recognise that this is a very important decision for you. I want to repeat my Government's welcome to your project, and my personal hope that you can come to an early favourable decision.

I know that your further consideration may take some time. As Mr Jenkin has told Mr Okuma during their discussions, the door is open now but it may not be open for ever. There are many demands on the considerable financial resources earmarked by HMG for the Nissan investment; and attitudes towards the Japanese industry could harden during any protracted delay in Nissan's deliberations.

There is little doubt that restraint against direct Japanese imports into Europe will remain for the foreseeable future; indeed there are currently as many pressures for tightening them as there are for liberalisation. These are obviously judgments for Nissan to make, but we share your apparent view that the only way to a substantial increase in your European sales is by local investment.

As I stressed to the Japanese Government during my visit, and explained to Mr Kawamata, my Government's firm policies are re-establishing the conditions for successful enterprise in the UK. Britain is already an attractive location to the inward investor, and we are making it an even better one. As your own company knows too well, the course through the current
is recession is not an easy one; but your investment/for the future, from an ideal launching pad within Europe.



I think that my conversation with Mr Kawamata led to a much closer understanding of our mutual approaches to Nissan's proposed project. Your company have been very frank in explaining to us the difference of emphasis within your Board, and your wish to proceed on a soundly-based consensus. We respect your wishes, though we hope it will not defer a decision for too long. I hope that my conversation with Mr Kawamata may prove to have helped in that aim.

What is your present judgment of the eventual decision, and when might it be?

[For use only if Mr Ishihara shows knowledge of Kawamata request re financing]

Patrick Jenkin and I have been looking closely at the points Mr Kawamata raised with me in Tokyo. We are not yet ready to make a full reply; but we hope to be able to offer some ideas which could go some way to help. As Mr Kawamata suggested, we are looking at the prospects for re-phasing Nissan's expenditures.

BACKGROUND

1 Mr Takashi Ishihara, the 71 year old President of the Nissan Motor Co, who is also President of JAMA (Japanese Automobile Manufacturers' Association), joined Nissan after graduating in law from Tohoku University. His whole career in Nissan has been in management. He is a forceful and aggressive personality who, according to company sources, plays a role in direction and decision-making which is unusually active by Japanese standards. Has been active in innovations within the company since becoming president, particularly in the field of overseas investment. May well be regarded by the traditional factions within Nissan as being too ready to take risks.

Now in his fifth year as President of Nissan, his current two-year term as President expires in Autumn 1983 at about the time of Nissan's 50th Anniversary. It is not yet clear whether he will take on a further two-year term as President at that time, or succeed Kawamata as Chairman.



CONFIDENTIAL

2 As President of Nissan, Mr Ishihara is the key decision-maker; the Chairman and ex-President, Mr Kawamata, now being largely a figurehead. Mr Ishihara is believed to support proceeding with the UK project, as do virtually all the company's top management. Opposition to the project centres on Mr Kawamata, and on the union leader Mr Shioji (who is personally antagonistic towards Mr Ishihara). The Executive Vice President who has led negotiations with DoI Ministers, Mr Okuma, has indicated his personal belief that a positive decision will eventually emerge, though the Japanese emphasise a consensus may make the process slow.

3 The content of the Prime Minister's discussion with Mr Kawamata in Tojyo has by mutual agreement not been widely disseminated. We do not know whether Mr Ishihara himself is yet privy to Mr Kawamata's request regarding Government financing, though Mr Kawamata indicated that he would be discussing it with his colleagues. (The feasibility study team which held a 'review' meeting with the DoI on 12 October indicated that within the company the content of Mr Kawamata's talk with the PM was being kept strictly confidential). Since Mr Kawamata may intend to keep it to himself until he has received a response, it is important that the question should not be directly alluded to unless Mr Ishihara himself raises it. On the other hand it is tactically important to know whether the matter has been raised with Mr Kawamata's colleagues, and whether it is likely to make any difference; Mr Jenkin and the Prime Minister are therefore recommended to probe gently about the impression Mr Ishihara has of the Kawamata meeting.

4 A brief summary of the Nissan project is attached, together with an interim note on officials' consideration of Mr Kawamata's request.

5 Members of the feasibility study team have just completed a visit to the UK to study UK industrial relations, meeting local and national trade unionists and industrial relations managers under the aegis of ACAS.



COMMERCIAL IN CONFIDENCE

NISSAN PROJECT

The current shape of the project, substantially agreed between DoI and Nissan and reflected in a draft "Memorandum of Understanding" now with the company, is as follows:-

Size

Full production of 200,000 cars per year (cf. BL 450,000).

Timing

Production to start at the end of 1985, building up to full production by 1990.

Local Content

Local content 60% at start, building up in line with production to 80%, with a "firm intention to achieve even higher levels".

("Local content" defined as excluding value of components purchased outside the EEC; it therefore includes EEC components, labour and other local costs, depreciation and profit).

Location

800 acre site in a development area or special development area. Sites under consideration in North East (Washington and Teesside); South Humberside; North Wales (Shotton), and South Wales (Cardiff and Newport). HMG has made it clear that eventual choice is entirely for Nissan.

Jobs

4700 direct employment at full production (2500 in first year of production).

In addition, DoI estimate a 3 - 5000 net indirect job gain, in component supply etc. after taking account of loss of market for current UK manufacturers and suppliers. (NB Nissan consider additional indirect employment would be much higher but use doubtful assumptions).

Financial Assistance

Selective financial assistance at 10% of eligible project costs (raised from original offer of 8%), in addition to regional development grants at the appropriate rate (15% DA; 22% SDA). SFA likely to amount to some £60m. (NB Nissan had originally sought total assistance - RDG + SFA - of 50% of the £600m capital cost of the project).

Total assistance RDGs plus SFA could therefore be in the region of £144m - £183m.



NISSAN - FINANCING PROPOSALS

1 At his meeting with the Prime Minister in Tokyo, the Nissan Chairman, Mr Kawamata, explained the main source of his concern about the UK project as being Nissan's heavy financing burden arising from their current major investments in overseas projects. He was particularly worried about the prospect that they would not recover their investment for at least 10 years. He wondered whether there was any possibility of an arrangement whereby the British Government would build and equip a factory initially, and recover the cost from Nissan over a period through a rental arrangement to minimise the immediate impact on Nissan's funds. The Prime Minister mentioned the Advance Factory Scheme, and told Mr Kawamata that she would consider personally what he had said and what further response she could make.

The Options

2 Officials are urgently considering the problem put by Mr Kawamata. Work on defining the options, and identifying their advantages and disadvantages to Nissan and to HMG continues. At present, two broad routes have been identified:

- i) Factory (but not plant) built at public expense and leased (or sold) to Nissan.

This would involve the English Industrial Estates Corporation or the Welsh Development Agency, according to location, building a bespoke factory to Nissan's specification. The completed factory could then be leased to Nissan at a market rate. Such a lease would be negotiated to run for, say, 25 years with five year rent reviews; it could include an initial rent free period, and an option for Nissan to purchase at market rates after, say, five years. The EIEC and WDA's powers do not extend to purchasing manufacturing plant or machinery.



ii) Finance lease on buildings and plant

Under this option, the factory and its plant would be owned from the outset by a group of financial institutions with corporation tax liabilities - probably, in view of the size of the project, a syndicate including the four major clearing banks. The assets would simultaneously be on-leased to Nissan on terms which reflected the tax relieved by the assets' capital allowances and the RDGs received by the lessors. Compared with straightforward UK loan finance, the effect interest rate advantage might amount to 3 - 4%, or less if an interest free period was offered. This could have a present value to Nissan of some £50 million over the years to 1990.

3 Options (i) and (ii) are not mutually exclusive. Once the factory had been built by the EIEC or WDA under option (i), it could be disposed of to a financial consortium for tax leasing on to Nissan. Whether or not option (i) was adopted for buildings, a tax lease might be appropriate for plant.

Assessment of Options

4 Option (i) is close to what Mr Kawamata asked the Prime Minister for in respect of factory building; but it is not an option which can extend to manufacturing plant. This means that used on its own it could only relieve Nissan's immediate cash out-flow by some £120 million (outturn) out of a total capital expenditure of some £615 million. Compared with option (ii), building and leasing the factory in this way would probably cost Nissan considerably more in financing/rental charges, since it would hold no tax advantages to the lessors; though as noted above construction under option (i) could be combined with a tax lease for the future stages.



CONFIDENTIAL

5 For HMG, option (i) would involve a direct addition to the PSBR (net of any contribution from the existing PES provision of the EIEC or WDA) of some £120 million spread over the construction periods 1983-1988 (peaking at £55 million in 1984, with around £10 - £15 million in each of the other years). The PSBR addition would subsequently be offset by rental payments - or, if the lease or the factory were disposed of to a leasing consortium, Nissan or a pension fund, by the proceeds of such sale. There would however be no guarantee that the Exchequer costs would be fully recovered, bearing in mind the risks of construction cost overruns and adverse market movements during construction.

HMG

6 Option (ii) would in principle be available to Nissan with or without HMG intervention. Nonetheless, the size of the lease, and Nissan's apparent lack of familiarity with the details of UK project financing, may enable it to be presented as benefiting from Government support, perhaps by/recommending the scheme to Nissan, and offering the Bank of England's best endeavours to ensure that this form of finance would be available from the City. For Nissan, it has the advantage that it removes most of their expenditure (the total £615 million, including plant and equipment, less rental payments), and that it offers the most advantageous interest rates available. A potential disadvantage is that the interest benefit depends on continuation of the present treatment of tax leasing. Although the Government's intention is to maintain incentives to investment whether by this or other means, a request from Nissan for cast-iron guarantees would be awkward.

7 For HMG, such a lease at first sight implies a significant deferral of Corporation Tax receipts, amounting in total to some £300 million over the initial years of the project, although this would be recovered over the life of the lease. However, current market conditions suggest that an excess of demand for tax leasing over supply will continue, and therefore that this option would replace other tax leases in the economy, without net cost to the Exchequer. The displacement of other domestic industrial demand for tax leasing capacity could itself be seen as a disadvantage of this route.



8 A combination of option (i) during building construction and option (ii) for leasing the completed factory and for plant and machinery, could possibly be an attractive option for Nissan, though it may hold few advantages over option (ii) throughout. For HMG, this route would still involve a short-term PSBR cost until the factory was disposed of, and a risk of incomplete recovery of Exchequer Costs.

Cash Flow versus Risk

9 It is not clear from what Mr Kawamata said to the Prime Minister exactly what is expected of the proposals HMG might make. What Mr Kawamata has asked for is a deferral of cash expenditures, with repayment, apparently on commercial terms, over the period "to minimise the immediate impact on Nissan's funds". The normal reason for avoiding a substantial front-end expenditures would either be to avoid increasing indebtedness - for example if a company was already highly geared - or to reduce exposure to risk. In essence, however, the leasing or rental proposals raised by Mr Kawamata and discussed above, amount simply to an alternative way of financing the project, and would be seen as such by potential lenders or lessors. The project itself remains largely unchanged in substance and, apart from the interest saving available through a tax lease, in exposure to risk. Nissan may indeed under Japanese accounting conventions be expected to capitalise such leases in their balance sheet, as they would certainly have to do in US accounting practice, so that the funding would not even be "off balance sheet". Officials find it hard to see that Nissan would actually have difficulty in raising bank borrowing, in Japan or in Europe, if they chose to do so; and if bankers were unwilling to lend to cover the project, they would equally be unready to arrange a finance lease.



10 If Mr Kawamata was more concerned about Nissan's actual financial exposure on the UK project, neither his proposal to the Prime Minister nor the two options outlined above would do much to help. The only way to reduce Nissan's exposure would be to increase HMG's, for example through changes in the amount of selective financial assistance, which has not been seriously at issue with the rest of Nissan management.

Conclusion

11 The options outlined above need further work before they could be exposed to Mr Kawamata; and in particular the PSBR implications of the Government-built factory route would require careful consideration. However, it seems quite possible that something which approaches Mr Kawamata's request could be presented by HMG. It is not certain that it would in reality be of much greater benefit to Nissan than they could achieve without Government intervention. Nonetheless, the ability to present a reasonable response to Mr Kawamata would be of great importance, whether because Nissan do not fully appreciate the availability of certain options (eg tax leasing on the proposed scale); or because Mr Kawamata is looking for a personal gesture from the British Prime Minister which would enable him to withdraw his opposition to the UK project without losing "face".

Officials are working urgently to prepare more substantive proposals for consideration by the Prime Minister, and eventual presentation to Mr Kawamata.

Department of Industry

15 October 1982



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

15 October 1982

F E R Butler Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Robin,

MEETING WITH MR ISHIHARA, MONDAY 18 OCTOBER

The Nissan President is calling on the Prime Minister at 6.15pm on Monday 18 October. My Secretary of State will be seeing Mr Ishihara immediately before the meeting, which he and Mr Lamont will also attend.

2 Nissan have expressed concern that there should be an agreed press line, in case Mr Ishihara's meeting with the Prime Minister became known. (We have told them we would not expect to publicise the meeting ourselves.) Subject to your agreement, we propose that the following line should be used. It is acceptable to Nissan:

Why is the Prime Minister seeing Mr Ishihara?

"Since the Nissan President was out of Japan during her recent visit, the Prime Minister wished to take the opportunity of his current visit to the UK to see him. The meeting was informal and private; no details will be released."

Is the meeting to discuss the SMMT/JAMA talks?

Mr Ishihara was invited to see the Prime Minister as President of Nissan.

We shall provide substantive briefing for the Prime Minister shortly.

3 I am sending copies of this letter to Roger Bone at the Foreign and Commonwealth Office, and to John Rhodes at the Department of Trade.

Yours sincerely,
Jonathan Spencer
J P SPENCER
Private Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
153 VICTORIA STREET
LONDON SW1E 8BB
TELEPHONE: DIRECT LINE 41 212
SWITCHBOARD 40-212 1876



Department of State for Industry

15 OCT 1982
9 11 12 1
8 9 10 11 12
7 8 9 10 11 12
6 7 8 9 10 11 12
5 6 7 8 9 10 11 12
4 5 6 7 8 9 10 11 12
3 4 5 6 7 8 9 10 11 12
2 3 4 5 6 7 8 9 10 11 12
1 2 3 4 5 6 7 8 9 10 11 12

CONFIDENTIAL

11



10 DOWNING STREET

[Handwritten signature]
ce BI DOT
Fco

From the Principal Private Secretary

15 October 1982

Dear Jonathan,

MEETING WITH MR ISHIHARA, MONDAY 18 OCTOBER

Thank you for your letter of 15 October. The press line suggested in your letter is fine, except that I think that we should add a sentence saying, as we did in the case of the Prime Minister's meeting with Mr Kawamata in Japan, that the Nissan investment in Britain was discussed and that the Prime Minister said that she would welcome it.

I attach a copy of a draft press statement which we would make, if asked. The Prime Minister will be ready to show this to Mr Ishihara at the end of her meeting on Monday.

I am copying this letter to the recipients of yours.

Yours sincerely,

Robin Butler

Jonathan Spencer Esq.,
Department of Industry.

Since Mr Ishihara was out of Japan during the Prime Minister's visit, the Prime Minister wished to take the opportunity of his current visit to the UK to see him. The meeting was informal and private; no details will be released. The question of Nissan investment in Britain was discussed, and the Prime Minister made clear, as she had done to the Chairman of Nissan during her visit to Tokyo, that she would welcome it.

PRIME MINISTER

MEETING WITH MR ISHIHARA : MONDAY 18 OCTOBER AT 6.15 PM

There is a note from Harold Cockfield on the JAMA/SMMT talks in your box.

Mr Ishihara is in London for the JAMA/SMMT talks about the inter-industry understanding on Japanese car exports. He will have seen Mr Jenkin immediately before your meeting; and Mr Jenkin and Mr Lamont will be bringing him to see you.

Mr Ishihara was in America when you saw Mr Kawamata in Tokyo. Mr Ishihara is in favour of the UK investment.

You may like to say to Mr Ishihara that, since he was abroad during your visit to Tokyo, you wanted to see him to repeat what you had said to Mr Kawamata - i.e. that you recognise that the Nissan Board will be considering the decision in due course; describe to him the pressures building up in Britain for domestic manufacture as against imports; and emphasise the advantages of Britain as a location for Japanese investment. You might welcome the fact that Nissan have started two further feasibility studies of an investment in Britain, on industrial relations and financing requirements, since your visit to Japan.

You should not yourself refer to the proposition which Mr Kawamata put to you about the provision of an advance factory and equipment, which Nissan could rent. Mr Kawamata has emphasised that he would want any response to this proposition to be made to him personally. If, of course, Mr Ishihara himself raises it, you could say that we are looking at whether there is anything further we can do to help Nissan in this direction.

Press Line

Nissan have asked that there should be an agreed press line. I suggest you say that we do not intend ourselves to

F.R.B.

- 2 -

give publicity to Mr Ishihara's visit but that, if asked, we would propose to reply on the lines of the attached note (of which there is a spare copy for you to give to Mr Ishihara).

F.R.B.

15 October 1982

Jaggen

B/F

Prime Minister

Content that Mr. Lamont should be present when you see H.R. President of Nissan?

MR. BUTLER

The Department of Industry called this morning. They confirmed the meeting with the President of Nissan next Monday at 0815. The President will be accompanied by Mr. Yukawa, his Assistant.

FERS 11.10

They asked whether Norman Lamont can attend the meeting? Also whether we can arrange an interpreter? *Yes*

I would have thought yes to the first and I will arrange the second through the Foreign Office.

mb

ES

Miss Stephens

Pl. will you tell Mr. Lamont's office & arrange interpreter.

11 October 1982

FERS

Interpreters requested from Marka Fenwick in FEO.

12.10.

CONFIDENTIAL



10 DOWNING STREET

2cc AH Japan
ces FCO
TSY
D/1

From the Principal Private Secretary

8 October 1982

Dear John,

I gather that the annual negotiations between SMMT and JAMA about the inter-industry understanding on the restraint of imports of Japanese cars to Britain are about to take place.

In view of the emphasis which the Prime Minister laid on the need for the Japanese to take urgent action to redress their growing trade surplus, I am sure that she will want to know what line the British representatives are proposing to take about the future level of Japanese imports of cars. As Mr Gray will be aware, the Prime Minister several times expressed the view privately during our visit to Japan that the percentage of Japanese cars in the British domestic market should be further reduced from its present level.

Bf
Could Lord Cockfield please arrange to let the Prime Minister have a note on the considerations governing the approach to these talks and the target of the British negotiators, so that her views can be fed in before the talks are undertaken.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (Treasury) and Jonathan Spencer (Department of Industry).

Yours sincerely,

Robin Butler

John Rhodes Esq.,
Department of Trade.

CONFIDENTIAL

AH