



10 DOWNING STREET

THE PRIME MINISTER

6 January 1983

Dear Mr. Kawamata,

Thank you for letting me know your conclusions on the proposal I put to you in my letter of 9 November.

I was surprised that you concluded that the leasing route did not present a bigger advantage; and just so that there should be no misunderstanding between us I should like to make sure that you are aware that the leasing route is not an alternative to the receipt of Government grants. Under a leasing arrangement the grants would continue to be available; the selective assistance under the Industry Act would be available to the lessee and the regional development grant to the lessor (though in certain circumstances to the lessee). Where the lessor was the recipient, this would be reflected in a reduction in the leasing charge. Since I was not entirely clear that you had taken this into account in your studies, I have thought it worth clarifying the point.

As you say in your letter, the terms and conditions of any leasing arrangement would have to be negotiated with the financial institutions. My point about the Bank of England was not that they could help you to secure more favourable terms, but that such a leasing arrangement would be extremely large, even by the standards of the City of London, and that the Bank of England's good offices would be helpful in enabling you to secure arrangements on this scale.

AH

c. Hunt
DI
FCO

JWP

As I said in my letter, I am very willing to arrange for experts to discuss with your people these or any other aspects of the project if it would be helpful to you. I still hope that, when you are ready to do so, you will reach a favourable decision on the project which would be to our mutual advantage.

All best wishes.

Yours sincerely,

Rangaraj Reddy

Mr Katsuji Kawamata



10 DOWNING STREET

From the Principal Private Secretary

6 January 1983

I enclose in the attached sealed envelope a personal letter from the Prime Minister to Mr. Kawamata, Chairman of Nissan. I should be grateful if you will arrange for the Embassy to deliver it to Mr. Kawamata as soon as possible.

I am also enclosing for you and other recipients of this letter a copy of the Prime Minister's letter. Could you please treat the letter in the same way as previous papers in this series, i.e. restrict it to those who have an operational need to see it. In particular, it should be borne in mind in any dealings with Nissan that Mr. Kawamata regards his correspondence with the Prime Minister as being strictly personal.

I am copying this letter to John Kerr (HM Treasury) and David Saunders (Department of Industry).

E. E. R. BUTLER

John Holmes, Esq.,
Foreign and Commonwealth Office.



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

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

JU639
Secretary of State for Industry

4 January 1983

CONFIDENTIAL

Robin Butler Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister
Letter to Mr. Kawamata
attached for your signature.

Dear Robin

FEB

S.I.

NISSAN

... I attach a draft reply to Mr Kawamata's letter of 7 December. The tone of his letter is certainly rather negative.

2 Generally we do not think it would be advantageous at this stage to appear over-anxious to make further offers to attract Nissan, which might have an effect opposite to the one intended.

3 However, Mr Kawamata's letter, on one interpretation, may be based on a misunderstanding. He presents the problem as a choice between alternatives - leasing at 8%, or receipt of Government grants. In fact of course the grants would also be payable in the leasing case - part to the lessee, part normally to the lessor. In present conditions the leasing charge taking account of such grants should be less than the 8% Mr Kawamata cites. We think it is worth making this point, and also one other point to do with the likely effect of the Bank of England's good offices.

4 We considered including, at the suggestion of the Bank of England, a separate point dealing with exchange risk. This would have been intended to answer one other possible interpretation of Mr Kawamata's letter - that he is comparing leasing finance at 8% with normal financing through parent company loans, in non-sterling currency, at 8%, which some of their calculations have assumed. If this is indeed the comparison he is making, it ignores the fact that the non-sterling interest rate does not include the exchange risk, which is, however, effectively taken into account in the leasing charge. We felt, however, that this was too technical a point to make in such a letter, though it is certainly an important one, and was unlikely to be the source of Mr Kawamata's concern.



5 We feel that a letter on these lines would give Mr Kawamata an opportunity of coming back if he has indeed misunderstood our proposition, but without reinforcing his obdurate position if he has not.

6 I am sending copies of this letter and attachment to John Kerr (Treasury) and John Holmes (Foreign and Commonwealth Office).

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO MR KAWAMATA

Thank you for letting me know your conclusions on the proposal I put to you in my letter of 9 November. ~~I am sorry that your studies do not suggest there is much advantage in it; but of course this is very much a matter for you to consider.~~

I was ~~nevertheless~~ ^{your calculation that} surprised that the leasing route did not present a bigger advantage; and just so that there should be no misunderstanding between us I should like to ^{make sure that you are aware} ~~emphasise~~ that the leasing route is not an alternative to the receipt of Government grants. ^{Under a leasing arrangement} ~~In such a case~~ the grants would ^{continue to} be available; the selective assistance under the Industry Act would be available to the lessee ^{and} the regional development grant to the lessor (though in certain circumstances to the lessee). Where the lessor was the recipient, this would be reflected in a reduction in the leasing charge. ^{Since I was not entirely clear that you had} ~~It may be that you have~~ taken this into account in your studies; ~~but I was not entirely clear about this from your letter, and~~ ^{I have} thought it worth clarifying the point.

^{As you say in your letter,} ~~You are right to say, as you do in your letter,~~ that the terms and conditions of any leasing arrangement would have to be negotiated with the financial institutions. My point about the Bank of England was not that they could help you to secure more favourable terms, but that such a leasing arrangement would be extremely large, even by the standards of the City of London, and that ~~without~~ the Bank of England's good offices ^{would be} ~~it might not~~ necessarily be possible ^{helpful in enabling} for you to secure arrangements on this scale.

~~As I said in my letter, I am very willing to arrange for experts to discuss with your people these or any other aspects of the proposal if it would be helpful to you. I still hope that, when you are ready to do so, you will reach a favourable decision which would be to our mutual advantage.~~

^{on the project}

CONFIDENTIAL

ccs Tsy
Pro 2. Leah



10 DOWNING STREET

From the Principal Private Secretary

17 December 1982

Dear Jonathan,

✓
✓
I enclose a copy of a letter from Mr Kawamata, President of Nissan, with a covering letter from the Embassy explaining the circumstances in which it was prepared and sent. In view of this, it would be better if you and other recipients of this letter did not betray knowledge of its contents in any discussions you have with Nissan.

S/R |
The tone of the letter is disappointingly negative. The Prime Minister should no doubt send a brief acknowledgment and, if there are any further suggestions which she can make with the aim of improving the prospects for Nissan's investment in the United Kingdom, she will want to do so. But otherwise the right course may be for her to send a brief but friendly acknowledgment, and leave the further negotiations to be carried on through your department. I should be grateful for your advice.

I am copying this letter and the enclosure to John Kerr (Treasury) and John Holmes (Foreign and Commonwealth Office) with the request that a copy should be transmitted to HM Ambassador in Tokyo.

Yours sincerely,

Robin Butler

Jonathan Spencer Esq.,
Department of Industry.

CONFIDENTIAL

AA.

Japan



British Embassy
No 1 Ichiban-Cho Chiyoda-ku Tokyo

Telex J22755 (A/B PRODROME)
Telephone 265-5511

F E R Butler Esq
10 Downing Street
London SW1

Your reference

Our reference

Date 9 December 1982

Pl. fia
Dear Robin,

NISSAN

1. This is just to let you know that we have received in the Embassy from Goto of Nissan a letter in a sealed envelope addressed to the Prime Minister from Kawamata, the Chairman of Nissan. This is clearly a response to the Prime Minister's recent letter to Kawamata; Goto said that he had typed it at home and that apart from himself only Kawamata and Ishihara in Nissan were aware of its contents. You may, however, agree that it could be useful for us to be sent a copy of the letter in due course which would be treated here on the same highly restricted basis as the previous correspondence.

2. The other purpose of this letter is to let you know that we are sending Kawamata's letter in a covering envelope addressed to you by the confidential bag which leaves here on Monday 13 December; you should therefore receive it at the end of that week. We do not think that we could entrust it to the vagaries of the non-confidential bag service from here nor of course to the open post. We have checked with Goto that no problems will arise as a result of Kawamata's letter taking something like 10 days to reach the Prime Minister.

Yours ew,

J S Whitehead

J S Whitehead

P. 10

Cable : NISMO TOKYO
Telex : J 22503; J 24474
Phone: Tokyo 543-5523

Japan

NISSAN MOTOR CO., LTD.

Prime Minister

17-1,6-chome, Ginza, Chuo-ku
Tokyo, Japan

Katsuji Kawamata
Chairman

*Not unexpected -
we can now put real
pressure on the B.L.
in their meetings
Japan*

*Depressing. I
am getting D/Industry's
Comments, but probably the
best course now is a friendly
acknowledgement and leave
D/Industry to pursue
negotiations with Nissan.*

7 December 1982

The Rt Hon Margaret Thatcher
The Prime Minister
10 Downing Street
London

*Please
remember the
CONFIDENTIALITY
17.12.
not*

Dear Mrs Thatcher:

At our meeting last September at the Government Guest House in Tokyo, I privately raised a question in regard to Nissan's U K project, i.e. whether we can lease from your Government a fully equipped factory. You have kindly responded to my query in your letter of 9 November 1982, and knowing only too well how busy you must have been, I very much appreciated it.

Soon after we met, I told Mr Ishihara, our President, that in the course of our discussions I inquired about the above possibility. I have also in the meantime instructed Mr Kawai, our Managing Director in charge of our U K project, and his staff to examine the following two alternatives and their advantages and disadvantages:

1. With the 30% subsidy
2. Leasing the fully equipped factory

For the second alternative of leasing the fully equipped factory, I have asked Mr Kawai and his group to examine on the basis of the following three conditions:

- a. Leasing charges at 8%
- b. Reserve the option of ceasing the operation and withdrawing from the project if Nissan deemed it impossible to continue as an enterprise
- c. Reserve the option of being able to buy out the factory if it is assumed that the profit can be realised as planned

About the time your letter reached me via the British Embassy here, the results of this examination were presented to me. Unfortunately, the examination revealed that the leasing

NISSAN MOTOR CO., LTD.

arrangement was not much different from the 30% subsidy arrangement. The leasing arrangement, of course, will not require as much investment capital, however, there were no other factors of improvement.

In your letter there was no mention of concrete terms and conditions of leasing, but if a consortium of financial institutions was to be organised on a commercial basis through the good offices of the Bank of England with a sizable capacity for leasing finance, I must assume that we will not be able to get favourable terms and conditions. I can not expect, therefore, that we will be able to obtain terms and conditions that are better than those being worked out by our people.

I regret to inform you that the result of our close examination of these three alternatives has been such that my inquiry did not produce any tangible effect in changing the situation.

I thought that perhaps I should go to London to inform you in person, rather than in writing, of the result of our careful examination. But if I did wait for such an opportunity there might be some delays, and I felt it best to write you immediately.

With my appreciation for your kind letter and with my best wishes.

Sincerely yours,

Katsuji Kawamata
Katsuji Kawamata
Chairman

loans may have to be used. ICL reported that at 31 March and 30 September 1982 there was no recourse to the guarantee other than in respect of preference shares; ICL has made use of the loan guarantee at some times in its past financial year, but to a relatively small extent.

Japan (Direct Investment)

Mr. Teddy Taylor asked the Secretary of State for Industry (1) if he will initiate an inquiry into the reasons why the percentage investment from Japan to the European Economic Community which came to the United Kingdom has fallen since 1 January 1973;

(2) what was the percentage of Japanese direct investment in the European Economic Community which took place in the United Kingdom in 1981; and when the percentage of European Economic Community direct investment by Japan in the United Kingdom was last at its current percentage level.

Mr. MacGregor [pursuant to his reply, 2 December 1982, c. 244.]: The total number of manufacturing projects undertaken by Japanese companies anywhere in Europe in any one year is small, and any change in the number of these projects can cause large changes in the percentage received by the United Kingdom, as the following table shows. Overall, Britain has done better than any other EC member State in attracting Japanese investment of all kinds. In 1981 the United Kingdom received 12 per cent. of Japanese direct investment in the European Community. The invest in Britain bureau and inward investment staff in our diplomatic service posts in Japan are always in close touch with a number of Japanese companies about locating their manufacturing projects in the United Kingdom.

Japanese direct investment overseas*

Year	United States \$ million			United Kingdom as per cent of:	
	United Kingdom	EC†	World	EC	World
1973	352	438	1,904	80.4	18.5
1974	382	483	2,012	79.1	19.0
1975	42	140	1,763	30.0	2.4
1976	29	203	1,991	14.3	1.5
1977	42	200	1,645	21.0	2.6
1978	25	149	2,371	16.8	1.1
1979	38	271	2,898	14.0	1.3
1980	111	262	2,385	42.4	4.7
1981	68	568	4,894	12.0	1.4
Total					
1975-81	355	1,793	17,947	19.8	2.0
1973-81	1,089	2,714	21,863	40.1	5.0

* Direct investment covers only purchases net of disposals of share capital and long term loans by Japanese concerns in their overseas subsidiaries, associates and branches. The figures do not include unremitted profits, short-term loans or trade credit.

† United Kingdom and eight Continental members up to 1980. Greece included from 1981 onwards.

Source: Japan Balance of Payments Monthly.

Mr. Teddy Taylor asked the Secretary of State for Industry what is the latest total of people employed by Japanese controlled manufacturing enterprises in the United Kingdom; and what percentage of the United Kingdom employment in manufacturing industry this total represents.

Mr. MacGregor [pursuant to his reply, 2 December 1982, c. 244]: The latest published figures available are

for 1979, when Japanese controlled manufacturing enterprises in the United Kingdom employed 1,700 people, 0.025 per cent. of all private and public sector employees in United Kingdom manufacturing industry. Currently, Japanese controlled manufacturing companies employ about 3,300 people; in addition about 1,600 people are employed in manufacturing enterprises in which Japanese companies have a 50 per cent. or substantial minority interest.

ENVIRONMENT

Liverpool (Housing Allocation)

Mr. Alton asked the Secretary of State for the Environment if he will make a statement on the reduction of housing allocation in the city of Liverpool for 1983-84.

Mr. Heseltine: I am satisfied that the resources available to the city of Liverpool next year should allow that authority to increase its housing investment above the level likely to be achieved this year.

Right-to-Buy (Applications)

Mr. Cartwright asked the Secretary of State for the Environment if he will set out the number of right-to-buy applications submitted by council tenants during the third quarter of 1982 together with the figures for each quarter since the relevant legislation came into force.

Mr. Stanley: The numbers of right-to-buy claims received by English local authorities are as follows:

Year	Quarter	Applications
1980	Fourth Quarter	130,400
1981	First Quarter	141,200
	Second Quarter	54,700
	Third Quarter	36,900
	Fourth Quarter	20,400
1982	First Quarter	47,700
	Second Quarter	39,200
	Third Quarter	36,500*

* Provisional.

Leasehold Reform Act 1967

Mr. Wigley asked the Secretary of State for the Environment if he will seek to amend the Leasehold Reform Act 1967 in order to prevent ground landlords obstructing the completion of the freehold purchase.

Sir George Young: The Leasehold Reform Act 1967 and the Leasehold Reform (Enfranchisement and Extension) Regulations 1967 already contain provisions to prevent either party to enfranchisement proceedings from delaying matters unduly.

Falmouth Container Terminal

Mr. Parry asked the Secretary of State for the Environment if he has received any representations against planning permission being given for the proposed development of the Falmouth container terminal; and if he will make a statement.

Mr. Giles Shaw: Representations against the grant of planning permission for the Falmouth container terminal