

SUBJECT

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Japan

10 DOWNING STREET

From the Principal Private Secretary

8 July 1983

Dear Jonathan,

Nissan

The Secretary of State for Trade and Industry called on the Prime Minister this morning to discuss the latest talks with Mr. Kawai and his team about a possible Nissan investment in the UK. Mr. Parkinson said that the Nissan team had put forward two propositions. One - which was unacceptable and was probably intended to be so - was for the immediate construction of a plant to produce 100,000 cars annually, to which the British Government would contribute 15 per cent regional development grant and 25 per cent special assistance. Nissan would only undertake to achieve 70 per cent local content initially. The total cost of the project would be £300m., to which the British Government would contribute nearly half. It would offer 1,000 extra jobs in 1986 rising to 2,200 jobs subsequently.

The second proposition was for a pilot plant which would cost £5lm. initially, to which the British Government would contribute no more than regional development grant at 15 per cent. Nissan would initially produce cars from kits, with a minimum of 25 per cent British content. They would produce 12,000 cars in 1986 and 24,000 cars in each of the next 3 years. 400 jobs would be created. In 1987 Nissan would take a decision on whether to undertake Stage 2 which would be a plant capable of producing 100,000 cars. The Nissan team had suggested that, subject to the agreement of other Japanese car manufacturers they would propose that the Nissan production should be counted against the Japanese quota of cars under the voluntary restriction agreement, so that they would replace other Japanese imports and would not reduce British production. Mr. Parkinson added that he was considering whether to write into the agreement a provision for Stage 3, capable of producing 200,000 cars, but was inclined to think that this might be disadvantageous since it could

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discourage investment by other overseas car manufacturers in the meantime.

In discussion, the Prime Minister and your Secretary of State agreed that, although the pilot project was small in relation to what had been envisaged in some of the earlier discussions it provided the best value for money for the British Government. The fact that it would not replace any British production was an attractive feature. Moreover, once Nissan had invested here, there was a strong likelihood that they would expand further. There was also a possibility that, once British component manufacturers were geared up to meet Japanese specifications, Nissan might use British component manufacturers to supply their production elsewhere.

Concluding the discussion, the Prime Minister said that in the circumstances she would be in favour of concluding an agreement for the pilot project: indeed this seemed preferable at present to the larger project.

Yours sincerely,

Robin Butler

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Department of Trade and Industry