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807

PREM 19/822



Anglo Japanese Relations  
 Effects of Japanese Imports on  
 European Car Industry

Nissan

PART 2

JAPAN

Pt 1: May 1979

Pt 2: Dec 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2.12.81</del>		<del>22.10.82</del>					
24.12.81		<del>9.11.82</del>					
6.1.82		17.11.81					
11.2.82							
10.3.82		- GNS -					
11.3.82		X					
2.5.82							
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4.9.82							
8.9.82							
11.10.82							
5.10.82							
8.10.82							
19.10.82							

PREM 19/822



PART 2 ends:-

AJc to Trade of 17/11/82.

PART 3 begins:-

Japanese Ambassador to PM (T225/82) of 22/11/82







*Japan* *J*

17 November 1982

JAPANESE MACHINE TOOLS

The Prime Minister has noted the contents of your Secretary of State's minute of 15 November.

AJC

John Rhodes, Esq.,  
Department of Trade.

*J*



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DESKBY 170100Z

FM FCO 161945Z NOV 82

TO IMMEDIATE TOKYO

TELEGRAM NUMBER 536 OF 16 NOVEMBER

THE HONDA PRIZE

1. WE UNDERSTAND THAT YOU ARE ATTENDING A CEREMONY IN TOKYO ON 17 NOVEMBER AT WHICH THE HONDA PRIZE FOR 1982 IS TO BE PRESENTED TO PROFESSOR JOHN COALES. THE FELLOWSHIP OF ENGINEERING HAVE RECOMMENDED THAT THE PRIME MINISTER SHOULD SEND A SUITABLE MESSAGE FOR THE OCCASION. IF YOU SEE NO OBJECTION, PLEASE CONVEY TO PROFESSOR COALES THE PRIME MINISTER'S WARM CONORATULATIONS ON OBTAINING THE HONDA PRIZE. FOLLOWING HER RECENT VISIT TO JAPAN, SHE IS PARTICULARLY PLEASED THAT A BRITISH ENGINEER HAS WON THIS PRESTIGIOUS JAPANESE AWARD IN THE FIELD OF TECHNOLOGY.
2. GRATEFUL IF THIS MESSAOE COULD BE GIVEN ALL APPROPRIATE PUBLICITY.

PYM

NNNN

DISTRIBUTION

FED

TRED

PS

MR GIFFARD

MR THOMAS

COPIES TO

MR COLES, NO 10 DOWNING ST

1

RESTRICTED

*17. 11*  
*h-a.*





CONFIDENTIAL

Prime Minister

To note.

A.J.C. 15/11

PRIME MINISTER

JAPANESE MACHINE TOOLS

During your recent visit to Tokyo, Mr Suzuki agreed that there should be early talks between the United Kingdom and Japanese industries on the level of Japan's exports of numerically controlled machine tools to the United Kingdom.

Following discussions in Tokyo between Michael Franklin and MITI underlining the need for an effective inter-industry understanding on voluntary restraint, we have now heard that the Machine Tool Trades Association (MTTA) were reasonably satisfied with the outcome of their first round of talks on 29 October with the Japanese machine tool industry.

Under considerable pressure from MITI, the Japanese industry has agreed to hold further talks next month 'in order to consider measures appropriate to achieving the objective of an early reduction in exports' - and regular meetings thereafter. The actual size of the reduction in Japanese exports has still to be agreed but the Japanese industry is fully aware of the order of magnitude sought by the MTTA.

My Department and the Department of Industry will be maintaining close contact with the MTTA in preparation for the next round of talks to ensure that they keep up the pressure on the Japanese industry. Meanwhile, it is very important that we should preserve confidentiality on the state of these talks. The statement published jointly by the two Associations simply notes that discussions have taken place and that the Japanese industry now has a better understanding of the United Kingdom concern about imports of Japanese numerically controlled machine tools. Disclosure of the specific private agreement would make further progress extremely difficult.

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I am copying this to members of OD(E) Committee.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

15 November 1982

A handwritten signature in dark ink, appearing to read 'P. Cockfield', written in a cursive style.

AP LORD COCKFIELD

[Approved by the Secretary  
of State and signed in  
his absence.]

CONFIDENTIAL



JULY 1983

765  
1234







Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

9 November 1982

Dr. J P Spencer  
Department of Industry

*Dear Jonathan,*

**NISSAN**

The Chancellor has seen a copy of your letter of 1 November. He is content with the terms of the draft letter to Mr Kawamata but has asked me to make one point about the covering letter.

The Chancellor accepts that in the present circumstances it would be inappropriate to renegotiate the SFA offer if Nissan take up the leasing option. However, he considers that if Nissan take advantage of leasing finance, there can be no question of any increase in the existing SFA offer. He has in mind the agreement earlier this year that Nissan should be offered an extra 2 per cent of SFA if this proved essential to clinch the deal. The Chancellor does not think that extra SFA would be justified if Nissan obtained the benefits of leasing finance which officials have estimated could have a present value benefit of £50 million.

I am copying this letter to Robin Butler (No.10), Roger Bone (FCO) and John Rhodes (Trade).

*Yours sincerely,  
Margaret O'Mara*

MISS M O'MARA  
Private Secretary



Sapan :

Nissan

16 NOV 1982





CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

9 November 1982

*Sapan*  
*21e AH*  
*ccs HMA, Tokyo*  
*FCO*  
*Tsy*  
*Trade*

Dear Jonathan,

NISSAN

The Prime Minister was extremely grateful for the advice in your letter of 1 November to me and for the draft letter to Mr Kawamata. I attach a copy of the letter to Mr Kawamata in the form in which the Prime Minister has now sent it.

I am copying this letter and the enclosure to the recipients of yours, and to Sir Hugh Cortazzi in Tokyo. I should be grateful if all recipients would limit circulation of the Prime Minister's letter to those who have previously worked on it or have an operational need to see it.

*Yours sincerely,*

*Robin Butler*

Jonathan Spencer Esq.,  
Department of Industry.

CONFIDENTIAL

*AH*



STRICTLY PERSONAL



10 DOWNING STREET

THE PRIME MINISTER

9 November 1982

*File*  
*ces HMA Tokyo*  
*Fco.*  
*Tsy*  
*Trade*  
*D/1*

Dear Mr Kawamata,

At our meeting in Tokyo, you explained your concern that the UK project would impose a heavy additional financing burden on Nissan. In order to reduce the immediate impact of a UK investment you asked whether it would be possible for the British Government to build and fully equip a factory initially, and to recover the cost from your company over a period through a rental arrangement. I undertook to consider personally whether we could offer a solution to this problem.

As I mentioned when we met in Tokyo, it would be possible for one of the relevant public agencies to build a factory and lease it to Nissan; but it is not the practice under our law for these agencies to equip a factory. So this would not be a complete solution to the problem which you raised.

However, the inquiries which I have made indicate that there is an alternative solution which would achieve the result you are seeking. This is an arrangement that the assets of the project should formally be under the ownership of a group of UK financial institutions who would lease them long term to Nissan on commercial terms. Under such an arrangement, Nissan would in practice remain in effective control of the design, construction and operation of the factory and its capital equipment.

This form of leasing finance is an established part of current corporate financing in the UK. However, Nissan's investment would be of an unprecedented size for such financing, and would in



certain years be likely to absorb a significant proportion of the UK's expected capacity for leasing finance. Nevertheless, with the Government's backing - to which I would lend my personal support - and through the good offices of the Bank of England, who would, at my request, use their best endeavours in bringing together appropriate partners, I believe that there is a good prospect that a suitable consortium of financial institutions could be encouraged to participate in order to facilitate Nissan's investment in this country.

Such an arrangement could also offer some additional advantages. As you know, there are taxation allowances relating to the cost of acquiring buildings and plant that can be set on a favourable basis against profits when assessing a company's liability for Corporation Tax in the UK. Your financial projections presented to the Department have shown that these allowances would not be able to be set against taxable profits for some years. Under present tax law the lessors would be able to set these allowances against their own current profits when assessing their Corporation Tax liability. The financial benefits to them would be reflected in the leasing charges made by them to your company. While the exact terms naturally depend on market conditions, such charges might be expected to offer a significant advantage against the equivalent cost of UK bank borrowings by a prime commercial borrower. In the present market, some part of this benefit might be recognised by, for example, a three year period during which no leasing charges at all would be made, with a commensurate increase in the charges made in ensuing periods. The terms and conditions of such a lease would be a matter for discussion with the lessors.

As you know, I had a meeting on 18 October with Mr Ishihara, whom I was delighted to meet. He expressed the hope that we would be flexible over any conditions relating to exports. I was able to reassure him that we have always understood that you are unable to enter into commitments on the level of exports, though it is our common hope that a significant proportion of the output will eventually be exported.



Finally, may I say how much I appreciated the constructive discussion which we had in Tokyo. I hope in turn that the proposal I have outlined above will be helpful in meeting the anxiety which you expressed about the project. Naturally I should be delighted to arrange for representatives of the Government and the Bank of England to discuss these proposals further with Nissan if you feel that this would be helpful.

With every good wish,

Yours sincerely,

Margaret Thatcher

Mr. Katsuji Kawamata





10 DOWNING STREET

I attach a revised draft, which I have cleared with the Department of Industry.

F.E.R.B.

Prime Minister

8.11.

I attach below a letter to Mr. Kawamata, and, on top, a letter from the Department of Industry commenting on it. You will see that Industry, Treasury and the Bank have worked on it, and it seems to me that the result is positive and constructive.

If you agree I will arrange that copies of your letter should be restricted to those who have seen the draft and the Ambassador in Tokyo.

F.E.R.B.

2.11.



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

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

JU51

Secretary of State for Industry

1 November 1982

F E R Butler Esq  
10 Downing Street  
London SW1

Dear *Robin*,

*P1. Type the attached  
draft for the Prime  
Minister's signature  
and return the paper to me.*

*The letter is less  
than frank. Govt  
can not do it but  
we can nearly  
try to bring financial  
whistleblowers together*

*FERB  
1.11*

NISSAN

We have now completed our study of options available to the Government in meeting Mr Kawamata's concern about Nissan's financing burden in the early years of the UK project. The options were identified and discussed in detail in the annex to our brief for the Prime Minister's meeting with Mr Ishihara; I attach a copy of this annex for convenience. Officials of the Treasury and Bank of England were closely involved in our study.

*I think this  
should be  
much  
clearer  
soon*

2 You will recall that the options were for the English Industrial Estates Corporation or Welsh Development Agency depending on location to build the factory and lease it to Nissan (Option (i)); or for the factory to built and equipped under a finance lease (Option (ii)). The two options could to some extent be combined.

*after  
para  
1.*

3 On further reflection we see no real advantages, to Nissan or to ourselves, in Option (i) over Option (ii). Option (i) does, however, have potentially serious disadvantages. The EIEC or WDA could only build the factory for Nissan; they could not equip it. Moreover their formal ownership of the assets would increase public expenditure and the PSBR over the construction period (1983-1988) by the full cost of the factory - perhaps £120 million, with nearly half of this falling in 1984. There are no current PES provisions for this expenditure, and my Secretary of State sees no prospect that offsetting savings could be found, at least in the English factory-building programme. (We can, of course, only speak for that programme; but even if off-setting savings were more practicable in the event of a Welsh location, it would be most unfortunate to distort Nissan's choice of location, in which we have promised not to interfere, because of such domestic considerations. We could therefore not offer this option without the risk of increased public expenditure).

*not*





4 A further difficulty is that the involvement of the EIEC or WDA could expose them to financial risk over the construction period. Moreover we should not want to risk diluting Nissan's own control of the project, since one spin-off we are hoping for is the exposure of British construction companies to the full rigour of Japanese negotiating practices and project management.

5 These difficulties would not necessarily be overriding if there was no alternative way of meeting Mr Kawamata's request. But our study of the finance leasing route (Option (ii)) suggests that it would in fact better meet Mr Kawamata's aims as well as our own. The attached draft letter to Mr Kawamata therefore outlines this proposal and relates it to his expressed concerns.

6 There are some points about the drafting of the letter to Mr Kawamata I should explain.

7 We are conscious that the finance leasing route is one which would probably be available to Nissan without Government intervention, though we have no evidence that they have yet given very serious thought to this, or any other, financing option for the project. We need to be careful not to present this as something exclusively in the Government's gift, while still presenting it as a concession from the Prime Minister to Mr Kawamata. We have done this by emphasising the exceptional scale of the project's demand for leasing finance (we doubt whether there have previously been individual transactions much over £100 million), and offering the "good offices" of the Bank of England in setting it up.

8 We considered whether to prepare a detailed description of the sort of finance leasing arrangement Nissan might get, with indicative terms and conditions. However, the size and extended timescale of Nissan's project make this very difficult to do with any confidence. Even indicative figures could prove hostages to fortune, bearing in mind that these terms will be set not by Government but by the commercial lessors in the light of market conditions at the time.

9 There is a risk that if they are attracted by the leasing route, Nissan will seek an assurance about continuance of the current tax treatment of leased plant, to protect the advantageous terms of this form of finance. They have in the past made a similar demand regarding continuance of RDGs, and have - so far at least - been satisfied with a form of words falling well short of a firm undertaking.

10 If Nissan do choose to adopt the leasing route, this will have implications for the payment of RDGs and selective financial assistance (SFA). RDGs would have to be paid to the lessors, as





purchasers of the plant; however, the benefits thus accruing to them should be passed through to Nissan in the terms of the lease, so they should be no worse off. With SFA, our normal practice would be to reassess not only the phasing but the actual amount of SFA payable, on the grounds that the minimum SFA payment needed to achieve the project might be reduced by the reduced cost of leasing. If we intended to do so in this case, there is no doubt that the prospect would have to be mentioned in the letter to Mr Kawamata - where it would detract substantially, if not completely, from the positive message we want to get across. My Secretary of State takes the view that it would be quite inappropriate in the present circumstances, when the project is in the balance, to seek to renegotiate the amount of SFA if Nissan take up the leasing option. The actual phasing of payments might need to be looked at, to ensure that payments to Nissan did not at any time exceed their own outgoings - but this ought not to cause difficulty. On the understanding that there would be no reduction in SFA, we believe it would be tactically right, and defensible, not to mention the RDG and SFA implications in the present letter.

11 There will be other detailed points of some complexity which will need to be explored with Nissan, such as the prospect that the lessors would look for a full parent company guarantee. We believe that in replying to Mr Kawamata, the Prime Minister should concentrate on the essentials of the proposal, offering further discussions with officials from this Department and the Bank as necessary.

12 Apart from the direct response to Mr Kawamata's ideas on financing, we have also considered whether the Prime Minister's letter should take up two points made by Mr Ishihara both at his meeting with the Prime Minister and earlier with my Secretary of State, about local content and exports from the UK plant.

13 My Secretary of State was concerned that Mr Ishihara went out of his way to look for additional flexibility on local content, on which we believe we have reached a broadly satisfactory understanding with Nissan during our protracted negotiations. My Secretary of State would be extremely reluctant to indicate any significant additional flexibility here, both in substance and tactically - it could open the door for yet further demands if we once appeared willing to contemplate further concessions beyond those in the packages we have negotiated. However, on balance we believe that to include this point could damage the tone of the Prime Minister's message to Mr Kawamata, who is our main target in the present exchange, and even offer him further room for objection to the project.

14 We have however included a short reference to exports which reassures Nissan that there is no need for them to seek increased flexibility here, since the draft agreements are already in line with Mr Ishihara's wishes.





15 I apologise for the length of this letter, but we believe the Prime Minister would wish to understand our thinking not only on what we suggest should be included in her letter to Mr Kawamata, but also on what is omitted. 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



NISSAN MOTOR CO., LTD.

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

Takashi Ishihara  
President

October 22, 1982

Japan  
Prime Minister  
IT  
1/11

The Right Honourable Margaret  
Thatcher, MP  
Prime Minister, First Lord of  
the Treasury and Minister for  
the Civil Service  
10 Downing Street  
London SW1  
UNITED KINGDOM

130/10

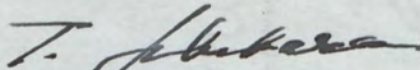
Dear Prime Minister,

This is to express to you my most sincere gratitude for your taking the time out of your busy schedule to meet me personally last Monday.

It was indeed a great honour to be assured that our project will receive a warm welcome to the U. K., and I am extremely grateful to you for the strong interest you have shown in our project.

Please accept my deepest appreciation and best personal wishes,

Most respectfully yours,

  
Takashi Ishihara

TI/tfy/ki



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JU52

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

Mr Katsuji Kawamata  
Chairman  
Nissan Motor Company Limited  
17-1 Ginza 6-chome  
Chuo-Ku  
Tokyo

At our meeting in Tokyo, you explained ~~that the main source of~~  
your concern <sup>that</sup> ~~about~~ the UK project <sup>would impose a</sup> ~~was the~~ heavy additional  
financing burden <sup>on</sup> ~~which would arise~~ for Nissan. In order to  
reduce the immediate impact of a UK investment you asked whether  
it would be possible for the British Government to build and  
fully equip a factory initially, and to recover the cost from  
your company over a period through a rental arrangement. I  
undertook to consider personally whether we could offer a  
solution to this problem.

<sup>The inquiries I</sup>  
<sup>I believe that</sup> ~~have made~~ <sup>indicate that it should be possible</sup>  
<sup>to solve the problem through an arrangement</sup>  
~~My proposal is~~ that the assets of the project should formally be  
under the ownership of a group of UK financial institutions who  
would lease them long term to Nissan on commercial terms. Under  
such an arrangement, Nissan would in practice remain in effective  
control of the design, construction and operation of the factory  
and its capital equipment.

As you know, there are taxation allowances relating to the cost  
of acquiring buildings and plant that can be set on a favourable  
basis against profits when assessing a company's liability for  
Corporation Tax in the UK. Your financial projections presented  
to the Department have shown that these allowances would not be



able to be set against taxable profits for some years. Under present tax law, however, the lessors would be able to set these allowances against their <sup>own</sup> current profits when assessing their Corporation Tax liability. The financial benefits to them would be reflected in the leasing charges made by them to your company.

While the exact terms naturally depend on market conditions, such charges might be expected to offer a significant advantage against the equivalent cost of UK bank borrowings by a prime commercial borrower. In the present market, some part of this benefit might be recognised by, for example, a three-year period during which no leasing charges at all would be made, with a commensurate increase in the charges made in ensuing periods. The terms and conditions of such a lease would be a matter for discussion with the lessors.

You may be aware that this form of leasing finance is an established part of current corporate financing in the UK. However, Nissan's investment would be of an unprecedented size for such financing, and would in certain years be likely to absorb a significant proportion of the UK's expected capacity for leasing finance. Nevertheless, with the Government's backing - to which I would lend my personal support - and through the good offices of the Bank of England, who would, at my request, use their best endeavours in bringing together appropriate partners, I believe that <sup>there is a good prospect that</sup> a suitable consortium of financial institutions could be encouraged to participate in order to facilitate Nissan's investment in this country.



As you know, I had a meeting on 18 October with Mr Ishihara, whom I was delighted to meet. He expressed the hope that we would be flexible over any conditions relating to exports. I was able to reassure him that we have always understood <sup>that</sup> you are unable to enter into commitments on the level of exports, though it is our common hope that a significant proportion of the output will eventually be exported.

Finally, may I say how much I <sup>appreciated the constructive discussion</sup> ~~welcomed the constructive approach~~ <sup>which we had</sup> ~~which you adopted during our~~ discussion in Tokyo. I hope in turn that the proposal I have outlined above will be helpful in meeting the ~~main~~ anxiety which you ~~have~~ expressed about the project. Naturally I should be delighted to arrange for representatives of the Government and the Bank of England to discuss these proposals further with Nissan <sup>whenever</sup> ~~if~~ <sup>that</sup> ~~at this stage~~ you feel <sup>that</sup> this would be helpful.





## 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.





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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.

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.

HMG

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



**CONFIDENTIAL**

File copy only  
ccs Tsy  
FCO Janky

NOTE FOR THE RECORD

PRIME MINISTER'S MEETING  
WITH THE PRESIDENT OF NISSAN

The Prime Minister, accompanied by the Secretary of State for Industry and the Minister of State for Industry (Mr Lamont), received the President of Nissan, Mr Ishihara, at 10 Downing Street on Monday 18 October. I was present. Mr Ishihara was accompanied by two aides.

The Prime Minister said that she had seen Mr Kawamata, Chairman of Nissan, during her visit to Tokyo. Mr Ishihara had been abroad then, and she had therefore wanted to take advantage of his visit to London to repeat what she had said to Mr Kawamata, namely that Nissan would be very welcome if they decided to invest in Britain. She was aware that the Nissan Board had deferred their decision, and she was not seeking to put any pressure on Mr Ishihara, but she wanted to tell him that, if Nissan decided to invest in Europe, she hoped that they would invest in Britain.

The Prime Minister said that she was aware that the motor industry was going through a difficult period, both for cars and lorries, and that Nissan already had a number of current investment projects throughout the world. The severity of the world recession was creating dangers of increased protectionism, and Britain was already experiencing difficulties over this, for example on exports of steel to the United States, and on the unbalanced tariffs governing trade in motor cars between Spain and Britain. As a major trading nation Britain had had much experience of such protectionist pressures and had had to invest in countries of the old empire in order to protect its trade. Britain was a stable country politically; there were now few industrial troubles in the private sector; and we were used to welcoming inward investment. The superlative quality of Japanese management, when combined with these advantages, had caused the Japanese investment so far undertaken here to be highly successful.

**CONFIDENTIAL**



CONFIDENTIAL

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Mr Ishihara said that he was sorry not to have been in Tokyo when the Prime Minister visited there: he had had a prior commitment to be at the Nissan plant in Tennessee. He had subsequently visited Mexico, France and West Germany and had just been to Leeds Castle for the talks with the SMMT. Having seen the difficult economic circumstances in Britain when the Prime Minister took office, he had noted with admiration the steady improvement in the British economy and had been impressed by the Prime Minister's resolute policy. He personally thought that, of all European countries, the conditions in the United Kingdom were best for investment by Nissan. By contrast, Nissan had just been presented with an additional \$200 million bill on an original investment of \$300 million in Mexico, because of the Mexican devaluation.

The Prime Minister said that, of all the countries which Mr Ishihara had mentioned, Britain could claim to be politically the most stable. We were watching the position in Mexico with particular concern because of its importance for the world banking system. Much depended on whether agreement could be reached with the IMF and whether the Mexican Government would be able to observe the agreement without causing internal turmoil. The British Government hoped that common sense would prevail. She asked Mr Ishihara whether Nissan's investment in the United States had been prompted by fears of protection there. Mr Ishihara said that Nissan's US investment had been prompted not so much by fears of protection as by a feeling among United States consumers that they wanted a car manufactured in the United States. Nissan had also felt that an investment in the United States would help to improve relations between Japan and the United States.

The Prime Minister said that there were similar feelings in Britain that, if people liked Japanese cars, they would also like to have the jobs in producing them. She herself was strongly in favour of the open trading system, but it was understandable that, when unemployment was so high, there would be feelings against imports. Mr Ishihara commented that, while he did not want to offer advice on British policy, as an

CONFIDENTIAL



CONFIDENTIAL

- 3 -

industrialist looking round the world he felt that protectionism caused losses of competitiveness. The Prime Minister agreed; she was not in favour of protectionism and that was why she wanted investment providing jobs in Britain. There already was considerable competition among car manufacturers in Britain, and the tough measures taken by the Government were causing British industry to become more competitive. But the current position vis a vis Spain was difficult to justify. She asked Mr Ishihara whether there was anything further which she could do to help Nissan's consideration of investment in Britain.

Mr Ishihara said that the biggest single factor would be help over industrial relations. Nissan hoped that it might be possible to deal with a single union and, if this was not possible, to have not more than two. The Prime Minister said that she thought that it would be possible for Nissan to negotiate an arrangement under which there was a single union, if Nissan made this a condition of their investment. The Secretary of State for Industry agreed, pointing out that other Japanese companies investing in Britain had made this condition: Nissan would be the biggest of them, but he thought that there was a good chance that the trade unions would agree. Mr Ishihara commented that he regarded this as very encouraging.

Mr Ishihara said that he understood that the terms of an agreement with the Department of Industry if Nissan came to Britain would require them to export 25 per cent of their production and increase local content to 80 per cent as quickly as possible. He understood the reasons for this, but as a businessman would be helped by having as free a hand as possible. He was not saying that Nissan would not be a large exporter or that it would not achieve a high proportion of British content; indeed the latter would be necessary if their cars were to be a recognisably British product. But Nissan would be helped if the British Government could be flexible on these points. The Secretary of State for Industry commented that the British Government was hoping that Nissan would draw 80 per cent of its components from Britain and more if possible, but he would certainly look further at the timing of this if necessary. On exports, the Government was not looking for

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- 4 -

any particular proportion. Since he understood that Nissan would want a British plant to be a base for European exports, it was to be expected that a significant amount would be exported to the EC, but the Government would certainly be flexible about this. The Minister of State added that it had been thought difficult for Nissan to be able to sustain a high volume of production here without a reasonable proportion of exports to the EC, but there was no question of making this a condition of aid. Mr Ishihara said that he was greatly relieved about this. Even if Nissan decided to go ahead with the investment right away, it would be some time before the first car was produced and longer before the volume reached a level at which there would be cars for export. A requirement that Nissan should export a fixed proportion would have delayed profitability. The Prime Minister commented that the British were reasonable people, and wanted foreign investors to make a profit.

Mr Ishihara said that he hoped that the Prime Minister would respond to Mr Kawamata on the points which Mr Kawamata had raised in Tokyo. These had been kept very confidential, and his own staff were not aware of them. He did not therefore want to discuss them today, but hoped that the Prime Minister would be replying direct to Mr Kawamata. The Prime Minister confirmed that she would be responding to Mr Kawamata: she had decided to wait until she had seen Mr Ishihara before doing so.

The Prime Minister said that the British Government would not be seeking any publicity for the meeting, and proposed that, if asked, the attached speaking note should be used by each side. Mr Ishihara agreed. The Prime Minister concluded by assuring Mr Ishihara that he could rely on the confidentiality of Nissan's exchanges with the British Government.

F.R.B.

19 October 1982

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PRESS LINE - IF ASKED

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 confidential. 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.

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

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

JU987

Secretary of State for Industry

19 October 1982

John Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Prime Minister*

*Overlate.*

*A-J-C. 20.*

*ASL 11.*

*Dear John,*

**INDUSTRIAL CO-OPERATION WITH JAPAN**

The Prime Minister will recall that, during her discussions with the Japanese Prime Minister on industrial collaboration last month, Mr Suzuki referred to three project proposals on which the Japanese were still awaiting a response from the UK. Mr Jenkin was concerned at the suggestion of delay at this end and asked for a report on the projects in question.

2 Mr Jenkin suggests that the Prime Minister may like to be aware of the position. The attached note describes the detailed situation. All three proposals mentioned originated with the UK, and two of them had not featured at all actively in our discussions with MITI. The impression of officials in the Department who have discussed this matter with MITI officials in London is that their Head Office put together briefing rather hurriedly for Mr Suzuki, knowing that the Prime Minister would be criticising the Japanese performance in putting forward proposals. In fact we have had only two proposals from them and in one of these the Japanese firm mentioned by MITI told a prospective UK partner that it was not interested in co-operation.

3 As will be seen from the note, the Department is pursuing MITI on the three projects. We are also emphasising the need for MITI to come up with detailed proposals at next month's meeting in Tokyo. The response so far is unfortunately not very encouraging. The Japanese have stepped up their public relations activity but there are still very few signs of any actual proposals which would be of benefit to the UK.

*Yours ever,*

*Caroline Varley*

CAROLINE VARLEY  
Private Secretary





Industrial Cooperation: Proposals referred to by Mr Suzuki

(i) Staveley Machine Tools and Takisawa

MITI were informed by us last year of Staveley's interest in manufacturing certain Japanese machine tools in the UK and the fact that they were prepared initially to conclude a sales agreement provided this led subsequently to manufacture. Takisawa were mentioned by Staveley as possible partners. MITI put Takisawa in contact with Staveley. Our understanding from the latter is that Takisawa were only prepared to conclude a sales agreement, which is supported by the fact that Takisawa have recently concluded such an agreement with Rockwell International (UK). Just before the Prime Minister's visit MITI told us that Takisawa had reported to them that Staveley had not properly thought through their proposals. In the circumstances we were surprised that the Japanese should have referred to this as a project where they had been awaiting a response from us. MEE are now in contact with Staveley to see how this subject should be handled in the next DoI/MITI discussions in November.

(ii) Plessey Telecommunications and NEC

Although IT were aware of Plessey's discussions with NEC on small digital telephone exchanges, the company had not asked us to include this in our discussions with MITI. We were therefore surprised that it should have been referred to as an outstanding project. We have since confirmed both with Plessey and NEC in London that the companies do not want any Government involvement at this stage. We are seeking clarification from MITI of their understanding of the position.

(iii) Ferranti Electronics and Fujitsu

Although Ferranti's interest in a cross marketing arrangement for integrated circuits with Fujitsu was mentioned to MITI last year, Ferranti themselves took the initiative with Fujitsu. This showed that the Japanese company was only interested in an agreement giving them access to the UK market and were not prepared to give Ferranti reciprocal access in Japan. Ferranti then indicated to Fujitsu that they would not proceed further with the idea and MITI were so advised in March this year. We are currently seeking clarification from MITI why they consider there is outstanding action at this end.



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*File AH*  
*ces Tsy*  
*FW*

*Japan*

10 DOWNING STREET

From the Principal Private Secretary

19 October 1982

Dear Jonathan,

NISSAN

I enclose a note of the Prime Minister's meeting with Mr Ishihara last night, at which your Secretary of State and Minister of State were present. The next step will be for the Prime Minister to reply to Mr Kawamata, and I should be grateful if you can let me have a draft as soon as possible.

I draw your attention particularly to the last sentence of the record: please will you see that the circulation of this record, like my earlier letter of 5 October, is closely controlled and limited to those who have an operational need to see it.

I am copying this letter to John Kerr (Treasury), and Brian Fall (Foreign and Commonwealth Office) with the same request.

*Yours sincerely,*

*Robin Butler*

Jonathan Spencer Esq.,  
Department of Industry.

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10 DOWNING STREET

*From the Private Secretary*

18 October, 1982

POLITICAL CONSULTATIONS WITH JAPAN

The Prime Minister has seen your letter of 15 October in which you set out the Foreign and Commonwealth Secretary's intentions as regards consultations with Japan.

Mr Pym asked whether the Prime Minister might herself be prepared to see the Japanese Ambassador very occasionally, perhaps once a year, for a general discussion. Mrs Thatcher has noted that the Foreign and Commonwealth Secretary will himself see the Japanese Ambassador at least once a year. She herself would be prepared to see him "very occasionally" (i.e. not more frequently and perhaps less than once a year).

A. J. GOLES

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL





Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree to see the Japanese  
Ambassador once a year?

15 October 1982

A.T.C. 15  
10.  
The F.O. once a year  
occasionally  
not

Dear John,

Political Consultations with Japan

You will recall that during her visit to Japan, the Prime Minister agreed with Mr Suzuki that it was important to give an impetus to contact on political matters at both Ministerial and official level. As a part of our response to this decision, the Foreign and Commonwealth Secretary has agreed that the Japanese Ambassador should be invited to call at the FCO regularly, perhaps three times a year, for a discussion of current topics of international political interest to be agreed in advance. Mr Pym would see the Japanese Ambassador for this purpose on at least one of these occasions and would if necessary ask Lord Belstead and the Permanent Under-Secretary to take on others. The Japanese are clearly interested in developing the political relationship with Britain, and we would hope in this way to foster a better understanding of our views and approach to the main international issues.

We would also ask for more frequent and better access by the British Ambassador in Tokyo to the Japanese Foreign Minister. This would help to strengthen the connection between Europe and Japan at a time when contacts are relatively thin. The discussion would be largely confined to political issues but it would be right and natural that economic and trade issues should be covered.

Mr Pym wonders whether the Prime Minister might herself be prepared to see the Japanese Ambassador very occasionally, perhaps once a year, for a general discussion of this kind. The Japanese would of course be delighted if we were to propose this; and it would be one of the most effective ways of demonstrating that we take the Japanese seriously, that they are increasingly important and that we want more

/exchanges



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exchanges with them. If the Prime Minister agrees, we should then have a programme of contacts which would go a long way towards meeting the desire expressed during her visit for greater dialogue.

/ I enclose a draft telegram of instructions to Tokyo which could be sent if the Prime Minister agreed.

*Your ever*  
*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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OUT TELEGRAM

Classification and Caveats  
**CONFIDENTIAL**

Precedence/Deskby  
**PRIORITY**

ZCZC  
 GRS  
 CLASS  
 CAVEATS  
 DESKBY  
 FM FCO  
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 TEL NO

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 2 GRS  
 3 CONFIDENTIAL  
 4  
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 6 FM FCO  
 7 TO PRIORITY TOKYO  
 8 TELEGRAM NUMBER

9 POLITICAL CONSULTATIONS WITH JAPAN  
 10 1. Paragraph 8 of your telno 583 recorded the agreement by  
 11 both Prime Ministers during Mrs Thatcher's visit that it was  
 12 important to give an impetus to contact on political matters  
 13 at both ministerial and official level.  
 14 2. The Prime Minister has now agreed that she should receive  
 15 the Japanese Ambassador on occasion, perhaps once a year, for  
 16 a discussion of current topics of international political  
 17 interest to be agreed in advance. The Ambassador would also  
 18 be invited to call on the FCO for similar discussions on say  
 19 three other suitably-spaced occasions in a year: I could  
 20 see him once, with Lord Belstead and the PUS taking other  
 21 meetings. Economic and trade issues would be covered as  
 22 appropriate, although the emphasis would be political.  
 23 3. I hope that Japanese Ministers will feel able to make a  
 24 similar commitment, so that meetings in Tokyo may take place  
 25 alternately with those in London. The timing can of course be

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Telephone number <b>233 4641</b>		
Authorised for despatch		
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OUT TELEGRAM (CONT)

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flexible.  
4. Please now put this proposal to the Minister of Foreign Affairs at a senior level, and report reactions. Although my agreement to receive the Japanese Ambassador is not necessarily conditional on the agreement of Japanese Ministers to act similarly, we naturally hope that they will be prepared to grant you equivalent access and assume that you will be able to make use of any such agreement to advantage.

PYM  
NNNN

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15 OCT 1982







10 DOWNING STREET

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*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





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 40-512 1876



Department of State for Industry

15 OCT 1982  
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*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



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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.





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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



MR. BUTLER

B/F

Prime Minister

Jaggen

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

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

J.P.

Miss Stephens

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

11 October 1982

FERS

12.10.

Interpreters requested from Marka Fenwick in FEO.



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.

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SUBJECT

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cc Markes



Japan  
Bf

10 DOWNING STREET

From the Principal Private Secretary

5 October 1982

Dear Jonathan,

NISSAN

The Prime Minister saw your Secretary of State and Mr Lamont yesterday afternoon to tell them about her meeting with the Chairman of Nissan during her visit to Tokyo. She saw Mr Kawamata at the Guest House where we were staying: he was accompanied only by his Public Relations Adviser, Mr Goto, and I was the only other person present.

The Prime Minister said that her general message in Japan, which she had repeated to Mr Kawamata, was that the pressures for protectionism would be difficult to resist if the Japanese were not more willing than they had been to restrict their exports through inter-industry agreements and to create jobs in Britain by manufacturing here. In speaking to Mr Kawamata, she had been concerned to reassure him that she did not want to embarrass him by appearing to press him about a decision which it would be for the Nissan Board to take. She had said that, while she was in Tokyo, she wanted to explain to Mr Kawamata how she saw the general situation (on the lines summarised above) and how welcome Nissan would be if they decided to invest in Britain. The atmosphere of her talk with Mr Kawamata was in fact very relaxed and friendly and Mr Kawamata said how much he appreciated the honour of having an hour's talk with the Prime Minister.

The Prime Minister told your Secretary of State that Mr Kawamata had mentioned a number of concerns he had about the project. One was over industrial relations in Britain. He had specifically asked whether it would be possible for Nissan to make an arrangement whereby they would have only a single union to deal with: the Prime Minister replied that she understood that some other Japanese companies investing in Britain had already done so. Mr Kawamata had also mentioned that Nissan's studies had shown that the supply of components in Britain would be more expensive than in Japan. But the main source of his concern was that Nissan was already undertaking major investments in overseas projects which had put a heavy burden on their financing. He was particularly worried by the prospect that they would not recover their investment for at least ten years. He wondered whether there was any possibility of an arrangement whereby the British Government would build and equip a factory

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- 2 -

initially, and recover the cost from Nissan over a period through a rental arrangement to minimise the immediate impact on Nissan's funds.

On the latter point the Prime Minister mentioned to Mr Kawamata the Advance Factory Scheme and said that it might be possible to build a factory specifically for Nissan. She said that she was not aware of any arrangement for equipping such a factory. But she told Mr Kawamata that she would consider personally what he had said and what further response she could make. Mr Kawamata said that he would be reporting to his Management Council on his conversation with the Prime Minister, after the President of Nissan, Mr Ishihara, returned to Japan on 25 September. The Prime Minister made it clear that she would not be able to carry their conversation any further before then but said that she would discuss it with the Secretary of State for Industry after her return to London.

Your Secretary of State suggested that his forthcoming speech to SMMT would provide an opportunity for underlining what the Prime Minister had said about further restraint of Japanese exports through inter-industry agreements. As regards Nissan it was agreed that it should be considered whether anything could be done to reduce the immediate financing burden on Nissan. Mr Jenkin said that Mr Ishihara would be visiting London in a fortnight's time and the Prime Minister suggested that Mr Jenkin might bring Mr Ishihara to see her. I have provisionally reserved a time at 6.15 pm on Monday 18 October for this: could you please let me know as soon as possible whether this is convenient to your Secretary of State and whether you can arrange it with Mr Ishihara.

Since the Prime Minister's talk with your Secretary of State I have spoken on the telephone to Mr Goto. Mr Goto told me that as a result of the Prime Minister's talk with Mr Kawamata two further feasibility studies were being undertaken by Nissan, one concentrating on the industrial relations aspect of an investment in Britain and the other on a reassessment of the financing requirements. Mr Kawai, the Managing Director who is conducting the industrial relations study, is leaving for Britain with a team this evening: Mr Goto did not know what his detailed arrangements were, but believed that they were being made through Lord Marsh.

Mr Goto suggested that any response from the Prime Minister about Mr Kawamata's suggestions for reducing the immediate cash requirement for financing Nissan's investment should be made to Mr Kawamata rather than to Mr Ishihara. I said that the Prime Minister expected to respond to Mr Kawamata but would probably not do so until after Mr Ishihara's visit. Mr Goto will mention to Mr Ishihara that the Prime Minister is hoping to see him during his visit to London, but I did not mention to him the specific date and time proposed above.

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- 3 -

I am copying this letter to John Kerr (Treasury) and Brian Fall (Foreign and Commonwealth Office). The Prime Minister has asked that the confidentiality of her discussion with Mr Kawamata should be closely protected: I should therefore be grateful if you and the other recipients would ensure that the circulation of this letter is closely controlled and limited to those who have an operational need to see it.

Yours sincerely,

Robin Butler

Jonathan Spencer Esq.,  
Department of Industry.

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PRIME MINISTER

NISSAN: MEETING WITH THE SECRETARY OF STATE FOR INDUSTRY

This meeting has been arranged so that you can tell Mr. Jenkin about your meeting with Mr. Kawamata. Mr. Jenkin is coming by himself: both the officials who have been concerned with the negotiations are abroad. Nobody outside No. 10 has seen the record of your meeting with Mr. Kawamata.

I have not heard anything further from Mr. Kawamata since our return to London. The questions now are: what response should we make to Mr. Kawamata and how should we make it?

Mr. Kawamata's main proposition was that the Government should build and equip the factory for NISSAN and recover the cost through the rental charge. As you said at the time, the advance factory programme may be a way of providing a building, but it does not cover equipment. We may not have powers to equip the factory even if we wanted to. Of course the initial public expenditure cost of setting NISSAN up in this way would be very high.

On the question of how to respond to Mr. Kawamata, you will need to write to him but that is unlikely to be effective without some follow-up.

Perhaps your letter might propose that you send either one person or a small team out to Japan to carry forward discussions.

At this meeting you might ask Mr. Jenkin to consider what response to make to Mr. Kawamata and how to carry forward the discussions; and to advise when he has had a chance to think about it. If you agree, I will record the outcome of your meeting with Mr. Jenkin in a letter to his office, asking them to restrict the circulation of it to the minimum of senior officials who really need to be involved.

FERB

1 October 1982



# CONFIDENTIAL

## NOTE FOR THE RECORD

### NISSAN

I spoke to Mr Goto on Monday 20 September about the next steps following the Prime Minister's conversation with Mr. Kawamata. I asked whether Mr. Kawamata would be communicating further with the Prime Minister after consulting the President and Management Council of Nissan or whether he was now expecting a reply from the Prime Minister. Mr. Goto said that Mr. Kawamata would not be able to report to the Management Council of Nissan until next Monday 27 September, when the President had returned from abroad. I said that the Prime Minister would not be able to carry the matter further forward until she returned to London on 29 September and so if Mr. Goto had any further relevant information to pass me following Mr. Kawamata's report to the Management Council, it would be useful if he could let me have this. Mr. Goto took my telephone number and agreed to get in touch. He also gave me his own address and telephone number which are:

Mitsuya Goto  
General Manager Public Affairs  
International Division  
Nissan Motor Company

Tokyo 03 543 5523 x 2712

Later in the day Mr Hirahara said that he would be seeing the President of Nissan on Saturday 25 September before his own return to London and would let me know on my return to London whether President Ishihara had any further news.

F.R.B.

20 September 1982

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FM TOKYO 192300Z SEP 82

TO IMMEDIATE FCO

TELNO 561 OF 19 SEP 82.

FOLLOWING FOR SCHOLAR FROM BUTLER.

BEGINS:

PLEASE PASS TO FCO, DOI, TREASURY.

THE FOLLOWING IS THE TEXT OF THE PRESS STATEMENT ISSUED AFTER THE CALL ON THE PRIME MINISTER BY MR KAWAMATA, CHAIRMAN OF NISSAN.

QUOTE

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.

UNQUOTE

BOTH SIDES AGREED TO CONFINE THEMSELVES DIRECTLY TO THIS STATEMENT.

ENDS.

CORTAZZI

NNNN



CONFIDENTIAL

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



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.





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Anglo-Japan Model (2)

Prime Minister

MF

A. J. C. 15.  
9

FCS/82/132

THE MINISTER FOR AGRICULTURE, FISHERIES  
AND FOOD

Trade Relations with Japan

1. Thank you for your letter of 6 September. I have dealt separately with the specific issue of machine tools but it may be worth adding a few points about our general approach to relations with Japan.
2. We all agree that a serious problem exists and share your sense of frustration. But I am sure it is not your intention to imply that members of this Administration have ever been less than robust in our dealings with the Japanese. At the same time we have taken the view, confirmed most recently by OD on 27 May, that it would be counter-productive, particularly in terms of our efforts to attract inward investment from Japan, for us to get out ahead of other major industrialised countries in bringing pressure to bear. I acknowledge your point that the United States carries more clout with Japan than we do. But I really do not think the Americans can be said to have achieved particularly impressive results on the trade front so far. Their 1981 trade deficit with Japan (\$15.8 billion) was comfortably in excess of the estimate for the European Community as a whole (\$11.3 billion). To my mind this reinforces the conclusion reached by OD that what we really need is a powerful international consensus to bring about effective movement on the part of the Japanese, and that, without taking the lead, the UK should encourage the development of such a consensus. I realise that the EC has not gone nearly so far, nor so fast, as we should

/have liked

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have liked. But some progress has nonetheless been achieved in working out a common Community approach and I am strongly of the view that it deserves our support. This is a point the Chancellor made in earlier correspondence and it has been very effectively reinforced by the President of the CBI whose recent letter to the Prime Minister says that:

'... pressure on Japan ... should be mainly from European sources ... it is desirable to avoid specific anti-British attitudes being generated in Tokyo ...'

3. In the last resort import controls always remain a possibility. I note Nicholas Ridley's explicit support for action under the bilateral Treaty if the Japanese prove uncooperative over machine tools. But I think we should bear in mind that this - which would require Community support - is not a cost-free exercise. As Arthur Cockfield points out, the Treaty gives the Japanese an automatic right to retaliate. Our exports to Japan are not so negligible that we can afford to discount this possibility, nor do I think we should lose sight of the fact that we should in effect be exposing sectors of British industry which are competitive in Japan (many of them in food processing) to the risk of having to pay the price for giving protection to those sectors which are hardly competitive in their domestic market. This is quite apart from the risk of damage to our wider interests outlined in the previous paragraph.

4. This is not to say that I am in any way opposed to continuing to take a strong line with the Japanese. Indeed I reiterated our concern about trade to the Japanese Foreign Minister when he called

/on me



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on me on 3 September. But all these considerations combine to reinforce my view that the Prime Minister will want to consider carefully in the light of these considerations and those in my earlier letter the terms in which she presents our case for export restraint to her Japanese counterpart.

5. Copies of this minute go to the Prime Minister, to other members of OD(E) and to Sir R Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office  
15 September 1982

CONFIDENTIAL





JP

10 DOWNING STREET

*From the Private Secretary*

13 September 1982

JAPANESE EXPORTS OF MACHINE TOOLS

The Prime Minister has noted the contents of your letter of 9 September to Willie Rickett. She expects that her briefing meeting tomorrow on her visit to the Far East will cover this issue.

A. J. COLES

John Whitlock, Esq.,  
Department of Trade.

SM





✓  
C. D. H. M.  
Trade

10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Julian,

Thank you for your letter of 24 August about the machine tool industry. I am well aware that this industry currently faces a number of problems, not least in the form of competition from Japan, and I understand the concerns expressed to you by Mr. Balding of Beaver Machine Tools. In so far as rationalisation may be one way of responding to these problems by improving competitiveness through high volume production, this must be a matter for the industry itself to decide and act upon, guided by its own commercial judgement. I do not think there is a role for Government in such a process.

I agree with Mr. Balding on the need for a British capability to produce machine tool control systems to compete with those available from Japan. Indeed, he and I exchanged correspondence on this particular subject earlier this year and I was pleased to be able to tell him that the Department of Industry has given financial and other assistance to GEC to help to speed up their work in developing a range of such control systems.

That is one way we are trying to help the UK machine tool industry. I accept also that the Government has a part to play in seeking some solution to the problem of the rapid rise in Japanese machine tool exports to the UK in recent years - particularly of numerically controlled lathes and machining centres. You may be assured that when I visit Japan later this month I shall urge positive Japanese action to deal with this problem.

Yours  
Margaret

Sir Julian Ridsdale, C.B.E., M.P.

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From the Secretary of State

Willie Rickett Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London SW1

Prime Minister

The DOT's advice on how to deal,  
during your visit to Japan, with the  
problem of imports of machine tools.

We can discuss at Tuesday's briefing  
meeting.

A.J.C.-g.

9 September 1982

Dear Willie,

MS

JAPANESE EXPORTS OF MACHINE TOOLS

1 Your letter of 31 August asked for details of decisions reached by Trade and Industry Ministers on imports of Japanese machine tools. As you know, officials have been considering the impact on our machine tool industry of current high levels of Japanese imports of numerically controlled (nc) machine tools in particular nc machining centres and nc lathes.

2 My Secretary of State wrote to members of OD(E) last week proposing that steps should be taken to promote the negotiation of a voluntary restraint agreement (VRA) between United Kingdom and Japanese industry, under which Japanese exports to the United Kingdom of nc machine tools would be restricted. OD(E) colleagues have indicated their broad agreement to this course of action.

3 The need to take action in support of a VRA rests upon the importance of sophisticated machine tools in the development of advanced manufacturing systems so as to improve manufacturing industry's productivity. The considerable effort and Government support so far committed to fostering a domestic United Kingdom capability in nc machine tools is threatened in two crucial sectors of nc machining centres and nc lathes by rapidly increasing Japanese penetration of the United Kingdom market. (In the case of nc machining centres, the Japanese market share has risen from 1% by volume in 1977 to 60% in 1981; in the case of nc lathes this share moved from 21% to 44% over the period.) With the increasing emphasis in production technology on a systems approach, of which machine tools are a central feature, the loss of a United Kingdom capability would also threaten the future of other industries supplying equipment for such systems, eg robots and mechanical handling equipment.

4 There is little likelihood of action by the European Community as a whole in the immediate future; either across the board under Article XIX of the GATT, or selectively just against the Japanese. Although the Commission introduced import surveillance over both sectors in February 1981, other Member States have been less affected by these imports in the last year or so. The assessment is that we would fail to get the necessary support for a Community-wide control.

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*From the Secretary of State*

5 In the view of the Department of Trade, there is a sustainable case for selective action in respect of nc machining centres under the terms of the Anglo-Japanese Trade Treaty and the relevant Community legislation. The case for import controls on nc lathes is weaker. Nevertheless there would be tactical advantage in seeking restraint in both sectors particularly as restraint of machining centres alone could lead to an increased attack on our nc lathe market. But in view of the uncertainties in both cases and the commitment to pay compensation or accept retaliation for the loss of business by Japan, pursuing formal safeguard action does not seem an attractive option. Consequently, Ministers are agreed that it would be preferable to pursue a bilateral inter-industry understanding on the lines of that for car industry.

6 The Prime Minister's visit to Japan allows a very useful opportunity to present to the Japanese government both the concern with which Japanese exports to the United Kingdom in these sectors (and others) are regarded, and our wish to secure talks between the United Kingdom and Japanese industries with the object of reaching an understanding on voluntary restraint. The Department of Trade has provided full briefing and a line to take on this matter. In discussions with the Japanese authorities, while putting firm emphasis on our support for a VRA on nc machining centres and lathes, we strongly recommend that the Prime Minister avoids any reference to the possibility of formal action. Japanese sensitivities on their government/industry relations - as well as those of our Community partners - would also suggest avoidance of public reference to our request for a restraint understanding; but it would of course be useful to make clear publicly that our general concern had been brought to the attention of the Japanese government.

7 The European Commission is being sounded out later this week for its tacit acquiescence to this course of action.

8 I am copying this letter to the Private Secretaries to OD(E) members and to Sir Robert Armstrong.

*Yours sincerely*

*John Whitlock*

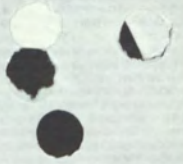
JOHN WHITLOCK  
Private Secretary

CONFIDENTIAL





Japan, Palatium, Pt 2







*file to  
Japan*

10 DOWNING STREET

*From the Private Secretary*

8 September 1982

The Prime Minister has asked me to thank you for your letter of 6 September and also to thank you for making arrangements to deliver the gift from your Foreign Minister, Mr. Yoshio Sakurauchi.

The Prime Minister is delighted with the painting and would be glad if you could kindly pass on her grateful thanks to the Foreign Minister.

CAROLINE STEPHENS

His Excellency Mr. Tsuyoshi Hirahara.

*B*





CONFIDENTIAL

(2)

Prime Minister

To be aware - this will be covered in the briefs.

FCS/82/128

A. J. C. 7/9.

*MS*

SECRETARY OF STATE FOR TRADE

Prime Minister's Visit to Japan: Machine Tools  
and other trade restraints

1. Thank you for your letter of 2 September explaining the problems over imports of Japanese numerically controlled machine tools.
2. I agree with the general course of action proposed. I should like, however, the following tactical points to be taken into account in the Prime Minister's briefing for her visit to Tokyo.
3. I suggest that the Prime Minister should be advised to speak firmly, but in general terms, about our continuing concern at the levels of certain categories of Japanese imports into the UK. She might mention, by way of illustration, forklift trucks as well as machine tools, and also perhaps the need to work out arrangements for colour television once the present licensing system, which I understand is based on patent rights, expires next year. She might also remind the Japanese that the Community as a whole is seeking assurances from the Japanese Government that there will be effective moderation of exports, particularly in the three sectors identified as sensitive by the Council of Ministers - vehicles, colour television and tubes, and machine tools. But I would see disadvantage in the Prime Minister going into detail about voluntary restraint arrangements <sup>or</sup> on the prospects for safeguard action. I am conscious that our case for restraint varies from product to product (the case on numerically controlled lathes is, I understand, rather weak). I suggest that the details of how justified our individual cases are, or how they might best be dealt with, should be left for officials and/or the industries concerned to pursue rapidly thereafter.

/4.

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4. Secondly, I suggest that the Prime Minister should be advised not to go into detail about voluntary restraint arrangements or safeguard action in any public statement. She will doubtless wish to make clear that she brought our general concern to Japanese attention. But any specific references to the type of arrangements we hope to achieve may elicit unhelpful public statements from the Japanese Government (who are reluctant to be publicly associated with inter-industry understandings on export restraint) and in effect reduce the prospects of success in any subsequent negotiations.

5. Finally, I note that the paper enclosed with your letter refers to the need to inform the EC Commission in advance of the action we propose to take. I agree that this is desirable.

5. I am copying this minute to the Prime Minister, to other members of OD(E) and to Sir R Armstrong.

CF:1

(FRANCIS PYM)

Foreign and Commonwealth Office  
7 September 1982



7 SEP 1982

11 12 1  
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8 4  
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6



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

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

JF1497  
*Secretary of State for Industry*

6 September 1982

W Rickett Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*App. in CF*

*Type letter please.*

*WJR 9/9.*

*Dear Willie,*

We spoke about your letter of 25 August seeking advice on the letter to the Prime Minister from Sir Julian Ridsdale about the machine tool industry and I told you inter-Departmental discussions were nearing a conclusion on the line the Prime Minister should be advised to take on machine tools when she visits Japan later this month. In view of this you agreed to let us have an extension on your deadline for advice on the correspondence.

2 The effects on the UK machine tool companies of increasing levels of imports from Japan have been a matter of increasing concern to the point where Departments have recently considered the case for some form of restraint. This has resulted in a recommendation from the Secretary of State for Trade to colleagues circulated on Thursday, 2 September that for her visit to Japan the Prime Minister should be briefed to raise with the Japanese Government our wish to see established a bilateral, inter-industry voluntary restraint arrangement (VRA) governing exports of NC machine tools to the UK. You will have seen a copy of this letter.

3 Department of Industry Ministers will be agreeing to the Secretary of State for Trade's proposal and we think it unlikely any other Departments will object. All the indications are therefore that the Prime Minister will be advised to take this line with the Japanese. The attached draft reply to Sir Julian is based on that assumption but you may wish to delay a little longer to have clear confirmation of the position before the letter is actually sent to him. Your letter to me of 31 August indicated the Prime Minister's wish to know of Ministers'





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decision on this question by the beginning of this week. The Department of Trade will, no doubt, be in touch with you about this, and will take the lead in briefing the Prime Minister.

4 Department of Trade and ourselves are agreed that it should not be disclosed outside Government at this stage that the Prime Minister will be pressing the Japanese specifically for a VRA on NC machine tools. If this were to become general public knowledge in advance of her visit it could well prejudice the chances of a constructive Japanese response. In addressing this point the draft letter to Sir Julian therefore indicates the Prime Minister will press the Japanese hard on exports of NC machine tools but stops short of divulging the exact nature of the approach.

5 I am copying this letter to John Whitlock at Department of Trade.

*Yours ever*  
*Catherine Varley*  
for DAVID SAUNDERS  
Private Secretary



DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

SIR JULIAN RIDSDALE CBE MP  
HOUSE OF COMMONS  
LONDON SW1A 0AA

Thank you for your letter of 24 August about the machine tool industry. I am well aware that this industry currently faces a number of problems, not least in the form of competition from Japan, and I understand the concerns expressed to you by Mr Balding of Beaver Machine Tools. ~~Nevertheless~~ <sup>In</sup> so far as rationalisation may be one way of responding to these problems by improving competitiveness through high volume production, this must be a matter for the industry itself to decide and act upon, guided by its own commercial judgement. ~~I have to say~~ <sup>P.L.</sup> I do not share Mr Balding's view that there is a role for Government in such a process.

~~Where~~ I ~~do~~ agree with Mr Balding ~~is~~ on the need for a British capability to produce machine tool control systems to compete with those available from Japan. Indeed, he and I exchanged correspondence on this particular subject earlier this year and I was pleased to be able to tell him that the Department of Industry has given financial and other assistance to GEC to help ~~to~~ speed up their work in developing a range of such control systems.

That is one way we are trying to help the UK machine tool industry. I accept also that the Government has a part to play in seeking some solution to the problem of the rapid rise in Japanese machine tool exports to the UK in recent years - particularly of numerically controlled lathes and machining centres. You may be assured that when I visit Japan later this month I shall ~~take every opportunity to impress strongly on the Japanese that they must take some positive action to alleviate this particular problem.~~ <sup>argue</sup> <sup>urge</sup> <sup>the Japanese</sup> <sup>Japanese</sup> <sup>deal with</sup> ~~take every opportunity to impress strongly on the Japanese that they must take some positive action to alleviate this particular problem.~~

M 3/2.





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Francis Pym MC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

6 September 1982

*N. B. P. R. vlt.*

*Dear Secretary of State*

*A. S. C. 7/9.*

I have seen Arthur Cockfield's letter to you of 2 September concerning the disastrous penetration of the Japanese into the machine tool industry. Whilst I am naturally in no way opposed to our attempting to reach a bilateral understanding for a voluntary restriction on imports, I do wonder how much longer we can continue a policy in which our rivals are highly protectionist and after immense damage has been done we seek some restraint as to further damage being done.

On a number of occasions over the last six years the United States has been tough with Japan and obtained some results although in no way nearly enough. I believe that to some extent we are now in a competition with other countries as to who is the toughest with Japan. Whoever is the toughest will get the most collaboration with them.

When one examines the record of the motor industry - with the various forms of protection which have applied in Spain and Japan in contrast to the vast imports we have received from both of those countries - I do wonder if there is any more we should do in being very brutal to countries which are not actually trade partners but trade dominators.

I am circulating this to the Prime Minister, other members of OD(E) Committee and to Sir Robert Armstrong.

*Yours sincerely*

*Robert Lawson*

*P* PETER WALKER  
(dictated by the Minister  
and signed in his absence)





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06 SEP 1982

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EMBASSY OF JAPAN  
UNITED KINGDOM

London, 6th September 1982

*Dear Prime Minister,*

As you know, Foreign Minister Yoshio Sakurauchi visited London last week for discussions with the Foreign and Commonwealth and Trade Secretaries.

To mark the occasion of his visit, Minister Sakurauchi brought with him a gift which he asked me to deliver to you, and I have pleasure in sending it herewith.

The Minister looks forward to seeing you in Tokyo later this month.

*Yours sincerely,*

*T. Hirahara*

Tsuyoshi Hirahara  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.



CONFIDENTIAL



JF1494

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

6 September 1982

Lord Cockfield  
Secretary of State for Trade  
1-19 Victoria Street  
LONDON  
SW1H 0ET

*N. S. P. N. J. J.*

*A. J. C. 6/9.*

*Dear Arthur,*

Thank you for copying to me your letter of 2 September to Francis Pym about imports of numerically controlled machine tools from Japan. My officials have been working with yours on this subject and have kept me informed about progress.

2 The machine tool industry itself is of sufficient importance to the UK's manufacturing sector for this problem to be one of considerable concern. However, there are wider adverse implications for our ability to become a competitive force in the rapidly growing market for advanced manufacturing systems if the high technology sector of our machine tools industry - which the Japanese are attacking specifically - becomes seriously weakened. My Department is giving considerable sums of assistance to industry, not only to improve efficiency through greater use of such systems but to ensure UK companies can supply systems to meet the demand. A strong domestic capability in numerically controlled machine tools is central to these efforts.

3 For these reasons I agree strongly that an inter-industry voluntary restraint agreement with Japan should be sought as you propose and that the Prime Minister should be briefed to raise the matter during her visit to Japan.

4 I am copying this letter to the recipients of yours.

*Your ever*  
*Patel*





Prime Minister (2)  
As expected.

From the Secretary of State

CONFIDENTIAL

The Rt Hon Francis Pym MC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

Mr Coleridge  
over to you  
MUS 6/9  
I see we are  
to make the  
in Japan.  
MUS 2/9  
I shall need to  
discuss this  
our history  
mechanics  
not  
2 September 1982

Dear Francis,

Officials at EQO Committee have been considering the impact of Japanese competition on the United Kingdom machine tool industry. I attach a paper which sets out the position, in particular the rapid increase in Japanese penetration of our numerically-controlled machining centre and lathe markets - and sets out the Department of Trade's recommendations for action.

My view is that the maintenance of a domestic United Kingdom capability in these sectors of the machine tool industry is of real importance to our overall industrial performance. To protect these sectors from the threat of a very high level of Japanese import penetration we should encourage our industry to reach a bilateral understanding with their counterparts in Japan voluntarily to restrict Japanese exports. In addition, it would be helpful if the Prime Minister could stress our concern during her visit there this month.

I should be grateful for the approval of the recommendations in the paper by members of OD(E). Given the short time available before the Prime Minister's departure, I would hope that we could agree the line I have proposed by correspondence, and by Monday 6 September.

I am circulating this to the Prime Minister, other members of OD(E) Committee and to Sir Robert Armstrong.

Yours,  
Arthur  
LORD COCKFIELD

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## IMPORTS OF JAPANESE MACHINE TOOLS : NUMERICALLY CONTROLLED LATHES AND MACHINING CENTRES

### Introduction

One of our prime industrial objectives must be to upgrade the technology and productivity of British manufacturing industry through improving process technology. Central to this is the development of advanced manufacturing systems, and the development and application of sophisticated machine tools. A domestic UK capability in this sector will become increasingly important as the need for tailor-made systems for individual applications increases. Considerable effort and Government support have been committed to this end, in particular through the recent schemes of support for robotics and flexible manufacturing systems. These are now threatened by the competition from Japan faced by two crucial sectors of the machine tool industry, numerically controlled (nc) machining centres and lathes where Japanese export efforts have been concentrated.

### JAPANESE PENETRATION OF THE UK MARKET

2 Japan has concentrated volume production and export efforts in the selective and advanced technology sector of the machine tool industry represented by nc lathes and machining centres and Japanese exports to the UK (to a degree greater than has occurred in the EC as a whole) have increased markedly, albeit irregularly, to the extent that they are now a serious source of worry. In the nc machining centre market, Japanese penetration increased steadily from 1 per cent by volume in 1977 to 55 per cent in 1981; though the volume of imports in first five months of 1982 fell by 22 per cent (Japanese statistics), their market share in the first quarter only fell to 47 per cent. In the nc lathe market, Japanese penetration increased from 21 per cent by volume in 1977 to 53 per cent in 1980 but fell to 42 per cent in 1981. In the first quarter of 1982 it was running at a level of 34 per cent by value - though the volume of exports to the UK rose in the first five months by 53 per cent (Japanese statistics).





## EFFECTS OF IMPORTS

3 UK production in these two sectors is estimated by the Machine Tool Trades Association (MTTA) at £20m (machining centres) and £25m (lathes), with employment of perhaps 7,000. As a whole, the UK machine tool industry is facing very difficult trading conditions and severely depressed markets. 11,000 jobs (over 20 per cent of the labour force) were lost in the two years 1980 and 1981 and a further 4,000 are estimated to have already gone in 1982. Output in the fourth quarter of 1981 stood at an index figure of 50 compared with a 1975 base of 100. While the general world recession is clearly a major influence, there is evidence that the present level of Japanese exports to the UK already represents a significant factor contributing to the current difficulties faced by UK manufacturers of nc lathes and machining centres. It is not possible to clearly separate the lathe and machining centre sectors from the general machine tool area but examples of the general damage claimed to have been caused by Japanese competition are:

- Kearney Trecker Marwin where 100 redundancies took place in 1981 and more are planned in 1982; net profits fell from £2.1m in 1980 to a loss of £0.3m in 1981 and a greater loss is forecast for 1982; declining UK sales (which the company blame specifically on Japanese competition) have so reduced cash resources that an essential product development programme is in danger and senior management in the parent company - Vickers - are concerned about KTM's long future as a maker of machining centres;
- TI Churchill (member of the Tube Investment Machine Tools Ltd) where over the last two years sales have fallen by one third and losses totalling £2m have been incurred; 200 redundancies were declared last year and the whole future of nc lathes production is under review; and
- Cincinnati Milacron where 474 redundancies (25% of the workforce) were declared at the beginning of 1982 and





Japanese imports were specifically cited by management as a contributory factor; in 1980 and 1981 they believe they lost machining centre orders worth £4m to Japanese imports, and have this year lost orders worth £1.2m.

4 Although a number of British companies are investing major resources to meet the Japanese competition (Alfred Herbert are particularly bullish on their prospects) either by investing in high technology equipment comparable to that in Japan or by concentrating on more sophisticated non-standard equipment, these adjustments take time, and most British companies fear that the increased share of the UK market taken by the Japanese could undermine their business irreparably in the period of adjustment. Furthermore, the nc sector represents the greatest potential for growth and, with newly industrialised countries becoming increasingly significant suppliers of less sophisticated machine tools, the UK industry must establish itself in nc if it is to survive in the long term.

5 These fears are reinforced when the vulnerability of this sector of the UK industry is considered against the situation in other major EC countries manufacturing machine tools. Our industry claims that the UK suffers a much higher level of import penetration than either France or Italy. Though Germany imported a higher volume of nc lathes and machining centres in 1981 than the UK, these sectors are relatively less important parts of her machine tool industry. While the German market remains open, the French have a system of prior surveillance for these products which it has been claimed inhibits imports, and there are reports (which we are trying to check) of unofficial measures in Italy.

6 There are already strong protectionist pressures in the US (seeking, for example, exclusion of Japanese machine tools from investment tax relief), such that Japanese producers in these sectors may further direct their attention towards the UK market. Added to this, a very high level of stocks (perhaps enough to satisfy a whole year's demand) is reported to be held both by exporters and





in the US. There is a real danger that, unless restrained, Japanese exporters will intensify their attention on the UK - particularly if checked elsewhere. (The Japanese Government sanctions an export cartel ostensibly in order to prevent cut-throat pricing - but there is little sign of its effectiveness).

The US position, (where Japanese imports represent 97 per cent by volume of all nc machine centre imports, and 85 per cent by volume of nc lathes imports), shows what could well occur in the UK unless restrictions are agreed.

7 Discussions with certain Japanese machine tool companies indicate that a restraint on their exports to the UK might encourage them towards collaboration agreements with UK companies or the choice of the UK as a European manufacturing base - either of which would bring benefits. With an increasing emphasis in production technology on a systems approach, of which machine tools are a central feature, the loss of a UK capability would also threaten the future of other industries supplying equipments for such systems e.g. robots and mechanical handling equipment.

8 The disadvantage of users being unable to purchase Japanese nc machine tools would be primarily one of price. <sup>(at least 20%)</sup> The technological qualities and capabilities of British nc lathes and machining centres are comparable with those of the Japanese. British manufacturers undoubtedly have the capacity to meet additional demand despite the very significant contraction of the UK industry over the last two or three years. In discussion of demand for nc equipment generated by the Small Engineering Firms Investment Scheme (SEFIS) at a meeting





of NEDO's Machine Tool EDC in May, the MTTA reported that over-  
capacity was at such a level that 50% more orders would be no  
problem for UK industry to handle. SEFIS has now closed and although  
it provided some boost in demand, it was not a large enough scheme  
 to take up all this slack.

#### ALTERNATIVE COURSES OF ACTION

##### Formal Import Controls

X 9 My Department have considered the two cases against the usual  
 Community and GATT criteria. Our general view is that there is  
little likelihood of any action by the EC as a whole in the immediate  
 future either across-the-board against all imports under Art. XIX  
 of the GATT or selectively against the Japanese. Though the  
 Commission introduced import surveillance over both sectors in  
 February 1981, the European trade association's recent proposal to  
the Commission for a 50% tariff has lacked German support and  
 does not appear to be progressing.

10 We judge, however, that there is a sustainable (although,  
 against Community criteria, not strong) case for selective action  
in respect of nc machining centres under the terms of the Anglo-  
Japanese Trade Treaty and the relevant Community legislation.  
 Conversely we consider the case for import controls on nc lathes  
to be much weaker and do not believe there is any chance of the rest  
of the Community supporting proposals for import controls by the UK.  
 In view of the uncertainties in both cases and the commitment to pay  
 compensation or accept retaliation for the loss of business by  
 Japan, pursuing formal safeguard action does not seem an attractive  
 option.

##### Bilateral inter-industry VRA

11 An alternative would be the conclusion of an industry to  
industry agreement in which, formally, Governments would take no part.





Though inter-industry talks two years ago were unsuccessful, the Japanese Government might now be prepared to encourage its industry to discuss with the MTTA the possibility of a VRA on nc machine tool exports, particularly if they felt this might help to reduce future pressure for formal EC action. <sup>Though MITI would resist a proliferation of VRAs, we receive</sup> reminders from time to time from sources inside the Japanese Government that there may be scope for further bilateral understandings in the case of acute problems for the UK. But past experience shows that their achievement may require the underlying threat of action under our Treaty if the Japanese fail to respond (as in the case of light commercial vehicles last year). As indicated in para 10, the MTTA have a comparatively strong negotiating position in this respect so far as nc machining centres are concerned, but a very weak one on nc lathes; if we actually used the selective safeguard in the Treaty, the Japanese would have a right to retaliate.

#### Tactics

12 Tactically there may be advantages in the MTTA initially seeking inter-industry arrangements in both sectors despite the weakness of the lathe case. If the Prime Minister were to raise the matter during her visit to Japan in mid-September there is a chance of making headway, particularly if the Japanese are sufficiently embarrassed by their lack of support for the UK over the Falklands crisis to wish to make some concessions to our requests. The Prime Minister would not wish to give the Japanese an opportunity to quiz her on the relative merits of the two cases and we would suggest therefore that she refer to serious problems in the nc machine tool sector as a whole and avoid detailed discussion on machining centres and lathes. The UK industry would have to clearly understand that if their opposite numbers in Japan were not forthcoming on lathes, they could not look to HMG for any formal support in this area in Brussels unless the current situation were to change dramatically. An inter-industry arrangement on machining centres alone could of course lead to an





increased Japanese attack on our nc lathe market (as Japanese machine tool companies tend to be in both sectors), but even so, given the importance of the nc machining centre sector, this would still be worthwhile.

#### PROPOSED ACTION

13 To prevent the present difficult position from worsening, it is therefore proposed that steps should be taken to promote negotiation of a voluntary restraint agreement between the MTTA and its Japanese equivalent, under which Japanese exports to the UK of nc machine centres (and nc lathes on the basis described in para 12) would be restricted. The aim might be an agreement, with a definite time limit (perhaps 3 years) with a benchmark of 1981 import levels but perhaps allowing for an element of orderly growth. To achieve this, it will be necessary to:

- (i) inform the Commission of the proposed action. Informal soundings made of DGIII indicate that the Commission is unlikely to support any Community initiative, but gave no indication of Commission hostility to a British initiative - however this is primarily a matter for DGI, who would need to be sounded out on this.
- (ii) <sup>then</sup> give warning to the Japanese authorities, both via normal diplomatic channels and specifically in the course of the Prime Minister's visit to Japan this month, of the concern with which Japanese exports to the UK of high technology machine tools are regarded, and that we seek an inter-industry VRA (this could be backed by an implied threat to resort to the formal protection provisions which exist under the Anglo-Japanese Trade Agreement if agreement on machining centres is not forthcoming); and
- (iii) support the MTTA in negotiating a voluntary agreement on the basis described in para 12 above.



(i) Japanese penetration of the UK machine tools market (by sector)

	<u>nc machining centres</u>		<u>nc lathes</u>	
	value %	volume %	value %	Volume %
1977	2	1	9	21
1978	9	11	21	33
1979	13	22	22	40
1980	29	41	31	53
1981(e)	41	55	30	42
1982 (first quarter)	32	47	34	n/a

(ii) Imports (by sector) to the UK market

	<u>nc machining centres</u>			<u>nc lathes</u>		
	<u>Total Imports</u>	<u>Japanese Imports</u>		<u>Total Imports</u>	<u>Japanese Imports</u>	
	£m	£m	Volume	£m	£m	Volume
1978	9	1.6 (18%)	31	17.4	6.5 (38%)	180
1979	12.7	3.5 (27%)	76	31.5	10.6 (34%)	338
1980	18.2	9 (49%)	173	37.9	17.4 (46%)	582
1981(e)	20.3	13.3 (66%)	230	33.7	13 (39%)	320
1982 (first quarter)	4.7	3 (62%)	50	9.6	4.3 (45%)	129

Source:OTS



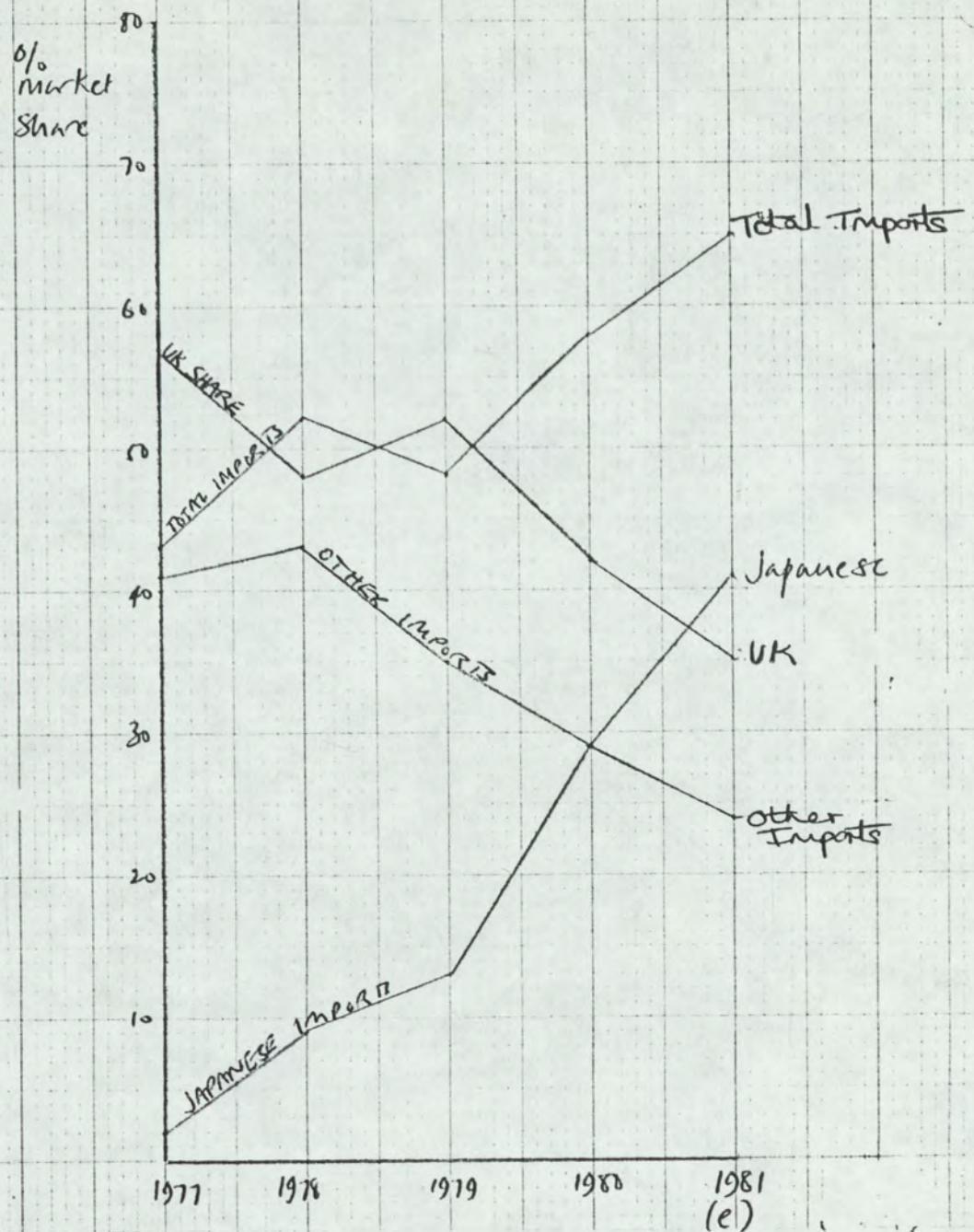
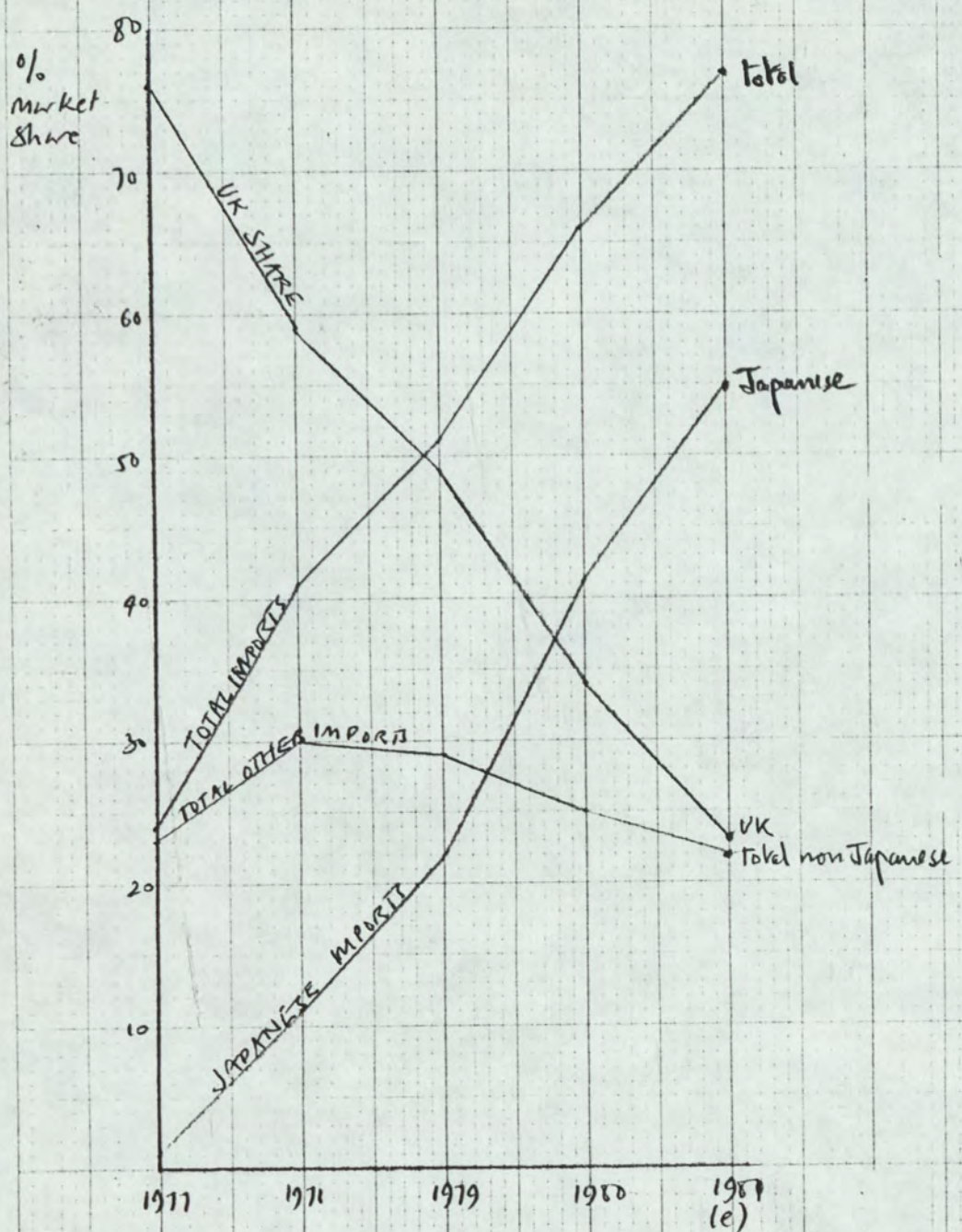
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### IMPORT PENETRATION OF UK MARKET NON MACHINERY CENTRES

Source: DTB/Business  
Monitor Calculation

(by volume)

(by value)





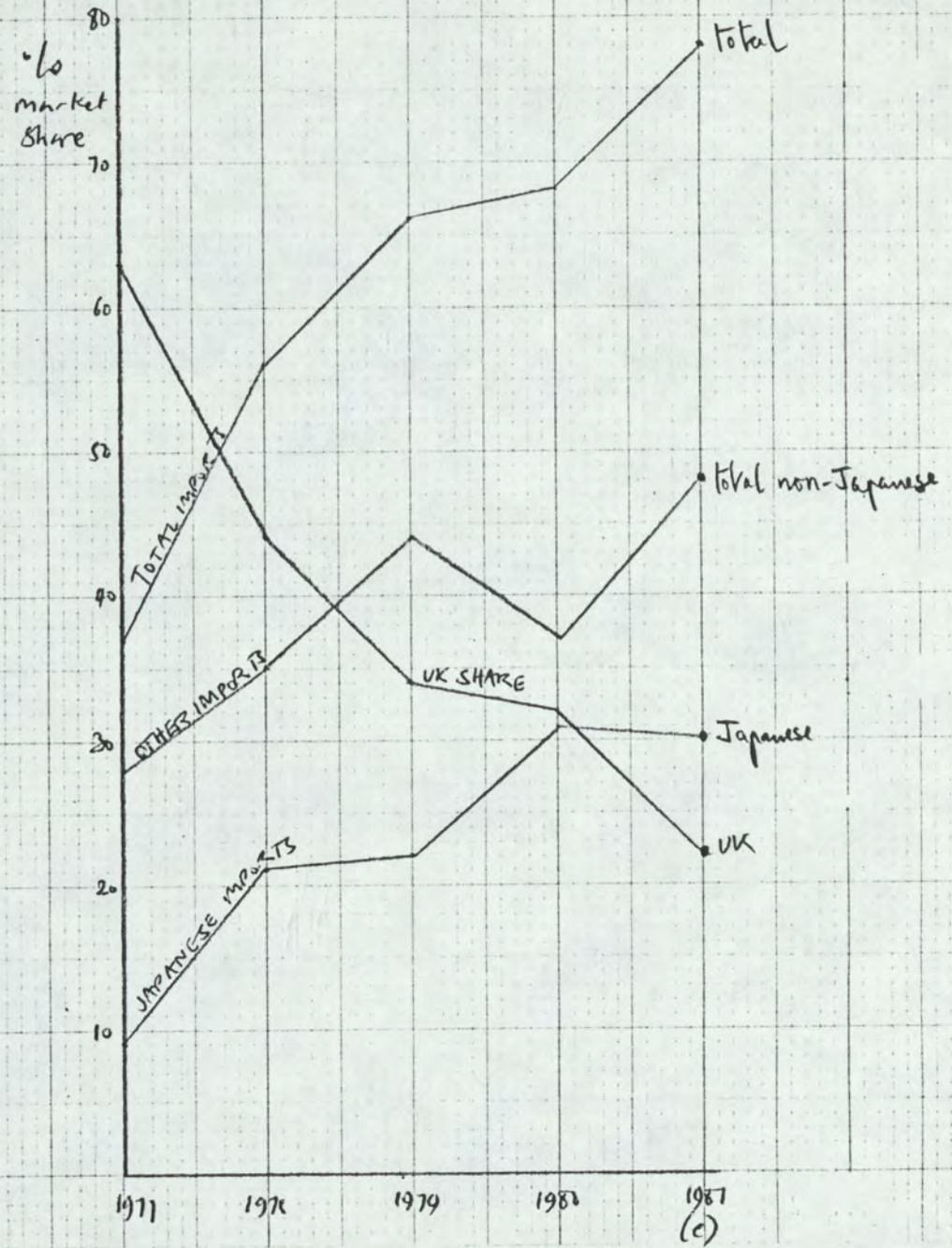
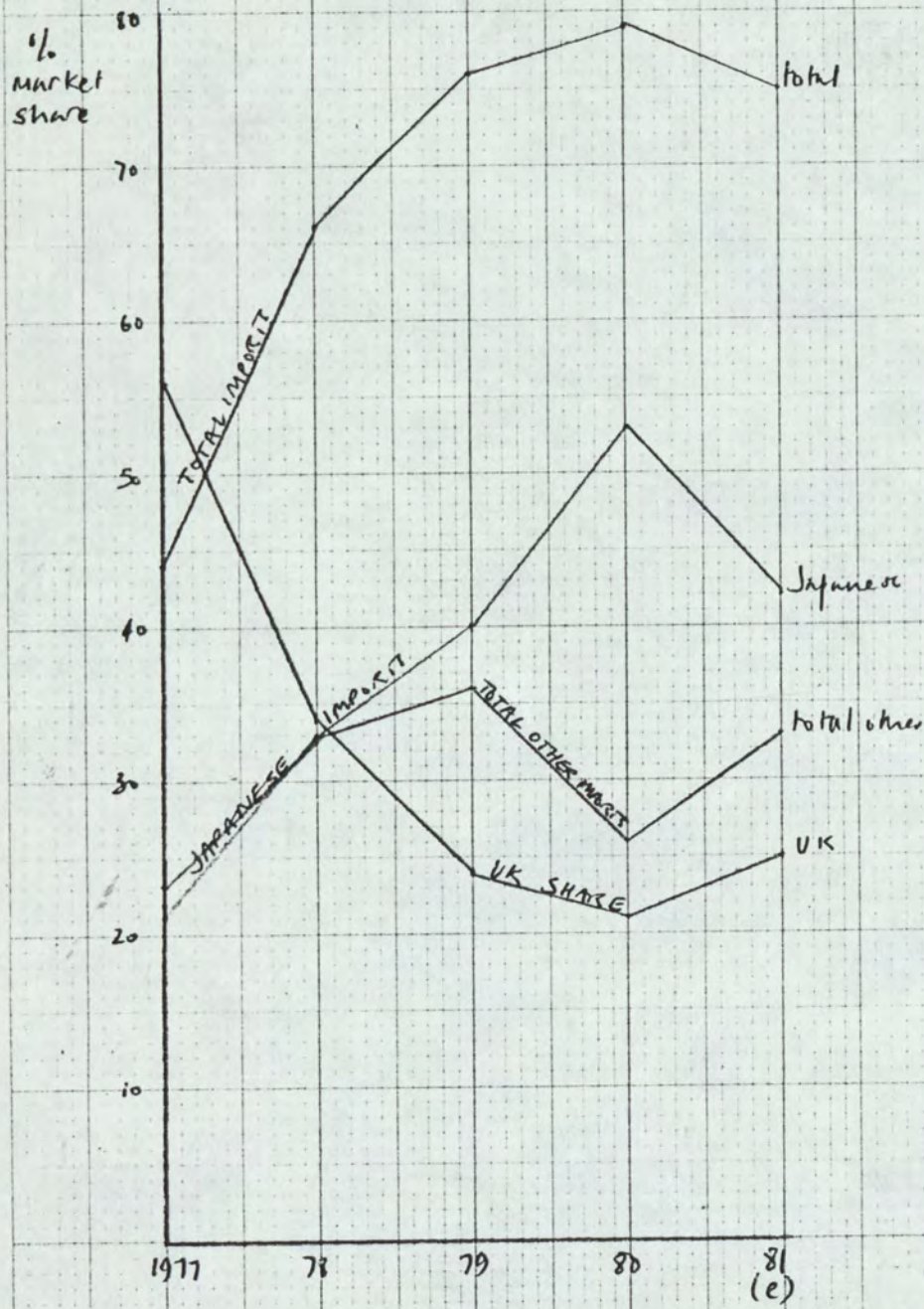
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# IMPORT PENETRATION OF UK MARKET NC LATTET

Source: OIS/Business Monitor Calculation

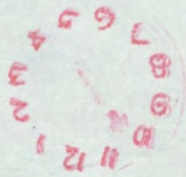
(by volume)

(by value)



ANNEX C





SEP 2 1982





Foreign and Commonwealth Office

London SW1A 2AH

1 September 1982

*note*  
I have told John Holmes I agree. NPA.

Dear Willie,

*WJH*  
*1/9*

Message from Japanese Foreign Minister

The Japanese Ambassador has forwarded to Mr Pym the enclosed message to the Prime Minister from the Japanese Foreign Minister, Mr Yoshio Sakurauchi. The latter will be visiting London later this week (during the Prime Minister's absence in Scotland) for talks with Mr Pym on 3 September. If you agree, it might be appropriate for Mr Pym on that occasion to thank Mr Sakurauchi on behalf of the Prime Minister and to add that she looks forward to meeting him in Tokyo later this month.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

W Rickett Esq  
10 Downing Street



cc to Japan: Pding on  
PM: Trip

file

da



10 DOWNING STREET

*From the Private Secretary*

31 August 1982

Exports of Japanese Machine Tools

I told you that the Prime Minister was anxious to send an early reply to Sir Julian Ridsdale's letter of 24 August which I sent to you on 25 August, in which he expressed his concern about growing levels of exports of Japanese machine tools and the state of the UK industry.

The Prime Minister has since seen FCO telegram number 316 to Tokyo of 24 August, which explains that proposals will be submitted to Trade and Industry Ministers this week on this subject. She has commented that this timetable must not slip and that she must be informed of the decisions reached by Trade and Industry Ministers in good time before her trip to the Far East, preferably by the beginning of next week.

W. F. S. RICKETT

Dr. David Saunders,  
Department of Industry.

A



EMBASSY OF JAPAN  
UNITED KINGDOM

FCO 206/82

London, 27th August 1982

*Dear Secretary of State,*

I have been asked by the Foreign  
Minister, Mr. Yoshio Sakurauchi, to transmit  
to the Prime Minister a message, the text of  
... which is enclosed herewith.

I should be very grateful if you  
would be kind enough to arrange to convey the  
message to the Prime Minister.

*Yours sincerely,*

*T. Hirahara*

Tsuyoshi Hirahara

Ambassador

The Rt.Hon. Francis Pym, MP,  
Her Majesty's Principal Secretary of State  
for Foreign and Commonwealth Affairs,  
London.



TEXT of a message to The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of  
the Treasury,  
London.

" It was a great relief  
for me to hear the news that the  
medical operation you had under-  
gone was successful and that you  
resumed your work without major  
trouble.

" Please accept my best  
wishes for your continued health.

" I am looking forward to  
meeting you in Tokyo soon. "

YOSHIO SAKURAUCHI

Minister for  
Foreign Affairs  
of Japan







St Julian RIDSDALE 31/8  
MP



10 DOWNING STREET

GR

I think I sent this to Industry  
copied to Trade. Could you  
please tell Industry the P.M.'s  
comment, and say that the sooner  
they can let us have a draft  
reply the better.

WR

26/8

Many thanks

Billie  
26/8

I contacted D/I and they aim to  
let us have something by next  
Tuesday (31 August).

LPO  
26 8 82





he sw

10 DOWNING STREET

*From the Private Secretary*

25 August, 1982

I enclose a letter to the Prime Minister from Sir Julian Ridsdale, M.P., in which he calls for the rationalisation of the machine tool industry, and for protection from the import of Japanese machines.

I should be grateful for a draft reply which the Prime Minister might send to Sir Julian by 8 September.

I am copying this letter to John Whitlock (Department of Trade).

W. F. S. RICKETT

Dr. David Saunders,  
Department of Industry

5



MFJ

*file*

25 August 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 24 August. I shall place this before the Prime Minister, and a reply will be sent to you as soon as possible.

WR

Sir Julian Ridsdale, CBE, MP.

*WR*



From Sir Julian Ridsdale, CBE., MP.,

2



HOUSE OF COMMONS  
LONDON SW1A 0AA

Aug. 24th. 1982.

Prime minister

We will let you have a

cc: Mr. Gow reply.

Admin needed  
urgently from <sup>how</sup> <sup>with</sup>  
Trade Industry  
not.

Dear Prime Minister.

Ralph Howell asked me on the 14th August to visit the Beaver Machine Tool Factory in his constituency which is so badly affected by the latest Japanese competition from Yamasaki (Appendix A). I made a visit last Friday August 20th.

This revolution in machine tools has resulted in sanctions being demanded in the U.S.A. over imports from Japan. (Appendix B).

Mr V.H. Balding, the owner and Managing Director of Beavers, is extremely concerned because of this intensive cut-throat competition.

As you are visiting Japan so



very soon I feel that you should know his views. He has an impressive factory, probably a last bastion of our dying machine tool industry. He told me very forcibly that he will not be able to survive without help.

He says "Unless the Government takes decisive action in a few weeks, Britain will not have an effective machine tool industry left in two to three years time."

He suggested. " The Government working with the industry through the MITA should encourage the industry to rationalise so the Companies remaining could get volume production and so compete worldwide with the Japanese and others." But he said "It cannot be done without a home-produced SNC"





HOUSE OF COMMONS  
LONDON SW1A 0AA

controlled system at least as good as Fanuc and with the same credibility plus world wide service as Fanuc give." He emphasised "Companies engaging in the rationalisation programme should give an irrevocable under-taking for at least a 10 year programme of production." He estimates that the whole programme would be carried out for approximately £150 million to £200 million.

I also attach a round robin (Appendix C) which is being gathered together by the machine tool industry and this may get publicity in September before you go to Japan.

I hope we in Europe and The States can work out something to help our







**T**ODAY Yamazaki — a Japanese machine tool company — storms ahead of its world rivals with a new machining centre programming and control system and a new low-price machine range that is likely to leave the competition gasping for breath.

Without extra cash for new developments it is certain that the UK machine tool industry will not survive this latest onslaught in the competitive sector.

Market trends are already dismal. Last year total sales of machine tools produced by British companies was relatively small at £437 million, a drop on 1980 by 26%. And the government's much-vaunted small firms investment scheme (Sefis) has not provided the instant boost to the industry that was hoped for when it was launched in March. Would-be buyers who have been given approval to go ahead and buy new equipment are instead sitting on the fence waiting for the upturn.

Machine tool industry campaigner Ron Lynch has called many times for reduced interest rates and incentives to enable the manufacturing industry to invest but where will the orders go?

The world is about to be hit by the next generation of machining centres. The term CNC is being superseded in the alphabeti-spaghetti language by automatic production computer system (APCS).

Yamazaki is now reaping the benefits of properly applied flexible manufacturing. When its £9 million showpiece factory in Japan opened in October, Teruhiko Yamazaki forecast a payback inside two and a half years for the FMS — obviously it was building predictions for success in a new product line-up.

Yamazaki's Mazatrol T1 CNC lathe control system with two-dimensional conversational programming has been accepted as a significant step forward for lathe programming. But the machining centre with its three dimensional aspects, larger tool capacities and considerably longer programmes creates far greater problems for the system designer. But you get there eventually. In what must be the biggest step forward since the touch trigger probe (and in a similar vein to the lathes T1 system) the new Mazatrol M1 for machining centres is now available. Yamazaki has succeeded for one reason — resources, it cost £2.5 million and 130 000 man hours to develop. Obviously Yamazaki is after

# Machine tools: can

## The UK's ailing machine tool industry takes a turn for the worse today with news of a Japanese system that defies competition.

### By Michael Wildish

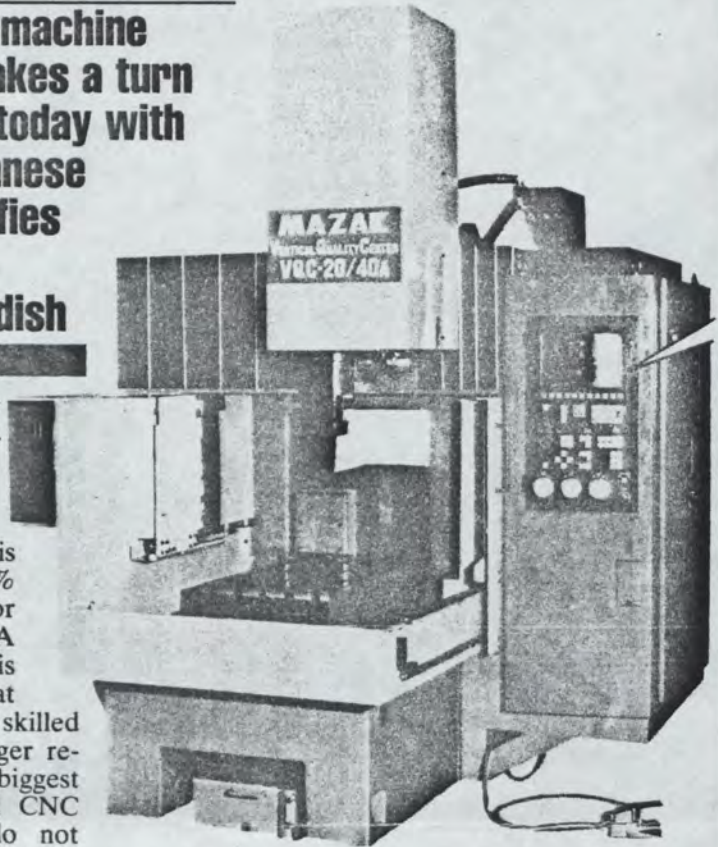
sales, but the potential of this system to the end user is dramatic. Manpower reduction in programming is said to be as high as 95% of the time required for conventional CNC. A far bigger potential is made available in that the need for a highly skilled programmer is no longer required. Probably the biggest drawback to potential CNC users is that they do not understand the technology.

To prove its simplicity, Robert Wilkinson, managing director of Yamazaki UK, aims to train his complete staff including the receptionist to undertake programming for customer demonstration. 'It's so simple,' he said, 'if you can read a drawing you can programme the machine.' Reading the component drawing however is probably the biggest hurdle.

By linking a computer with a 14-inch CRT screen and producing in the software a conversational mode of question and answer routines the task becomes simple.

Automatic selection of optimum cutting conditions for various materials are stored and familiarity of tool names and their dimensions are no longer required. Selection of machining unit in point, line or face patterns is a press button operation and the CRT displays tooling layout, program, toolfile and data, positions and alarms plus a programming check display.

Utilising the programming check function the co-ordinate views of x-y, y-z and x-z; the perspective view and toolpath can be checked by a five



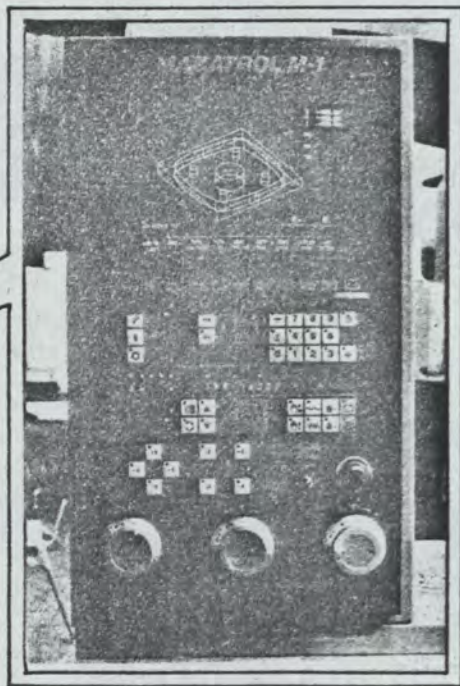
colour display of the respective machining patterns. A homing-in function enables the magnification of a particular feature to be carried out for better clarification.

All this can be carried out in the office, remote from the machine shop, or on the machine while existing components are being machined. Machine communication with the Mazatrol is by fibre optics when remote operation is called for, eliminating the effect of electrical fluctuations causing interference.

A storage capacity of 16 programmes is equal to 160 m of tape or, as an option, 5 000 m can be held. For the multi-component specialist a library of cassettes can be built up, each holding around 32 jobs. The system has the facility to control several machines. More importantly the equipment already on site for programming does not become obsolete, conventional computer-assisted programming systems can be interfaced with the Mazatrol through the NC tape output and translated automatically into Maza-



# the UK compete?



Above: 3-D simulation puts a new perspective on programming — it all but talks. Left, the VQC 20/40A will be selling for £45 500

trol's own language. The step by step conversational programming system displayed on the 14-inch colour CRT screen starts with the selection of elements from a 'menu display.'

Material is selected from seven most common types plus the facility for up to eight specials according to the user's choice. The machining patterns are then selected from a total of 13 point types such as drilling, nine linear types like line centre or seven for face operations such as face milling. Machining allowance and surface roughness designations are then selected.

After entering the cutter diameter the automatic selection of cutting conditions is made—depth of cut, cutting width, feed rate and number of cuts from the data base. By answering questions about the finished component, quantity on table, spacing and workpiece contour by x and y values, the computer automatically calculates start and finish of the cutter path and the number of passes.

Hole boring normally requires the

calculation of multiple tool selection and programming data. For Mazatrol, the question — answer routine needs the diameter of the finished hole and depth, co-ordinate values x and y from the datum and size of chamfer. From this data the automatic tooling programme will then select all the necessary tools for the function and display on the CRT in the machining order required.

Normally after tape preparation 'air cutting' for proving out is undertaken — all non productive time — and when cutting starts single block checking through the cycle is needed. This makes programming relative to the engineer's experience and manual fine tuning, although savings can be made on the machining time the time spent proving is expensive.

This can now be proved on the CRT screen. The programmed contour can be displayed not only in x-y, y-z and x-z but three-dimensional perspective. This display can be rotated through any axis in five degree segments for checking. The complete programmed contour can be colour displayed and every machining pattern for checking with tool path simulation and cycle time calculation. Automatic tool length measurement combined with length measuring equipment on the machine gives continuous length compensation. Updating can be carried out eliminating manual tool offset compensations when tools or component datums are changed.

The machine tool setters' bible where he records all details can be dispensed with due to the Mazatrol's ability. A total of 160 kinds of tool can be displayed on the CRT's tool data display including names corresponding to magazine pocket number, nominal diameter, length, thrust, horsepower, life factor and operational hour log. The tool file display holds 32 tools as an information control. Information includes: tool type, nominal diameter, tool material, maximum allowable depth of cut on the z axis, the number of cutting edges and cutting angles.

The positional display shows present position on the x, y, and z axes, work piece number being machined, process number, tool pocket number, feed rate, spindle and cutting speed. Load figures for the cutting spindle and z

axis feed and over 200 alarm information elements are also displayed along with programming mistakes.

Typical savings with the programming unit — although relative to the programmer's ability — include five and a quarter hours on an aluminium casing that normally takes six hours and four and a half hours on a complex cam profile. Yamazaki at Worcester is opening its doors to engineers between 20 and 24 September to prove it.

This new system has been added to Yamazaki's latest vertical machining centre range aimed at the popular sectors covering 80% of components manufactured the VQC 20/40 A double column travelling headtype. With a 20 tool magazine, 7.5 hp ac drive and table travel x 635 mm, y 508 mm and z 460 mm and a throat measurement of 320 mm is available for under £46 000. The top of the range VQC 20/50 B type 1 000 x 508 x 460 mm 10 hp ac and two pallets is under £60 000.

While the go-ahead has been given for a European project, the decision still has to be made on the site, whether West Germany, Belgium or here at Worcester.

Meanwhile, the American factory is well on schedule and will be running by the end of the year. Since April the FMS line has been put through its paces in Japan and with complete confidence Yamazaki will be running the machine system on production at the Chicago machine tool show in September, manned only by robots. After the show the line will be installed in the Kentucky factory.

One British company could however gain from the stepping up of pressure with the new products. Renishaw from Wotton under Edge in Gloucestershire, manufacturers of the touch trigger probes, now feature in Yamazaki's latest catalogue which is no mean achievement. John Deer, managing director, could not comment on any contract decisions but says design, development and production are all going ahead with rapid expansion.

The re-education of people managing and using this type of equipment is important. The state of art shows that the job is becoming simpler. CNC programming 10 years ago was a brain teaser and a chore. That no longer applies and the technology must be accepted for production survival. But the UK machine tool industry has to be there with the products and the price in competition, and it must have the support on hand. E



For details of industrial development sites contact Gareth Isaac or Tony Parker, Dept FT, The Civic Centre, Newport, Gwent, Tel: (0633) 65491

Wednesday August 4 1982

et  
Appendix 10

# Sanctions demanded in U.S. over imports from Japan

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE U.S. machine tool industry is urging President Ronald Reagan to use his authority to deny investment tax credits to American companies buying certain machine tools from Japan.

They claim this untried weapon could help save major sectors of U.S. industry from annihilation by Japanese imports.

Under the U.S. investment tax credit system, a purchaser of capital equipment benefits in two ways: taxes are reduced by 10 per cent of the purchase price and tax deductions are permitted in the form of depreciation for the full purchase price. The combined effect is equivalent to a price reduction of about 15.18 per cent.

Mr Reagan was first formally petitioned to act on these tax credits earlier this year by Houdaille Industries, of Fort Lauderdale, Florida. The demand has won the official support of the nationwide Electronic Industries Association (EIA).

There is a high electronic content of the machine tools in question at the centre of the

demand — numerically controlled machining centres and Japan's share of the U.S. market for numerically-controlled machining centres jumped from only 3.7 per cent in 1976 to 50.1 per cent in the first nine months of 1981.

The Japanese share of the punching machine market rose from 4.7 per cent to 37.6 per cent over the same period. The industry says there is a "substantial likelihood" that these trends will continue.

Industry officials are unsure how long the White House will take to act on the petition, given that there is no precedent, and no existing procedural machinery to deal with it.

The U.S. Trade Representative's Office, however, has agreed to proceed as expeditiously as possible, and a ruling could come within 60 days.

The industry argues that Presidential action would achieve a number of objectives: First, it would allow the American machine tool industry to compete with Japanese imports on a more equal basis, saving jobs and averting bankruptcies.

Secondly, Houdaille says, it would prevent the undermining of American defence readiness, which would be compromised by dependence on foreign sources for numerically-controlled machine tools.

Third, it would send a clear signal to Japan that U.S. Administration does not intend to stand idly by while Japan targets and picks off major American industrial sectors.

The EIA says that denial of investment tax credits could have a sufficient impact on Japanese imports to force Tokyo to respond in a meaningful way to U.S. trade concerns—unlike the patchwork of "largely ineffectual" anti-dumping, countervailing duty and escape clause remedies.

Presidential authority to order withholding of tax credits is contained in an obscure section of the Revenue Act of 1971, which says that such action may be taken if a foreign country engages in "discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting U.S. commerce."

The EIA believes that Houdaille has amassed a watertight

case proving that the Japanese Government is not only tolerating a domestic and international machine tool cartel, but that over the years it has actively encouraged its formation and operation.

Houdaille's evidence is contained in a copyright petition hundreds of pages long and three-and-a-half inches thick. The evidence is said to have been painstakingly obtained in a series of interviews with senior Japanese officials and from Japanese documents never before translated into English.

Among many other charges, Houdaille says that the Japanese Government is diverting millions of dollars worth of yen generated by Japanese betting on cycle and motorcycle races into export industries, including the machine tool cartel.

Price-fixing in the machine tool industry, it goes on, is formally immunised from Japan's anti-monopoly law, and the Tokyo Government has covertly granted the cartel informal immunity for other practices that restrict competition.

# Carron Holdings calls in receivers

By Charles Batchelor

CARRON HOLDINGS, the Falkirk maker of baths, sinks and pillar boxes, called in the receivers yesterday in the face of mounting losses.

Carron's shares were suspended at 18p—below the par value of 25p—putting a market valuation of only £3.02m on the company.

The company was founded in 1759, and supplied cannon to Wellington's armies at Waterloo and Nelson's fleet at Trafalgar. In more recent times it has concentrated on making pressed steel sinks, cast iron, steel and plastic baths, radiators, gas and electric cookers and Post Office pillar boxes.

The recession had reduced markets in almost every sphere of Carron's activities last year, it said in its latest annual report. Housing starts remained at a low level, while last winter's severe weather brought building to a standstill.

In a statement released yesterday Carron said the difficult trading conditions of the past 2½ years had led to losses which had put a severe strain on the group's resources.

The sale of assets, much of it property not required for manufacturing activities, went much more slowly than originally expected, it added.

The CBI's July trends survey is a picnic. On the menu *minceur*—are destock orders, weakening of intentions and generation of optimism. Wh happens curious, particular the survey was put when base rates were higher than they are how little concern there to be about the level rates as a direct consequence of investment.

West Midlands businesses, which see general liquidity problems to some extent an exception then new investment their top priority an general the complaint about the level of the problem of an adequate return—largely a function of

At present the Government seems unwilling to do alleged deficiency of increasing its own specific clear intention is to demand by cutting into which, in falling as rising, are the principal economic management not at all clear from survey that cheaper will encourage many companies, at any rate a larger financial de

C  
a

# £500m tranche of Treasury stock



Appendix "B"  
20

CONFIDENTIAL

The following companies, manufacturers of NC lathes and or machining centres are experiencing very severe market conditions throughout the world.

There has been a serious deterioration this year and the companies see no prospect of a viable future given the current market conditions.

The main problem arises from the over-supply of Japanese NC lathes and machining centres, which are accumulating in unsold stocks around the world, and further depressing already weak markets.

Urgent assistance is sought from the British government to enable the UK machine tool companies, who are dependent on NC lathes and machining centres to survive in the short term.

The companies are all engaged in measures to improve their operating effectiveness and they stress that these activities will continue - but in order to survive they need a breathing space.

SIGNATURES

- ..... Alfred Herbert Company Ltd
- VH Balding* *Signe o Ketch. 10.8.82* ✓  
..... Balding Engineering Ltd
- ..... The Butler Machine Tool Co Ltd
- ..... Cincinnati Milacron Ltd
- ..... Dean, Smith & Grace Ltd
- ..... Kearney & Trecker Marwin Ltd
- ..... The 600 Group
- ..... Stuart Davis Machines Ltd
- ..... TI Machine Tools Ltd

9



APPENDIX C

DRAFT FROM PRESIDENT OF MTTA TO PRESIDENT OF CECIMO

Those of our members concerned with the manufacture of NC machine tools are increasingly concerned at the penetration of Japanese machines whose market share has risen from zero to over 50% in five years.

Since this was discussed at the Hague meeting matters have deteriorated. In the absence of a lead from CECIMO national delegations and national governments will be forced to take action for there is a real danger that the European NC machine tool industry will be eliminated as other industries already have.

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Table 1 Japanese share of total U.K. market (percent)

Year	All machine tools	NC lathes		Machining Centres	
	by volume	by volume*	by value	by volume*	by value
1977	1.8	21	9	1	2
1978	2.7	33	21	11	9
1979	3.3	40	22	22	13
1980	5.9	53	31	41	29
1981	6.4	43	31	55	41

Source: Dept. of Industry  
Customs & Excise

- Notes: 1. "Volume" figures are in terms of number of machines.
2. No volume data are given for "all machine tools", because the figures are substantially affected by erratic large shipments of machines of very low value.



Figure 4. Size of domestic market and proportion taken by imports

Major countries, 1981

Source: American Machinist

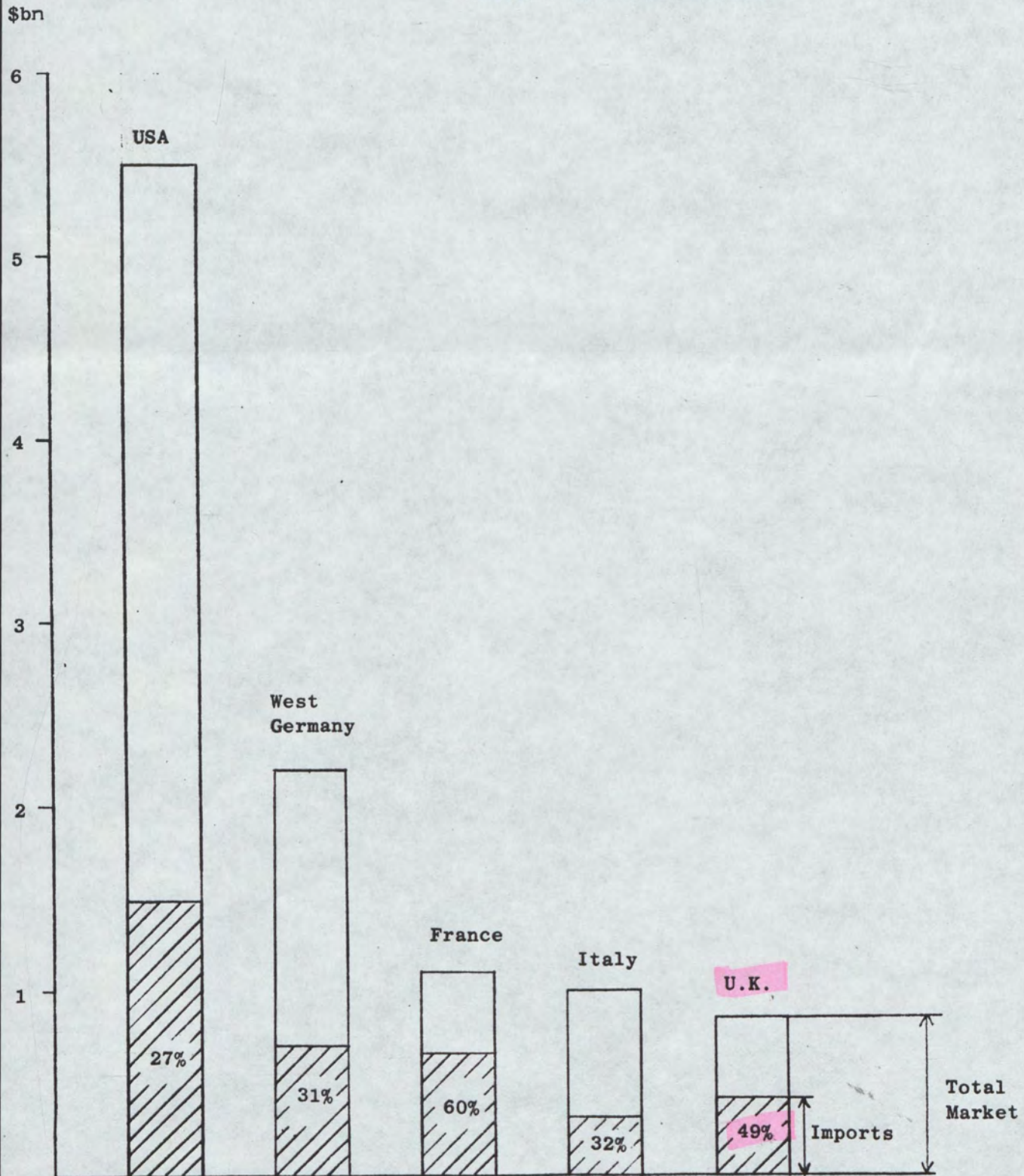
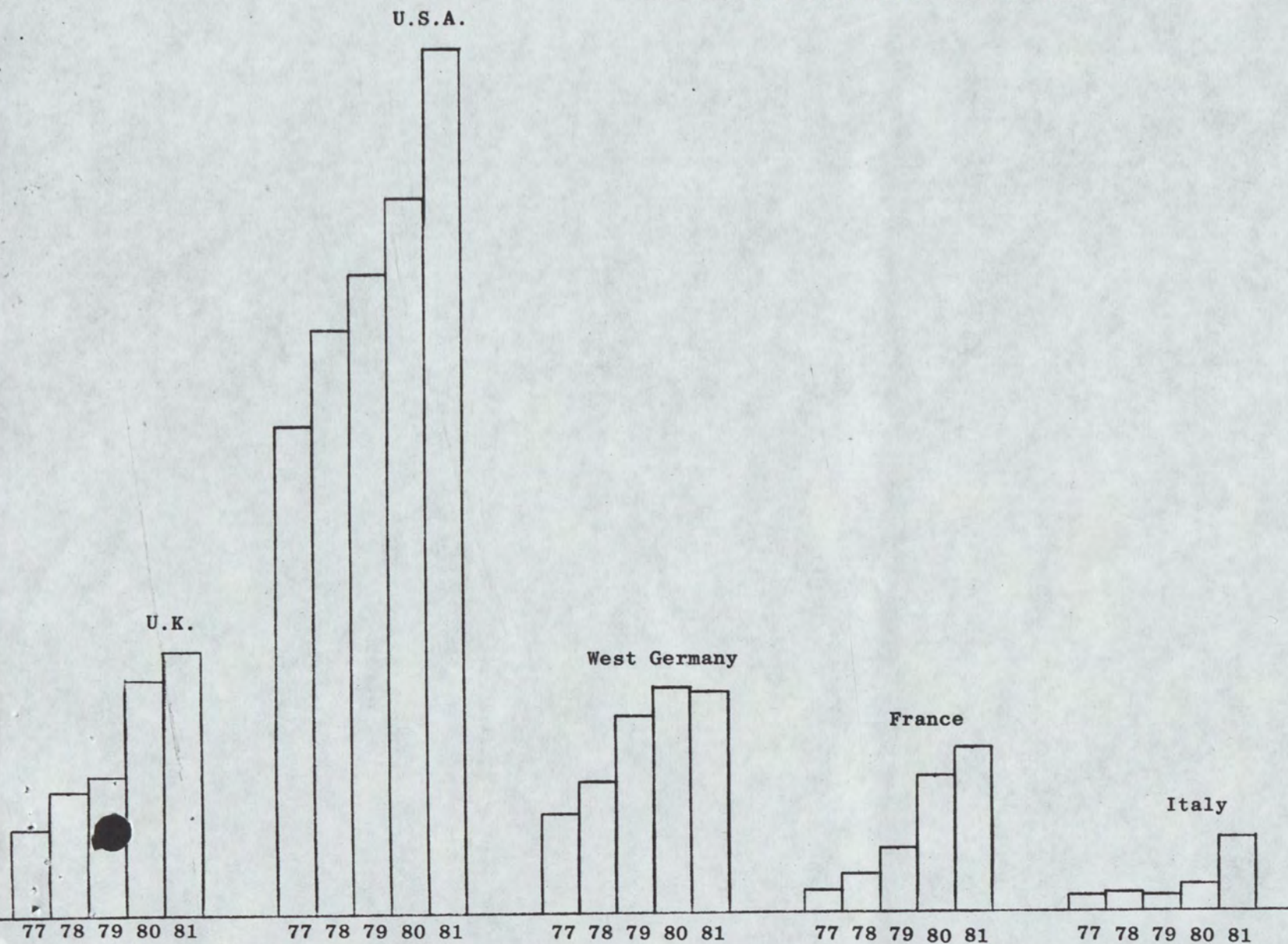




Figure 5. Japanese imports as percentage of total imports

Major countries, 1977-81

Source: National Trade Statistics





Prime minister

You will see from this that the Department of Trade and Department of Industry are already pursuing the problem raised by Sir Julian Ridsdale. They hope to put proposals to ministers early next week.

CONFIDENTIAL FRAME EXTERNAL

GRS 434  
CONFIDENTIAL  
FRAME EXTERNAL  
FM FCO 241800Z AUG 82  
TO PRIORITY TOKYO  
TELEGRAM NUMBER 316 OF 24 AUGUST  
INFO UKREP BRUSSELS

Please keep them so it. Though damage has been done already

LM  
26/8

EXPORTS OF JAPANESE MACHINE TOOLS

1. MINISTERS ARE SHORTLY TO CONSIDER WHETHER HMG SUPPORT SHOULD BE GIVEN TO UK MACHINE TOOL INDUSTRY'S WISH TO SET UP INTER-INDUSTRY UNDERSTANDING WITH JAPANESE INDUSTRY SO AS TO RESTRAIN LEVELS OF EXPORTS OF NUMERICALLY CONTROLLED (NC) MACHINING CENTRES AND LATHES. ISSUE WAS RECENTLY DISCUSSED BY INTER-DEPARTMENTAL COMMITTEE

(COPY OF PAPER AND MINUTES ARE BEING SENT BY CONFIDENTIAL BAG) WHICH AGREED THAT IF, AFTER FURTHER EXAMINATION OF INDUSTRY'S CASE, MINISTERS DECIDED THAT ACTION IN ONE OR BOTH SECTORS WAS JUSTIFIED (THE CASE FOR MACHINING CENTRES BEING THE STRONGER), STEPS SHOULD BE TAKEN TO TRY TO SECURE A VRA.

2. DOT/DOI WILL BE SUBMITTING TO MINISTERS WITHIN COMING WEEK POINTING TO HIGH JAPANESE PENETRATION OF UK MARKET (ESTIMATED 42 PER CENT BY VOLUME FOR LATHES IN 1981 AND 55 PER CENT FOR MACHINING CENTRES) AND DAMAGE CAUSED TO UK INDUSTRY. DEFINING DAMAGE AS CAUSED BY JAPANESE COMPETITION RATHER THAN ECONOMIC RECESSION MAY PROVE DIFFICULT, AND BOTH DOI AND MACHINE TOOL TRADES ASSOCIATION ARE WORKING ON THIS. BUT GIVEN LEVEL OF CONCERN ABOUT TRADE RELATIONS WITH JAPAN IT APPEARS PROBABLE THAT DOT/DOI MINISTERS WILL WANT TO PURSUE SOME FORM OF ACTION.

3. THESE PRODUCTS ARE ALREADY UNDER COMMUNITY WIDE SURVEILLANCE. WE SHALL WISH TO ENSURE THAT COMMISSION WILL RAISE NO OBJECTION TO INFORMAL BILATERAL UNDERSTANDING AND WE WILL INITIATE CONTACTS WITH THEM ON THIS ONCE WE HAVE MINISTERIAL CLEARANCE. MEANWHILE, GRATEFUL FOR YOUR VIEWS ON CHANCES OF SUCCESS WITH JAPANESE. WHILE YOU OBVIOUSLY CANNOT PRESENT MITI WITH ANY SPECIFIC PROPOSAL AT THIS STAGE, WE ARE CONSCIOUS

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THAT THE PRIME MINISTER'S VISIT NEEDS THOROUGH PREPARATION AND SHE IS UNLIKELY TO SECURE ANY POSITIVE COMMITMENT IF WE SPRING THIS ON MITI AT THE LAST MOMENT. IT MAY BE HELPFUL THEREFORE IF YOU WERE TO WARN MITI THAT THE PM MAY WELL EXPRESS CONCERN ON THIS SUBJECT DURING HER VISIT, AND THAT AN OPTION BEING CONSIDERED IN LONDON IS POSSIBILITY OF AN INTER-INDUSTRY UNDERSTANDING. FOR YOUR OWN INFORMATION AT THIS STAGE, THE MTTA WILL BE SENDING A DELEGATION TO JAPAN IN OCTOBER FOR THE MACHINE TOOL FAIR AND THIS COULD BE THE OCCASION FOR CLINCHING THE DEAL.

4. YOUR TELNO OTTER 3 ASKED FOR CONSIDERATION OF PRIORITY ON DIFFERENT SECTORAL RESTRAINT PROBLEMS. DOI ADVISE THAT MACHINE TOOLS SECTOR IS MORE IMPORTANT THOUGH, HAVING APPARENTLY MADE SOME HEADWAY WITH MITI ON FORK LIFT TRUCKS, THEY WOULD BE RELUCTANT FOR EFFORTS TO ACHIEVE BITA/JIVA TALKS TO BE PUT ON ONE SIDE.

PYM

DIST:

FRAME EXTERNAL

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ADDITIONAL DISTRIBUTION  
JAPANESE TRADE





CONFIDENTIAL

*Prime Minister, Japan*

PRIME MINISTER

NISSAN

I wrote to the Lord President on 19 July saying that it was likely that Mr Okuma of Nissan would announce, after his talks with me on 23 July, that the company had decided to defer a decision on the project for some months.

2 I have just met Mr Okuma, and he has confirmed that this will be the case. He is very apologetic about the situation, which has indeed arisen as a result of dissension on the Nissan Board. He will not be able to acknowledge this factor in the public statement which he intends to make on Saturday 24 July, but will say instead that the uncertain outlook for the world economy and the motor industry has meant that Nissan are not yet in a position to make a decision at present. He has assured me privately that there is no question of the terms which the Government have offered Nissan being responsible for the delay in their decision, and he will say publicly that a broad measure of agreement had been reached with the Government. He will also stress that what is involved here is a postponement of the decision and not a shelving of the project.

3 I have told Mr Okuma that I understand Nissan's difficulties in reaching a decision on a matter of such great importance, and



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that the Government's warm welcome for the project remains. I expressed the hope that it would not be too long before Nissan could take a firm decision in favour of the project, and gently pointed out that because conditions might change and protectionist pressures on the Government might increase, the present opportunity might not last for ever, and might not recur. I told him that my Department remained willing to hold discussions with Nissan's feasibility Study Team either in London or Tokyo, and that I looked forward to further discussions with him in the next few months.

4 I am intending to issue a short press statement on 24 July in response to the remarks which Mr Okuma will be making at his press conference earlier that day, and to make a fuller statement to the House on 26 July in response to a Written PQ. Copies of these two statements are at Annexes A and B to my minute.

*Flags A+B*

5 I am copying this minute to Members of the Cabinet, the Chief Whip, Sir Robert Armstrong, John Sparrow and the Chief Press Secretary at 10 Downing Street.

*Constance Varley*

*for P J (approved by the Secretary of State and signed in his absence)*  
23 July 1982

Department of Industry  
Ashdown House  
123 Victoria Street



123 Victoria Street, London SW1E 6RB TEL: 01-212 5491

Ref: 211

24 July 1982

NISSAN TALKS - STATEMENT BY MR PATRICK JENKIN MP  
SECRETARY OF STATE FOR INDUSTRY

The following statement was made today by Mr Patrick Jenkin, MP, Secretary of State for Industry, on the announcement by the Nissan Company to defer a decision on their car manufacturing project in the United Kingdom:

" I had a useful and constructive meeting with Mr Okuma on 23 July, and was encouraged to hear that Nissan are still actively considering investing in the UK. I understand their difficulties in reaching a decision in the present world economic situation.

" I continued to stress the Government's welcome for the project on the basis discussed between us ( on which a broad measure of agreement has been reached ) and I look forward to further discussions with the company before too long."





## DRAFT STATEMENT

I met representatives of Nissan on 23 July. They told me that their examination of the UK project was still not complete, and that it would be a little while before the company could reach a final decision. They regretted that their study was taking a good deal longer than originally expected, but they explained that it had had to take account not only of such matters as local content and Regional Financial Assistance, on both of which a broad measure of agreement had been reached, but also of fast-changing world economic circumstances which might affect their investment strategy.

I told the Nissan representatives that Her Majesty's Government continued to welcome the prospect of a Nissan project on the basis discussed between us, and that the Government, and public opinion generally, saw it as a potentially constructive development in Anglo-Japanese trade relations. I said that we understood the complexity and importance of the decision for the company, but emphasised nevertheless that we hoped they would be able to reach a favourable conclusion in the near future.





With the Compliments of

Robin B Nicholson

A.F.C.  $\frac{23}{7}$

H.A.

CENTRAL POLICY REVIEW  
STAFF

Cabinet Office  
Whitehall London  
SW1A 2AS

Telephone 01-233 3000



*Japan*

W.0457

23 July 1982

TO: SIR ROBERT ARMSTRONG  
FROM: DR NICHOLSON

cc: Mr Donald )  
Mr Martin ) FCO  
Mr Stark )  
Mr Khanna ) DoI  
Dr Goldstone )  
Mr Sparrow  
Mr Bailey  
Miss Rycroft (Dr Davies)  
Mr Coles (No 10)

TECHNOLOGY AGREEMENT WITH JAPAN

1. Following your discussion with Sir Hugh Cortazzi on 25 June, officials have had a number of discussions on the preparation of a document which maximises benefit to the UK and minimises the possibility of damage; we have consulted our Embassy in Tokyo throughout these discussions.
2. This morning we agreed on a draft which the FCO is now asking the Embassy to put to the Japanese. We believe that the draft takes care of all the significant points which have been raised both in Whitehall and in the Embassy.
3. The principal features of the proposed agreement are that it concentrates on technology (it is called 'An agreement on cooperation in the field of technology'), it makes Government Departments and agencies the vehicles of the agreement, and it places equal weight on cooperation in research for new technology and in the application of existing technology.
4. Science is included only insofar as the agreement mentions scientists working in technology. The proposed agreement will not cover science in universities and will therefore not affect existing scientific cooperation through The British Council, The Royal Society etc.
5. It is proposed to 'sell' the agreement to the Japanese on the basis that focussing cooperation in technology attends to the needs of the



moment and is in the spirit of Versailles. The agreement treats the UK and Japan as equals in stature in technology, which is probably advantageous to both sides.

6. Sir Hugh Cortazzi will be briefed on the above before he sees the Prime Minister this afternoon. I understand that he will be putting the idea of an agreement to her on the basis that this is one potentially positive aspect of a visit which necessarily has a number of strong negative aspects.

MSW .





Secretary of State for Industry

MUS 20/7  
 DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

19 July 1982

The Rt Hon John Biffen MP  
 Lord President of the Council  
 Privy Council Office  
 Whitehall SW1

Dear John,

NISSAN VISIT

As you may know, Mr Okuma, the Vice-President of Nissan, is returning to London on 23 July to let me know whether Nissan intend to proceed with their project to invest in a car manufacturing plant in the United Kingdom.

2 Most of the indications from Tokyo so far are that the Nissan Board will shortly decide to defer a decision on the project for another three months or so. They are clearly embarrassed by this situation, which is reported to have arisen as a result of dissension on the Nissan Board, and they are expected to make a public announcement about postponement of the project towards the end of Mr Okuma's visit, in which they are likely to emphasise that they are having to take into account fast-changing world economic circumstances, including the size of the European market and the company's situation in the US market, before reaching a final decision on the project.

3 If this is right, I do not think it would be necessary for me to do more than make a written statement to the House early next week in answer to an arranged PQ, confirming what the company will have told the Press.

4 If, on the other hand, the Nissan board take a more substantial decision on the project in advance of Mr Okuma's visit, it may be necessary for me at short notice to consider making an oral statement. Following recent messages from Norman Lamont to the company, and from me to Mr Abe, the MITI Minister, about the importance which the Government attaches to this project, Nissan are under greater pressure than before to reach a favourable decision. However, I think it is unlikely that they will be in a position later this month to do more than announce the postponement of a decision.

5 I am copying this letter to the Prime Minister, the





Chancellor of the Exchequer, the Foreign & Commonwealth  
Secretary, the Secretaries of State for Employment and Trade, the  
Chancellor of the Duchy of Lancaster and Paymaster General, the  
Chief Whip and Sir Robert Armstrong, John Sparrow and the Chief  
Press Secretary at 10 Downing Street.

Your  
S  
Katherine



EPS 410  
CONFIDENTIAL  
DESKBY 041200Z  
FM TOKYO 040740Z JUL 82  
TO IMMEDIATE F C O  
TELEGRAM NO 338 OF 4 JULY

CONFIDENTIAL

*Japan*

MIPT: NISSAN

1. OKUMA'S ACCOUNT STRONGLY SUGGESTS THAT NISSAN WILL TAKE A DECISION WITHIN THE NEXT TWO WEEKS TO POSTPONE THEIR PROJECTED INVESTMENT IN THE UK. HIS EMPHASIS ON THE REQUIREMENT THAT THE BOARD SHOULD VOTE UNANIMOUSLY, HIS OWN STATED PREFERENCE FOR A POSTPONEMENT, AND THE REMARKS ATTRIBUTED BY THE PRESS TO ISHIHARA, PRESIDENT OF NISSAN, THAT HE ALSO THINKS THAT AN INVESTMENT IN THE UK AT THIS STAGE MIGHT BE TOO RISKY, ALL POINT IN THE SAME DIRECTION. FUNDAMENTALLY THE COMPANY SEEMS TO BE REACHING A CONCLUSION THAT IN THE PRESENT CIRCUMSTANCES NEITHER A PROJECT ON THE ORIGINAL LINES NOR A SCALED, -DOWN SCHEME COULD BE MADE PROFITABLE IN THE FIRST FEW YEARS OF OPERATION. THE CONSENSUS ON THIS WITHIN THE COMPANY HAS BEEN BUILDING SLOWLY WITH ISHIHARA AND OKUMA HOLDING OUT UNTIL VERY RECENTLY FOR SOME SORT OF INVESTMENT DECISION NOW. THE REQUIREMENT FOR UNANIMITY WILL PROBABLY BE USED BY THEM TO ENSURE THAT THERE IS NOT A DECISION TO ABANDON THE PROJECT.

2. THE REASONS CITED BY OKUMA FOR PREFERRING A POSTPONEMENT CARRY WEIGHT, ALTHOUGH AS SEEN FROM HERE THEY ARE NOT ENTIRELY CONVINCING. OKUMA'S VIEW SEEMS TO HAVE SHIFTED SINCE HIS RECENT VISIT TO THE UNITED STATES. THIS COULD MEAN THAT NISSAN THINK THEY SHOULD PAY GREATER ATTENTION IN THE SHORT TO MEDIUM TERM TO PRESERVING THEIR POSITION IN THE AMERICAN MARKET (THE RECENT DECISION BY TOZ TA TO LINK UP WITH GM AND THE PROGRESS OF PROTECTIONIST LEGISLATION IN CONGRESS MAY BOTH BE OF SOME RELEVANCE HERE). THERE MAY BE OTHER MANAGERIAL OR FINANCIAL CONSIDERATIONS WITHIN NISSAN OF WHICH WE ARE UNAWARE: THE FORMER HAVE BEEN REFERRED TO OBLIQUELY BY THE PRESS IN RECENT WEEKS, ALTHOUGH FINANCIALLY THE COMPANY SEEMS TO HAVE HAD A GOOD YEAR OVERALL IN 1981/1982.

3. IN THESE CIRCUMSTANCES I HAVE RECONSIDERED THE ADVICE ABOUT POSSIBLE MESSAGES CONTAINED IN MY TELEGRAM INDUS 276. I THINK THAT THERE

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*/could*



COULD BE SOME ADVANTAGE IN SENDING A MESSAGE TO NISSAN WHICH I MIGHT DELIVER TOWARDS THE END OF THIS WEEK. THIS MIGHT PERHAPS BE ADDRESSED TO ISHIHARA AND COME FROM MR LAMONT. IN SUBSTANCE IT MIGHT TAKE NOTE OF THE DISCUSSIONS GOING ON INSIDE THE COMPANY, RECOGNISE THE PRESENT DIFFUCULT WORLD ECONOMIC CLIMATE, EXPRESS CONFIDENCE IN THE FUTURE OF THE BRITISH ECONOMY EVEN IN THE SHORT TERM, DEAL WITH CONCERNS ABOUT EXPORTS OF NISSAN CARS TO OTHER EC COUNTRIES FROM BRITAIN AND ABOUT SELECTIVE SAFE-GUARDS, REPEAT HMG'S POLICY OF WELCOMING THE NISSAN PROJECT, EXPRESS CONFIDENCE IN THE SATISFACTORY CONCLUSION OF POINTS STILL AT ISSUE IN THE NEGOTIATIONS ABOUT THE PROJECT, AND LOOK FORWARD TO OKUMA'S VISIT TO LONDON LATER THIS MONTH. IN VIEW OF NISSAN'S BROADLY-BASED CONCERNS ABOUT COMMITTING THEMSELVES TO THE PROJECT AT THIS TAGE, A CONCESSION OON ANYWARTICULAR OUTSTANDING POINT WOULD CARRY LITTLE WEIGHT EVEN IF ONE WERE CONSIDERED POSSIBLE FROM OUR SIDE. SUCH A MESSAGE WOULD LEAVE OPEN THE OPTION OF A SUBSEQUENT LETTER FROM MR JENKIN TO ABE, THE MITI MINISTER, SHOULD THIS SEEM APPROPRIATE (MITI OFFICIALS ARE QUOTED BY THE JAPANESE PRESS AS BEING CONCERNED ABOUT THE EFFECTS OF AN ADVERSE DECISION BY NISSAN ON ATTEMPTS TO BRING ABOUT WIDER INDUSTRIAL COLLABORATION BETWEEN THE UK AND JAPAN).

4. IF WE ARE APPROACHED BY THE PRESS HERE WE SHALL TAKE THE LINE THAT WE ARE AWARE OF PRESS REPORTS ABOUT DISCUSSIONS WITHIN NISSAN ABOUT THE UK PROJECT, THAT WE ARE IN TOUCH WITH THE COMPANY, AND THAT IT WOULD BE INAPPROPRIATE FOR US TO COMMENT AT THIS TIME, BUT WE EXPECT TO DISCUSS THIS FURTHER WHEN OKUMA VISITS LONDON LATER THIS MONTH.

5. FCO PLEASE PASS ADVANCE COPIES TO MOUNTFIELD, VEHICLES DIVISION, DOI AND SUTHERLAND DOT.

WHITEHEAD

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PS  
PS/MR HURD  
PS/LORD BELSTEAD  
PS/MR ONSLOW  
PS/MR RIFKIND  
PS/PUS  
MR EVAN

COPIES TO  
DOT  
(MR SUTHERLAND)  
DOI  
MR MOUNTFIELD  
(VEHICLES DIVISION)

COPIES SENT TO  
No. 10 DOWNING STREET



CONFIDENTIAL

DESKBY 041200Z  
FM TOKYO 040655Z JUL 82  
TO IMMEDIATE F C O  
TELEGRAM NO 337 OF 4 JULY

MY TELEGRAM INDUS 276 AND FCO TEL 238: NISSAN

1. I SPOKE TO OKUMA, EXECUTIVE VICE PRESIDENT OF NISSAN THIS MORNING IN THE LIGHT OF WIDESPREAD PRESS REPORTS HERE ABOUT THE CANCELLATION OR INDEFINITE POSTPONEMENT OF THE PROPOSED UK PROJECT.
2. OKUMA SAID THAT THE POSITION WAS AS FOLLOWS. NO DECISION HAD YET BEEN TAKEN ABOUT THE PROJECT, BUT THE COMPANY WAS DETERMINED TO REACH A CONCLUSION BEFORE OKUMA LEFT FOR THE UK ON 22 JULY. INTENSIVE DISCUSSIONS WOULD START IN THE WEEK BEGINNING 5 JULY WITH DECISIONS PROBABLY BEING REACHED SOME TIME DURING THE WEEK BEGINNING 12 JULY.
3. THE BOARD WOULD BE FACED WITH A CHOICE OF 3 OPTIONS:
  - A. A POSITIVE DECISION. THIS COULD EITHER BE TO STICK TO THE ORIGINAL PROJECT OR TO GO FOR A SCALED DOWN PROJECT (ROUGHLY 100,000 CARS A YEAR) IN THIS CASE NISSAN WOULD WISH TO ENTER INTO EARLY TALKS WITH THE UNIONS AND LOCAL AUTHORITIES:
  - B. A NEGATIVE DECISION, TO ABANDON THE PROJECT:
  - C. A POSTPONEMENT. OKUMA WAS NOT REPAIRED TO SPECULATE HOW LONG SUCH A POSTPONEMENT MIGHT BE BUT EMPHASISED THAT IN HIS VIEW, IF THIS COURSE WERE FAVOURED, IT WOULD GENUINELY BE A DELAY RATHER THAN A DIPLOMATIC WAY OF ABANDONING THE SCHEME. NISSAN STRATEGY WOULD HAVE TO INCLUDE THE ESTABLISHMENT OF A SUBSTANTIAL MANUFACTURING CAPABILITY IN THE EC SOONER OR LATER AND THE COMPANY'S PREFERRED COUNTRY IN WHICH TO DO THIS WAS THE UK.
4. OKUMA SAID THAT THE BOARD'S DECISION WOULD HAVE TO BE UNANIMOUS. HIS ADVICE WOULD BE THAT THE MOMENT WAS NOT RIPE FOR A POSITIVE DECISION AND THAT THE COMPANY SHOULD THEREFORE GO FOR A POSTPONEMENT. HE CITED THREE FACTORS:



A. OF GREATEST IMPORTANCE BY FAR WAS THE ADVERSE ECONOMIC SITUATION WORLD WIDE WHICH WAS PARTICULARLY AFFECTING MARKETS FOR CARS. IT WAS NOT YET CLEAR TO WHAT EXTENT AND OVER WHAT TIME SCALE THERE WOULD BE A RECOVERY. IT WOULD BE PRUDENT TO EXPECT THE 1980S TO BE A PERIOD OF LOW GROWTH:

B. THERE WAS UNCERTAINTY ABOUT THE ATTITUDE WHICH WOULD BE TAKEN BY OTHER EC COUNTRIES TOWARDS NISSAN CARS PRODUCED IN THE UK. NISSAN THOUGHT THAT THE LINE TAKEN BY HMG WITH THE ITALIANS OVER BL/HONDA CARS HAD BEEN ENCOURAGING BUT THE APPARENT PRESSURE BY THE TOP MANAGEMENT OF CAR MANUFACTURERS IN FRANCE AND ELSEWHERE TO RAISE THE LOCAL CONTENT QUALIFICATION FOR EC MANUFACTURED CARS TO 70 OF EVEN 80 PER CENT WAS DISTURBING. OKUMA TOOK MY POINT THAT THIS ATTITUDE WAS A NATURAL TACTIC ON THEIR PART AND WAS UNLIKELY TO BE ADOPTED AS EC POLICY:

C. THERE WAS LIKELY TO BE SERIOUS CONSIDERATION OF SELECTIVE SAFEGUARDS AT THE GATT MINISTERIAL MEETING IN NOVEMBER. THIS WAS ALSO OF CONCERN TO NISSAN.

5. PLEASE SEE MY IMMEDIATELY FOLLOWING TELEGRAM.

6. FCO PLEASE PASS ADVANCE COPIES TO MOUNTFIELD VEHICLES DIVISION DOI AND SUTHERLAND DOT.

WHITEHEAD

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PS

PS/MR HURD

PS/LORD BELSTEAD

PS/MR ONSLOW

PS/MR RIFKIND

PS/PUS

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FIVE SW

10 DOWNING STREET

*From the Private Secretary*

21 June, 1982

UK Industrial Sector under Threat  
from Japanese Imports

The Prime Minister has noted the contents of your Secretary of State's minute of 16 June.

**A.J. COLES**

John Rhodes, Esq.,  
Department of Trade

SW



SUBJECT

cc Markle

sp4.



10 DOWNING STREET

THE PRIME MINISTER

FILE

Japan

MJ.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T137/82

18 June, 1982

Dear Prime Minister,

Thank you for your message, conveyed to me by Ambassador Hirahara on 28 May, in which you outlined the latest trade measures adopted by your Government. I should like to take this opportunity to acknowledge also the more detailed material sent to the Foreign Secretary and the Secretary of State for Trade.

I welcome the further steps described in your message to open the Japanese market to increased manufactured imports. I see them as further evidence that your Government wishes to undertake a sustained effort to make the Japanese economy as open to inward trade and investment as the other major free economies.

I believe this sustained effort is very important both for your country and for other industrial countries, and that the secure maintenance of the open trading system certainly requires such an effort. As you know I much admire the economic success of your country, which has made the Japanese economy the second largest in the free world. I appreciate the great national effort which has been required to achieve this. But this success has been dependent on the open trading system and carries with it particular responsibilities towards that system.

/Exports

SW




Exports have played a very large part in your success. Japanese prosperity will be more secure and the risks of protectionist reactions less if your economy which has made so much progress now becomes a more open economy and one less dependent on exports for its growth.

So I hope that, given the strength of your economy, we may look forward quite soon to a situation, resulting from measures taken by the Japanese Government and private sector, in which Japan's import performance becomes comparable to that of other major developed countries, and to a time when there is a much more balanced interchange of trade, commerce and investment between Japan and the other free industrial economies. I am sure this would be to the benefit of us all. I hope therefore that the measures about which you wrote to me, useful as they are, will be followed by further and even more far reaching steps.

I look forward to discussing these issues with you when I visit Tokyo in September.

Yours sincerely  
Raymond D. White

His Excellency Mr. Zenko Suzuki





CONFIDENTIAL

Japan



Foreign and Commonwealth Office

London SW1A 2AH

17 June, 1982

Please type letter

A.F.C. 17/6

Dear John,

Mike Pattison wrote to me on 28 May enclosing a message to the Prime Minister from the Prime Minister of Japan. We agreed that given the delay in transmission in Whitehall we would have to await the outcome of the Versailles Summit before preparing a draft reply.

I am sorry this has taken rather longer than we would have wished, but I now enclose a draft cleared at senior official level with the Treasury and the DOT. It is intended to reflect our assessment (shared by the rest of the European Community) that the new Japanese trade measures represent another small step in the right direction but are still far from adequate. The Prime Minister may be able to add to the text in the light of her personal knowledge of discussions at Versailles (the records are sketchy).

Mr Suzuki is now on an official visit to South America. HM Ambassador Tokyo is probably best placed to transmit the Prime Minister's reply to him when he returns to Japan on 18 June. If you agree we will have the final text telegraphed as soon as it has been approved. We will also arrange for a copy to go to the Japanese Embassy here.

I am copying this letter to John Kerr (HM Treasury), John Rhodes (DOT) and David Wright (Cabinet Office).

Yours ever

(J E Holmes)  
Private Secretary

J E Holmes

A J Coles Esq  
Private Secretary  
10 Downing Street

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DRAFT LETTER FROM THE PRIME MINISTER TO:

Mr Zenko Suzuki  
Prime Minister of Japan

Thank you for your message, conveyed to me by Ambassador Hirahara on 28 May, in which you outlined the latest trade measures adopted by your Government. I should like to take this opportunity to acknowledge also the more detailed material sent to the Foreign Secretary and the Secretary of State for Trade.

I welcome the further steps described in your message to open the Japanese market to increased manufactured imports. I see them as further evidence that your Government wishes to undertake a sustained effort to make the Japanese economy as open to inward trade and investment as the other major free economies.

I believe this sustained effort is very important both for your country and for other industrial countries, and that the secure maintenance of the open trading system certainly requires such an effort. As you know, I much admire the economic success of your country, which has made the Japanese economy the second largest in the free world. I appreciate the great national effort which has been required to achieve this. But this success has been dependent on the open trading system and carries with it particular responsibilities towards that system. Exports have played a very large part in your success. Japanese prosperity will be more secure and the risks of protectionist reactions less if your economy which has made so much progress now becomes a more open economy and one less dependent on exports for its growth.



So I hope that, given the strength of your economy, we may look forward quite soon to a situation, resulting from measures taken by the Japanese Government and private sector, in which Japan's import performance becomes comparable to that of other major developed countries, and to a time when there is a much more balanced ~~one-way~~ interchange of trade, commerce and investment between Japan and the other free industrial economies. I am sure this would be to the benefit of us all. I hope therefore that the measures about which you wrote to me, useful as they are, will be followed by further and even more far reaching steps.

I look forward to discussing these issues with you when I visit Tokyo in September.

AR 12/6





2 pps

Prime Minister

To note.

MW

17.  
6

PRIME MINISTER

During the discussion by OD Committee on 27 May on HMG policy towards Japan, you raised the question of UK industrial sectors under threat from Japanese imports and not at present covered by voluntary restraint arrangements (VRAs).

Our own VRAs cover over a quarter of our imports from Japan last year (by value) - primarily vehicles and certain consumer electronic products. The European Community has also placed under post-entry surveillance a number of other imports from Japan which are causing concern to our industry, such as numerically controlled (NC) machine tools and colour television (CTV) picture tubes. Between 1976 and 1980 Japan's penetration of the UK NC lathe market increased from 15% to 32% and of the UK NC machining centre market from 0.5% to 30%. Imports of Japanese CTV tubes have also been rising rapidly - at a rate in 1981 which was some 60% faster than in 1980.

The UK fork lift truck industry has been facing growing competition from Japan - especially in the UK market for counter-balanced fork lift trucks, where Japanese manufacturers increased their share from 8% (by volume) in 1978 to 25% in 1981. The industry's trade association has prepared a detailed case which it hopes to discuss with the Japanese manufacturers in order to set up a VRA.

The UK weighing machine industry is also concerned about Japanese competition. Imports of Japanese shop scales rose from 2% penetration of the UK market in 1980 to 7% in 1981. This is particularly worrying since the pattern of Japanese attack on other geographical markets shows a rapid acquisition of dominant position: for example, starting in 1973 the Japanese had by 1981 captured 50% of the US market. The European trade association has recently presented recommendations to the Commission to limit such imports.





These are the industries which are already feeling the bite of Japanese competition but we can expect the range to widen and this will be accompanied by increasing pressure to curb Japan's attack. Concern is being expressed in fields such as scientific instrumentation, marine electronics and electronic components as well as product areas within the information technology field.

My Department will continue to monitor these and other sectors closely. We will also be pressing the Commission to continue to develop effective monitoring arrangements for the Community as a whole.

I am copying this letter to members of OD Committee.

A handwritten signature in blue ink that reads "Arthur Cockfield". The signature is written in a cursive style with a long, sweeping tail on the letter "d".

LORD COCKFIELD

Department of Trade

16 June 1982





T. P. O. M.

10 DOWNING STREET

*From the Private Secretary*

28 May 1982

I am writing on behalf of the Prime Minister to thank you for your letter of today's date, with which you enclosed a message from Prime Minister Suzuki to Mrs. Thatcher.

I shall place this before the Prime Minister at once.

M. A. PATTISON

His Excellency Mr. Tsuyoshi Hirahara





10 DOWNING STREET

From the Private Secretary

28 May 1982

*Dear John*

I enclose a message to the Prime Minister from the Japanese Prime Minister, which was forwarded through the Japanese Embassy today.

B/A  
I should be grateful if you could let us have the draft of a suitable reply as early as possible next week.

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury) John Rhodes (Department of Trade) and David Wright (Cabinet Office).

*Yours ever*

*Mike Patterson*

John Holmes, Esq.,  
Foreign and Commonwealth Office.

6





10 DOWNING STREET

PRIME MINISTER

---

cc Mr. Coles

Here is a message from the Japanese Prime Minister about further Japanese moves to open up their markets. We will let you have advice about a draft reply early next week.

*MP*

28 May 1982

*MP*



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 115/82

T 115/82

EMBASSY OF JAPAN  
UNITED KINGDOM

London, 28th May 1982

*Dear Prime Minister,*

I have been asked by Prime Minister Zenko Suzuki to forward a message to you.

I have pleasure in enclosing herewith the text of this message.

*Yours sincerely,*

*Tsuyoshi Hirahara*

Tsuyoshi Hirahara  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London.



SUBJECT

cc Master  
Ops

T E X T

Dear Prime Minister,

Our Government has been taking at our initiative a series of measures for further opening up our market since the end of last year for the purpose of contributing positively to the maintenance and strengthening of the free trading system and to the revitalization of the world economy. We decided in the ministerial meeting for external economic measures held today to put into effect further comprehensive measures to open up our market.

Foreign Minister Sakurauchi has already informed your Secretary of State in advance of the specifics of these measures. Let me just mention that these are comprehensive measures covering such wide areas as elimination of tariffs or reduction of tariff rates, enlarging import quotas on certain items, improvement and simplification of import and testing procedures, improvement in the distribution system and business practices, etc.

I am convinced that these measures represent the best we could do under the difficult domestic circumstances. I issued a statement after the ministerial meeting in which I appealed to the Japanese general public for their support and co-operation in our efforts to open up our market in the interest of promoting co-operation with other countries.

It is indispensable that we each make efforts and co-operate together in order to maintain

.../...



and strengthen the free trading system.

I hope strongly that the new set of measures be met with full appreciation. I intend to continue to follow up carefully on these measures to see to it that they be implemented and fully achieve the expected results.

Looking forward to seeing you again in Versailles.

Yours sincerely,

ZENKO SUZUKI

Prime Minister of Japan



GR 550

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[NEUTRAL]

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FROM TOKYO 270945Z MAY 82

TO IMMEDIATE FCO TEL NO 264 OF 27 MAY 82 AND RPTD IMMEDIATE  
UKREP BRUSSELS AND SAVING TO OTHER EC POST WASHINGTON UKMIS  
GENEVA UKDEL OECD

MIPT: SECOND JAPANESE TRADE PACKAGE.

1. FOLLOWING IS TEXT OF STATEMENT BY JAPANESE PRIME  
MINISTER ON THE OPENING OF THE JAPANESE MARKET WHICH  
WILL BE ISSUED AFTER CABINET MEETING TOMORROW:

THE EXTREME STAGNATION OF THE WORLD ECONOMY HAS GIVEN  
RISE TO MOUNTING PROTECTIONIST PRESSURES, AND THE FREE TRADING  
SYSTEM, WHICH HAS SUSTAINED THE DEVELOPMENT OF THE POST-WAR  
WESTERN ECONOMY, IS TODAY ABOUT TO BE IN JEOPARDY. JAPAN,  
WHOSE ECONOMY REPRESENTS TEN PERCENT OF THE WORLD ECONOMY,  
IS ASKED TO MAKE INTERNATIONAL CONTRIBUTION COMMENSURATE  
WITH ITS OWN POSITION. WE HAD TAKEN A SERIES OF LIBERALIZATION  
MEASURES WHICH RENDERED THE JAPANESE MARKET NO LESS OPEN  
THAN THOSE OF THE OTHER WESTERN COUNTRIES IN TERMS OF LEGAL  
INSTITUTION. WE CARRIED THE PROCESS ONE STEP FURTHER AND,  
FROM THE VIEWPOINT OF MAKING INTERNATIONAL CONTRIBUTION TO  
THE MAINTENANCE OF THE FREE TRADING SYSTEM, TOOK SUCH STEPS  
AS UNILATERAL REDUCTION OF TARIFFS AND ESTABLISHMENT OF  
THE "OFFICE OF TRADE OMBUDSMAN". FURTHER, WE HAVE TODAY  
DECIDED ON A COMPREHENSIVE SET OF MEASURES TO OPEN OUR  
MARKET FURTHER.

IN ORDER THAT THESE LEGAL AND INSTITUTIONAL MEASURES  
BRING ABOUT CONCRETE RESULTS, WHAT IS NECESSARY IS THE  
ATTITUDE TO WELCOME FOREIGN PRODUCTS OR FOREIGN INVESTMENT  
IN ACTUAL ADMINISTRATIVE MANAGEMENT AND ECONOMIC ACTIVITIES.  
JAPAN ALREADY ABOLISHED THE "BUY JAPANESE POLICY" ABOUT TEN  
YEARS AGO. SINCE THEN, JAPAN HAS BEEN MAKING A VARIETY OF  
EFFORTS, SUCH AS THE DISPATCHING OF IMPORT PROMOTION MISSIONS,  
TOWARD THIS END.

IT IS A FACT THAT, EVEN TODAY, PERCEPTIONS ABROAD ARE  
STILL NOT WITHOUT MISUNDERSTANDINGS OR MISTAKEN IMAGES.  
IT IS ARGUED THAT JAPAN STILL USES ADMINISTRATIVE GUIDANCE  
TO PROTECT ITS DOMESTIC PRODUCTS OR THAT THE JAPANESE CONSIDER  
EXPORT VIRTUE AND IMPORT VICE.

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| 1 WOULD



## RESTRICTED

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO ASK THOSE WHO ARE ENGAGED IN PUBLIC ADMINISTRATION AS WELL AS THE PEOPLE IN PRIVATE FIRMS WHO ARE BEARING THE BRUNT OF EVERYDAY ECONOMIC ACTIVITIES TO BE EVEN MORE CLEAR AND FORTHCOMING IN TAKING THE ATTITUDE OF EXTENDING A WELCOMING HAND TO FOREIGN PRODUCTS AND INVESTMENTS AND NOT DISCRIMINATING AGAINST THEM.

IN ORDER TO EXPAND IMPORT OF MANUFACTURED PRODUCTS TO THE JAPANESE MARKET. I WOULD LIKE TO ASK THE PEOPLE CONCERNED TO GIVE THEIR MAXIMUM ASSISTANCE TO FOREIGN FIRMS! THEIR EFFORTS TO DEVELOP PRODUCTS WHICH WILL MEET THE MARKET CONDITION AND CHOOSE THE DISTRIBUTION SYSTEM IN JAPAN, ETC.

I FIRMLY BELIEVE THAT IN TODAY'S WORLD ECONOMIC SITUATION, IT IS VITAL FOR JAPAN, ON THE BASIS OF ITS POSITION IN THE INTERNATIONAL COMMUNITY, TO MAKE CONTRIBUTIONS WORTHY OF ITS ABILITY TOWARDS THE REVITALIZATION OF THE WORLD ECONOMY AND EXPANSION OF THE WORLD TRADE.

I APPEAL TO THE JAPANESE PEOPLE FOR THEIR UNDERSTANDING AND COOPERATION.

F C O PLEASE PASS SAYING TO OTHER EC POSTS , WASHINGTON, UK MIS GENEVA, UK DEL OECD.

CORTAZZI

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INTERNATIONAL TRADE  
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FM TOKYO 270915Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NO 263 OF 27 MAY

RFI UKREP BRUSSELS

SAVING OTHER EC POSTS, WASHINGTON UKMIS GENEVA AND UKDEL OECD

MIPT:

SECOND JAPANESE TRADE PACKAGE

THE MAIN PROVISIONS OF THE SECOND TRADE PACKAGE ARE AS FOLLOWS:

A. A STATEMENT BY THE PRIME MINISTER ASKING CIVIL SERVANTS AND EMPLOYEES OF PRIVATE FIRMS TO EXTEND A WELCOME TO FOREIGN PRODUCTS AND INVESTMENT AND TO ASSIST FOREIGN FIRMS IN THEIR EFFORTS TO SELL IN JAPAN. TEXT IN MIFT.

B. TARIFFS

TARIFFS ON 96 ITEMS ARE TO BE ELIMINATED WITH EFFECT FROM 1 APRIL 1983. LIST IN MY CREDIA TELEGRAM NO 198. TARIFFS ON A FURTHER 119 ITEMS ARE TO BE REDUCED FROM 1 APRIL 1983. LIST IN MY CREDIA TELEGRAM NO 199. THE AMOUNT WHEREBY THE TARIFFS WILL BE REDUCED WILL BE ANNOUNCED AFTER THE NECESSARY PROCEDURAL STEPS WITHIN THE JAPANESE GOVERNMENT HAVE BEEN TAKEN. THE CHOCOLATE, CONFECTIONERY AND BISCUITS TARIFFS ARE INCLUDED IN THE LIST OF ITEMS ON WHICH TARIFFS WILL BE REDUCED, BUT NOT WHISKY. WE ARE ATTEMPTING TO OBTAIN FROM MITI DETAILS OF THE ACTUAL TARIFF REDUCTIONS PROPOSED.

C. QUOTAS

MARKET ACCESS FOR HERRING, PREPARED AND PRESERVED PORK, HI-TEST MOLASSES AND CANNED PINEAPPLES WILL BE IMPROVED BY INCREASES IN THE AMOUNT OF IMPORT QUOTAS OR BY SETTING THE MINIMUM AMOUNT OF IMPORT QUOTAS.

D. IMPROVEMENTS TO PROCEDURES

FURTHER EFFORTS WILL BE MADE TO IMPROVE IMPORT TESTING AND CUSTOMS CLEARING PROCEDURES. FOREIGN ENTITIES AND INDIVIDUALS

WILL BE ALLOWED TO PARTICIPATE IN THE FORMULATION OF STANDARDS. 8-

E. TOBACCO

THE NUMBER OF RETAILERS HANDLING IMPORTED TOBACCO PRODUCTS WILL BE INCREASED AND LIMITATIONS ON ADVERTISING EXPENDITURE WILL BE RELAXED FOLLOWING CONSULTATION BETWEEN DOMESTIC AND FOREIGN COMPANIES ON TECHNICALITIES.

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F. DISTRIBUTION SYSTEM

FOREIGN ENTITIES AND INDIVIDUALS ARE INVITED TO PRESENT THEIR VIEWS ON THE DISTRIBUTION SYSTEM AND BUSINESS PRACTICES TO THE COMMITTEE FOR MANUFACTURED GOODS

IMPORT MEASURES

G. ANTI-COMPETITIVE PRACTICES

PRACTICES THAT RESTRICT COMPETITION IN DISTRIBUTION OF IMPORTED GOODS WILL BE COUNTERED, WHERE APPLICABLE, BY THE ANTI-TRUST LAW.

H. SERVICES

THE JAPANESE GOVERNMENT WILL CONTRIBUTE CONSTRUCTIVELY TO FORMULATION OF INTERNATIONAL RULES ON TRADE IN SERVICES IN THE GATT. THE POLICY OF NATIONAL TREATMENT FOR FOREIGN ENTITIES IN BANKING, INSURANCE AND SECURITIES BUSINESS IN JAPAN WILL BE MAINTAINED. BUSINESS ASSOCIATION IN THESE FIELDS ARE ASKED TO PROVIDE MORE INFORMATION ON MARKET ENTRY AND OPERATION IN JAPAN. THE GOVERNMENT WELCOMES DIRECT INVESTMENT IN JAPAN BY FOREIGN ENTITIES AND INDIVIDUALS. IT WILL IMPLEMENT MEASURES TO RELAX RESTRICTIONS ON THE USE OF THE TELECOMMUNICATIONS NETWORK FOR DATA PROCESSING, WHILE MAINTAINING NATIONAL TREATMENT. NEGOTIATIONS BETWEEN THE JAPAN FEDERATION OF BAR ASSOCIATION CONCERNING FREEDOM TO PRACTICE LAW IN JAPAN BY AMERICAN LAWYERS WILL BE EXPEDITED.

I. HIGH TECHNOLOGY

THE JAPANESE GOVERNMENT WILL PROMOTE R AND D SUITABLE FOR INTERNATIONAL COOPERATION AND WILL MAINTAIN A NON-DISCRIMINATORY POLICY WITH REGARD TO PARTICIPATION BY PARTIALLY OR WHOLLY FOREIGN OWNED JAPANESE FIRMS WITH SUBSTANTIAL RESEARCH CAPABILITIES IN PROJECTS SUPPORTED BY THE GOVERNMENT. THE POSSIBILITY OF JOINT R AND D OF ADVANCED TECHNOLOGY BETWEEN JAPAN AND THE US AND JAPAN AND EUROPE WILL BE STUDIED.

J. GOVERNMENT PROCUREMENT

PROCUREMENT OF GOODS BY GOVERNMENT AGENCIES WILL CONTINUE TO BE MADE IN ACCORD WITH THE GOVERNMENT PROCUREMENT CODE.

K. INDUSTRIAL COOPERATION WILL BE ENCOURAGED.

2  
RESTRICTED

/1.



# RESTRICTED

## 1. EXPORTS

EFFORTS WILL CONTINUE TO BE MADE TO AVOID EXCESSIVE EXPORTS  
IN SPECIFIC PRODUCT CATEGORIES.

3. COPIES OF BACKGROUND DOCUMENTS WERE SENT TO LONDON BY TODAY'S  
UNCLASSIFIED BAG. FURTHER COMMENT WILL FOLLOW AFTER DETAILED  
ANALYSIS.

FCO PSE PASS SAVING ADDRESSEES

CORTAZZI

REPEATED AS REQUESTED

INTERNATIONAL TRADE  
FED



GRS 420

[NEUTRAL]  
RESTRICTED

RESTRICTED

FM TOKYO 270915Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 262 OF 27/5/82

REPEATED IMMEDIATE UKREP BRUSSELS

AND SAVING TO OTHER E C POSTS, WASHINGTON UKMIS GENEVA AND UKDEL <sup>OECD</sup>

SECOND JAPANESE TRADE PACKAGE.

1. MR SAKURAUCHI, THE JAPANESE FOREIGN MINISTER, CALLED IN EUROPEAN AMBASSADORS TODAY AND HANDED OVER DOCUMENTS ABOUT THE ANNOUNCEMENT TO BE MADE TOMORROW BY THE JAPANESE GOVERNMENT ON FURTHER TRADE LIBERALISATION MEASURES. MR SAKURAUCHI WHO READ FROM A PREPARED STATEMENT, STRESSED THAT JAPAN RECOGNISED ITS INTERNATIONAL ECONOMIC RESPONSIBILITIES.

IT HAD TAKEN MEASURES TO OPEN ITS MARKET AND WISHED TO CONTRIBUTE TO THE MAINTENANCE OF THE FREE TRADE SYSTEM. FURTHER MEASURES WERE NOW BEING TAKEN IN RESPONSE TO REQUESTS FROM THE US AND THE EC. MR SUZUKI HAD INVOLVED ALL THE DEPARTMENTS CONCERNED AND REDUCTIONS IN TARIFFS, INCLUDING THOSE ON CHOCOLATES AND BISCUITS AS WELL AS CERTAIN MACHINE TOOLS, AND THE INCREASE IN QUOTAS, EG. ON PORK, WOULD BE OF INTEREST TO THE EUROPEANS. HOWEVER, THE CONCESSIONS WERE OF COURSE BEING MADE ON A GLOBAL BASIS.

3. MR SAKURAUCHI REFERRED ALSO TO A STATEMENT TO BE MADE BY THE PRIME MINISTER (OF WHICH WE OBTAINED A COPY LATER). A SINCERE EFFORT WOULD BE MADE TO CARRY OUT ITS INTENTIONS AND HE HOPED THERE WOULD BE CONCRETE RESULTS. HOWEVER, WE SHOULD BE AWARE THAT THERE WERE VARIOUS DOMESTIC DIFFICULTIES IN JAPAN AND ALTHOUGH THE COOPERATION OF ALL CONCERNED WOULD BE SOUGHT WE SHOULD UNDERSTAND THAT THIS WOULD NOT BE EASY TO ACHIEVE.

RESTRICTED

/4.



## RESTRICTED

4. AT FIRST GLANCE THE NON-TARIFF BARRIER MEASURES IN THE SECOND TRADE PACKAGE DO NOT SEEM TO AMOUNT TO VERY MUCH AND IT STRUCK ME THAT THE TARIFF REDUCTIONS ARE GENERALLY SPEAKING ON GOODS OF NOT A GREAT DEAL OF INTEREST TO US BUT CLEARLY WE MUST WELCOME THEM AS A SMALL STEP IN THE RIGHT DIRECTION AS WE DID THE PREVIOUS MEASURES. THE LINE TO TAKE MUST OBVIOUSLY BE THAT WE LOOK FOR DEEDS RATHER THAN WORDS IE. INCREASED IMPORTS.

5. PLEASE SEE M I F T.

F C O PLEASE PASS SAVING TO ALL E C POSTS, WASHINGTON, UKMIS GENEVA, AND UKEDL OECD.

CORTAZZI

REPEATED AS REQUESTED

INTERNATIONAL TRADE  
FED





B

Japan

PRIME MINISTER

We are due to discuss in OD(E) later this week the report of the group of officials on Policy Towards Japan, which has now been circulated by Sir Robert Armstrong under his note OD(82)43. At a meeting of E Committee on 25 February my predecessor was invited to circulate a memorandum on the problems arising from the trading policies of Japan, which could be discussed at the same time as the Official Group's report. The trade problem seems to me to be dealt with quite adequately in the paper which we shall have before us, and although there are of course a number of points I shall want to make at the meeting, I do not think there is any need for me to prepare a separate note for this occasion.

Copies go to our E colleagues and Sir Robert Armstrong.

LORD COCKFIELD

*(Approved by Secretary of State,  
and signed in his absence)*

Department of Trade

26 May 1982





Ref: B06508

PRIME MINISTER

c Sir Robert Armstrong

Policy Towards Japan  
(OD(82) 43)

## BACKGROUND

1. In discussion of policy towards Japan at a meeting of Permanent Secretaries last January, it was agreed that we needed to work out a more coherent strategy for handling our economic and political relations with Japan. As a result, MISC 68 was set up to prepare a report for Ministers which would define as clearly as possible what should be our long-term relationship with Japan. This is the report before OD, circulated under cover of a note by the Secretary of the Cabinet.

2. You may recall that last February, E Committee invited the Secretary of State for Trade to circulate a memorandum on the problems arising from Japanese trade policies (E(82) 6th Meeting, Item 4). The Secretary of State for Trade is writing this afternoon to say that he regards the trade problem as adequately dealt with in OD(82) 43 and that no memorandum is necessary.

FLAG A  
FLAG B

3. The Chancellor of the Exchequer has circulated a speaking note on Japanese macro-economic policy for your use at Versailles, based on paragraph 8 of the note by the Secretary of the Cabinet (OD(82) 43).

FLAG C

4. The purpose of the discussion in OD is to enable Ministers collectively to comment on the work that has been done, on the line that you might take at the Versailles Economic Summit next week, and to consider whether further work needs to be set in hand thereafter.

5. The Secretary of State for Industry has been invited to attend.





## HANDLING

6. There is no lead Department on this broad subject. You may wish to introduce the discussion, drawing on the note by the Secretary of the Cabinet. You may wish to stress the following points.

(a) The elaboration of a general British policy towards Japan is an exceptionally complex and difficult matter: we cannot act in isolation from our partners and allies. In the key area of trade policy, our European Community membership means that we are not free agents.

(b) The report by officials poses the main questions about our relations with Japan which need to be considered.

(c) The key question is whether the West collectively can afford to be tough with the Japanese in the knowledge that at the end of the day they have no real alternative to maintaining their close links with the West.

(d) It would be tactically unwise for the United Kingdom to get out ahead in taking a tough line with Japan and so finding ourselves isolated. At Versailles we should aim to get a serious discussion going about the Japanese problem without ourselves making all the running. In the light of that discussion, we should consider what scope there is for a tougher approach.

7. You might then invite the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and the Secretary of State for Industry to comment on the paper as it affects their particular responsibilities.

## CONCLUSIONS

8. Subject to the discussion, the aim should be to secure agreement to the conclusions in paragraph 10 of the note by the Secretary of the Cabinet (OD(82) 43).

*ADS Goodall*

26th May 1982

A D S GOODALL





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

POLICY TOWARDS JAPAN

Paragraph 8 of Sir Robert Armstrongs note OD(82)43 mentioned that the Treasury were working out a speaking note about Japan on which you could draw at the Versailles Summit. It may be helpful to have this before us at OD tomorrow, and I attach the draft which officials have prepared.

.....

2. I think it is important that we should not pull our punches with the Japanese and should impress on them the risks to which their policies expose them. I believe we also have to urge this line in the Community, and the analysis in the speaking note is intended to attract wide support.

3. The Japanese would be reassured if others failed to support us: indeed they might form the impression that substantial pressure comes from the UK alone. That makes the effort of persuasion with Community partners, and also with the Americans, all the more important.

4. Copies of this minute go to our OD colleagues, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

26 May 1982



SPEAKING NOTE ON JAPAN AND THE OPEN WORLD ECONOMIC SYSTEM

1. Welcome steps which Japan has been taking to open up its domestic markets rather more to imports. But must say there is a long way to go before Japanese economy is same kind of open economy, in trade, investment and finance, as other major free economies. Very important because Japan now second largest free economy.
  
2. Open market economy can only work if openness is reciprocal between us in all the major areas of trade, investment, finance. Free flow of capital goes with free flow of trade. Have mutual responsibility here. If a major partner takes from the system without contributing to it to a corresponding extent, that promotes resentment, protectionism.
  
3. Worry that strong, successful Japanese economy which has benefitted greatly from open trading system is still itself much less open than other Summit economies. Some facts:
  - i. excess of growth of exports over growth of imports has contributed almost 1½ per cent a year to growth of Japan since 1973. More than offset extra cost of oil. In other Summit countries net external expansion contributed on average about ¼ per cent a year to growth over same period.
  
  - ii. imports of manufactures about 10 per cent of GDP in other Summit countries, 3 per cent in Japan. Share in Japan fallen sharply over last 20 years.
  
  - iii. Japanese exports concentrated. If look at top 5 categories of exports in Japan, Germany, UK - they account for 60 per cent of all Japanese exports, 45 per cent of all German exports, 38 per cent of UK exports. Nature and direction of Japanese exports such that official export credit covers 8 per cent of them - more than any other Summit country. Four per cent average for OECD countries generally.



- iv. direct investment in Japan difficult. In 1980 direct investment in US \$11 billion; UK \$5 billion; France \$3 billion; Japan only \$300 million.
- v. very high Japanese savings. But Japanese direct investment overseas modest. 1980 - US \$18 billion; UK \$6 billion; Germany \$4½ billion; Japan \$2½ billion.
- vi. role of yen small in international trade and finance compared with Japanese strength. World trade invoiced: 55 per cent dollars; 14 per cent deutschemarks; 8 per cent sterling; 6 per cent French francs; yen 2 per cent. And in official reserves dollar 70 per cent; DM 14 per cent; yen 3 per cent.

4. Cumulatively, suggests situation which puts strain on system, which is important to all of us and particularly important to Japan. Urgent need to move fast to more open economy as regards imports and movement of capital. But also to less dependence on exports for growth while this major adjustment is underway.

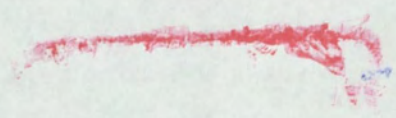
5. Risk that Japan so dependent on exports for growth that if export demand falters, eg because of recession in US, powerful Japanese economy stops growing. Seems to have happened recently.

6. Immediate problem worse if effect of Japanese policies is to produce not only heavy dependence on exports but low valuation of yen. Not just US interest rates. Japanese policies also enter into this. Yen now over 6 per cent lower than early in 1981.

7. Urge Japanese colleagues to devote similar resolution to this problem of lack of openness of Japanese economy as they successfully applied to oil shock. In their interests and ours to honour the basic principles of the free and open economic system. If not - grave risks of protectionism.



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**CONFIDENTIAL**

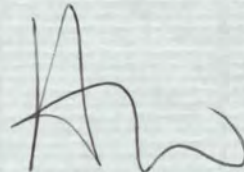
cc Mr. Mount  
Mr. Vereker  
Mr. Scholar

MR. COLES

OD(82)43: POLICY TOWARDS JAPAN

1. Although I agree with much of what is said in Robert Armstrong's covering letter and the report by the official group, it seems to me there is a very important omission in the analysis and consequently in the policy proposals. It fails to recognise the dominant reason for the superiority of Japanese industry, both in productivity and quality, especially in the manufacturing sectors. The main reason is simply the overwhelming efficiency of Japanese management. The fact that Japanese-managed firms in the UK, with unionised labour, produce at least twice as much per head, with the same technology, as UK-managed firms in Britain, is well-known, particularly in the consumer electronics business. And it's not just a matter of productivity, but the quality of products under Japanese management, even with British labour, is far higher than under British management.
2. These conclusions have been highlighted by a study carried out by the International Centre for Economics and Related Disciplines at the LSE - financed I believe largely by Japanese money and controlled by Michio Morishima.
3. I should have thought then that the central problem is to get Japanese management methods in Britain. These methods are spreading rapidly and with enormous success in the Far East in countries such as Taiwan, South Korea and Singapore. I suspect they will begin to spread in South Asia extensively over the next decade. I believe that Britain should be well in the van of encouraging Japanese management in this country.

*Agreement among rest of us.*



26 May 1982

ALAN WALTERS

**CONFIDENTIAL**



MFJ

Japan

10 March 1982

Thank you for your letter of  
9 March enclosing a letter from the  
former Minister for Foreign Affairs  
of Japan.



Mr. Hidehiko Hamada

26



SUBJECT

cc. Harter  
Sya

OFFICE OF THE PRIME MINISTER  
TOKYO



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T42c/82

Translation

March 9, 1982

Dear Prime Minister,

It gives me great pleasure to send this letter through Mr. Masumi Esaki, an old friend and most trusted colleague in the Liberal Democratic Party. Mr. Esaki is of highest stature in the Party and has served as Minister of International Trade and Industry, Minister for Home Affairs and Chairman of the National Public Safety Commission, Minister of State and Director General of the Defence Agency as well as Prime Minister ad interim in the Ohira Cabinet. I have, therefore, taken the liberty of asking Mr. Esaki to visit the United Kingdom as Special Envoy of the President of the Liberal Democratic Party to exchange views with the distinguished leaders of the British Government and the Parliament on the economic relations between Japan and the United Kingdom.

As you are aware, I have placed the smooth development of external economic relations as one of the primary aims of the new Cabinet. Accordingly, I decided to establish the Ministerial Conference for Economic Measures to expedite the work involved and,

at

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister of the United Kingdom  
of Great Britain and Northern Ireland



at the same time, created the Special Committee for International Economic Measures within the Liberal Democratic Party. It is Mr. Esaki that I called upon to serve as chairman of the Committee, and it is with his assistance and efforts that I sought to pursue the examination of various issues concerned by the Party.

As I see the current international economic situation, I am deeply concerned about the increasing protectionist tendencies in some quarters. As I mentioned to you in June last year, the maintenance and strengthening of the multilateral and open trading system not only meet with the interests of our two countries but are indispensable for the peace and prosperity of the Western nations which share the basic political and economic values of liberty and democracy as well as the peace and prosperity of the world as a whole. This recognition was reaffirmed at the Ottawa Summit last year. We must seek, with our further efforts and cooperation, to revitalize the world economy under the free trading system.

I would like to pay my profound tribute to you for the consistent policies, including one to control inflation, which you have been pursuing since taking up your post, and for your resolute stand that the United Kingdom should contribute to the development of the world economy through the maintenance and strengthening of the free trading system. On my part, I am determined to do

my



my utmost to further strengthen the cooperative relationship between Japan and the United Kingdom and to work together with you in making positive contributions toward our common goal.

I look forward very much to seeing you at the next Summit Meeting in June and also to welcoming you on the occasion of your planned visit to Japan this autumn. I am convinced that, the relations between our two countries will be further promoted through these closer contacts between us.

I wish to take this opportunity to extend to you my most sincere regards and my best wishes for your continued good health and success.

Yours sincerely,

Zenko Suzuki  
Prime Minister of Japan



首相閣下

ここに、私の永年の友人であり、最も信頼する同僚である江崎真澄君を御紹介申し上げます。同君は、自由民主党内において重きをなし、大平内閣において総理大臣臨時代理をつとめた他、通商産業大臣、自治大臣・国家公安委員長、防衛庁長官を歴任した経験がありますが、今般、自由民主党総裁としての私の特使として貴国を訪問し、貴国政府・議会等の要人と日英経済関係につき広く意見交換を行うよう特にお願いした次第であります。

御承知のとおり、私は新内閣において対外経済関係の円滑なる発展を大きな政策の柱とし、経済対策閣僚会議を設けて作業を進めて参りましたが、同時に、自由民主党内に対外経済政策特別調査会を設置することとしました。この調査会の会長をお願いしたのが、江崎君であり、同君の尽力を得て、党による問題検討の促進をも図つて参つたのであります。



私は、現下の国際経済情勢をみるに、一部に保護主義的傾向が台頭しつつあることを深く憂慮するものであります。昨年六月に閣下と会談した際にも申し上げた通り、多角的開放的な貿易体制の維持・強化をはかることは、日英両国の利益に合致するのみならず、自由と民主主義という政治・経済上の基本理念を同じくする西側諸国、ひいては、世界の平和と繁栄にとつて不可欠であります。このことは、昨年のオタワ・サミットにおいても確認されているところであります。あり一層の努力と協力を重ね、自由貿易体制の下に世界経済の再活性化をはからなければならぬのであります。

私は閣下が御就任以来インフレ抑制等一貫した施策を展開されるとともに、自由貿易体制の維持・強化を通じて世界経済の発展に貢献するとの確固たる方針を示しておられることに敬意を払うものであり、私としても貴国との協力関係を一層強化しつつ、同じ目的に向つて積極的に貢献してゆく所存であります。



来る六月のサミットの機会に、また、今秋閣下を我が国にお迎えしてお目にかかれることは私の喜びとするところであり、この様な交流を通じ日英関係が一層発展してゆくものと確信しております。

この機会に閣下に対し敬意を表しますとともに閣下の御健康と御健闘を心から祈念します。

昭和五十七年三月九日

日本国内閣総理大臣

鈴木善幸

グレート・ブリテン及び北部アイルランド連合王国  
マーガレット・サッチャー 首相閣下



010  
01-493 6030.

EMBASSY OF JAPAN,  
46, GROSVENOR ST.,  
LONDON,  
W1X OBA

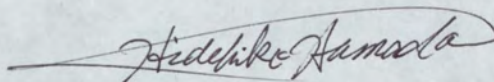
9th March 1982

Dear Mr. Coles,

... I am enclosing herewith a letter  
from the former Minister for Foreign Affairs of  
Japan, Mr. Sunao Sonoda, addressed to the Prime  
Minister.

I apologise for the delay in forwarding  
this letter which was inadvertently filed away.

Yours sincerely,

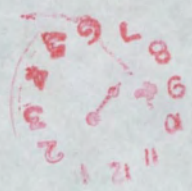


Hidehiko Hamada  
Private Secretary  
to the Ambassador

A.J. Coles, Esq.,  
Private Secretary (Overseas Affairs),  
Prime Minister's Office,  
10, Downing Street,  
London, S.W.1.



EMBASSY OF JAPAN  
1000 OVERTON ST  
TORONTO  
ON M5C 1A4



10 MAR 1982



MINISTRY OF FOREIGN AFFAIRS  
TOKYO, JAPAN

November 30, 1981

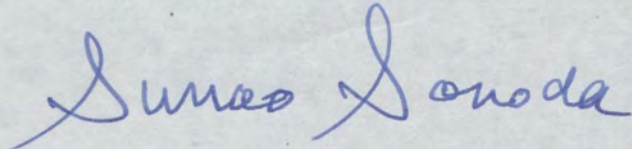
The Right Honourable Margaret Thatcher, M.P.  
Prime Minister of the United Kingdom of  
Great Britain and Northern Ireland  
London

Dear Prime Minister,

I am to leave the office of Minister for Foreign Affairs. Upon my departure from the office, I wish to express to Your Excellency my sincere gratitude for the warm friendship and cooperation you have extended to me during my tenure of office.

I believe there will be opportunities for us to meet again, and I hope our friendship will always remain unchanged.

Sincerely yours,



Sunao Sonoda





Prime Minister (2)

MCS 9/3

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin, MP  
 Secretary of State  
 Department of Industry  
 Ashdown House  
 123 Victoria Street  
 London SW1

8 March 1982

*P. Jenkin*

*ML*

NISSAN

I have seen your minute of 25 February to the Prime Minister, and her response recorded in her Private Secretary's letter of 1 March.

It seems to me very important that you should stand firm on the conditions you have offered - with the increased SFA offer of 12 per cent if that is essential to land the project. I note that you have had to make concessions on local content and have not been able to persuade Nissan to move above 60 per cent and 80 per cent on their definitions: I think it is essential that you do not concede anything lower than these figures. Equally, I strongly support your proposal that if Nissan do accept your offer of selective assistance you should resist any subsequent attempt to increase the SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area.

I also believe it is important that you should refuse to contemplate going above an offer of 12 per cent SFA. That would already be a fairly generous offer, and while I accept the importance of Nissan's investment there are limits on how much it is worthwhile to spend to attract them. The implications of this offer for your public expenditure programme is something we shall deal with in this year's public expenditure survey.

I am copying this letter to the Prime Minister, to other members of E(EA), to the Foreign Secretary and to Sir Robert Armstrong and Mr Ibbs.

*Leon Brittan*

LEON BRITTAN



-9 MAR 1962

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



CONFIDENTIAL

*Japa ds*



10 DOWNING STREET

*bc A. Auguid*

c DOE	D/N
SO	D/M
WO	FCO
TRADE	CO
CS, HMT	CPRS

*From the Private Secretary*

1 March 1982

NISSAN

The Prime Minister was grateful for your Secretary of State's minute of 25 February. She agrees that the tentative offers your Secretary of State has authorised are fully justified and that we should continue our efforts to attract Nissan here. She agrees that your Secretary of State should be authorised to increase the SFA offer to a maximum of 12% at the final stage if it is essential to clinch the deal. She agrees, too, that once the deal has been clinched, the Government should firmly resist any subsequent attempt to increase its SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area.

I am copying this letter to the Private Secretaries to the members of E(EA), John Holmes (Foreign and Commonwealth Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

*MCS*

Jonathan Spencer, Esq.,  
Department of Industry.

CONFIDENTIAL

*5*



Prime Minister

①



~~CAD~~

The Policy Unit

Think this a reasonable and sensible approach.

PRIME MINISTER

Agree W? Yes  
X? Yes {but - how much?}  
Z? Yes  
in para 6? MCS 26/2

NISSAN

I last reported on the Nissan negotiations in December (my minute of 15 December to you). Since then, officials have visited Tokyo for "clarification talks", and last week the Nissan team headed by Mr Okuma returned to London. Negotiations were conducted by officials, but I had a meeting with Mr Okuma myself at which I made clear the main lines of our position. Nissan had intended this to be the final round, leading if successful to consideration by the Nissan Board and by our own Industrial Development Advisory Board, followed by announcement of a decision in principle and then negotiations on choice of site. In the event, for reasons I believe may reflect internal conflicts in Nissan, Mr Okuma has returned to Tokyo to consider our latest offers, and proposes to respond in two or three weeks; they insist that, if the result is favourable, there should be no announcement until after they have chosen a site (to avoid prejudicing local negotiations) and reached agreement with the unions, so that any announcement would be at least two to three months away.

2 You will recall that the original proposal announced in January 1981 was for a feasibility study on a plant to start at a rate of 60,000 units a year in 1984, reaching full production of 200,000 units a year in 1986, with local (EEC) content of a 60% start and 80% "as soon as practicable" after reaching full





production. Local content was not at that stage defined. After the feasibility study, it became clear that Nissan's timing had slipped, to a start in 1986 and full production in 1990, and that their definition of local content was considerably less favourable (by 6-7%) than ours. In November, I had told Nissan we might accept their definition provided they agreed to figures of 65% and 85% in return; I also said I would be prepared to recommend selective financial assistance (SFA) of 8% (in addition to Regional Development Grants (RDG) at the appropriate rate according to location) provided they moved towards our requirements on other matters including local content and timing.

3 Four main issues remained during the present talks:

(i) timing: under pressure from us, Nissan have agreed to accelerate the start of commercial production to the very end of 1985 instead of early 1986. They will not accelerate full production, though they say they plan to operate at an annual rate of 200,000 units by the end of 1989. They have agreed to bring forward one part of the engine plant (sub-assembly) by one year to 1988. These are presentationally helpful, but little more.

(ii) local content: despite my proposal in November that we might accept Nissan's definition if they increased the percentages to 65% and 85%, Nissan have not only continued to insist on their definition (to avoid





what they see as a very damaging international precedent for Nissan and other Japanese companies investing overseas) but have also refused to accept higher percentages than 60% and 80%. I had hoped to negotiate at least some mention of these higher figures, but it became clear that if we persisted, the negotiation would break off on this point. Mr Okuma has, however, conceded that 60% and 80% should be regarded as minimum figures, and that Nissan's agreement should include a "firm intention to obtain even higher levels". He has accepted a commitment to raise local content between the 60% and 80% levels steadily in line with growth of production, rather than sticking to a low level throughout the build up period which was implied in the company's earlier submissions. We have also been able to negotiate arrangements for annual monitoring of lists of components (actual and forecast), an annual auditors' certificate of local content achieved, and some protective wording on transfer pricing which might affect the calculation of local content. Some of these detailed provisions are somewhat better than we feared we could negotiate. Although we had to make concessions, provided the Nissan Board endorse the package, I believe it is capable of presentation as a reasonable and balanced agreement from the point of view of the UK as a whole including the vehicle and components industries.





(iii) SFA: Nissan sought total assistance of 50% of the £612 million capital cost of the project (estimated outturn prices), in RDGs and SFA combined, which they were aware was the maximum permissible under EEC rules. We have stressed that we will not offer a combined figure irrespective of location, but will offer a percentage grant of SFA which would be additional to RDG at the appropriate rate (22% in a Special Development Area, 15% in a Development Area): this is very important as all but two of the sites we believe they are still considering are in Development rather than Special Development Areas. As to the rate of SFA offer, we offered to increase this to 10% (£61 million) making total assistance of 24-30% (£144-183 million) depending on location (the percentages are not directly additive as eligible costs differ slightly for RDG and SFA). Nissan said this was less than they hoped for, but this did not seem to be as difficult an issue for them as the local content question. Nevertheless I expect them to return asking for more.

(iv) RDG regime: Nissan sought assurances that if the RDG rates or regime changed at some time in the future, we would compensate them in full. We explained no Government could bind itself or its successor not





to change statutory arrangements for industrial and regional support; and that in the event of such amendment, changes in RDGs might be offset by changes in other aspects. But we offered a draft letter saying that if the RDG regime changed in ways not offset by changes in other aspects of support, we would give favourable consideration to increasing SFA in line with the statutory criteria (i.e if the project was in jeopardy). If this is accepted when Nissan have studied the fine print, we shall have got away rather lightly and avoided setting a difficult precedent.

4 It is by no means clear that Nissan will accept these terms. There is some evidence that there are two camps within Nissan, and that the hostile camp may be gaining strength. It is certainly clear that Mr Okuma did not regard himself as having authority to settle. It is hard to judge the reasons for any strengthening of the hostile camp, whether this is being exaggerated for tactical reasons, and how strong may be the contrary pressures from the Japanese establishment to proceed with a major outward investment as a way of easing the trade pressures on Japan. Overall, I would put the chances of a successful outcome to these negotiations as no better than evens, or perhaps very slightly better.

5 If Nissan do accept our terms or something like them, I believe that we shall have obtained a satisfactory deal. It is





true that the timing is later than originally planned by a year  
or so at the start (though Nissan's decision has been delayed by  
a similar amount) and by three years at the full production  
stage; but I do not think this is critical from our point of  
view. The local content arrangements will be criticised both in  
the UK and in Europe, but clearly relate to a genuine  
manufacturing operation including full engine manufacture by  
1990; and can be presented as in line with the original  
agreement in principle. The SFA offer, at 10%, is just about the  
average of SFA offers made under this Administration and less  
than some major cases. It exceeds the internal "cost per job"  
guideline of £7,000 per job (the 10% offer is about £13,000 based  
on the 4,700 jobs created directly in the plant); but on the  
other hand the project has indirect employment benefits for the  
component industry. Allowing for displacement of existing UK  
production, we estimate the direct and indirect net job creation  
at about 7,700 at 80% local content and full production; but  
these calculations are on the basis that if Nissan did not come  
to the UK, they will not come to Europe at all. It is quite  
probable that in fact they would come elsewhere in Europe, though  
not necessarily on the same scale or timescale as planned for the  
present UK project. Equally important, these calculations ignore  
the dynamic benefits of replacing existing inefficient production  
with highly efficient Nissan production, the competitive  
influence on other assemblers, the stimulus and discipline on  
supplying industries, and the demonstration effects of Japanese  
management techniques, production technology, labour relations,





restricted numbers of recognised unions, etc. Nor do they take account of the advantage of a conspicuous vote of confidence in the UK economy under the influence of our general policies. For all these reasons, I believe we must attract Nissan to the UK if at all possible.

6 I hope you and other colleagues will agree that the tentative offers I have authorised are fully justified, and that we should continue our efforts to attract Nissan here. I think it possible that I shall need to increase the SFA offer to a maximum of 12% at the final stage, and I seek agreement that I should do this if it is essential to clinch the deal. I hope colleagues will agree that once the deal has been clinched, we should firmly resist any subsequent attempt to increase our SFA offer if Nissan then prefer a site in a Development Area rather than a Special Development Area: any inter-regional competition of that kind, or other indication to them that more might be on offer in certain circumstances, would destroy our credibility with Nissan.

*How much is 12%*

7 I have addressed this minute to you in view of the general strategic and political implications. My officials are in touch with Treasury officials on the financial implications (grant expenditure would not start until the last year of the present PESC period and should be spread over the years to 1990). I am sending copies of this minute to members of E(EA), Peter Carrington, Sir Robert Armstrong and Robin Ibbs.

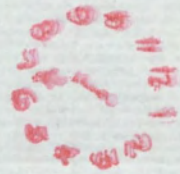
*PJ*

P J  
25 February 1982





25 FEB 1982



COPIED FROM



Japan



10 DOWNING STREET

Prime Minister

If you did not see Mr.  
Sifton on weekend would last  
Sunday you may like to glance  
at the transcript.

A.S.C.  $\frac{24}{2}$



BRIAN WALDEN

Mr Biffen, the Common Market has made a number of demands to the Japanese about Common Market, including our own of course, exports to Japan, and the various restrictions, usually of a non-tariff kind, that exist on them, and apparently there is a European feeling that the Japanese response to this has not been adequate. Now if that's so, and if you share that feeling, what do you think the EEC ought to do?

JOHN BIFFEN MP - Secretary of State for Trade

Well, I think that there is a general view, which I certainly do share, that the Japanese market has proved to be very tight and, if not inaccessible, unduly difficult for importers from the OECD countries. The Japanese have recently announced a fairly wide-ranging number of measures, about 67 of which are designed to liberalise their market. I think that em, I am clearly very sceptical about those measures, but I would like to see what impact they do have upon trade. One or two of them I think could have some very real and tangible benefit to the United Kingdom, like testing procedures for pharmaceuticals and, we have to see whether their proposal of an ombudsman for importers is one which does actually give rise to redress for complaints. But I am quite certain that we shall come back to this question of the difficulty of the Japanese market again and again.

BRIAN WALDEN

You say you're very sceptical about the measures that the Japanese have announced in order to meet Europe's case. Why are you sceptical?

JOHN BIFFEN MP

I think I'm sceptical on the advice that is proffered to me by those engaged in commerce who are trading with Japan.



BRIAN WALDEN

And their advice is that the Japanese are not doing the things that the Japanese say they're doing.

JOHN BIFFEN MP

Well, it would be ungenerous of me not to acknowledge the gesture, ungenerous of me not to acknowledge that that does indicate that the Japanese are aware of Western anxieties on this whole issue. But I hope that I am also realistic enough to say that I will believe in its virtues when I see it demonstrated by rising levels of Western exports in response to Japanese consumer demand.

BRIAN WALDEN

Let me press you about the end of the day. You see, obviously this process is going to take some time, and there are already estimates - Weekend World has one from a private research institute, European Research Associates - that our own deficit; Britain's deficit and also the EEC's deficit as a whole with Japan, is going to double in the next three years. Now with that acceleration of the trade deficit, all that you are suggesting, is that going to make a significant impact upon that deficit?

JOHN BIFFEN MP

I think that if the deficit is to proceed as your researchers have suggested, and I think you and I have a genuine regard for researchers and I don't in any sense disparage what they are suggesting, but it is at the end of the day a researchers judgement. If the trade deficit were to deteriorate in the way that they have suggested, then I think one would look immediately to see whether this was on account of increased Japanese exports to Western Europe, or that the Western European exports to Japan fell away. If it was the former, then I have no doubt there would be very strong pressures indeed to add to the existing formal trade constraints that we have on Japanese exports to the West.



JOHN BIFFEN MP (cont.d)

And I think that the attractiveness of import controls to the West is that at least that is something that they can do. They cannot compel the Japanese government to open up its market half as easily as they can place controls upon Japanese exports, but naturally I must accept the logic of that situation. And I don't want to sound in any sense unwilling to resort to these actions. Indeed, I was only too delighted a few months ago when we secured an arrangement with the Japanese on light commercial vehicles, in terms of restraint, which was a good deal tougher than had existed hitherto. But we would be unwise to suppose that the restraint of Japanese trade in Western Europe is the end of the matter; for I think it certainly would mean that they would then be more powerfully represented in third markets, where they would provide the most effective competition, and those are third markets which supply a great deal of business for manufacturers in this country, so I take account of that. But I do want to conclude, if I might, I'm sorry to have spoken for so long, saying that if the Japanese trade thrust has the dynamic about it that your researchers have suggested, then I have no doubt at all that the demand for more formalised import restraints will become irresistible.

BRIAN WALDEN

Well now you see, that really does pose all sorts of problems. Let me put one to you straight away. I think, but you'll correct me if I'm wrong, that you were suggesting that an alternative to such import controls might be, in effect to say to the Japanese, 'look, your surplus is too great, you are just too good at the game. Do not send. We don't deny that a lot of our consumers would prefer to buy your goods, but don't send so many here, get us off the hook that way, because that will preserve some of our industries and some of our jobs. Well, that's a strange appeal, in a way, for a free market man like yourself to make, but if it's ignored, and I think you would be the first to say it's likely to be, then you're in effect suggesting something which will not



BRIAN WALDEN (cont.d)

give the world freer trade, it will start a greater degree of protectionism.

JOHN BIFFEN MP

That's right, and that's why I very much hope that one will be able to avoid this final and ultimate confrontation, but of course, let's be clear, I'm devoted to the idea of open trade - not because of any personal political ideology, I don't carry those burdens particularly - but for a nation like Britain that exports 30% of its national product, then open trade is an obvious national interest, and then we'd be - I'm sorry - and that is why we have been conducting our relationships with the Japanese knowing that of course it modifies the concept of open trade, but look, what's the situation today? Already it's something like 20 - 25% of the British imports from Japan are subject to voluntary restraint arrangements. All I'm saying is that if they were to engage in an even more powerful trade drive over the next few years as suggested by your researchers, that disposition would be strongly intensified. I would not find it personally agreeable, but I would accept it as inevitable and quite within the logic of the situation, that is how the West would react, and for this reason. It is not necessarily related to the arguments of free trade or protection, but rather it is related to the pace of change that you will expect your own domestic industries to suffer at the hands of powerful competition. Now in my judgement, few of us live in the political world of absolutes, we live in the world of broad principle strictly circumscribed by relative circumstances, and I think the very factors which have led us to say, well, let's have voluntary restraint as far as trade with Japan is concerned in the past, those very factors would be strongly intensified if things were to go as your researchers have suggested.



BRIAN WALDEN

Mr Biffen, in view of what you've just said, how would you respond to a Japanese who said 'Well, I'm puzzled by all this. Mr Biffen seems to be very much in favour of free trade when it suits him. He's very much against free trade when we Japanese do very well out of it, and what he's effectively saying is that either by persuading us, which sounds to me as if it's going to be a bit of arm-twisting, or by physically keeping us out, he is going to prevent us from making better goods at more competitive prices than his people do, which we sell to his consumers who aren't compelled by him or us to buy them, they actually want to buy them. Mr Biffen isn't a free-trader at all. However much he may deplore regionalism and protectionism, he is basically a protectionist.' Now what would you say to that?

JOHN BIFFEN MP

Well, I thought it was a pretty perceptive judgement by the mythical Japanese who decided that most politicians lived a little bit in one world and a little bit in the other. Of course it's perfectly true that I've got a basic disposition for open trade, but that doesn't mean to say I believe in unconditional free trade, and the threat that is presented by the success of the Japanese economy, and I don't use any moral terms in this at all, is that it is intruding upon the Western economies at a speed which simply is not socially acceptable, and therefore one is seeking ways of accomodating this phenomena. Now, every nation that becomes a great nation, whether it was the United Kingdom in the last century by the precepts of free trade... If it is wise it is conscious of the consequences of its actions, and I think that the reason there is a growing resentment in North America and in Western Europe of what is now happening in respect of Japan, is that the Japanese, although they speak with concern about the present situation, seem remarkably unable or unwilling to respond.



JOHN BIFFEN MP (cont.d)

We're not asking for a construction of a protectionist world trading system. What we're saying is that the GATT, which provides the present framework for the open trade system for world trade, that allows protection in certain circumstances to deal with certain situations. We're not seeking much more than that.

BRIAN WALDEN

But some observers say, to again take up your phrase, that the Japanese appear to be unwilling or unable to do anything about their export penetration, to the extent that they've now got it. Some observers say well, the reason is of course, they're never threatened with anything. They are asked very nicely if they will agree to a voluntary restraint, when it suits them they do, they observe it when they do, but the deficit keeps rising, rising, rising, almost geometrically. It isn't until the rest of the world, and in particular Europe, actually comes along and puts something on the table and says, now look, if you do not get this down to an acceptable figure this is what we are going to do to you. It isn't until that happens that the Japanese will in fact prove willing and able to do something. Now how would you answer those observers?

JOHN BIFFEN MP

Well, I do appreciate that there are many who claim to understand the Japanese psyche, the Japanese psychology, and say that you have to adopt this threatening behaviour, or that kind of language. I don't feel that, in any sense qualified to comment upon that, but what I do believe is that the whole question of the rhetoric that is employed in this war of words is absolutely vital and important and that the Japanese should clearly understand the extent to which this has now become a major problem, not only economically for the West, but politically and with all the corrosive consequences that flow from that.



JOHN BIFFEN MP (cont.d)

Now of course, once you are engaged in this kind of discussion, this kind of representations, there are a whole series of issues, a whole series of weapons, if I may use that language, to which one can have resort. I don't think that it would in any sense be appropriate for me to speculate on how those weapons would be used or what those weapons would be, but one thing is quite clear. If your researchers are correct in their assessment of the deterioration in the trade balance, then I am quite certain that many of the arguments which at the moment are put to one side as being unnecessarily provocative in today's situation, would be examined to see if they had some relevant currency.

BRIAN WALDEN

Mr Biffen, thank you very much indeed.

The message from the government then, is clear. Ministers are prepared to wait and see what the impact will be of Japan's recent concessions on trade barriers, but they're pretty sceptical about the outcome, and if in any case the volume of Japanese exports continues to surge ahead, the government will implement formal controls. This will be done in agreement with the other signatories of GATT, so relief for those whose jobs are threatened by Japanese exports could be on the way, though only at the price of shutting such goods out of our market.

Well that's all for this week, until next Sunday, from all of us at Weekend World, Goodbye.



FILE

ds

BK 24/2

17 February 1982

The Prime Minister has read the report by the Secretary of State for Trade on his recent visit to Japan and Korea, contained in his minute of 11 February, and has commented that she would like to discuss the report with him. As you know, a meeting has been arranged for 1715 hours on Thursday 25 February.

A J COLES

John Rhodes, Esq.,  
Department of Trade.

12





10 DOWNING STREET

Caroline

When could the S.N. see

Dr. Bilben : (for 20-30  
minutes).

A.S.C. -  $\frac{17}{2}$

John

Thursday 25 Feb  
at 1715.

C.S.





CONFIDENTIAL

Prime Minister

②

interesting but no immediate  
action required. You could read  
at the weekend if you preferred

I should like  
to talk to John  
about this.

A & C. 15/2 ✓

PRIME MINISTER

VISIT TO JAPAN AND KOREA: 1 - 5 FEBRUARY

I visited Japan and Korea last week. I had discussions with Government and business representatives in the two countries about both international trade issues and specific opportunities for UK exporters and inward investment.

#### Japan

My visit coincided with the Japanese Government's announcement of its own import liberalisation package in response to our own and the EC's specific requests for increased market access. This figured large in my meetings with the Ministers for International Trade and Industry and of Transport, the Chairman of the ruling Liberal Democratic Party's Special Committee on External Trade, the Governor of the Bank of Japan and senior members of the Keidanren, analogous to the CBI. I was also able to open the impressively represented exhibition by the Society of British Aerospace Companies, and address the British Chamber of Commerce in Tokyo.

The Japanese import package involves an acceleration of tariff reductions, the removal of certain non tariff barriers and the appointment of a "Trade Ombudsman". As a recognition of international concern about the low level of Japanese manufactured imports it is welcome, and there were indications that some further non tariff barriers will be abolished. But I return unconvinced - as I believe are the Japanese - that it is capable of making anything other than a long term and marginal impact upon the Japanese trade imbalance with other OECD countries.

Quick acting measures are needed to increase imports. Public sector purchasing offers the greatest potential. I emphasised our interests in sales of defence, aerospace and environmental





engineering equipment. In particular, the BAe146 is well suited as a replacement to the ageing aircraft fleet on domestic routes. Separately, I noted that greater access for UK investment in the local market could provide a direct stimulus for our exports.

But increased Japanese imports would not remove the problems created by their exports. Success by capital equipment suppliers in Japan would be small consolation for those sectors of our domestic economy which complain of a "laser beam" export strategy. The Japanese Government seems to recognise this by its more open interest in the course of inter-industry negotiations for voluntary restraint arrangements. There was acceptance that these had to be effective, and maybe even extended in their scope, as a means of avoiding more formal trade restraints. I hope this attitude bodes well for the successful continuation of the VRAs which now cover some 25% of our imports, of which the most sensitive sector remains cars and light commercial vehicles.

I also made clear that suitably structured investment by Japanese companies in the UK was welcome. Nissan is the most obvious example of this, although I was careful to avoid any detailed discussions about the project.

Last, but by no means least, there is the problem created by Japanese exports, particularly for capital projects in third markets. It is clear that the Japanese are able to offer prices and financial packages which UK and other OECD companies can find impossible to match. Japanese companies benefit from a "cheap Yen and low interest rates". Furthermore, the export effort of these companies undoubtedly benefits from the nature of their relationship with Government in a strong domestic market, and their readiness to take a long term assessment of overseas markets. We must ensure our access to the Yen market, but there is little hard evidence that the Japanese are acting "illegally" in terms of international agreements. Rather, we have to consider how we might show a similarly imaginative flexibility at company level, and whether we as Government might make better use of both domestic and overseas financial assistance as a means of securing export orders.





It is an unoriginal, but necessary, observation that the fundamental "Japanese problem" is its enviable economic success, most recently evidenced by its ability to ride the "oil shock". Even if it wished to, it is not in the power of the Japanese Government to remove fundamental factors which determine the growth and direction of the Japanese economy. Its social structure provides a strong motive force for the economy, and the relative poverty of its indigenous raw materials - notably oil - demands that it maintain an export surplus in manufactures. Equally, it has to be recognised that Japan is itself boxed in by international conditions. Thus, the Governor of the Bank of Japan persuasively argued why a significantly stronger Yen could not be sustained whilst US interest rates remained high.

Because there is no easy macro-economic solution, Japan has been pressed for essentially micro-economic measures. It has undoubtedly been slow to react to valid criticisms of its import regime and export strategy, and it is important and essential that pressure be maintained for further action. But it is not simply Japan which has had difficulty in deciding exactly what measures are necessary. There are differences of emphasis between the US and EC on the importance of market access relative to the problems of Japanese export penetration. Within the EC there are sharply divergent views on the attractiveness of Japanese inward investment. In short, within the discordant chorus of Japanese criticism lie essentially national concerns which break through as soon as attempts are made to define areas for export restraint or sales opportunities in the Japanese market.

In these circumstances it is not surprising if Japan feels confused. It is being blamed for manifesting the kind of success sought by the West to which it is economically and politically tied, but culturally and geographically distant. Its justifiable national pride is not therefore matched by real self-confidence, but rather by fears of isolation which we must beware of becoming self confirming. It would be foolish to believe that the protectionist





consequences could be contained in a way that would not be severely damaging to all Western economies, and ourselves in particular.

#### Korea

Korea is no place to settle ones nerves after a visit to Japan. Its industrial and export growth over recent years is matched only by its potential, forbiddingly outlined in its 5 Year Plan. My visit was hosted by the Minister for Commerce, who visited the UK last year, and the programme included a Presidential audience as well as meetings with several other Ministers and the Federation of Korean Industries.

Korea is the epitome of a newly industrialised country. Until recently its main challenge to the UK was textile exports, and I received predictable complaints about their treatment - involving cut backs - in the MFA III negotiations. But there is every reason to fear that our trade deficit can only grow as the Korean industry becomes more sophisticated. A five fold increase in its global engineering and electronic exports is scheduled by 1986. My visit to a factory leaves me convinced that this is not unrealistic.

Like Japan, Korea risks feeling isolated, the more so since it is caught in the middle ground of being neither a developing nor fully industrialised country. The American military presence is no longer considered as axiomatic. There are gestures towards liberalisation of the strict import regime, and pressures must grow for substantially improved accessability. Meanwhile, however, the major export opportunities in Korea are for capital equipment as it extends its industrial base.





My visit followed shortly after that of Humphrey Atkins'. I am sure that it is a market which repays such attention. Not least because of a sense of unwanted political isolation, this is a market where official visits can do much commercial good. In this context the Ambassador strongly expressed the hope that HRH the Duke of Kent could visit Korea during his projected Far East trip later this year. Whilst the business leaders are sophisticated products of US business schools, it is very much a corporate economy where large purchasing decisions are strongly influenced by political good will and attractive financial packages. This was most recently reflected in GEC's £80m success in tendering for the extension of the Seoul metro.

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#### Conclusion

As this was my first visit to both countries, my views are necessarily impressionistic. Nothing dissuaded me that these specific economies pose a real economic and political challenge for the West. The determination and expertise shown by both the SBAC exhibitors, and the staff of our two Embassies does, however, leave room for reassurance that it can be successfully met.

I am copying this to Geoffrey Howe, Peter Carrington, Humphrey Atkins, Patrick Jenkin, John Nott, and also Sir Robert Armstrong.

WJB

W.J.B.



DEPARTMENT OF INDUSTRY <sup>Mex 45/1</sup>123 VICTORIA STREET <sup>Goon PA</sup>  
LONDON SW1E 6RBTELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

CONFIDENTIAL

15 January 1982

The Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

Dear Chief Secretary

## RDG CHANGES

I will not reply at length to your letter of 11 January, since we shall be meeting shortly to consider this whole issue. But there are a couple of points that you have raised on which I must comment so that they are not subsequently overlooked if we decide to go down the 'ceiling' route.

The first is your reference to a fixed ceiling on additional selective financial assistance. I accept that in setting the RDG limit we have to calculate how much additional SFA will be required and then to consider our priorities against that figure as applications are received. But with the best will in the world any estimate made at this stage would be subject to considerable uncertainty and we must face the fact that there may be demands for additional assistance to very worthwhile projects which we would not be prepared to lose. Any limit on additional SFA cannot therefore be totally inflexible and any guidelines we may agree should allow for this.

This is another reason why the present RDG proposals may be an unsatisfactory way of seeking to save £50m a year, especially when coupled with the problems on Mossmoran and Nissan to which you refer. Officials in the various Departments concerned are meeting to discuss Mossmoran urgently and a better assessment may be possible by the time we meet.

On Nissan I am afraid that I cannot agree to your proposal to count any additional SFA offered up to 1984/5 against the gross RDG savings. This ignores the fact that the project falls mainly beyond 1984/5 and is so recent that it is not covered in the RDG estimates anyway. Either way some extra provision will be needed for it if anything falls to be paid in 1984/5, although on present



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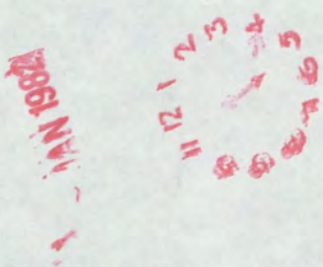
estimates that would be very small. I hope therefore that you can agree that the whole Nissan project must be treated as a separate matter for the purposes of any limit on additional SFA and for any guidelines that we may agree after our meeting.

I am copying this letter to recipients of yours.

*Yours sincerely  
Richard Jenkin*

PATRICK JENKIN

(approved by the Secretary of  
State and signed in his absence)





Prime Minister

②

Mes 11/1



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP  
 Department of Industry  
 Ashdown House  
 123 Victoria Street  
 London SW1

11 January 1981

Tom Patrick,

A handwritten signature, possibly 'Tom Patrick', written in dark ink.

## RDG CHANGES

You sent me a copy of your minute to the Prime Minister of 23 December. There has also been a letter from George Younger to you on 22 December a letter from Nick Edwards to me on 23 December and a minute from Robin Ibbs to the Prime Minister on 24 December.

It seems to me essential that we settle agreed guidelines on the provision of additional selective assistance as soon as possible. The longer we delay the more rushed will be the Parliamentary timetable for the bill, and the smaller will be the savings in 1982-83.

In my view we cannot provide for any automatic entitlement to offsetting selective assistance for any company losing RDGs, even for those who are already receiving some selective assistance for a project. It would be impossible to achieve the agreed savings if we followed that route, as I said in my minute to the Prime Minister on 18 December. What we have to do is to establish a system which will enable you and the other Ministers to choose priorities within a fixed ceiling on expenditure.

... I attach a short note by Treasury officials proposing a system along these lines. This seems to me to provide sensible arrangements for achieving our agreed objectives. I hope that we can all reach rapid agreement on the basis of these proposals.

There are two individual cases I should mention: Mosmorran and Nissan. I accept that we must honour the commitments we have made on Mosmorran. But there seems considerable doubt about just what this means in practice. George Younger's letter to



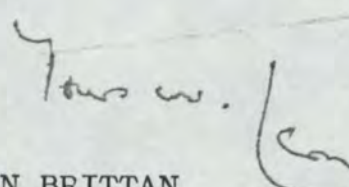
you of 22 December argues that we should compensate Esso for lost grant on the fractionator as well as on the cracker. It may be that that is what would be required if Esso are to continue with the cracker, though I am not sure whether our commitments would oblige us to go that far. Before we can agree that an offer should be made on that basis I think we need to see a full evaluation of how much additional selective assistance is likely to be claimed; if, for example, Esso were to claim that they required selective assistance grossed up to reflect the fact that the fractionator is within the PRT ring fence we could be facing an absurd situation where we ended up increasing public expenditure rather than cutting it. Even if the amount claimed is more modest than that it could still pre-empt a very large part of the funds available for selective assistance.

On Nissan, the position is complicated by the fact that much of the proposed expenditure falls outside the present PES period. But in my view the same general principles must apply to Nissan as they will to other companies. Any additional selective assistance offered to Nissan up to 1984-85 to compensate for loss of RDGs should be scored as an offset to the gross saving; the agreed intention is that total expenditure on selective assistance and RDGs together should be £50 million a year less than it otherwise would be. I am not convinced that the offer to Nissan needs to be grossed up to reflect the different tax treatment of RDGs and SFA - and certainly not by the reciprocal of the full Corporation Tax rate. Nissan will be unlikely to pay any UK tax at all in the early stages of the project. In these circumstances the most that could be justified would be to allow for the discounted value of tax payments some years in the future - probably quite a small amount.

One remaining area where potential problems seem likely to arise is over grants to nationalised industries or to other bodies in public ownership. Any extra assistance to these bodies must, of course, score as an offset to the gross savings on RDGs. But I should add that I would be most reluctant to agree to a situation where the bulk of the net savings arose from cuts which were simply passed on within the public sector (and eventually to consumers) in the form of increased charges.

As I said above, I hope we can all reach agreement on these proposals. I should be very ready for us to meet to discuss them. But if it does not seem that agreement is possible on something like these lines then I feel we shall be forced to consider seriously switching to a rate cut in order to achieve the savings agreed. We have only moved away from the proposal of a rate cut because it was agreed that the savings should be secured by the alternative route. I would naturally otherwise have felt obliged to press the rate cuts.

I am copying this letter to the Prime Minister, the Secretaries of State for Scotland, Wales, Energy and Northern Ireland and to Sir Robert Armstrong and Mr Ibbs.

Yours w. l.  
  
 LEON BRITTAN



CONFIDENTIAL

RDG CHANGES: OFFSETTING SELECTIVE ASSISTANCE

Note by Treasury Officials

This note proposes guidelines for the administration of the additional selective assistance to be given to certain projects which will lose RDGs under the new arrangements limiting payments of RDGs on large projects.

2. The agreed objective is to achieve net public expenditure savings of £50 million a year from 1983-84 onwards. To do this it will be necessary to aim for gross savings of RDGs of more than £50 million in order to allow for additional selective assistance. The precise amount which should be provided for additional selective assistance remains to be determined. The RDG legislation will need to be framed in such a way as to produce the appropriate gross savings once the level of offsetting selective assistance has been fixed - though there is clearly an interaction between the two.

3. Once the figure for gross RDG savings and for additional selective assistance have been agreed, the allocation for selective assistance should be treated as a fixed limit on such expenditure. It will cover all additional selective assistance under Section 7 or Section 8 of the Industry Act 1972, and any other offsetting public expenditure on compensation for bodies losing RDGs (if any such compensation is agreed).

4. Applications for additional selective assistance would then have to be considered against common guidelines so that these funds were spent according to agreed priorities. First call on the funds would lie with those projects where explicit Ministerial assurances about the level of RDG payments had been agreed; this applies particularly to Mossmorran and Nissan. For other projects the Treasury proposes the following guidelines:



CONFIDENTIAL

(i) assistance should be given only if the project would otherwise be in jeopardy, or would be shifted overseas;

(ii) the amount of assistance to be paid would be the minimum necessary to secure the continuation of the project, but in no case more than either:

- (a) a fixed sum per job created/saved; or
- (b) the amount of RDGs lost.

If the sum allocated for selective assistance did not in the event prove sufficient to provide grant to all projects which met these criteria some further filtering would have to be done. This might involve an explicit choice of priorities.

5. The basis of any offer would, as indicated, be the minimum necessary to secure the continuation of the project. There would be no presumption that the assistance should be as much as the RDGs lost. Any case where it was claimed that the grant should be more than the RDGs lost, for instance to reflect the differing tax treatments of different grants, would need to be treated explicitly as a case outside the agreed guidelines.

6. It would be important that applications throughout Great Britain should be processed on as similar a basis as possible. It therefore seems desirable that the Department of Industry's Industrial Development Unit should co-ordinate all appraisals; the total number would not be large. For projects which are already receiving selective assistance much of the work will already have been done; it will clearly be important in these circumstances that IDU officials should work closely with the appropriate officials in DOI regional offices and in the Scottish Office Economic Planning Department and Welsh Office Industry Department. It would probably be appropriate for officials in those departments to take the lead in discussions with firms concerned with projects in Scotland or Wales.

IA GROUP  
HM TREASURY  
JAN 1982



77 JUN 1982

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





MS

ms 6/1  
 DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

6 January 1982

M Scholar Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London SW1

Dear Michael

NISSAN

My Secretary of State understands that Lord Marsh is attending the reception at No 10 on Thursday evening, 7 January, and thinks that the Prime Minister will wish to know that Lord Marsh has recently accepted appointment by Nissan as their adviser in the negotiations on their UK project. Lord Marsh spent some days in Tokyo just before Christmas (after discussion with officials here) and has seen officials again since then. Officials are going out to Tokyo next week for further "clarification" discussions, which Lord Marsh will be attending on the Nissan side, in preparation for the next - and probably final - round of formal talks in London at the end of January/early February.

2 Lord Marsh has told our Ambassador in Tokyo, and subsequently officials here, that he believes the company were upset by the way the talks went in London in November and that Nissan felt they had been treated somewhat badly and unfairly. This appears to be based on a belief that they were subjected to questioning about their plans which went beyond what other firms interested in investing in the UK would have experienced. Nissan seemed to interpret this as implying a change of attitude by the Government and to be contemplating a decision to pull out if their present proposals or something very like them were not accepted.

3 Officials here do not believe there is substance in these suggestions. Care will be taken to reassure Nissan that the Government's welcome for Nissan remains, as it has always been, a warm one for a project of the kind originally defined. Since, however, the present proposals fall a good way short of that in their attractions for the UK, the Government has to explore ways in which the present plans might be adjusted to yield a package presenting broadly equivalent advantages to those in the original scheme.

4 My Secretary of State suggests that, if Lord Marsh raises this question with the Prime Minister, the Prime Minister might



CONFIDENTIAL



assure him that the Government remains enthusiastic about Nissan's proposals on the basis originally described. She might also emphasise that present proposals fall some way short of the original proposals and emphasise the Government's wish that discussions should continue on the friendly basis already established to see if a mutually satisfactory project can be defined.

5 I am copying this letter to Francis Richards (FCO), Peter Jenkins (Treasury), John Rhodes (Trade), Richard Dykes (Employment), David Wright (Cabinet Office) and Robin Ibbs.

*Yours ever,*

*Ian Ellison*

I K C ELLISON  
Private Secretary

CONFIDENTIAL





CONFIDENTIAL

Prime Minister

(2)

You have asked Patrick Denham

and Leon Brittan to consider how to secure the £50m RDG savings which

24 December 1981

are now in question. I think it highly

likely that this subject

will return to you, for adjudication.

Qa 05759

To: PRIME MINISTER

From: J R IBBS

Nissan and the Proposed Changes in Regional Development Grants

1. I have seen the minutes from the Chief Secretary and the Secretary of State for Industry on this subject.

2. I strongly support the view that a 2 per cent reduction in Regional Development Grant rates would be the surest way of obtaining the required savings with least danger of putting any projects at risk of being abandoned. I also agree that it would minimise the problem of honouring any specific commitment to a particular level of RDG. I believe that in terms of creating and maintaining industrial confidence a general 2 per cent reduction, while giving rise to some resentment, would avoid the more severe difficulties likely to arise from sudden discrimination against large projects.

3. I am sending a copy of this minute to the recipients of the Chief Secretary's minute.

CONFIDENTIAL

CONFIDENTIAL

MUS 24/12





10 DOWNING STREET

From the Private Secretary

24 December 1981

Handwritten notes: *CSHHT*, *DN*, *FW*, *CO*, *MR Dykes*, *DOT*, *DOE*, *SO*, *WO*, *DOE*

Dear Richard,

NISSAN/Regional Development Grants

The Prime Minister was grateful for your Secretary of State's minute of 22 December. She was also grateful for the Secretary of State for Industry's minute, on Nissan and the proposed changes in Regional Development Grants, of 23 December.

The Prime Minister has noted both minutes without comment.

I am sending copies of this letter to the Private Secretaries to the members of E(EA), Francis Richards (FCO), David Wright (Cabinet Office), and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Richard Dykes, Esq.,  
Department of Employment.

CONFIDENTIAL

Handwritten mark: *10*





CONFIDENTIAL

2 pp's

Prime Minister

Ms 23/12

PRIME MINISTER

## NISSAN AND THE PROPOSED CHANGES IN REGIONAL DEVELOPMENT GRANTS

Leon Brittan copied to me his minute to you of 18 December.

2 I recognise that Leon is not arguing against full compensation for Nissan. It nevertheless remains the case with Nissan that if we were not able to maintain the value of the offer I have already indicated to the company, the project would be lost to the UK and this situation is likely to be repeated with other major inward investors. To this extent Nissan is illustrative of a general problem we shall face under the new legislation where, in order to secure important projects, we shall inevitably be driven to making maximum use of SFA. Under these conditions the anticipated savings we are seeking are bound to be much more difficult to achieve.

3 I have a great deal of sympathy for the general point that Leon makes. We shall be under great pressure to make offsetting SFA available on a generous level to avoid the risk of losing projects. But if we give in every time, we shall not achieve the agreed saving of £50 million. It is for just this reason that I

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proposed in the first place that the only change that should be considered was a 2 per cent reduction in RDG rates. This would have given us certainty of achieving the required savings without damaging our ability to compete for inward investment projects. Few if any projects would have been put at risk by such a small reduction in grant rates and the need to compensate in the very few cases where commitments to a particular level of RDG has already been given could be contained quite easily.

4 In view of the difficulties that are now generally recognised to flow from a ceiling provision of the kind proposed, I agree that there should be no early announcement and that we should look again at this issue.

5 I am copying this minute to recipients of Leon's.

PJ

P J

23 December 1981

Department of Industry  
Ashdown House  
123 Victoria Street

CONFIDENTIAL



Prime Minister



Given your other preoccupations  
I have not arranged a meeting  
on this with Patrick Jenkin.

PRIME MINISTER

After 4 Jan?

Or would it not be better

to let the matter run on existing  
Ministerial instructions for a while?

Told Industry 31/12  
- and that I will not  
record in writing  
MS Yes  
not.

NISSAN

MS 23/12

In his minute of 15 December Patrick Jenkin asked his colleagues  
to agree that he should tell the Nissan team that he could not  
go beyond the 30% support level which he had offered them.

I am content with this proposal. It would be a blow if the  
Japanese withdrew as a result, but I should have thought we  
could defend our stand, particularly if some of the unsatisfactory  
features of the present proposals to which Patrick draws attention  
in his minute still remained in the revised version he expects  
to receive next month.

I am copying this minute to members of E(EA) and the Foreign  
and Commonwealth Secretary and to Sir Robert Armstrong and  
Mr Ibbs.

N

N T  
22 December 1981

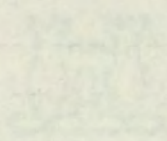




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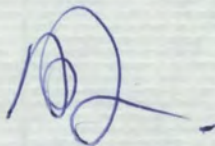


21 December 1981

MR SCHOLAR

NISSAN

1. As the Prime Minister says, there are pros and cons. But the disadvantages are all short-term: cost; European reactions; grousing by some UK component manufacturers, etc.
2. There are immediate advantages to set against these. A large new project gives hope and helps to raise confidence. We could do with a solid piece of good news - and I am confident that the welcome would outweigh the carping. But the real advantages are longer-term. We build up a stake for an industry which will still absorb a very large amount of purchasing power in Europe for several decades to come. We import advanced technology, management skills and invigorate our own component industry. Gradually we make it easier to end the BL saga.
3. Sir Keith Joseph's note of 9 December 1980 expresses these points well (see extract). The note by officials said that the project could eventually become one of the biggest car plants in the world. That is looking a long way ahead, but that perspective is what I think should determine our approach at this stage.



ANDREW DUGUID





## GENERAL ASSESSMENT

3 The report by officials firmly recommends welcoming Nissan and I fully endorse that view. There would be substantial net benefits to the economy, particularly the vehicle component industry. The investment would play a significant role in improving our overall bilateral relations with Japan and would be a major coup for regional and inward investment policy. It would certainly boost the prospects for further inward investment from Japan and location in a Development or Special Development Area - particularly if it were a steel closure area - would bring obvious benefits. From all these points of view the only realistic option is to welcome the project; by the same token, a refusal would be gravely damaging.

4 Moreover, Nissan's proposals are on such a large scale that the intangible benefits would be considerable. Nissan would bring high technology production methods and successful managerial techniques to this country and could help to demonstrate that high productivity can be achieved in the UK environment. The announcement of Nissan's intentions would be a vote of confidence in the UK economy by a major world company; it would confirm that overseas companies were prepared to believe that standards of output comparable with other countries can be achieved here. This in itself could work as a challenge to workforces elsewhere in the country, especially in the vehicle components industry.

## NISSAN'S EUROPEAN INTENTIONS

5 The note by officials identifies a number of important issues affecting our decision. These are, however, dominated by the



PROPOSED INVESTMENT IN THE UK BY NISSAN MOTOR COMPANY  
REPORT BY OFFICIALS

1. This note looks at the main implications arising from Nissan's proposal and examines in detail the likely economic and industrial impact both generally and on BL in particular. It also draws attention to areas for further negotiation with the company and possibly for further consideration in the light of developments. It has been prepared in conjunction with the FCO, Treasury, Department of Trade and the CPRS.

THE PROJECT

2. Nissan's submission of 17 November 1980 is attached. Briefly, it proposes to establish a greenfield plant on an 800 acre site in a Development Area or Special Development Area to produce 200,000 medium-sized cars per annum (a new front-wheel drive Datsun Violet in the 1.6 - 2.0 litre range). Assuming final Government approval in Spring 1981 (following a feasibility study to be undertaken if the Government gives approval in principle in early January), construction would start in 1982 and production in 1984, at 80,000 units with 60% local content. Full production would be reached in 1986, with the aim of attaining by then 80% local content including engine manufacture; the intention would be to export about 25% of production. Direct employment by 1986 would be over 4000. The cost of the investment is put at £275 million (1980 prices; £1 = 550 yen). The intention is to develop a principal manufacturing base in Europe; and we think that the site being sought is large enough for eventual annual production of 500,000 cars. At that level, equivalent to Nissan's largest plant in Japan, it would be one of the biggest car factories in the world.

/up to

NISSAN'S POSITION IN THE WORLD

3. Nissan is the world's fourth largest vehicle producer, behind only GM, Toyota and Ford. Its annual car output is almost



Japan  
UK

FILE  
CONFIDENTIAL



cc: DOE  
SO  
WO  
D/TRADE  
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EN  
EMP  
FCO  
CO  
CPRS

RM

hc: A Duguid  
C. Stephens

10 DOWNING STREET

From the Private Secretary

21 December, 1981

NISSAN

The Prime Minister was grateful for your Secretary of State's minute of 15 December about the recent round of talks with Nissan.

As I mentioned to Caroline Varley this morning, the Prime Minister would like to have a brief word with your Secretary of State as to whether the line we are currently taking on Nissan is too tough; or whether it is not. On this, the Prime Minister has commented "Nissan causes problems either way".

I am sending copies of this letter to the Private Secretaries to the other members of E(EA), Brian Fall (FCO), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Ian Ellison, Esq  
Department of Industry

CONFIDENTIAL

SK





PRIME MINISTER

## NISSAN AND THE PROPOSED CHANGES IN REGIONAL DEVELOPMENT GRANTS

I am very concerned about one aspect of Patrick Jenkin's minute of 15<sup>th</sup> December about Nissan. He proposes (on the last page) to offer to make up to Nissan in full in selective financial assistance (SFA) the money which they stand to lose on Regional Development Grants (RDGs) following the changes we plan to make next year. Since SFA is taxable, whereas RDGs are not, he plans to give them extra SFA to maintain the post-tax value of his offer of 30 per cent support towards their investment.

2. I understand that the Scottish and Welsh Offices are thinking along similar lines. They appear to envisage automatically compensating businesses in full (and grossed up to tax if necessary) for the loss of any RDG where SFA has already been offered.

3. If this were to be the general practice it would make it exceedingly difficult - if not impossible - to achieve the savings that we agreed as an important part of the public expenditure review should be made on regional industrial assistance. If these savings are to be made offers of additional SFA will have to be strictly limited, and it is inevitable that some projects which would otherwise have gone ahead will be lost.

4. Unless the three Secretaries of State concerned are prepared to agree upon sensible guidelines for restricting the use of



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offers of additional SFA I think we shall be obliged to re-consider our decisions on RDGs, and perhaps turn again to the option of a simple cut in the rates of grant in order to secure the agreed savings. I suggest that we should aim to agree such guidelines before any Statement is made about the intention to legislate.

5. I am sending copies of this minute to the Members of E(EA) Committee, the Foreign and Commonwealth Secretary, Mr Ibbs and Sir Robert Armstrong.

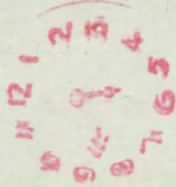
L. B.

LEON BRITTAN  
18 December 1981

CONFIDENTIAL



18 DEC 1981



L.B.J.



MR. SCHOLAR

NISSAN

I would prefer to  
have a word with  
Patridge. Nissan  
causes problems  
either way  
not

Prime Minister

Do you want me to  
say X?

MUS 18/12

①

1. You asked whether we had any vital comments on Nissan. My own view is that the Department of Industry are in danger of trying to drive too hard a bargain with Nissan. I suspect that the Department is a little torn in balancing the advantages of Nissan against the difficult competition that it will pose for existing vehicle producers in the UK, particularly BL. They may even think it would be quite convenient if Nissan went away. But Nissan will pose a strong competitive threat in the UK and European markets whether it locates here or elsewhere in Europe - or even if it continues to export from Japan. Its presence here would not only bring jobs and new investment. It would set new competitive standards to the rest of the UK vehicle and component industry. Once established it could make it easier for the BL saga to be brought to an end.
2. I understand that officials from DoI are going to Tokyo early in January. If the Prime Minister shares my concern that they might be adopting too tough a line, it would be useful for this to be indicated through a letter from you which reaffirmed the Prime Minister's view that while it was essential to get the best available deal, the primary objective should still be to secure this valuable project. You could say that she would be very concerned if our negotiating tactics led Nissan to abandon their interest in the UK before colleagues had had a further chance to study the options.

18 December 1981

ANDREW DUGUID





10 DOWNING STREET

Andrew Duguid

Nissan

The PM has seen the 15/12  
Nissan minute from PJ without  
comment. Have you any  
vital comments?

MCS 18/12





PRIME MINISTER

NISSAN

AD  
AWPrime Minister

MCS 16/12

MS

The recent round of talks with Nissan failed to produce a settlement but further negotiations are planned for London around the end of January.

2 The discussions were based on a revised Plan tabled by Nissan in response to our rejection of their initial proposals in July. Its main features were:-

- i Abandonment of the CKD phase with which they had hoped to launch the project (at 30-35% local content);
- ii Production start-up in 1986 moving towards full production in 1990, compared with the 1984-1986 time span expected before the feasibility study was put in hand.
- iii A definition of local content which, on any given data, pitches Japanese content several percentage points lower than would be produced by the formula proposed by the Department.
- iv Project costs of £400 million for which £122 million of SFA would be required in addition to a guaranteed 22% of RDGs (£78 million) - all 1981 prices.
- v A willingness to look positively at sourcing the bulk of their capital plant and equipment requirements from the UK (about 30% will need to be imported from Japan).





3 The talks concentrated on the important differences between the project as now defined compared with that outlined in the agreement of principle announced last January - start-up two years later and the build up to full production over a 5 year rather than a 3 year period. The introduction of complete engine manufacture and the achievement of 80% local content is consequently delayed. Underlying these issues was the gap between the two sides on the definition of local content. Officials argued that whereas previously the project would have made a significant impact in the UK by the mid-1980s the full benefits of the investment would not now be felt until towards the end of the decade. This was bound to affect the public's perception of the project and create widespread disappointment given the expectations aroused by the original announcement. Nissan was urged to review the project in order to improve its structure and timing and to consider moving towards the UK definition of local content, which the Department believed was appropriate for a full manufacturing operation.

4 Nissan's response was uncompromising. As seen by them the project had been initiated by HMG and not by Nissan and the company had been assured from the outset that it would be treated in a non-discriminatory fashion. The essential UK requirement had been a local content arrangement on a 60%-80% basis and, subject to agreement on definition, Nissan's plan provided for this. The structure and timing of the project now proposed was the result of a full and detailed feasibility study and reflected what Nissan thought was commercially achievable. Government intervention in the detail of this plan was therefore unexpected and unacceptable. On local content Nissan's formula was internationally recognised (EEC/EFTA) and acceptance of the UK proposal would create serious problems for Nissan in its many other operations around the world.





5 Mr Okuma, the Executive Vice President in charge of the project, re-stated this position when I met him on 23 November. I pointed out that the Government's objective, like Nissan's, was to put together a project which would be demonstrably of unquestioned national benefit as well as one which met the company's commercial requirements. Although we wished to see the project succeed, if a satisfactory agreement between us could not be reached it might be in the interests of both sides to drop the idea rather than to pursue proposals which would not command public support. I suggested that there should be further talks so that a package of improvements could be agreed. Our principal concerns related to timing, where an 1986 start might be acceptable if Nissan could accelerate both the pace of build up to full production and the introduction of engine manufacture. On local content we should be prepared to consider moving towards Nissan's definition but only if Nissan were able to offer improvements on the levels to be achieved - 65%-85% would be the sort of level we should be looking for.

6 On financial assistance, I explained that the normal incentives for inward investors were RDGs and a favourable tax regime. However, if an acceptable package could be produced, the Department would examine the possibilities of selective assistance. Nissan's request for SFA, however, both in absolute and percentage terms, went way beyond the levels which we could possibly accommodate. Although this would require the agreement of colleagues, the maximum we could envisage was around 8% of eligible project costs which, together with RDGs, would guarantee Nissan a 30% Government contribution.

7 Mr Okuma was unhappy with my response and stressed the difficulties for Nissan in considering any significant change in the project as set before us which was the result of painstaking research. He did, however, reluctantly agree to look again at the points we had made and these will be the subject of the further talks planned for the New Year.





8 Although the talks were at times difficult and strained, and there was some risk that these would break down altogether, I believe that Nissan are now ready to accept that we are not putting unnecessary obstacles in their path and that further improvements in the project must be made if it is to secure the full backing of the Government. Having rejected two sets of proposals, it remains to be seen how much further Nissan will feel able to go but I am hopeful that they will come forward with a package which we shall find acceptable. Mr Okuma made clear to me that the 8% figure for SFA was a disappointment and I expect Nissan will wish to negotiate hard on this question when the talks resume. If colleagues agree, however, I propose to state firmly that the 30% support level I have already indicated is the maximum to which we are prepared to go. Within this, the proposed changes in the RDG system will require substantial adjustment in the balance between RDGs and SFA to be made available but, provided we maintain the net post-tax value of this support, as I think we must, I believe it would be very difficult for Nissan to break off the negotiations on the grounds of inadequate Government support. Given the uncertainties, it is not possible at present to quantify this commitment - much will depend on the shape of Nissan's revised proposals - but it is bound to be substantial and consequently unlikely that the sums can be accommodated within the Department's existing provision - particularly for the later years of the PES period. I shall, however, be able to give colleagues a clearer indication of this when Nissan's revised proposals are available at the end of January.

9 I am sending copies of this minute to Members of E(EA), Lord Carrington, Sir Robert Armstrong and Mr Ibbs.

P J

15 December 1981

Department of Industry  
Ashdown House  
123 Victoria Street







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~~SO~~  
WO  
TRADE  
CS, HMT  
D/N  
D/M  
FCO  
CO

Japa

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

7 December 1981

NISSAN

Thank you for your letter of 2 December about the Nissan project.

The Prime Minister, who saw your letter over the weekend, notes that your Secretary of State will be reporting separately on the outcome of the Department of Industry's latest round of negotiations with the company.

I am sending copies of this letter to the Private Secretaries to the members of E(EA), Brian Fall, (FCO), David Wright (Cabinet Office) and Robin Ibbs.

MCS

Ms Caroline Varley,  
Department of Industry.

CONFIDENTIAL

15





Secretary of State for Industry

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

3301

2 December 1981

Michael Scholar Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London SW1

Prime Minister

You were right that "local" components  
 are not necessarily British. But, in response to  
 your point, Do I have secured two further  
protections

Dear Michael,

NISSAN

Thank you for your letter of 16 November about the Nissan project.

2 My Secretary of State will be reporting separately to colleagues on the outcome of the Department's latest round of negotiations with the company.

3 No agreement was, however, reached on the question of the definition of local content. Nissan and the Department have each tabled a formula which would express local content as a proportion of ex works price but there are important differences of detail, for example, the treatment of profits and depreciation. As regards componentry, each formula would of course classify as "local" those components, for example, seating, produced by Nissan at its UK plant. There is at present no Japanese-based manufacturer of components established in the UK so local bought-in components would also be genuinely British, except for relatively small volumes which Nissan intend to purchase from elsewhere in the EEC. In the talks with the company, the Department has nevertheless put forward two proposals which should provide additional security on the point which the Prime Minister has in mind, namely:-

- i) that if Nissan UK has a particular requirement for certain components of Japanese design, then it would be willing to make available the necessary licences to enable local manufacture to be carried out by UK companies;
- ii) that if in future any components were produced in the UK which themselves incorporated a significant Japanese content, then their treatment under any local content formula would be a matter for discussion between the Department and Nissan.

on the negotiation shortly.  
MCS 4/12





Nissan has indicated that it envisages no problem in accepting these points. We should, of course, be pleased to give further details if the Prime Minister would like this.

4 I am sending copies of this letter to the recipients of yours.

*Yours sincerely  
Caroline Varley*

CAROLINE VARLEY  
Private Secretary



PART 1 ends:-

26.11.81

PART 2 begins:-

2.12.81



