

Confidential Filing

PM's Meeting with Mr. George
Turnbull and Mr. Anthony Fraser,
the President and Chairman of
the Society of Motor Manufacturers
and Traders (SMMT)

PRIME MINISTER

October 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14.10.82							
1.12.82							
4.12.82							
24.12.82							
PREM 19/892							



10 DOWNING STREET

THE PRIME MINISTER

24 December 1982

Dear George.

Thank you for your letter of 25 November about the need for expanding the UK car market, and the way in which this might be achieved. I understand that since our meeting on 18 October you have met Geoffrey Howe to present your arguments in some detail, particularly in relation to Car Tax and have had informal discussions with John Wakeham and Jock Bruce-Gardyne.

I am afraid I cannot say more than this at the present time.

Yours sincerely
Margaret Thatcher

G.H. Turnbull, Esq.,

cc HMT
CO
D/H
J/T

RM

PM

sl



CF

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

Michael Scholar Esq
10 Downing Street

21 December 1982

Dear Michael,

Your letter of 1 December requests a draft reply for the Prime Minister to send to George Turnbull of the SMMT.

You will notice that we only suggest a brief reply. This is because the Chancellor has already had a detailed presentation of the case from the SMMT at which he had a chance to examine their arguments, which were as set out in the letter sent to the Prime Minister. We think it therefore necessary only to refer to that conversation and to assure Mr Turnbull that we are considering the Industry's case fully.

Yours sincerely,

why? Mrs.

Jill Rutter

JILL RUTTER

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DRAFT TO THE PRESIDENT OF THE SMMT

Thank you for your letter of 25 November about the need for expanding the UK car market, and the way in which this might be achieved. I understand that since our meeting on 18 October you have met Geoffrey Howe to present your arguments in some detail, particularly in relation to Car Tax and have had informal discussions with John Wakeham and Jock Bruce-Gardyne.

I can assure you that the points you have raised in your letter will be carefully considered, and the arguments for action on Car Tax thoroughly examined. ~~As you say, the possible effect on the level of imports is one of the factors to be taken into account, and we shall be keeping a close eye on the industry's performance during the coming month or two.~~

I am afraid I cannot
say more than this at the present
time.

by

PM: Meeting with G. Turnbull (SumT):

Oct 82.

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From the Secretary of State

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

15 December 1982

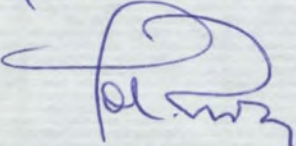
Dear Michael,

..... Your letter of 1 December enclosed a letter from Mr Turnbull of the SMMT about Japanese vehicle imports. A draft reply is enclosed on which the Department of Industry has been consulted.

As noted in the E Committee paper on United Kingdom/Japan taken today, a reduction in the Japanese share of the United Kingdom market below 10% would require formal HMG action. The attached draft stresses the need for JAMA to ship cars in 1983 at the same level as this year, which would lead to an overall share around 10.4% - on the basis of a rather larger United Kingdom market next year.

We have not yet received a detailed report of the recent SMMT/JAMA talks at Leeds Castle. It is clear, however, that the talks for 1983 were less satisfactory than for 1982, in that JAMA's commitments for 1983 on shipments of cars and light commercial vehicles were less detailed than those given for 1982. JAMA's reply to Mr Turnbull's letter to them, setting out the SMMT's understanding of what was agreed, will be important indication of JAMA's interpretation of the talks.

After eleven months of 1982, Japanese import penetration is 11.1% for cars and 11.7% for LCVs. Shipment levels at the eleven month point were within agreed levels.

Yours sincerely,


JOHN RHODES
Private Secretary

M Type for PM as amended

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

CONFIDENTIAL

G H Turnbull Esq
President
The Society of Motor Manufacturers
and Traders Limited
Forbes House
Halkin Street
LONDON
SW1X 7DS

Thank you for your letter of 26 November about the SMMT's talks with JAMA. I was glad to hear that shipments for both cars and commercial vehicles overall this year are expected to be in line with the earlier undertakings given by JAMA.

As you know, the Government is most concerned that the understanding should work effectively. I made this quite clear to the Japanese government during my visit to Tokyo in September as an important point of our drive first to contain and then to reduce the enormous imbalance of our trade with Japan. Though most of the increase in this deficit is due to rising levels of imports in other sectors, vehicle imports from Japan constitute a very significant proportion of the total. I was therefore most disappointed to note that JAMA would not give any specific quantitative undertaking on shipments next year, either for cars or commercial vehicles. When you next have discussions with JAMA - which I note may be early next year - I hope that you will press for a more detailed commitment on shipment levels, and even phasing in 1983.



I fully appreciate your view that it would be difficult for JAMA to be persuaded to make a very significant reduction in shipments without further HMG involvement. However, a more specific commitment by JAMA to ship the same number of cars in 1983 as this year - given your higher estimate of the United Kingdom market - would be ~~an important sign of progress.~~ I would hope you would also be able to clarify the position on light commercial vehicles to ensure that JAMA have accepted your proposal for a market penetration based on the average of the years 1978/79/80 and that JAMA will not be importing heavy goods vehicles to the United Kingdom. We would certainly do all we could to support you in this.

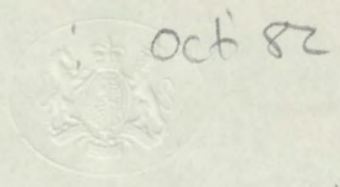
but I hope
you will
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better
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nothing

conqueror

- END -

PRIME MINISTER



Oct 82



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COMMUNICATIONS

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for B
Prime Minister

10 DOWNING STREET

From the Private Secretary

1 December 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.H. Turnbull, President of the SMMT, dated 26 November. This reports his talks with the Japan Automobile Manufacturers' Association.

I should be grateful if you, in consultation with other departments, could provide a draft reply for the Prime Minister's signature, to reach me by Wednesday 15 December.

I am sending a copy of this letter and enclosure to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

LE SCHOLAR

John Rhodes, Esq.,
Department of Trade.



re: B.

10 DOWNING STREET

From the Private Secretary

1 December 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.H. Turnbull, President of the Society of Motor Manufacturers & Traders Ltd, about expanding the UK car market.

I should be grateful if you, in consultation with other departments, could provide a draft reply for the Prime Minister's signature, to reach me by Wednesday 15 December.

I am sending a copy of this letter and enclosure to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Miss Jill Rutter,
H.M. Treasury.



10 DOWNING STREET

From the Private Secretary

1 December 1982

I am writing on behalf of the Prime Minister to thank you for your letters of 25 and 26 November. These are receiving attention and a reply will be sent to you as soon as possible.

M. C. SCHOLAR

G.H. Turnbull, Esq.

FROM THE PRESIDENT - MR G.H. TURNBULL

2 PP'S

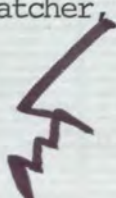
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SMMT

THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.
FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS
TELEPHONE 01-235 7000

25 November 1982

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London S.W.1



R 26/11
by hand -
Prime Minister
Two letters from
Mr Turnbull. One repeating
his plan for the abolition of the
10% special car tax, and one reporting
the outcome of his talks with the Japanese.
We will let you have a draft reply.

Dear Prime Minister,

You were kind enough to allow me to discuss some of the wider problems of the United Kingdom motor industry at our meeting on 18th October and you will no doubt recall that I outlined the SMMT's case for expanding the UK car market. Such is our strength of feeling on the issue and such, we believe, is its importance to the British economy, that I hope you will understand why I felt I should write to you more fully on the subject.

LM
26/11

Before going further may I say how much we appreciated the Government's action in July in abolishing Hire Purchase Controls. This gave equality of treatment to our products in competing for available credit and has led firstly to an upturn in demand for new cars and secondly, to faster movement of second-hand cars through the retail dealerships. The increase in our market is not yet great, although I am pleased to say that the UK share of this slightly bigger market has increased in October with the same trend continuing into the present month.

The problems of the industry, however, need a much more radical and strategic approach and in the view of the SMMT there is no doubt that if the British vehicle manufacturing and component industry does not increase its production and its profits - for the two go hand in hand - then it will fail to attract the investment it needs to compete with the rest of the world. In turn this will mean an acceleration of the industry's already rapid decline. In ten years British car production has already gone down by half from 1.8 million to 0.9 million units. The consequences on employment in the industry, presently running at 320,000, excluding electrical, glass and rubber industries, will be obvious. Perhaps less evident, though of the greatest gravity, will be the effect on the Balance of Payments where the nation will not only continue to lose the benefits of the exports produced by the industry, but will also, as its share of the domestic market collapses, have to pay for additional car and component imports. The total adverse effect on the Balance of Payments would, we estimate, be in the order of £5 to £8 billion per annum.

.../2

This is the real issue - the continuation or the collapse of the British vehicle manufacturing and component industry.

To obtain the investment we need, we know that more sales and more production are not the only requirements. We have to continue to improve our operating efficiency, the lack of which in the past two decades was a major contributory factor in decisions taken by multi-national companies to invest outside the UK. Happily our progress in the past few years in improved productivity and quality, and labour costs, has been considerable: and we will do more. But I emphasise that these measures will not be enough unless we can sell and produce more.

It has been said by the industry's critics that the remedy is in our own hands, that we should be competitive enough to win back lost sales from the importers. While we understand this point of view, such an approach to solving our problems is simply not realistic. There has been no such reduction in the share of the importers in European markets like West Germany, France and Italy where imports, excluding so called "tied imports" (imports of cars by companies who have manufacturing facilities in the country) were last year 27%, 28% and 45% respectively compared with 37% in the UK. What makes the UK's total imports appear so high is the level of tied imports from the multi-nationals who have, during the years of our industry's poor performance, invested largely on the Continent and moved their import share from 13% to almost 21% in four years.

This position cannot be turned around overnight: but I am satisfied from recent discussions with the multi-nationals that they would, given the prospect of a larger market in the UK, invest more in the UK and most certainly produce more in the UK. Such action would reduce the overall level of imports from the Continent, and eventually make it possible to consider exporting from the UK.

The SMMT fully acknowledges that the success of the Government in reducing inflation and in taking up positions based on principle and resolution has been a vital factor in helping us to change attitudes in our industry. Indeed, it is our support for the general thrust of Government policies which would make decisions to invest in the UK easier for our members. But these decisions do and must depend crucially on the size of the British market. Its present size and future projections based on present economic forecasts means it will simply not be big enough.

These are the principle reasons why we are pressing for the abolition of the 10% Special Car Tax at the earliest possible date. We deny emphatically that this would result in a bigger market share for imports, which we believe would decline from present levels. We would contend also that other ways of reducing the overall level of Government taxation, such as reducing personal taxation, would be far more likely to boost imports where we have little defence in industrial terms, eg sales of such items as videos, hi-fi equipment, televisions, radios and also, probably, an increase in spending on overseas holidays.

.../3

Moreover, we believe that tax received from a higher level of car sales and car ownership would by the second half of this decade more than compensate for immediate revenue losses.

Our UK motor industry is in great peril. We are determined to do our part to make it safe, but without the rapid creation of a bigger home market our efforts will almost certainly fail.

In summary, therefore, we believe that the abolition of the Special Car Tax must be regarded as an investment in the future and a means of giving Britain's largest manufacturing industry its second chance and, incidentally, a fair chance to compete with all the other consumer durables available in the market.

If it would be helpful I would, of course, be delighted to explain to you personally some more of the details of the motor industry's case.

Kind personal regards.

Yours sincerely,

George Ludbrook



10 DOWNING STREET

From the Private Secretary

19 October 1982

Dear John.

IMPORTS OF JAPANESE CARS: DISCUSSION WITH THE SMMT

The Prime Minister, together with your Secretary of State, met at 1930 hours yesterday evening Mr. George Turnbull and Mr. Anthony Fraser, the President and Chairman of the Society of Motor Manufacturers and Traders (SMMT). The Secretary of State for Industry was present for some of the time. Mr. Robin Gray (Department of Trade) was also present.

The Prime Minister said that the Government viewed the growing imbalance of our trade with Japan with increasing concern. She had herself raised this matter forcibly with the Japanese Prime Minister in the course of her recent visit. Only two years ago our visible trade deficit with Japan had been £1 billion; last year it was £1½ billion and this year it could be £2 billion. We could not go on like this.

Mr. Turnbull said that they had finished their discussions with the Japanese Automobile Manufacturers Association (JAMA) several hours ago. The inter-industry agreement, which stretched back to 1975, had been successful in controlling Japanese penetration of the car market to something under 11%. The Prime Minister commented that this was a very high figure, higher than that for many other EEC countries. Mr. Turnbull said that the SMMT objective in the talks had been to bring about a standstill in the number of Japanese cars imported at 164,000, and they had agreed a form of words with JAMA which led them to believe that the agreed ceiling of 10.8 % of the UK market would reduce to around 10.4 %. They hoped also to reach parallel agreement on light commercial vehicles (LCVs), although it would be in less precise terms. The Japanese had argued that it was unreasonable for their car industry to suffer because Japanese exports of video machines, parts from Honda for the Triumph Acclaim, etc. had increased the trade imbalance with the UK. The SMMT was not negotiating from a position of strength, since if JAMA walked out of the talks there would be no inter-industry agreement, and therefore no ceiling of any kind on the number of Japanese cars to be imported. The only way in which they could succeed in achieving a much tougher objective in the talks would be if they were authorised to tell JAMA that if agreement was not reached the UK would impose a quota.

/ The Prime Minister

The Prime Minister said that she would be very surprised if the Japanese abandoned the inter-industry agreement. They would very much dislike the prospect of such a development. The SMMT should approach these negotiations from a much tougher stance, seeking a much lower figure than 10.8 %; they should argue, perhaps, for reciprocity with the numbers of UK car exports to Japan, or for a level comparable with that of Japanese exports to France, Germany or Italy. The Prime Minister enquired whether it would strengthen the SMMT's hand if, in answer to a Parliamentary Question, she said that she had told the Japanese that a penetration of 10.8 % was too high, but that the Japanese subsequent refusal to reduce their car exports was obliging the Government to consider other action.

Mr. Turnbull said that such a move would destroy the SMMT/JAMA talks, and would throw the matter into the Government's hands. They believed that there would be a response to the points that they had been putting to JAMA. They would watch the position closely and be ready to call another meeting with JAMA very soon if necessary - perhaps within the next two or three months. Mr. Turnbull went on to argue that any conceivable reduction in the number of cars imported from Japan would do little to help the UK-based motor industry. What was needed was a considerable expansion of the market for cars in the UK, up to 2 million per year. To achieve this Government help was needed, in the shape of the removal of the car tax which unfairly discriminated against the motor industry. With a larger domestic market UK manufacturers would be able to spread their costs over larger production runs, and the UK manufacturing base would be preserved.

The Prime Minister said she did not accept this argument. A reduction in the car tax would benefit foreign as much as domestic manufacturers. The result would be a flood of imported cars, and the transfer of this tax burden from foreign car manufacturers to other shoulders within the UK.

After Messrs. Turnbull and Fraser had left, the Prime Minister had a word with your Secretary of State about the general trade policy matters raised in the penultimate paragraph of his minute to her of 15 October. The Prime Minister said that she too was greatly worried by the developments your Secretary of State had referred to, in particular the import of bogus British cars from Spain and the threatened export of Mitsubishi cars from Australia. She would be grateful if he would bring forward the paper he had promised with all haste so that the Government would be in a position to take effective action to deal with these problems.

I am sending copies of this letter to Brian Fall (FCO), John Kerr (HM Treasury), Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,
Department of Trade.



PRIME MINISTER

IMPORTS OF JAPANESE CARS: DISCUSSION WITH THE SMMT

CONFIDENTIAL

Prime Minister

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 had better
 see the chairman
 of the SMMT myself
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protectionism at the end.

MUS 15/10

On Wednesday 13 October I saw the SMMT representatives, who will be negotiating with the Japanese on car imports this weekend.

So far as the current year is concerned they still hope the Japanese will keep to the agreed ceiling of 164,000 cars or 10.8% of the market. If there is an excess they will demand that this be set off against next year's figure. They are confident of achieving this, which they believe is now an accepted principle.

So far as next year is concerned, they said their objective would be to secure the same percentage target viz 10.8%. But because the market is expected to grow this will represent 170,000 to 172,000 cars. They would open the bargaining with the lower figure.

I told them that we viewed the growing imbalance of our trade with Japan with increasing concern. And that you yourself had raised this matter forcibly with the Japanese Prime Minister in the course of your visit. Only two years ago our visible trade deficit with Japan had been £1 billion; last year it was £1½ billion. This year it could be £2 billion. We could not go on like this. Motor cars were only one element; but they were an important one. The public would find it very hard to understand why in a year in which unemployment stood at well over 3 million we were prepared not only to accept continuation of Japan's traditional share of the market but actually to take another 6,000 to 8,000 cars. Admittedly the blame rested primarily on the uncompetitive cost structure of the British industry, as the Japanese would no doubt point out, but the British public would not see it that way.

The SMMT representatives said that by now the 10.8% was "set in concrete" and JAMA could simply walk out if they felt that the basis of the present agreement was being challenged. The industry would then be left in an impossible position unless this Government was prepared to impose a quota.

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I said that I thought they were being too pessimistic: that over the years the target had gradually been inched up: that there had been fairly regular excesses over target and that these had never quite been clawed back: the Japanese must recognise that the present situation in relation to our trade generally was not acceptable; and that the motor industry must make some contribution to a better balance. We were not singling out the motor industry: we recognised their willingness over the years to help: but equally they needed to recognise that agreement was just as much in their interest as in ours.

I pressed the SMMT very hard to agree at least to start the bidding at 164,000 but they were unwilling to commit themselves beyond using their best endeavours to reduce the 10.8% figure. It is essentially a matter of negotiating tactics how one would proceed. My own view was - and is - that it would be easier to start by claiming the status quo of 164,000 and reduce the 10.8% target by that route. But the SMMT prefer to tackle the matter the other way round. But leaving the question of just how one plays the cards on one side, the SMMT representatives went on to claim that the only way of ensuring success would be if we authorised them to tell the Japanese that if agreement was not reached we would impose a quota. I told them that at this stage such a move would be premature. The whole basis of the present negotiations was a voluntary understanding in which Government was not directly involved and we should not abandon that approach.

In the circumstances which exist, it would be a considerable achievement if the SMMT succeed in pinning the Japanese down to 164,000 cars. They may well fail. To go beyond this we would need to reinforce the SMMT with promises of Government action. We did this a year ago when Light Commercial Vehicle imports were rising steeply, and it enabled the SMMT to negotiate from strength. The cars situation is very different. We doubt our ability to get EC agreement to the imposition of a quota on cars - the case on LCVs was much stronger - and the threat has to be credible if it is to be made at all.

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The problem of motor cars from Japan is only one example of the way that we seem to be caught in a cats cradle of international agreements and EC politics which leave us little room for manoeuvre. The disputes with the United States, the import of bogus British cars from Spain, the threatened export of Mitsubishi cars from Australia, all provide examples of our inability to do anything very effective to protect ourselves. Other people do not appear to be hamstrung in this way. The United States, despite its public protestations of purity, imposes duties, quotas and embargoes ad lib. Neither the French nor the Italians will import Japanese motor cars except in derisory numbers. The Australians lecture us on the iniquities of the CAP and deplore the rising tide of protectionism but have the most protected industry in the world. And so it goes on. Basically other people have their vested rights which they have insisted on retaining. We, with a long standing liberal trade policy, have few such rights. I have no interest in, and in principle would be strongly against, simply restricting imports. But a situation where our market is wide open while other people's markets are effectively closed to us I regard as unacceptable. I had already put work in hand to see how we could better protect our own interests and in the light of the discussion in Cabinet yesterday I shall be reporting back.

I am copying this minute to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretary of State for Industry and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET

15 October 1982

A.C.

LORD COCKFIELD

CONFIDENTIAL

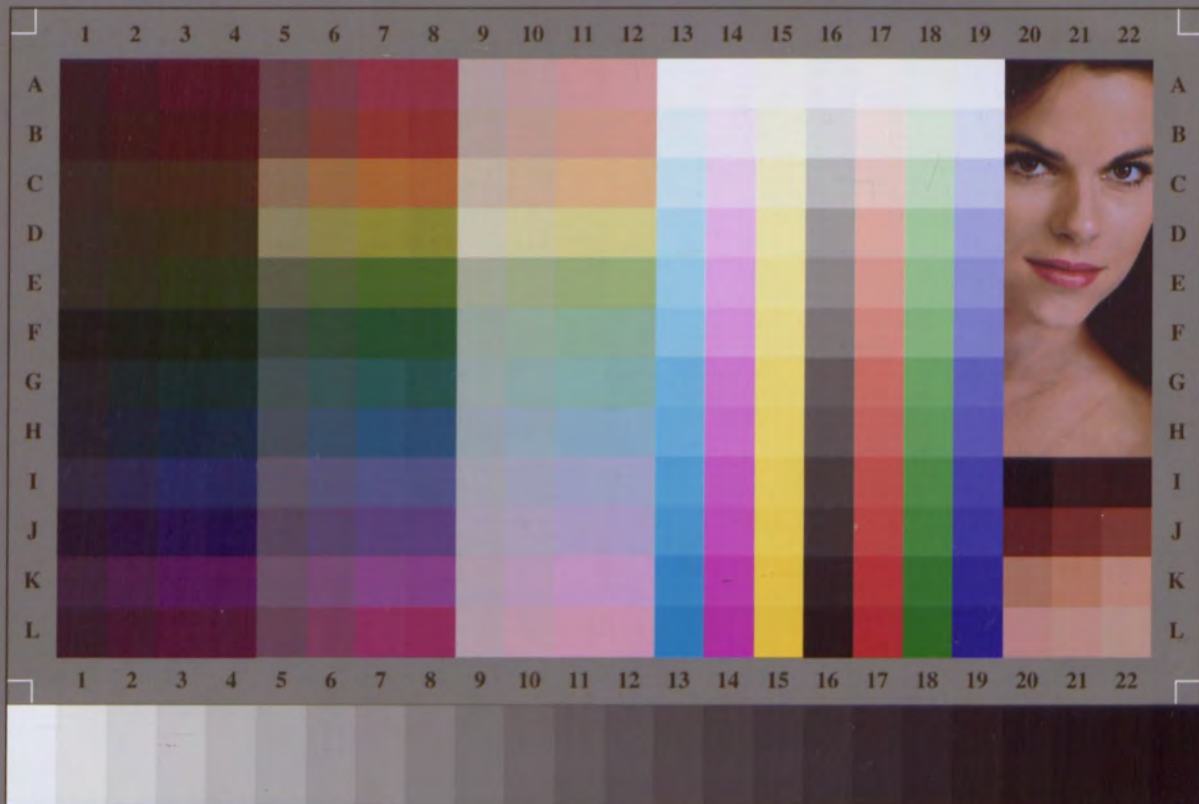


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