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PREM 19/1820

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PART 5

C

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Anglo-Japanese Relations.

Effects of Japanese Imports on the European Car industry.

Nissan. Honda.

JAPAN

Part 1: May 1979

Part 5: June 1985.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~10.6.85.~~		~~15.1.86~~		~~28.11.86~~			
~~20.6.85.~~		~~20.2.86.~~		~~3.12.86~~			
~~27.6.85~~		~~6.3.86~~		~~18.12.86~~			
~~4/7/85~~		~~4.3.86~~		~~22.12.86~~			
~~12.7.85.~~		~~24.3.86~~		31.12.86			
~~1.8.85~~		~~27.3.86~~		PTS GNDS			
~~2.8.85.~~		~~3.4.86~~					
~~12.8.85.~~		~~22.4.86~~					
~~13/8/85~~		~~29.5.86~~					
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~~4/9/85.~~		~~8.7.86~~					
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~~13.1.86~~		~~23.11.86~~					
~~14.1.86.~~		~~26.11.86~~					
		~~27.11.86~~					

PART 5 ends:-

MGA to DTI 31.12.86

PART 6 begins:-

FCO to DTI 2.1.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 21st Meeting, item 3	20/06/1985
CC(85) 23rd Meeting, item 5	04/07/1985
CC(85) 22nd Meeting, item 4	27/06/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed_____ Date 25/09/2014

PREM Records Team

file.

ecu

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Ack | 31 December 1986

I attach a copy of a letter to the Prime Minister from Mr. Eishiro Saito, Chairman of Keidanren in Japan.

I should be grateful if you could provide a draft reply to Mr. Saito for the Prime Minister's signature, to reach me by Wednesday 14 January please.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury) and Robert Culshaw (Foreign and Commonwealth Office).

(Mark Addison)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

Prime Minister.

GRS 150

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FCO TELS 989 AND 990 TO TOKYO
EC-JAPAN: ALCOHOLIC DRINKS

1. COMMISSION HAVE NOT YET HAD ANY FORMAL INDICATION FROM THE JAPANESE OF THE LDP/TAX RESEARCH COUNCIL PROPOSALS. THEY INTEND TO ISSUE A PRESS NOTICE TODAY WHICH WILL:

I) NOTE THE OUTLINES OF THE JAPANESE PROPOSALS.
II) RECALL THE VARIOUS EC DEMARCHES, MINISTERIAL MEETINGS ETC.
III) REGRET THAT THE DISCRIMINATION AGAINST IMPORTED SPIRITS WILL BE MAINTAINED.
IV) TAKE NOTE OF THE TARIFF REDUCTIONS.
V) REAFFIRM THE EC'S INTENTION TO PURSUE THE MATTER IN GATT.

2. WE HAVE GIVEN THEM A COPY OF THE DTI PRESS NOTICE.

3. THE FIRST OPPORTUNITY FOR A DISCUSSION OF THE PROPOSALS HERE WILL ARISE AT THE 113 DEPUTIES MEETING ON 9 JANUARY. THERE IS ALSO TO BE AN AD HOC JAPAN EXPERTS MEETING ON 20 JANUARY, FOR WHICH THE ALCOHOLIC DRINKS ISSUE WILL BE THE FIRST POINT ON THE AGENDA.

HANNAY

YYYY
ADVANCE:
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ITTON FCO
HUTTON DTI
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KIRK-WILSON MAFF
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ECD(E)
FED
UCLNAN 6175

COPIES TO
ADVANCE
ADDRESSEES

FROM: THE RT. HON. PATRICK JENKIN MP

UK – JAPAN 2000 GROUP

B ①

Royal Institute of International Affairs,
Chatham House, 10 St James's Square,
London SW1Y 4LE
Tel. 01-930 2233 (Fax. No. 01-839 3593)

Please reply to:

The House of Commons.

26th November 1986

The Rt. Hon. Margaret Thatcher MP,
10 Downing Street,
London SW1

Prime Minister
Agree to see the members of the Japan 2000 Group in January, before they go to Tokyo?
CDP 27/11

Yes mt

Dear Prime Minister,

The third meeting of the UK-Japan 2000 Group will be held in Japan from Friday, 16th January to Monday, 19th January 1987. You may remember that, last January, following the second meeting, Jim Prior handed over the UK Chairmanship to me and I have been in charge of the preparations for the third meeting. The purpose of this letter is to keep you informed of what we are up to and to find out whether you would wish to meet members of the UK team before we leave for Japan, and how you would like us to report to HMG after our return.

You will remember that the Group was set up with the blessing of Prime Minister Nakasone and yourself following the 1984 UK-Japan Summit. Two meetings have been held so far, the first in Japan in February 1985 and the second at the NatWest Staff College, Heythrop Park in Oxfordshire, in January 1986. After that second meeting, you were kind enough to entertain members of both teams to lunch at Number 10 when you heard from the two Chairmen, Jim Prior and Ambassador Tadao Kato, the main thrust of our discussions. Since then I have kept in close touch with the FCO and have discussed with Geoffrey Howe the future of the Group and the role it might play as relations develop between the two countries. I have recently returned from a two-week visit to Japan where the Japanese Government arranged a very useful round of talks with a number of Ministries, including a meeting with the Foreign Minister, Mr. Kunahari. I was able to keep the British Embassy informed of my discussions and I had lunch with Sir John Whitehead the day after he took up his post in Tokyo.

It is clear that the 2000 Group is regarded by the Japanese Authorities as an important non-Governmental instrument for promoting understanding and furthering relations between the two countries and this point was made expressly to me and Ambassador Kato by Mr. Kunahari himself.

continued over/

I came away from last January's meeting at Heythrop Park persuaded of two things. First, the Japanese are much better than we are at looking fifteen or twenty years ahead and identifying future trends, whether in markets or otherwise. Second, they fielded a rather stronger team than we did and, in particular, their industrial representation was at a much higher level than ours.

On the first point, the CBI has reacted very positively. You will know that their under-35 "Vision 20/10" Group made its first report to the CBI Conference earlier this month. The Chairman of the Group, Mark Nicholson of Barclays Bank, will be coming to Japan in January as a member of our team, and the CBI is writing a paper to which he will speak. On the second point, I have been able to persuade a number of prominent industrialists to join the Group and to come with us to Japan. I attach a list of the proposed British participants and you will see that it includes, among others the Chairmen of GKN, IBM (UK), Rolls Royce and of Lloyds Bank. These are all new participants, as is Sir Hugh Cortazzi our former Ambassador.

Moreover, last January, we identified education reform as a subject of common interest. Accordingly I invited Kenneth Baker to join the team and to table a paper; I am happy to say that he has agreed (I understand with your consent). (I sincerely hope that the continuing dispute of teacher's pay will not stand in the way of his coming with us.)

This is a significantly stronger group than we have fielded in the past. It was made clear to me in Tokyo that both in the 2000 Group and in the Japanese Government, there is much satisfaction that we have been able to add so many distinguished names to our team.

There is however one disquieting issue which persists. While there is a great deal of respect in Japan for those in Britain who have over the years striven to build good relations with that country (noteably, of course, Julian Ridsdale), it is also evident that the Japanese came to regard the Anglo-Japan Parliamentary Group as too narrowly based, and that they see the 2000 Group, drawn as it is more widely, as much better placed to achieve the objectives we all have in mind. I have done my best to make it clear that the 2000 Group does not in any way seek to replace the several existing channels of communication, but inevitably some hard feelings continue.

Turning to the subjects for discussion next January, they include:-

(a) the usual briefing on recent political and economic events in the two countries;

(b) discussion of the socio-economic changes in the UK and Japan over the next fifteen years, and their possible impact on the UK-Japan relationship. I envisage that this will be the opportunity to discuss the Maekawa report and what the Japanese Government is doing to implement its recommendations, and also the CBI's "Vision 20/10" paper;

(c) a discussion of the European-Japanese relationship and the role of the two countries in the global context. I have received indications of Japanese unhappiness with their relationship with the Community and some suggestions that Britain is, at least in part, responsible for this;

(d) a discussion on educational reform in Japan and the UK. Both sides agree that the reforms currently in hand could have a profound impact on the development of our two countries over the next two decades; and

continued over/

(e) a discussion on science/technology cooperation between our two countries. Under this head, we propose to table a paper suggesting a much wider exchange of younger technologists and managers between firms in Britain and firms in Japan with a view to promoting a better understanding in both countries of each others' scientific, technological and industrial cultures. There is also under discussion the establishment in Britain of what is being called a 'Japan Centre' which, though University-based, would be sponsored by Japanese industry. It would provide a focus for teachers, researchers and students from both countries to undertake studies and provide courses primarily for younger British men and women in industry and commerce who want to learn about Japan. (This latter idea needs much more work before it could become a firm proposal, but it is hoped that by January there will be a clear enough concept for the 2000 Group to express a view.)

This is a full agenda, but presentation of the necessary background papers is now well advanced and I hope that we shall be distributing them to the participants before Christmas.

Geoffrey Howe has asked me to "diffuse" awareness of the Group's work much more widely in this country. To this end, we are planning, in addition to the usual press briefings and report-back sessions, a series of seminars for invited target-audiences including businessmen, academics and students. These will be held during the first half of 1987.

Finally, I come to what I hope may be your own involvement. It would be of great help to us if before we go to Japan, we could have a short meeting with you, so that we could tell our opposite numbers in Japan that we had discussed our plans with you and that you wished us well. This need not be a lengthy meeting - I would have thought that perhaps 30-40 minutes would be enough. It would be extremely helpful if you could manage to find a slot for this, perhaps some time in the week begining Monday, 5th January.

Then there is the question of reporting back. As I have said, last year you met the Group over lunch at Number 10 after the meeting. Obviously, this is not expected in 1987 when we shall be lunching with Mr. Nakasone in Tokyo. Nevertheless, I would attach importance to our having an opportunity (not necessarily for the whole Group) to report to you on the outcome of our discussions in Japan and to seek your reaction. (Alternatively, you may prefer that we report back to Geoffrey Howe.)

I realise that in suggesting both a 'before' and an 'after' meeting I am asking a lot. Nevertheless, you will appreciate that to be able to demonstrate the continuing interest of both Prime Ministers in the work of the Group is of great importance in ensuring that we can have the influence which both have sought.

I am copying this letter to Geoffrey Howe.

With kind regards

Yours ever

Patrick

ENC:

UK – JAPAN 2000 GROUP

**Secretariat: Royal Institute of International Affairs, Chatham House,
10 St James's Square, London SW1Y 4LE (01-930-2233)**

1987 CONFERENCE:

BRITISH PARTICIPANTS

Rt Hon Patrick Jenkin (Chairman)	House of Commons
Rt Hon Kenneth Baker	House of Commons
Nicholas Colchester	Economist
Sir Hugh Cortazzi	Hill Samuel & Co Ltd
Sir Trevor Holdsworth	GKN
Graham McCallum	John Swire
Bruce Millan	House of Commons
Sir Jeremy Morse	Lloyds Bank
Mark Nicolson	CBI
Richard Needham	House of Commons
Sir Edwin Nixon	IBM (UK)
Sir Peter Parker	Rockware Group
Sir Michael Palliser	Samuel Montagu
Viscount Sandon	National Westminster Bank
Sir Francis Tombs	Rolls-Royce
Dr William Wallace (Rapporteur)	RIIA
Nicolas Wolfers	Midland Bank

Secretariat: Brian Bridges (RIIA)

Observer: Keith McDowall (CBI)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

24 December 1986

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

Dear Charles

CDP o/r, to see

JAPAN : ALCOHOLIC DRINKS

My Secretary of State, in his minute to the Prime Minister of 18 December, outlined the likely shape of the new tax structure to be applied by the Japanese Government to Scotch whisky.

We have now had confirmation from the Japanese Ambassador that the proposals, as earlier reported, have been adopted with one change, namely that the transitional period for the reclassification of second grade whisky as spirits will be 2 years rather than 5. That does not substantially affect our view of the outcome.

We have asked the Scotch Whisky Association for their reaction. It is clear now, however, that our complaint has not been met and that imported whisky will still effectively be subject to discrimination because of the high rate of taxation applied to it. Although it is not usual to challenge internal tax regimes in the GATT, we shall wish to press the Community to pursue vigorously the Article XXIII case. The Commission have confirmed that they share our view.

We have made sure that the British press is briefed appropriately.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

Yours

Timothy Walker

TIMOTHY WALKER
Private Secretary

JF2AAV

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Relations: JAPAN Pt 5.

UK – JAPAN 2000 GROUP

Royal Institute of International Affairs,
Chatham House, 10 St James's Square,
London SW1Y 4LE
Tel. 01-930 2233 (Fax. No. 01-839 3593)

Please reply to: RIIA

cc. RNS (FCO)
Front Door

Mrs Caroline Ryder,
10 Downing Street,
London Sw1A 2AA.

22 December 1986

Dear Mrs Ryder,

With reference to the Group's forthcoming conference in Japan in mid-January, I enclose a list of the members of the British team who will be able to meet the Prime Minister at 16.30 on Tuesday 6 January 1987. By my calculation there will be eleven people involved, although I suppose that Thorold Masefield from the Foreign Office might also attend in his official capacity.

If you have any questions please do not hesitate to contact me.

yours sincerely,

Brian Bridges

Brian Bridges
Secretary

UNITED KINGDOM - JAPAN 2000 GROUP

Meeting with the Prime Minister

Rt Hon Patrick Jenkin MP	Chairman UK-Japan 2000 Group Conservative Party Member of Parliament for Wanstead and Woodford
Nicholas Colchester	Assistant Editor THE ECONOMIST
Sir Hugh Cortazzi GCMG	Director Hill Samuel & Co Ltd
Graham McCallum CBE	Chairman John Swire & Sons (Japan) Ltd
Mark Nicolson	Manager Barclays Bank plc Chairman CBI's Vision 2010 Group
Rt Hon Sir Michael Palliser GCMG	Chairman Samuel Montagu & Co (Holdings) Ltd
Sir Peter Parker MVO	Chairman Rockware Group
Mrs Angela Rumbold	Minister for State, Department of Education and Science
Sir Francis Tombs	Chairman Rolls-Royce plc
Dr William Wallace	Director of Studies Royal Institute of International Affairs
Nicolas Wolfers	Group Adviser (Asia) Midland Bank Group

Relations ? JAPAN 1985

CONFIDENTIAL

Prime Minister
I have told DTI that I am sure you would want Sir J. Whitehead to express your disappointment and concern to Mr. Nakasone.
CDP 19/xii

PRIME MINISTER

JAPAN: ALCOHOLIC DRINKS

I mentioned in Cabinet this morning that I had just received, from a senior official in the Japanese Ministry of Foreign Affairs, an outline of the new tax structure to be applied to Scotch whisky and other alcoholic drinks. My officials have now had the opportunity to explore the proposals in some detail.

2 These discussions have confirmed my initial reaction that the proposals, as presently conceived, would be unsatisfactory, apart from a reduction in import duty. Although it is claimed that the changes would meet our request for an abolition of the grading system, that would be achieved simply by redefining particular products - for example, reclassifying second grade whisky as "spirits". Whisky would still be subject to a substantially higher rate of tax than any comparable liquor and that, as we pointed out, effectively means a continuation of discrimination. The only imported drinks to benefit significantly from the new arrangements would be wines - a move probably designed to buy off the French.

3 I made clear my strong dissatisfaction and disappointment. From the reaction of the Japanese, my officials believe that there may just be the possibility that further concessions might be built into the final framework which is to be announced on Tuesday.

JG5AHV

CONFIDENTIAL

4 Although it is a long shot, we must do everything we can to keep up the pressure. We have told the Commission of the position and at official level, they have promised to recommend a strong line. I will try to speak to De Clercq before he sees the Japanese tomorrow.

5 We have also asked Sir John Whitehead to make sure that our views are well understood by all those in Government who are in a position to influence the final decision. It would help him, I am sure, if you could send through him a personal message to Prime Minister Nakasone expressing your disappointment and concern.

6 I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture Fisheries and Food and Sir Robert Armstrong.

P.C.

PAUL CHANNON

18 December 1986

DEPARTMENT OF TRADE & INDUSTRY

JG5AHV

R 31/12 CF: PPD.

KEIDANREN

≪ JAPAN FEDERATION OF ECONOMIC ORGANIZATIONS ≫

9-4, OTEMACHI 1-CHOME, CHIYODA-KU, TOKYO 100, JAPAN

Cable: KEIDANREN TOKYO
Telephone: 03-279-1411
Telex: 222-3188 KDRTOK J
Facsimile: 03-246-0574

December 10, 1986

The Rt. Hon. Mrs. Margaret Thatcher
Prime Minister
No. 10 Downing Street
London SW1
United Kingdom

Dear Prime Minister:

I wish to thank you most sincerely for your generosity in affording me an opportunity to pay a courtesy call on you during my recent visit to London. It was really a great honor and privilege for me.

The exchange of views with you on bilateral and multilateral economic issues was very stimulating and inspiring.

I am convinced that the dialogue of this kind will serve to further deepen our mutual understanding and to eventually provide solutions to the problems of our mutual concern.

We at Keidanren will continue to maintain close person-to-person communication with our British and other European colleagues and work hard for the promotion of close economic relations between the United Kingdom and Japan and between Europe and Japan.

I have duly reported on my meeting with you to Prime Minister Nakasone, Foreign Minister Kuranari and other government leaders as well as to my colleagues in the Japanese business community.

With regards,

Sincerely yours,

Eishiro Saito
Chairman

JAPAN
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YOUR TELNO 942 (NOT TO ALL): CALL ON PRIME MINISTER NAKASONE

SUMMARY

1. MR NAKASONE HOPED THAT ANA'S PURCHASE OF AIRBUS A320 WOULD LEAD TO FURTHER SALES OF EUROPEAN MANUFACTURED GOODS TO JAPAN. THE JAPANESE GOVERNMENT WOULD CONTINUE ITS EFFORTS TO OPEN UP THE JAPANESE MARKET BUT FOREIGN EXPORTERS NEEDED TO TRY HARDER. HE WELCOMED CLOSER ANGLO/JAPANESE POLITICAL COOPERATION.

DETAIL

2. WHEN I PAID MY INITIAL COURTESY CALL ON MR NAKASONE ON 8 DECEMBER, HE BEGAN BY CONGRATULATING ME ON ANA'S DECISION TO PURCHASE THE AIRBUS A320 (MY TELNO 1183). HE HOPED THAT THIS SUCCESS WOULD PAVE THE WAY FOR FURTHER SALES OF BRITISH MANUFACTURED GOODS. FOR ITS PART, THE JAPANESE GOVERNMENT WOULD CONTINUE ITS EFFORTS TO OPEN UP THE JAPANESE MARKET AND TO PROMOTE STRUCTURAL CHANGE OF THE JAPANESE ECONOMY. IN PARTICULAR, THE MINISTRY OF FINANCE WERE TRYING HARD TO DEVISE A NEW TAX REGIME FOR ALCOHOLIC BEVERAGES, INCLUDING WHISKY.

3. I REPLIED THAT ANA'S DECISION IN FAVOUR OF AIRBUS DEMONSTRATED THAT EUROPEAN INDUSTRY COULD MANUFACTURE PRODUCTS SUITED TO JAPAN. BRITISH FIRMS LIKE GEC, BAE AND SMITHS INDUSTRIES WERE KEEN TO DO BUSINESS HERE. BRITISH INDUSTRY WOULD ALSO BE LOOKING FOR OPPORTUNITIES TO PARTICIPATE IN THE SECOND STAGE OF THE KANSAI AIRPORT PROJECT. WE WELCOMED THE PROSPECT OF A CHANGE IN THE LIQUOR TAX REGIME AND HOPED THAT A NON-DISCRIMINATORY SYSTEM COULD BE INTRODUCED, PREFERABLY THROUGH THE REMOVAL OF GRADING. HOWEVER, I ADDED THAT MY EXPERIENCE IN JAPAN, WHERE I HAD SERVED FOR 12 OF THE LAST 30 YEARS, SUGGESTED THAT WHEREAS IN BRITAIN WE WERE GENERALLY PREPARED TO OPEN OUR MARKETS TO COMPETITION, NOT ONLY FOR ITSELF AND THE FREE TRADING SYSTEM BUT IN ORDER TO BRING ABOUT CHANGE, JAPAN APPEARED ALWAYS TO WANT TO ORGANISE THE PACE AND LIMIT OF CHANGE BEFORE IT PERMITTED REALLY FREE FOREIGN COMPETITION. IN THE PAST, POLICIES TO OPEN THE JAPANESE MARKET HAD NOT BEEN VIGOROUSLY FOLLOWED THROUGH. AT A TIME OF GROWING IMBALANCE IN WORLD TRADE, JAPAN'S TRADING PARTNERS LOOKED TO HER FOR MUCH MORE DRAMATIC CHANGES.

4. MR NAKASONE SAID THAT GOVERNMENTS COULD CREATE A FRAMEWORK BUT ACTION TO REDRESS THE TRADE IMBALANCE RESTED WITH THE PRIVATE SECTOR. EXPORTERS TO JAPAN NEEDED TO TRY HARDER. REMARKABLE PROGRESS HAD BEEN

BEEN MADE IN THE LAST FIVE YEARS TO OPEN THE JAPANESE MARKET. THE JAPANESE GOVERNMENT WAS DOING ITS BEST TO BRING JAPAN'S PRODUCT CERTIFICATION STANDARDS INTO LINE WITH THOSE APPLIED INTERNATIONALLY. ANY COMPLAINTS IN THIJS AREA SHOULD BE REFERRED TO THE OFFICE OF THE TRADE OMBUDSMAN. HE RECOGNISED THAT THERE WAS A REAL PROBLEM WITH WHISKY. HITHERTO, IT HAD SEEMED PERFECTLY NATURAL THAT SCOTCH WHISKY, WHICH WAS REGARDED IN JAPAN AS A QUALITY PRODUCT, SHOULD HAVE A HIGH PRICE. BUT HE HOPED THAT CHANGES IN THE LIQUOR TAX WOULD GIVE EXPORTERS THE OPPORTUNITY TO DIRECT THEIR SALES AT A BROADER SEGMENT OF THE MARKET.

5. I POINTED OUT THAT BOTH BRITISH EXPORTERS OF MANUFACTURED GOODS AND BRITISH FINANCIAL HOUSES WERE TAKING THE JAPANESE MARKET VERY SERIOUSLY. WE WELCOMED MOVES BY THE JAPANESE GOVERNMENT TO BRING DOWN TARIFFS, ABOLISH QUOTA RESTRICTIONS AND TO REMOVE NTBS. BUT THE FEELING STILL EXISTED OUTSIDE JAPAN THAT JAPANESE SOCIETY REMAINED TOO SELF-CONTAINED. IF FOREIGN EXPORTERS WERE TO BE ENCOURAGED TO INCREASE THEIR EFFORTS TO PENETRATE THE JAPANESE MARKET, THEY NEEDED TO BE CONVINCED THAT OVER A REASONABLE PERIOD THEY WOULD BE ABLE TO SEE A REASONABLE RETURN FOR THEIR MONEY AND EFFORT. MR NAKASONE ACKNOWLEDGED THAT JAPAN'S HISTORICAL ISOLATION STILL AFFECTED ATTITUDES BUT HE MAINTAINED THAT THE RATIONALISATION AND REFORM OF THE JAPANESE ECONOMY WERE PROCEEDING APACE.

6. IN CONCLUSION, I STRESSED THAT THE BRITISH GOVERNMENT REGARDED ANGLO/JAPANESE RELATIONS AS HAVING A POLITICAL AS WELL AS AN ECONOMIC DIMENSION. YOU WERE LOOKING FORWARD TO YOUR TALKS WITH FOREIGN MINISTER KURANARI ON 12 DECEMBER. THE PAYMASTER GENERAL AND MRS RUMBOLD WERE BOTH PLANNING TO VISIT JAPAN IN JANUARY. WE HOPED THAT MR KURIHARA, DIRECTOR GENERAL OF THE DEFENCE AGENCY, WOULD BE ABLE TO TAKE UP HIS INVITATION TO VISIT THE UK IN 1987 TO REINFORCE THE GOOD RELATIONS BETWEEN THE BRITISH AND JAPANESE ARMED FORCES, ESPECIALLY THE TWO NAVIES. COOPERATION IN DEFENCE EQUIPMENT COULD USEFULLY BE EXPANDED. THERE WAS ALSO SCOPE FOR MORE IN DEPTH DISCUSSION ABOUT REGIONAL ISSUES, AID POLICY AND DISARMAMENT BETWEEN SENIOR OFFICIALS. THE 2000 GROUP MEETING IN JANUARY WOULD HELP BROADEN RELATIONS BETWEEN THE TWO COUNTRIES. MR NAKASONE AGREED THAT SUCH CONTACTS WERE USEFUL AND SHOULD BE ENCOURAGED. HE LOOKED FORWARD TO MEETING THE BRITISH PARTICIPANTS IN THE 2000 GROUP MEETING DURING THEIR STAY IN JAPAN. POST REYKJAVIK, EUROPE AND JAPAN NEEDED TO CONSULT MUCH MORE CLOSELY.

COMMENT

7. I GOT THE IMPRESSION THAT THE CONTRAST I MADE BETWEEN THE BRITISH AND JAPANESE APPROACHES TO AN OPEN MARKET SYSTEM MADE SOME IMPACT ON MR NAKASONE AS DID THE EXAMPLES WHICH I GAVE OF BRITISH FIRMS GREATLY EXPANDING THEIR INVOLVEMENT IN THIS MARKET, PARTICULARLY THE FINANCE HOUSES (HENCE HIS RATHER DEFENSIVE RESPONSE ABOUT JAPAN'S HISTORICAL ISOLATION). THESE WERE THE TWO POINTS ON WHICH I LAID GREATEST EMPHASIS. I SHALL REHEARSE THESE LINES WITH ALL JAPANESE MINISTERS WHO I AM MEETING ON MY INITIAL ROUNDS, AS WELL AS POINTING TO THE DANGERS OF PROTECTIONIST MOVES NEXT YEAR BY A CONGRESS DOMINATED BY THE DEMOCRATIC PARTY. SINCE I ARRIVED LAST /MONTH

MONTH WE HAVE HAD NOT ONLY THE AIRBUS SUCCESS BUT THERE ARE STRONG INDICATIONS THAT OTHER BRITISH AIRCRAFT MIGHT BE BOUGHT BY THE JAPANESE IN THE NEXT YEAR OR SO. SOME MORE MODEST BUT USEFUL BUSINESS COULD BE CONCLUDED IN THE DEFENCE EQUIPMENT FIELD. TWENTY AIRBUSES DO NOT MAKE A SUMMER, BUT THEY ARE A USEFUL START TO A SPRING.

8. THE IDEA OF A MUCH MORE INTENSIVE AND SUBSTANTIAL SERIES OF VISITS FOR DISCUSSIONS ON POLITICAL ISSUES RECEIVED A WARM WELCOME FROM MR NAKASONE. I HOPE THAT BUSY MINISTERS AND SENIOR OFFICIALS WILL BE ABLE TO FIND THE TIME TO FOLLOW THROUGH ON THIS. I AM ALREADY STRUCK BY THE MUCH GREATER SELF-CONFIDENCE OF THE JAPANESE BY COMPARISON WITH ONLY A FEW YEARS AGO AND HENCE THEIR WILLINGNESS TO GIVE INFORMATION AS WELL AS RECEIVE IT AND TO DISCUSS ISSUES IN DEPTH. HIGH-LEVEL VISITORS FROM THE UK WILL BE MOST WELCOME IN ALMOST ANY FIELD, THE ONLY CONSTRAINT BEING THE TRADITIONAL PREOCCUPATION OF JAPANESE MINISTERS AND SOME SENIOR OFFICIALS WITH DIET PROCEEDINGS WHICH ARE MUCH MORE DRAWN OUT IN JAPAN THAN IN THE UK.

9. THIS WAS A DISCUSSION ALMOST ENTIRELY CONFINED TO BILATERAL ISSUES. THERE WAS THEREFORE NO TIME OR OPPORTUNITY TO RAISE MACRO-ECONOMIC MATTERS. BUT IN RESPONSE TO THE POINT IN YOUR TELNO 942 ABOUT THE LIKELY GROWTH RATE OF THE JAPANESE ECONOMY SUMITA, GOVERNOR OF THE BANK OF JAPAN, WHOM I SAW AT THE END OF LAST WEEK GAVE ME HIS PERSONAL VIEW THAT GROWTH WOULD BE SUBSTANTIALLY LESS THAN 3% THIS YEAR BUT SHOULD REACH ABOUT 3% IN 1987 WITH 3 1/2% BEING CONTRIBUTED BY THE DOMESTIC SECTOR AND -0.5% COMING FROM THE EXTERNAL SECTOR.

WHITEHEAD

YYYY

TYHPAN 3384

JAPAN : POLITICAL AND ECONOMIC BACKGROUND

LIMITED

FED
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Prime Minister
The usual story:
no progress.
CDP 3/12

PRIME MINISTER

JAPAN

I have just returned from Tokyo where I had discussions with Prime Minister Nakasone (who sends his best wishes) with the Ministers for Foreign Affairs, International Trade and Industry and Posts and Telecommunications, and with the Vice Minister for International Affairs at the Ministry of Finance, the Chairman of the LDP Tax Reform Committee and the Keidanren. In the context of encouraging inward investment, I met Nissan, Sony, Fuji, Honda and NEC. I visited the Tokyo Stock Exchange to discuss improved access for British financial institutions.

2 The purpose of the visit was of course was to further British interests both generally by pointing out the problems caused by the trade surplus and specifically by raising a number of important issues. Your meeting with Saito of the Keidanren - although reported inaccurately in the Japanese press - was a useful start. Leading Japanese Ministers are also very much aware of the GATT challenges on alcoholic drinks and the US/Japan semiconductor agreement.

3 The main themes which I developed both in meetings and in a speech to the Keidanren were:

- The problem of trade surpluses continues to be of major concern to Japan's trading partners, and must be tackled.

DW1CGY

- Japan must now take strong economic measures to reinforce the process of adjustment from export to domestic led growth.

- Every effort must be made to reduce trade frictions, such as the discriminatory treatment of alcoholic drinks.

- Real and visible progress is needed in opening Japan's markets and improving access for foreign exporters of goods and services, particularly in the financial field.

4 Will the Japanese ever do anything about these issues? The Prime Minister himself has, of course, been sensitive to international criticism for some time; the emphasis in my talks with Minister Tamura of MITI and Foreign Minister Kuranari in particular was on settling problems. Even Mr Yamanaka the Chairman of the LDP Tax Reform Committee appeared to be prepared to consider how the tax regime on alcohol might be made non-discriminatory. The notorious ski and seat belt problems appear closer to solution. So there are a few straws in the wind. But I remain dubious about the likelihood of real progress. The Japanese themselves say they have serious political problems and the Yen revaluation is beginning to affect export volumes and company profitability.

5 I also pursued a number of specific issues. The key ones, all of which I raised with Mr Nakasone were:

(a) Alcoholic drinks: I warned that any solution must allow whisky and other imported drinks to compete on an equal basis with their domestically produced counterparts. We shall know in mid-December whether the LDP's and the Government's proposals meet our demands.

DW1CGY

(b) Reciprocity in financial markets: I made it clear that if, despite the progress to date in granting licences, our firms were frustrated in their efforts to secure access to the Tokyo market, I would be prepared to use the reciprocity powers under the new Financial Services Act.

(c) Airbus: I reinforced your initiative in writing to the Prime Minister, by underlining the excellence of the aircraft, its competitiveness and the impact which a substantial purchase would have on our trade deficit.

(d) Cable and Wireless: There is the possibility that C&W might participate in Japan's international telecommunications service, so opening the door to more British exports in a highly competitive sector. But there is a great deal of Japanese resistance to the involvement of a foreign company. The pressure will have to be kept up.

6 It is essential to maintain continual pressure on the Japanese; to push existing cases as hard as possible and to firm time constraints; and to press our rights under GATT. My visit was a necessary part of this process, but we must keep up the momentum. Japanese Ministers are coming over next week to Brussels for the EC/Japanese meeting, a crucial one at which it should become clearer what can be achieved. Accordingly I shall be seeing the MITI Minister in London on Monday and I believe that Geoffrey Howe is to see Kuranari in Brussels.

DW1CGY

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7 Finally, I would like to thank the new Ambassador and his staff for my excellent programme. Sir John Whitehead's experience and knowledge of Japan was of invaluable help to me.

8 I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

PC

PAUL CHANNON

3 December 1986

DEPARTMENT OF TRADE & INDUSTRY

DW1CGY

bc FCO
DTI
aPC

8/12

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1986

The Prime Minister has asked me to thank you for your letter of 26 November. She will reflect on the points which you make in it, but I am writing now to say that she would be happy to see the British members of the UK-Japan 2000 Group before their visit to Tokyo. She could offer a meeting here at 10 Downing Street at 1630 on Tuesday, 6 January. I hope that this is convenient. As you kindly suggest, it would help her if you could report back after the visit to Sir Geoffrey Howe and Mr. Channon.

BF

(C. D. POWELL)

The Right Honourable Patrick Jenkin, M.P.

File SR

10 DOWNING STREET

From the Private Secretary

27 November 1986

I enclose a copy of a letter to the Prime Minister from Patrick Jenkin in his role as Chairman of the Japan 2000 Group. I should be grateful if you could let me have a draft reply, in conjunction with the DTI. You will see that the Group are asking for a meeting with the Prime Minister before and after their visit to Tokyo. I hope to be able to arrange a meeting before the Group go, but I think the Prime Minister would be grateful if the Foreign Secretary or Trade and Industry Secretary (or both) would see them on return.

I am copying this letter to Mike Gilbertson (Department of Trade and Industry).

C D POWELL

R. N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office

ECL

file

MR. POWELL

MEETING WITH JAPAN 2000 GROUP

Please offer Patrick Jenkin 1630 hours on Tuesday 6 January. But don't you think you ought to check first with the Prime Minister?

(Caroline Ryder)
27 November 1986

From: THE RT. HON. PATRICK JENKIN, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

Nov 26

Dear Charles,

We spoke! Here is my letter to the PM.

Yours ever

Pat

2 to 5 JAN.

MR. POWELL

MEETING WITH JAPAN 2000 GROUP

Please offer Patrick Jenkin 1630 hours on Tuesday 6 January. But don't you think you ought to check first with the Prime Minister?

CR

(Caroline Ryder)
27 November 1986

COPC

Foreign and Commonwealth Office

London SW1A 2AH

26 November 1986

CDP
26/xi

Dear Charles

Japan

Thank you for your letter of 23 November about Tokyo Telegram No 1138 and Japanese press accounts of the meeting between Mr Saito and the Prime Minister. The Tokyo telegram itself carried Sir John Whitehead's report of his immediate action with MITI to set the record straight.

We had in fact spoken to the Embassy in Tokyo on the telephone, since the Japanese Embassy here told us that they were concerned about the early Japanese press reports and were taking action to describe the talks at No 10 as very friendly and constructive.

We have again instructed the Ambassador to use the opportunities available, particularly those during Mr Channon's calls this week, to reinforce the record.

I am copying this letter to Timothy Walker (DTI).

Yours ever

Robert Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

FILE CAJ

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 November 1986

JAPAN

The Prime Minister was surprised to see from Tokyo telegram number 1138 that the Japanese press are alleging that she made some direct criticism of Mr. Nakasone at her meeting with the Chairman of the Keidanren. The Prime Minister did not of course make any such criticism, indeed spoke in most flattering terms of Mr. Nakasone. I should be grateful if you would ensure that our Embassy put the record straight with the Japanese Government.

I am copying this letter to the Private Secretary to the Secretary of State for Trade and Industry.

C. D. POWELL

R. N. Culshaw, Esq.,
Foreign and Commonwealth Office

ADVANCE COPIES

7

JAPAN: Political and Economic Background

~~HD/FED~~

HD/ECD(E)

HD/TRED

MR GILLMORE

DR WILSON

MISS K WINDEYER OT2/DTI (Victoria St)

There was no criticism of Mr Nakasone - rather the opposite. MT

CONFIDENTIAL

FM TOKYO

TO IMMEDIATE FCO

TELNO 1138

OF 210755Z NOV 86

IMMEDIATE

YOUR TELNO 896: PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF THE KEIDANREN

1. THE EVENING EDITIONS OF ALL MAJOR NEWSPAPERS ON 20 NOVEMBER CARRIED REPORTS OF MR SAITO'S CALL ON THE PRIME MINISTER. ALL THE MAIN DETAILS IN YOUR TUR WERE REPORTED WITHOUT THE SOURCE BEING IDENTIFIED (EXCEPT FOR ONE KYODO AGENCY REPORT, WHICH MENTIONED JAPANESE OFFICIALS). THE GENERAL IMPRESSION GIVEN BY THE COVERAGE IS OF A DIFFICULT MEETING WITH THE IMPLOCATION IN SOME REPORTS OF DIRECT CRITICISM OF MR NAKASONE (THIS WAS THE HEADLINE IN THE TOKYO SHIMBUN).

2. REPORTS OF THE KEIDANREN MISSION'S TALKS IN PARIS AND BRUSSELS, ALTHOUGH LESS PROMINENT, HAVE SIMILARLY FOCUSED ON EUROPEAN CRITICISM OF JAPANESE SURPLUSES AND TRADE BARRIERS.

3. IN A CALL ON MURAOKA, DIRECTOR GENERAL OF THE INTERNATIONAL TRADE POLICY BUREAU IN MITI, TODAY I SOUGHT TO SET THE RECORD STRAIGHT ON THE WILDER REPORTS IN THE JAPANESE PRESS ABOUT THE PRIME MINISTER'S PERSONAL CRITICISM OF MR NAKASONE WHILE REITERATING THE POINTS ABOUT THE NEED FOR THE JAPANESE TO COME THROUGH WITH MEASURES WHICH WOULD HAVE A SUBSTANTIAL CORRECTIVE EFFECT ON THE DETERIORATING TRADE IMBALANCE BETWEEN THE UK AND JAPAN. I EMPHASIZED PARTICULARLY THE IMPORTANCE OF A FAVOURABLE DECISION ON AIRBUS AND THE LIQUOR TAX AND MORE GENERALLY THE NEED FOR STRUCTURAL REFORM OF PARTS OF JAPANESE INDUSTRY. THE PRIME MINISTER'S RESTLESSNESS WAS AN INDICATION OF THE EXTENT TO WHICH THIS PROBLEM HAD BECOME A POLITICAL ISSUE, BUT I POINTED OUT THAT THERE HAD BEEN NO PERSONAL ATTACK ON NAKASONE. MURAOKA CONFINED HIMSELF TO TAKING NOTE OF THESE POINTS AND THAT AIRBUS AND THE LIQUOR TAX WOULD BE HIGH ON MR CHANNON'S AGENDA IN HIS TALKS WITH TAMURA THE MITI MINISTER NEXT WEEK.

WHITEHEAD

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JAPAN: HAVE NAKASONE'S FORTUNES CHANGED?

SUMMARY

1. DESPITE THE LIBERAL DEMOCRATIC PARTY'S SUBSTANTIAL MAJORITY, PRIME MINISTER NAKASONE'S LEGISLATIVE PROGRAMME IS BEING HELD UP IN THE DIET. THE PARTY HAS ATTEMPTED TO SEIZE THE INITIATIVE ON TAX REFORM AND ECONOMIC POLICY. NAKASONE'S FOREIGN POLICY HAS ALSO SUFFERED SETBACKS. NONETHELESS, HIS POSITION AS PRIME MINISTER IS NOT UNDER IMMEDIATE THREAT.

DETAIL

2. SWEPT ALONG BY THE LIBERAL DEMOCRATIC PARTY'S LANDSLIDE VICTORY IN THE JULY GENERAL ELECTION, PRIME MINISTER NAKASONE WON HIS PARTY'S AGREEMENT TO EXTEND HIS TERM OF OFFICE FOR UP TO A YEAR FROM 31 OCTOBER. WHEN THE DIET REASSEMBLED IN EXTRAORDINARY SESSION IN THE EARLY AUTUMN, NAKASONE PLEDGED TO COMPLETE HIS PROGRAMME OF PRIVATISATION AND OF TAX AND EDUCATIONAL REFORM. IN FOREIGN AFFAIRS, HE MADE CLEAR HIS WISH TO ACHIEVE A HISTORIC BREAKTHROUGH IN JAPAN-SOVIET RELATIONS. HE CALCULATED THAT THE SUCCESSFUL COMPLETION OF THESE TASKS WOULD STRENGTHEN HIS SAY IN THE CHOICE OF HIS SUCCESSOR AND QUARANTEE HIS CONTINUED INFLUENCE WITHIN THE PARTY AFTER RETIREMENT.

3. NAKASONE HAS NOT MADE AS MUCH PROGRESS AS HE WOULD HAVE LIKED. THE BILL TO PRIVATISE JAPAN NATIONAL RAILWAYS, THE CENTRE PIECE OF THE GOVERNMENT'S LEGISLATIVE PROGRAMME FOR THIS SESSION, GOT OFF TO A GOOD START. BUT ITS FURTHER PROGRESS HAS BEEN BLOCKED SINCE 13 NOVEMBER BY AN OPPOSITION BOYCOTT OF THE DIET IN PROTEST AT THE GOVERNMENT'S UNWILLINGNESS TO INTRODUCE NEW PERSONAL TAX ALLOWANCES IN ADVANCE OF NEXT YEAR'S BUDGET. NAKASONE HAS ALSO LOST SOME OF THE INITIATIVE ON TAX REFORM, THE PRINCIPAL DOMESTIC POLITICAL ISSUE OF THE AUTUMN. THE FIRST MAJOR REFORM OF THE JAPANESE TAX SYSTEM FOR 35 YEARS WILL IMPINGE DIRECTLY ON SOME OF THE SPECIAL INTEREST GROUPS WHICH EXERCISE GREAT INFLUENCE WITHIN THE LDP. PARTY LEADERS INSIST THAT THEY, AND NOT NAKASONE, WILL ULTIMATELY DECIDE THE SHAPE OF THE TAX REFORMS. THE EVENTUAL PACKAGE IS HOWEVER LIKELY TO CORRESPOND FAIRLY CLOSELY TO WHAT NAKASONE AND THE GOVERNMENT WANT. NAKASONE IS ALSO UNDER LDP PRESSURE FOR MORE REFLATIONARY POLICIES TO OFFSET THE EFFECT ON THE DOMESTIC ECONOMY OF A HIGHER YEN. ALMOST UNHEARD OF IN RECENT TIMES, REGIONAL UNEMPLOYMENT IS BECOMING A MATTER OF CONCERN.

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/4.

4. NAKASONE'S TOUCH IN FOREIGN AFFAIRS APPEARS TO HAVE BECOME LESS SURE. HE PLANNED TO APPROACH THE SOVIET UNION SECURE IN THE KNOWLEDGE THAT JAPAN'S RELATIONS WITH HER CLOSEST ASIAN NEIGHBOURS AND THE UNITED STATES WERE ON A FIRM FOOTING. INSTEAD, HE HAS BEEN FORCED TO ATTEMPT TO SOOTHE CHINESE AND KOREAN SENSITIVITIES IRRITATED BY THE ILL-CHOSEN REMARKS OF LEADING LDP POLITICIANS. US/JAPAN RELATIONS TOO HAVE BEEN JOLTED BY NAKASONE'S OWN SOLECISM ABOUT THE LEVEL OF INTELLIGENCE OF AMERICA'S RACIAL MINORITIES. MORE DISTURBINGLY, THE DEMOCRATS' MID-TERM GAINS IN CONGRESS HAVE ROUSED THE SPECTRE OF RENEWED PROTECTIONIST PRESSURES AGAINST JAPAN. THE PROSPECT FOR AN EARLY VISIT BY GORBACHEV TO JAPAN MAY ALSO BE RECEDING. RATHER THAN RECEIVING GORBACHEV IN TOKYO IN JANUARY AS HE CONTINUES TO HOPE, NAKASONE MAY FIND THAT A PROPHYLACTIC MISSION TO WASHINGTON EARLY IN THE NEW YEAR BETTER SERVES JAPAN'S INTERESTS.

5. NAKASONE'S MISFORTUNES HAVE DENTED HIS STANDING IN THE OPINION POLLS. THERE HAS EVEN BEEN TALK OF HASTENING HIS DEPARTURE FROM OFFICE. BUT THIS STILL LOOKS UNLIKELY THIS SIDE OF THE VENICE SUMMIT. NONE OF THE CONTENDERS FOR THE SUCCESSION IS YET CONFIDENT ENOUGH TO MOVE AGAINST HIM. IT SUITS THEM THAT NAKASONE SHOULD SHOULDER THE RESPONSIBILITY FOR UNPOPULAR MEASURES ON THE POLITICAL AGENDA LIKE THE INTRODUCTION OF AN INDIRECT TAX. THE CASTING VOTE OF THE NAKASONE FACTION MAY WELL BE DECISIVE IN THE DESIGNATION OF THE NEXT PARTY LEADER. SO LONG AS EACH OF THE CONTENDERS ASPIRES TO HIS SUPPORT, NAKASONE REMAINS WELL PLACED TO DIVIDE AND RULE.

6. PLEASE PASS ADVANCE COPY TO PS/SECRETARY OF STATE FOR TRADE AND INDUSTRY.

WHITEHEAD

YYYY

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(ADVANCED AS REQUESTED)

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 November 1986

Dear Mike,

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF THE KEIDANREN

The Prime Minister saw the President of the Keidanren for a talk this afternoon. Mr. Saito was accompanied by the Japanese Ambassador. The Trade and Industry Secretary was also present.

The Prime Minister welcomed Mr. Saito, recalling with pleasure her meeting with the Keidanren during an earlier visit to Japan. She believed that Britain had a great deal to learn from the Japanese manufacturing industry. We had great respect for Mr. Nakasone. The Economic Summit in Tokyo had been very successful.

Mr. Saito recalled that he had recently seen Prince Hiro who had spoken warmly of his experiences in Britain. Mr. Saito continued that he had had a good discussion with Mr. Channon earlier in the day on the difficult question of Japanese trade imbalance. There was no need, in his view, to revert to this subject. (Some hope: Ed!). He regarded his meeting with the Prime Minister as a symbol of the close relationship between the United Kingdom and Japan.

The Prime Minister thought that Mr. Saito might find it instructive to have a first-hand account of her views on the trade imbalance. Time after time, at Economic Summits and in bilateral meetings, we were assured by Japanese Government representatives at every level that action would be taken to deal with the imbalance. What happened in practice was that it just got worse. Either the promised action was not taken or the expected results did not come through. It was no good thinking that the trade imbalance could be resolved by taking 4 per cent off the tariff on chocolate. We needed some large orders, such as Airbus. Moreover, despite all assurances, various artificial barriers and restrictive practices continued. The problem of whisky and other alcoholic drinks was a particularly glaring example, which had led the European Community to resort to action under GATT Article XXIII. There were also the well known examples of seatbelts and skis. Mr. Saito should take back home the message that Europe was very restless about the imbalance and no-one more restless than she was.

Mr. Saito said that he did not want to go into details. He had heard the story about the skis in every European capital he had visited. We should give more credit to the action of the Japanese Government in allowing the Yen to appreciate. This had had a tremendous adverse impact on Japanese manufacturing industry. The number of bankruptcies had risen steeply and unemployemnt was also increasing. Nonetheless, he appreciated the strength of the Prime Minister's feelings. He drew the conclusion that Japan's efforts to deal with the trade imbalance had not been sufficient.

The Prime Minister said that we very much welcomed Japanese investment in the United Kingdom. She was certain that the new Nissan plant would be a great success. Japanese companies which invested in Britain found that the productivity and efficiency of British workers, when allied with Japanese style management, was as good as those in Japan. Mr. Saito should tell his Keidanren colleagues that Japanese investment here was very welcome.

The Prime Minister expressed concern that one of the results of the recent United States Congressional elections would be increased pressure for protectionist measures. This had been evident even in the closing stages of the last Congress, which had taken measures which would hit our exports to the Community of some £250 million in a full year. That apart, she thought that the economic prospects were good. The United Kingdom was looking for further growth next year. She was reasonably optimistic about the world economic situation. Mr. Saito said that he was pessimistic about the situation in Japan. Growth would be less than 3 per cent this year and next. He believed that the Yen was now too high. His former company, Nippon Steel, would lose 100 billion Yen this year. There was no longer the feeling in Japan that the economy was strong and vital.

The Prime Minister referred to the problems for both Japan and Britain from the NICs and cited in particular South Korea's performance in steel and shipbuilding. Mr. Saito agreed that Japan was finding competition from these countries in her export markets increasingly difficult to meet.

The Prime Minister asked Mr. Saito to convey her regards to Mr. Nakasone and to the members of the Keidanren.

I am copying this letter to Alex Allan (H M Treasury) and Robert Culshaw (Foreign Office).

Yours sincerely,

Charles Powell

C D POWELL

Michael Gilbertson, Esq.,
Department of Trade and Industry

CCB/up

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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GTN 215)
(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

18 November 1986

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Prime Minister

You will want to put him in a position to report back how you feel strongly about the Japanese surplus.

CDP
18/11

Dear Charles,

PRIME MINISTER'S MEETING WITH MR SAITO : 16.30 19 NOVEMBER

I attach a short brief for the Prime Minister's use at this meeting.

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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DJA

PRIME MINISTER'S MEETING WITH MR SAITO, PRESIDENT OF THE KEIDANREN :
16.30 19 NOVEMBER

Purpose of meeting

Mr Saito is leading a mission to EC capitals and has asked to call, no doubt to assure the Prime Minister that the Keidanren firmly supports action to remove trade friction. He is also meeting the Chancellor and Mr Channon separately.

Objectives

To stress concern at Japan's global and bilateral trade surpluses and the need for urgent Japanese action to remove barriers to trade, increase imports and promote structural change.

LINE TO TAKE

1. Recognise Keidanren's advocacy of market opening and a switch from export to domestic led growth.

2. Concerned at continued growth of Japan's trade surplus. Appreciation of Yen will not be sufficient: macro-economic measures needed as suggested by Maekawa Committee.

3. Despite modest progress on market-opening, problems remain which undermine credibility of commitment to genuine liberalisation. Community have lost patience on alcoholic drinks and launched GATT case. Removal of discriminatory grading system is a clear priority.

4. A stronger Yen means imports are now more competitive. What is Keidanren doing to encourage Japanese industrialists to increase foreign purchases?

5. Purchase of V2500 powered Airbus A320 as a replacement for All Nippon Airways Boeing 727 Fleet would also give a positive lead.

6. UK main focus for Japanese investment in Europe: Very welcome provided that it contributes fully to the economy.

DJA

ESSENTIAL FACTS

Mr Saito

1. Mr Saito, the Chairman of Nippon Steel, became Chairman of the Keidanren in May (personality note attached). The visit to the UK is part of a European tour during which he will see M Delors, Dr Waldheim and M Chirac.

Trade Balances

2. The UK's trade deficit within Japan in the first 9 months of 1986 was £2,733M (£2,294M over the same period in 1985). Japan's current account surplus is projected to reach over $80bn in FY 1986; $60bn with the US and $15bn with the EC.

Japanese Measures

3. Japan's surpluses reflect principally macro-economic and structural factors. Despite pressure from the US and Europe, the Japanese have been slow to move. The one significant exception has been the strengthening of the Yen (up 40% against the dollar since the Plaza Agreement of September 1985). There now needs to be a major switch from exports to domestic consumption as a source of growth - Mr Nakasone has affirmed his commitment to initiating the necessary changes as recommended by the Maekawa report on restructuring. It remains to be seen how far and how fast the Japanese will act.

4. The Japanese have announced eight market opening packages in recent years. The current 3 year Action Programme was announced in July 1985 and covers tariffs, quotas, import procedures, standards and certification, government procurement and financial market services. Some progress is being made, eg. reductions in tariffs, the granting of security dealing licences to foreign firms, but there is still a tendency for some agencies to seek to defend sectional interests such as agriculture and the confectionery or drink industries from liberalising.

EC Action

5. The principal EC action against Japan is on alcoholic drinks, which was referred to the GATT in October. The Community seeks an end to discrimination in Japan's liquor tax (in particular the current method of grading). An LDP Tax Committee is expected to come up with proposals for reform at the end of December.

6. The Community is due to review the general situation on Japan and progress on the alcoholic drinks case at the January Foreign Affairs Council.

All Nippon Airways

7. All Nippon Airways (ANA) are looking for up to 20 150-seat aircraft to replace their ageing Boeing 727s, and a decision on aircraft type is expected in the near future. Airbus Industrie's A320 aircraft is currently being evaluated by ANA, along with competition from McDonnell Douglas and Boeing. Airbus Industrie believe that their chances of winning this contract are improved by the fact that the A320 can be powered by the V2500 engine, produced by

International Aeroengines in which Rolls Royce and the Japanese Aero Engine Corporation (JAEC) are both partners (JAEC have a 23% workshare). We understand M. Chirac will also raise this issue with the Keidanren.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 November 1986

MESSAGE FROM MR. NAKASONE

Thank you for your letter of 11 November proposing that Sir John Whitehead should reply orally to Mr. Nakasone's message to the Prime Minister, transmitted through Sir Sydney Giffard during his farewell call. The Prime Minister is content with this but would like the message to be rather less detailed. I enclose an amended version.

(C. D. POWELL)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

MESSAGE TO BE GIVEN TO MR. NAKASONE BY SIR JOHN WHITEHEAD

The Prime Minister has asked me to thank you for your kind message conveyed by Sir Sydney Giffard. Mrs. Thatcher quite agrees that our two countries should work together harmoniously on all aspects of our relations.

The Prime Minister was happy to attend the Nissan opening and hopes that you will encourage more investment in Britain, the transfer of technology and joint ventures. You mentioned to Sir Sydney that all our problems should be capable of settlement. The Prime Minister asked me in this context to underline the importance of Mr. Channon's visit which will be an opportunity to discuss major issues in our trade relations. She looks forward to meeting you at the Economic Summit in Venice.

RESTRICTED

Prime Minister
Agree that our new Ambassador should convey the attached oral message to Mr. Nakasone?
CDP 11/xi

I think it goes into 10's mind dictate

Foreign and Commonwealth Office

London SW1A 2AH

11 November 1986

Dear Charles,

Message from Mr Nakasone

Sir Sydney Giffard, who has just returned to London on retirement after being our Ambassador in Tokyo, made farewell calls on the Prime Minister, Mr Nakasone, and the Foreign Minister, Mr Kuranari, before he left Tokyo at the end of October.

Mr Nakasone made a point of asking that his personal regards be passed to the Prime Minister. He said that Mrs Thatcher had made a great contribution to the success of the Tokyo Economic Summit. He was very keen that they should continue to work together, as he attached the highest value to the Prime Minister's contribution in international affairs generally. He referred to Mrs Thatcher's presence at the recent opening of the Nissan Plant in Washington, and said that this had been very well received in Japanese industrial circles. It meant that Japanese investment was really welcome in Britain. He then referred to the Bosporus Bridge and said that, if other problems like that arose, he would hope to be able to settle them with the Prime Minister. All problems between the two countries were capable of settlement.

Sir John Whitehead, the new Ambassador, takes up his appointment at Tokyo on 11 November. He is likely to have an early opportunity to call on Mr Nakasone and it would be natural, and in our view useful, if he could pass on a message from Mrs Thatcher in the same informal, oral form used by the Japanese Prime Minister. ~~I attach~~ a draft for your approval. Mr Channon will be visiting Japan from 22-28 November. It would be useful to reinforce what he will have to say on whisky and on other trade issues, when he sees Mr Nakasone, as we hope he will.

Yours ever

R Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

RESTRICTED

DSR 11C

MESSAGE TO BE GIVEN TO MR NAKASONE BY SIR JOHN WHITEHEAD

The Prime Minister has asked me to thank you for your kind message conveyed by Sir Sydney Giffard. Mrs Thatcher quite agrees that our two countries should work together harmoniously on all aspects of our relations. ~~Sir Geoffrey Howe was pleased with his talks with Mr Kuranari on political cooperation at New York.~~

The Prime Minister was happy to attend the Nissan opening and hopes that you will encourage more investment in Britain, the transfer of technology and joint ventures. You mentioned to Sir Sydney that all our problems should be capable of settlement. The Prime Minister asked me in this context to underline the importance of Mr Channon's visit ~~in our trading relationship and two issues in particular: the need for progress over alcoholic drinks and the encouragement we should find in a major order for aircraft.~~ She looks forward to meeting you ~~again and discussing all these matters further~~ at the Economic Summit in Venice.

which will be an opportunity to discuss major issues in our trade relations

GRS 660

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FCO PLEASE ADVANCE TO: QUINN, WEBSTER (BANK OF ENGLAND) CAINES, HILTON, MARRE (DTI), ILETT (TREASURY)

ANGLO-JAPANESE FINANCIAL CONSULTATION, 27 OCTOBER

SBLS AND DTLS

1. IN A RESTRICTED SESSION, GYOHTEN AND KITAMURA INDICATED TO SIR G LITTLER (TREASURY) AND LOEHNIS (BANK OF ENGLAND) JAPANESE READINESS TO ISSUE 4 FURTHER SECURITIES BRANK LICENCES (SBLS) IN THE NEXT 2-3 MONTHS: TO MORGAN GRENFELL, SAMUEL MONTAGU, JAMES CAPEL AND LAURIE MILBANK. THEY ALSO TENTATIVELY OFFERED TO GIVE AN EARLY POSITIVE INDICATION TO BARCLAYS AND LLOYDS, IF WE WOULD DO THE SAME IN PARALLEL TO THE REMAINING JAPANESE ASPIRANTS TO BANK OF ENGLAND DEPOSIT-TAKING LICENCS (DTLS). THEY SUGGESTED THAT ALL FOUR UK CLEARING BANKS' SBLS, AND ALL FOUR JAPANESE SECURITIES HOUSES' DTLS, MIGHT THEN HAVE BEEN ISSUED BY EARLY IN 1987.

2. LITTLER AND LOEHNIS HOWEVER DECLINED TO TREAT THE CLEARING BANKS' SBLS ALONE AS A MATCH FOR THE DTLS, AND CONSEQUENTLY WERE LEFT WITH NO (NO) COMMITMENT IN RESPECT OF BARCLAYS AND LLOYDS. THEY INDICATED THAT DAIWA'S DTL APPLICATION, MADE ON 3 SEPTEMBER. WOULD BE HANDLED REASONABLY EXPEDITIOUSLY BUT SAID THE OTHER TWO DTLS WOULD DEPEND ENTIRELY ON JAPAN MAINTAINING THE MOMENTUM IN TOKYO, IN RESPECT OF INVESTMENT MANAGEMENT LICENCES AS WELL AS SBLS. ONLY THEN MIGHT IT BE POSSIBLE TO HAVE GRANTED BY SAY OCTOBER 1987 ALL DTLS (AND SBLS) THEN OUTSTANDING. LITTLER WARNED MOREOVER OF POTENTIAL POLITICAL PROBLEMS AHEAD. HOWEVER, HE AND LOEHNIS AGREED TO TAKE NOTE, IF AND WHEN THE TIME CAME , OF THE JAPANESE PREFERENCE FOR THE EVENTUAL THIRD AND FOURTH DTLS TO BE SIMULTANEOUS.

3. IN THE PLENARY OF THE CONSULTATIONS THERE WAS NO FURTHER DISCUSSION BUT WE MADE QUITE CLEAR THAT THE FINANCIAL SERVICES BILL RECIPROCITY POWER WILL BE AVAILABLE FOR USE IF NECESSARY ALSO AGAINST ANY JAPANESE HOUSES THAT JOIN THE LONDON STOCK EXCHANGE BY VIRTUE OF MEMBERSHIP OF ISRO

4. IT WAS AGREED TO MAKE NO (NO) PUBLIC REFERENCE TO DISCUSSION OF ANY INDIVIDUAL LICENCE APPLICATIONS BUT TO REFER GENERALLY TO CONSTRUCTIVE AGREEMENT ON IMPORTANCE OF MAINTAINING MOMENTUM. LITTLER SPOKE ACCORDINGLY TO JAPANES AND UK PRESS AT A JOINT CONFERENCE WITH GYOHTEN AT 270850Z

/OTHER

OTHER POINTS

5. WE AGAIN EXPRESSED STRONG UK INTEREST IN THE NEW JAPANESE LAW ON INVESTMENT MANAGEMENT, AND INDICATED THE NUMBER AND HIGH QUALITY OF LIKELY BRITISH APPLICANTS FOR LICENCES. THE JAPANESE GAVE SOME USEFUL, AND IN SOME CASES REASSURING, FURTHER DEAILS OF ITS IMPLEMENTATION BUT COULD SAY NOTHING NEW ABOUT THE CALENDAR FOR THE ISSUE OF LICENCES OR THE TIME THEY WOULD TAKE TO PROCESS APPLICATIONS.

6. THE JAPANESE GAVE A PREPARED RESPONSE TO OUR AIDE-MEMOIRE ON THE DIFFICULTIES FACING FOREIGN BANKS IN JAPAN. THEY SHOWED NO WILLINGNESS TO RELAX THE CONSTRAINTS ON THE DEVELOPMENT OF THE INTERBANK MARKET, BUT THEY DREW ATTENTION TO THE RECENT GROWTH OF THE MARKET IN SHORT-TERM GOVERNMENT DEBT AND PLEDGED THAT THIS WOULD CONTINUE. THEY ALSO AGREED TO INCREASE THE ACCESS OF FOREIGN SECURITIES FIRMS TO THE CALL MONEY MARKET VIA THE BANK OF JAPAN.

7. WE DEPRECATED THE CONTINUING ABSENCE OF ANY INDICATION OF FURTHER SEATS FOR UK FIRMS ON THE TOKYO STOCK EXCHANGE (TSE). KITAMURA SAID ONLY THAT AN OPPORTUNITY MIGHT ARISE, BUT HE COULD NOT (NOT) SAY WHEN. IN SUBSEQUENT CONVERSATION, HOWEVER, GYOHTEN APPEARED RECEPTIVE TO LITTLER'S ARGUMENT, WHICH HE WILL DEPLOY AGAIN ON 28 OCTOBER WITH TSE PRESIDENT TAKEUCHI, THAT TO AVOID A NEGATIVE POLITICAL REASCTION IN THE UK TO THE ADMISSION OF MANY JAPANESE FIRMS TO THE LONDON STOCK EXCHANGE VIA ISRO, AS EXPECTED SOON, IT WOULD BE WELL AT THAT TIME FOR THE TSE TO BE ABLE TO REFER PUBLICLY TO PLANS FOR ITS NEXT ENLARGEMENT.

8. FOR THEIR PART THE JAPANESE REPEATED, WITHOUT RESULT, THEIR LONG-EXPRESSED WISH TO BE ABLE TO LEAD-MANAGE STERLING BOND ISSUES IN LONDON, AND HOKURIKU BANK'S WISH FOR BRANCH STATUS IN LONDON.

HITCH

YYYY

TYHPAN 7441

NNNN

FINANCIAL
FED

[ADVANCED AS REQUESTED]

David Norgrove NBPM

In view of the debate about Japanese shareholdings, the PM may care to see the attached FT article

Fiona Luise

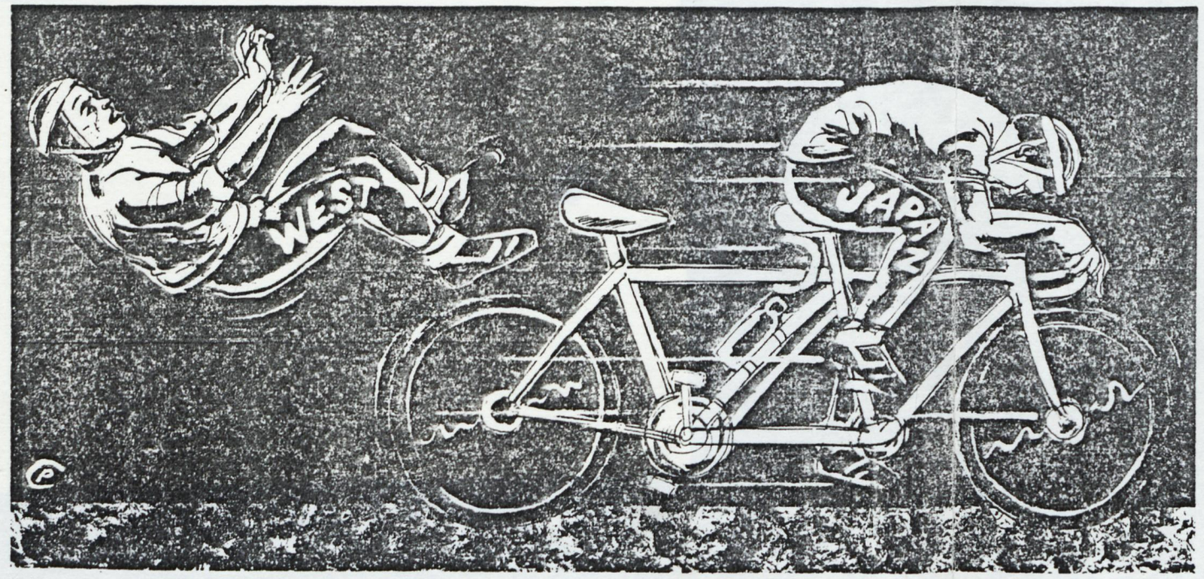
MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

'Triad Power'

How Japan can put a spoke in the wheels of the West

Christopher Lorenz explains why collaboration can rebound



LIKE MOST of its competitors, and much of western industry these days, one of Europe's leading technology-based manufacturers has a collaborative agreement with a fast-rising Japanese company. In theory, the deal extends only to the exchange of technology.

Yet until recently the European company has been blithely introducing prime customers to its Japanese partner. Officially, the purpose has been to show them the latest Japanese products. But the European top management has just realised that the meetings have also given the Japanese precious knowledge about the European marketplace, right down to the detailed demands of individual customers. The policy is now under urgent review.

The situation epitomises the way that Japanese companies see their growing plethora of partnerships with western companies not as a cessation of past hostilities, but as a new—and highly lethal—form of competition.

According to the newly-fashionable gospel of global partnerships between Japanese, US and European companies, a new era of interdependence and power-sharing is emerging. Neither the Japanese nor the western company can succeed on its own, runs the argument. So both must collaborate, to their mutual and long-lasting benefit.

Not so, warns a group of leading US and European academics: that view may be shared by a large number of top US and European companies, but it is dangerously naïve.

Instead, the academics argue that the flood of international joint ventures and "strategic partnerships" merely represents a new phase in the vicious competition between Far East and West. It is a phase in which the Japanese are building ever more managerial and technological competence, while western companies surrender ever more control over their competitiveness.

Partnerships are just one more step in a strategy of global dominance by leading Japanese companies, Professor Yves Doz of Insead, the Paris-based business school, told a major international conference in Singapore this week. "Contrary to what some would like to believe, the multiplication of partnerships does not correspond to a genuine change in the logic of Japanese firms, from competition to collaborative strategies."

Doz's paper, on "International Strategic Partnerships—Success or Surrender?", was written jointly with Gary Hamel of the London Business School and Professor C. K. Prahalad of the University of Michigan. The three have been collaborating on an extensive study of global competitiveness over the past few years.

The paper was one of the most controversial contributions to the Strategic Management Society's annual conference, at which 400 managers, consultants and academics met to debate a wide range of issues, from corporate culture to the impact of information technology (see right).

The essence of the Doz-Hamel-Prahalad case is that the ultimate aim of most Japanese companies in their partnerships with the west is not to co-exist, but to extract their partner's core of skills, and then either disarm him into an ever-growing spiral of dependence, or break loose and compete with him directly. Their argument is in stark contrast with the "Triad Power" doctrine formulated, to widespread acclamation in the book of that name by Kenichi Ohmae, head of McKinsey and Co's operations in Tokyo.

The three academics insist that there is nothing anti-Japanese about their argument—it is just that the Japanese are better than the West, for a host of reasons, at exploiting partnerships to their own advantage. Most western companies have an awful lot to learn, they warn. They certainly have plenty of tips for them.

Citing a host of examples from a wide range of industries, the trio argues that "the partner intent on global leadership" (which in practice almost always means the Japanese) usually tries to annexe the other partner's skills, and to gain control over its technology, in order "to relegate the other partner to mere product distribution and the provision of less-than-critical contributions."

Among instances where this has already occurred, the academics cite NEC, which has transformed itself from "a rather hapless licencee" of Honeywell in the 1960s to being in a position to join Bull of France in effectively taking control of Honeywell's $2bn worldwide computer business; plans for the deal were announced last month.

Another case of the stronger partner annexing its "ally's" distinctive competence, say the trio, is the collaboration between Honda and BL (now Rover). In the words of their Singapore paper, "Honda made no bones about its desire to learn from Rover aspects of the design of large up-market sedans (saloons), a market segment in which it was not present and lacked experience. Similarly Komatsu relied on its agreements with Cummins to learn about the technology of diesel engines."

Even when the western partner is itself trying to play the same game, the academics argue that the Japanese still hold the whip hand. In its partnership with JVC and Thorn-EMI to make video cassette recorders (known as "J2T"), the French company Thomson has ambitions to learn from JVC's product engineering and manufacturing skills, in order then to re-assert its independence.

Yet Doz, Hamel and Prahalad report that JVC has erected a multitude of barriers against this eventuality. "JVC has constantly accelerated the pace of new product development, of improved product manufacturability, of transitions to new product generations (that is to "slim line" VCRs), so its partners constantly have to catch up, retool, gear up for new types, reinvest in manufacturing, and—given the smaller volume they make jointly for Europe, compared with JVC's own Far East production—incur permanently higher unit costs than JVC despite formidable efforts at cost reduction."

Thomson and Thorn-EMI also develop new VCRs on their own, "but they can only develop very few types, while JVC introduces whole new product generations at short intervals. As a result, the European partners are constantly running to catch up . . . ."

This is only one of many types of competitive advantage which Japanese companies enjoy in partnerships with the West, according to Doz, Hamel and Prahaland. Another is the way the Japanese use evolving—not static—networks of partnerships, both to build their own skills and competitiveness, and to fight "proxy battles" against global leaders such as IBM. A Western company that sees its Japanese link in isolation from all the others, and considers its own relationship immutable, does itself a dangerous disservice.

In the computer industry, both Fujitsu and NEC have gained immeasurable competitive advantage from a welter of partnerships in complementary technologies and geographic markets. Fujitsu's partners, for instance, include Texas Instruments, GTE, ICL, Amdahl, Siemens and Telefonica of Spain.

In the European market, the local partners of both Fujitsu and NEC "have become the front line of the Japanese manufacturers' challenge against IBM," report the academics. So long as the local companies were relatively weak, IBM tolerated them. But now it has grown more aggressive. "Through this process, the (European) partners have become cannon fodder in a global fight, and may, ultimately, be worse off than they would have been before the partnership."

Yet another, but less obvious source of advantage to most Japanese companies in partnership with the West is the greater ability of their organisations to learn from their partners. This results in part from Japan's long tradition of selective absorption and adaptation of foreign ideas and technology, and also from the quality of vertical and horizontal communication in Japanese companies.

By contrast, as Doz and co point out, western companies tend to suffer from the notorious "not invented here" syndrome. And their greater specialisation of task and responsibilities makes the assimilation and use of complex know-how more difficult.

Even less clear to the inexperienced western eye is the fact that information exchanged between the partners, or gained by one of them, outside the formal areas of collaboration is just as important as what is traded within it. Much of the encroachment within any partnership, and the process of "dynamic bargaining" which accompanies it, occurs well down the organisation, out of sight of top management.

Western managers need to become much more aware of this problem, advise the academics. They must recognise where to draw the line, even if this involves aggravating their all-important Japanese partner.

The trio's extensive advice to western companies includes the following points:

- Partnerships are a second-best solution to going-it-alone. They are certainly fashionable, but they should be entered into only if really necessary, and then with great care. Significantly, the Japanese are proving most reluctant to co-operate with Korean electronics companies, who are using a succession of separate partnerships of limited duration—in an evolving network—as successive rungs on the ladder to international competitiveness. The Japanese are rightly reluctant, say the academics. By contrast, "US companies are helping Korean firms elbow onto the world electronics markets in the 1980s, as they did for Japanese competitors in the 1960s and 1970s."
- Encroachment can be contained in several ways, mainly by reducing the visibility and transferability of one's own contribution to the partnership. Partnerships in the aerospace industry, for instance, have resorted to very tight control of technology transfers. This includes the "triadic" partnership between Pratt and Whitney, Rolls Royce and a Japanese consortium for the development of the V2500 jet engine. But the academics are concerned about this venture on other grounds, including the advantage Japan may gain by having some of the same companies collaborate with Boeing on a different project.
- Western partners must constantly replenish their own core skills (such as product development and distribution networks), so that they can increase their bargaining power within the relationship, or their strength outside it.

Above all, Doz, Hamel and Prahalad warn that "the management of relative power within a strategic relationship is a fundamental and often neglected issue that companies approach piecemeal. As a result, many companies may lose more than they gain through partnerships, and may only become aware of this imbalance too late."

By then, they have no option left except to continue a relationship in which they are increasingly dominated. The fate has already befallen many well-known western companies. Hundreds more will follow unless they realise that (in the academics' restrained and elegant phrasing), a simplistic and naive view of the merits of "triadic" partnerships "can be quite detrimental to the long-term success of American and European firms." Put more succinctly, it can kill them.

DES
FCO
alc

SRW
45

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 October 1986

The Prime Minister was very glad to receive the letter of 25 August from Mr. Nakasone asking her to nominate through diplomatic channels representatives for the conference of high level experts on education in Japan in January 1987. This is to confirm our nominations for the conference:

Mr N B W Thompson
Under Secretary
Schools 2 Branch
Department of Education and Science
Elizabeth House
London SE1 7PH

Dr Gareth Howell
Controller
Science Technology and Education Division
British Council
10 Spring Gardens
London SW1A 2BN

It would be helpful if in due course, the detailed arrangements for the conference could be sent direct to these experts.

(C. D. POWELL)

His Excellency Mr Toshio Yamazaki

985

CMA

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

CDP

GR

Please do me a letter to the Japanese Ambassador as at X-Y below CDP 10/X

C D Powell Esq
Private Secretary
10 Downing Street
London SW1A 2AA

9 October 1986

Dear Charles

Thank you for your letter of 8 September enclosing a copy of a letter to the Prime Minister from Mr Nakasone following up the proposal which he made at the Tokyo Economic Summit for a Conference on Education.

Having consulted the FCO, we think we should be represented at this conference and wish to nominate Mr N B W Thompson, Under Secretary, Schools 2 Branch of this Department and Dr Gareth Howell, Controller, Science Technology and Education Division at the British Council (10 Spring Gardens, London SW1A 2BN). The Japanese Embassy has been in touch with us separately about the arrangements for the conference and we have given them these two names on an informal basis. The letter to the Prime Minister asks for nominations to be sent through diplomatic channels and I think it would be right for you now to send the names formally to the Japanese Ambassador in London as follows:

X/ " The Prime Minister was very glad to receive the letter of 25 August from Mr Nakasone asking her to nominate through diplomatic channels representatives for the conference of high level experts on education in Japan in January 1987. This is to confirm our nominations for the conference:

Mr N B W Thompson
Under Secretary
Schools 2 Branch
Department of Education & Science
Elizabeth House
LONDON SE1 7PH

SRW (45)

Continued/...

Dr Gareth Howell
Controller
Science Technology and Education Division
British Council
10 Spring Gardens
LONDON SW1A 2BN

It would be helpful if in due course, the detailed arrangements for the conference could be sent direct to these experts." /Y.

I am copying this letter to Colin Budd (FCO).

Yours sincerely

Alison Kennedy

pp R L SMITH
Private Secretary

JAPAN
RELATIONS
PTS

R 9/10

(4)

Cable and Wireless

Public Limited Company

Mercury House Theobalds Road London WC1X 8RX
Telephone: International + 441-242 4433 Switchboard 01-242 4433
Telegrams: Cablewire London WC1X 8RX London Telex: 23181 CANDW G

Prime Minister

Some good news.

OBB 3/x

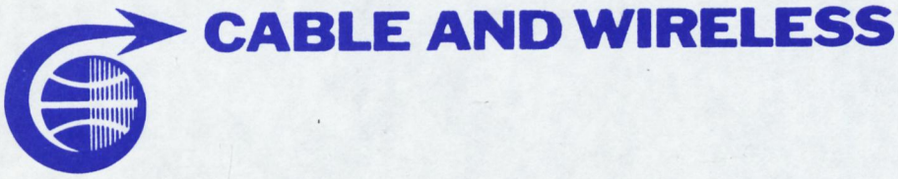
Excellent

with compliments

Sir Eric Sharp C.B.E.

Chairman & Chief Executive

Press Release



In April 1986, Cable and Wireless responded to an invitation to join C. Itoh and Company Ltd., a leading Japanese trading house and NTTI - the international arm of NTT, Japan's dominant domestic carrier - in carrying out a feasibility study for the establishment of an alternative international telecommunications system and service for Japan (commonly known as the 2nd KDD).

2. The study was positive and a new and unique Consortium has been established to process matters further to obtain a Category 1 licence from the Japanese Government. The Consortium is now setting up a formal Feasibility Study Company as a precursor to the Operating company - a necessary and normal course of action for projects of national significance in Japan.

3. The core members of the new company to be known as Kokusai Digital Tsushin Kikaku K.K. are ;

	Shareholding
C. Itoh and Toyota Motors	about 30%
Fujitsu	3%
NEC	3%
IBJ	3%
DKB	3%
LTCB	3%
Hitachi	2%
Cable and Wireless	20%
Pacific Telesis International	10%
Merrill Lynch	3%
Other Japanese Companies	20%

4. Directors will be appointed from C.Itoh, Toyota, Cable and Wireless, IBJ, Fujitsu, NEC, Pacific Telesis, and Merrill Lynch to undertake the management of the company. A Promotors' Meeting will take place on 24th October in Tokyo.

5. NTTI will provide technical assistance on a contract basis.

6. The broad business plan, worked out in the earlier C. Itoh and C&W study, is as follows :-

Phase 1 (End 1987 -)

Leased circuit service via Intelsat and existing Pacific cables

Phase 11 (beginning 1989 -)

Switched services

Phase 111 (beginning 1990 -)

Full range of digital leased and switched services via PPAC transPacific submarine optical fibre cable jointly owned by KDTK (Japan) and Pacific Telecom Cable of USA.

Phase IV

Connection of Japan with Hong Kong, and Korea, Taiwan, the Philippines, China, and other Pacific Basin countries by a further network of submarine cables or a private satellite. Japan to become a major international hub on the Global Digital Highway alongside USA and UK.

Notes to Editor

1. C.Itoh is the third largest trading house in Japan.

   Toyota is Japan's leading motor company and is the largest private shareholder in Teleway - a new domestic common carrier in Japan.

   Fujitsu is Japan's leading computer manufacturer.

   NEC is the world's largest semi-conductor producer and satellite ground station supplier

   IBJ- The Industrial Bank of Japan is Japan's leading long-term financier responsible for the promotion of Japanese industry and is the long term finance provider to both NTT and KDD.

   DKB - The Daichi-Kangyo Bank is the world's largest bank and the provider of short-term credit to NTT.

   LTCB - The long-term credit bank of Japan, a leading specialist in industrial and social development finance.

   Hitachi - a world leader in high technology and heavy industries

   Pacific Telesis International - the international arm of Pacific Telesis the Bell operating company for California and Nevada through whom 40% of all U.S./Japan traffic passes.

   Merrill Lynch - the world's leading stockbroker.

2. General Motors were invited to join but declined the invitation. They already have close links with C.Itoh and Toyota and will continue to be associated with the project through these links.

3. As regards other Japanese companies, C.Itoh and Toyota are currently approaching key companies in the banking, securities, trading, arms, construction, manufacturing, transportation, energy and viti-culture sectors, including the leading members of the International Telecommunications of Japan Group - i.e. : Mitsubishi, Mitsui, Sumitomo and Matsushita.

4. The broadening of the base of the Consortium enhances the prospects of a licence from the Ministry of Posts and Telecommunications.

5. The Feasibility Study Company will conduct negotiations with the Ministry and will seek co-operation with KDD. It will also open negotiations with carriers in teh United States and key telecommunications centers elsewhere in the Pacific Basin for correspondent Agreements.

6. This unique Anglo-United States-Japanese Consortium provides powerful reinforcement,

   a) for Cable and Wireless' plans for a global Digital Highway to provide the world with a choice of international communication facilities for the first time in history.

   b) for the policies for liberalisation and privatisation pursued by the Governments of Britian, United States, and Japan.

7. Cable and Wireless' global digital highway at the present time consists of 4 key elements

   - (i) Mercury - the only all digital network in Europe

   (ii) PTAT - the planned state of the art submarine fibre optic cable linking the United Kingdom to the United States owned jointly by Cable and Wireless and Nynex, the New England Bell operating company, will purchase Teleoptic subject to necessary judicial and regulatory approvals. RFS date 1989.

   iii. Cable and Wireless' digital network in the USA.

   iv PPAC - the planned state of the art submarine fibre optic cable linking the United states to Japan, owned jointly by Pacific Telecom Cable of the USA and the new Japanese consortium subject to acquiring licences from the Federal Communications Commision in the USA and the Ministry of Posts and Telecommunication in Japan. RFS date late 1989. This system is scheduled to link also to Hong Kong.

FURTHER ENQUIRIES

Further enquiries should be addressed to the office of the Chairman, Sir Eric Sharp - 242 4433 ext 4401 - or to Mr Solomon, Director of Corporate Strategy - 242 4433 ext 4231.

J H SOLOMON
Director, Corporate Strategy

GS GE, CF, AR, RAV, JSMS
SM

10 DOWNING STREET

Link &
Note BF slip

CF - for information

Charles Powell wrote to
Colin Budd (FCO) on
8 September enclosing
correspondence from
Prime Minister Nakasone.
Letter was copied to DES.

DES are now taking the lead
on providing a draft reply,
in consultation with the FCO.

Garden Rooms
16.9.86

FILE

PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 September 1986

CONFERENCE OF HIGH LEVEL EXPERTS ON EDUCATION

I enclose a copy of a letter to the Prime Minister from Mr. Nakasone, following up the proposal which he made at the Tokyo Economic Summit for a conference on education.

I should be grateful if you would prepare a draft reply in conjunction with the Department of Education and Science.

I am copying this letter to Rob Smith (Department of Education and Science).

(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

SKO

JU322
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

8 September 1986

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

CDP 8/9.
PDJ 8/9

Dear Mark/CDP.

Your letter of 27 August to Colin Budd at the FCO concerning a letter from Mr Tamura, Japan's new Minister for International Trade and Industry, has been referred to the DTI for advice. Mr Tamura wrote to my Secretary of State in similar terms.

We recommend that as Mr Tamura's letter does not raise any issues which require a formal response the Prime Minister need not reply. Mr Channon has already written a congratulatory letter to Mr Tamura immediately following his appointment. A copy of Mr Channon's letter to Mr Tamura is enclosed for information.

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

999-1

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

1 August 1986

His Excellency Mr Hajime Tamura
Minister for International Trade
and Industry
3-1 Kasumigaseki 1-chome
Chiyoda-ku
TOKYO 100
Japan

Dear Minister,

May I offer my congratulations and best wishes on your recent appointment as Minister for International Trade and Industry.

Industrial and trade links between our two countries are becoming increasingly important, and I hope to have the opportunity of meeting you in the near future.

Best wishes

Yours sincerely

PAUL CHANNON

Paul Channon

JF4AEX

1786 1986 BOARD OF TRADE BICENTENARY

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JAPAN Relations PTS

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Mark

CDP

I sent this to FCO, who want to refer it to DTI. You may prefer to deal yourself.

MCP 29/8

FCO rang to say that your letter of 27 August (attached) should be dealt with by DTI rather than FCO.

Do you wish to deal or shall we sort this one out?

Graham
29/8

Graham

Please write DTI for early e
~~early e~~
jim deer reply CD.

Hajime TAMUR
10/9

CF

NOTE FOR FILE

DTI NOW DEALING NOT FCO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 August 1986

I attach a letter the Prime Minister has received from Mr Hajime Tamur, the Japanese Minister of International Trade and Industry.

I should be grateful for advice and a draft reply, to reach me by Wednesday 10 September.

Mark Addison

Colin Budd Esq
Foreign and Commonwealth Office.

BM

ccpc.

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OFFICE OF THE PRIME MINISTER

TOKYO

SUBJECT cc MASTER
OPS

August 25, 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T156A/86

Dear Prime Minister,

You will recall that on the occasion of the informal exchange of views at the 12th Economic Summit Meeting held in Tokyo in last May, I referred to the importance of the role to be performed by education and proposed the convening of a conference of high-level experts on education.

Following up on it I immediately instructed that a concrete study should be made within the government about convening this conference in Japan.

Consequently, my Government has decided to hold this conference, as outlined in the attached paper, extending the scope of participants to all the OECD countries.

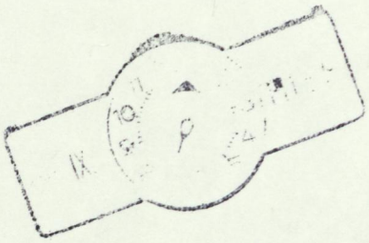
I should be very grateful, therefore, if you would be good enough to recommend suitable experts of your country and inform us of their names and other relevant matters about them through diplomatic channels, in order to see that this conference will, by positive discussions, provide us with valuable suggestions concerning education, including its desirable mode in the future, and serve as the basis for seeking the means for promoting, through education, international understanding, and international exchanges and cooperation in the future.

With kindest regards,

Yours sincerely,

Yasuhiro Nakasone

The Right Honourable
Mrs. Margaret Thatcher, MP
Prime Minister
of the United Kingdom
of Great Britain and Northern Ireland



Attachment

Provisional Outline of Conference of High-Level Experts on Education

1. Time

January 19-21, 1987 inclusive (three days)

2. Place

Kyoto International Conference Hall (Kyoto City)

3. Participants

Two high-level experts who are recommended by each of the following countries and organs: OECD countries, Yugoslavia, the European Commission, and OECD Secretariat, and who are versed in the under-mentioned subjects.

The participants will join the discussions in their personal capacity.

4. Subjects

(1) Educational Reform to cope with Economic and Social Changes

Each country has its own educational system and faces different problems, but it is a fact that there are problems common to the industrialized countries, which are urgently required to respond to drastic economic and social changes. It is useful, therefore, for different countries to exchange views on such common problems.

Exchange of information on the state of educational reform in each country is useful to the practice of educational reform in other countries in the future.

(2) Promotion of Personnel Exchanges in the Field of Education

At this time when international economic relations are so closely interwoven, the promotion of personnel exchanges to deepen mutual understanding of other countries' cultures is a matter of importance. To that end, the exchanges of students, teachers, researchers, etc. should be increased.

(3) Educational Cooperation with Developing Countries

In the developing countries, the importance of human resources development has been mounting, notably in recent years. The industrial countries should make positive contributions to the human resources development in the developing countries through academic exchanges between universities and colleges, and technical cooperation, including the acceptance of trainees.

5. Other Matters

(1) The cost of hotel accommodation will be borne by the Japanese Government during the period of the conference (not longer than four days) for the participating experts notified to it by their Governments.

(2) Details concerning this conference will be notified later through diplomatic channels.

Minister of International Trade

and Industry

The Prime Minister
Prime Minister's Office
10 Dowring Street
London
United Kingdom

August 18, 1986

R25

Dear Mrs. Prime Minister:

I am honored to inform you of my appointment as Minister of International Trade and Industry.

The world economy is facing many difficulties today, including a trade imbalance, unemployment, and debt problems. It is our responsibility to cope with these problems in a positive way, aiming at lasting growth of the world economy. I believe Japan has many contributions to make for that purpose.

During my tenure, all of MITI's resources will be devoted to maintaining the free trade system and realizing a more balanced and vital world economy. I would deeply value your understanding and support of our efforts.

In closing, I send my best wishes for your health and prosperity.

Yours sincerely,

田村 元

Hajime Tamura
Minister of International
Trade and Industry

CDP 28/7.

CDP
01-493 6030

CDP Yes
you've seen
the advance
copy I think?
mutin

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X OBA

28th July 1986

Dear Mr. Powell,

I would like to refer to my letter of 17th July, addressed to the Prime Minister, in which I forwarded the text of a letter from the Prime Minister of Japan, Mr. Yasuhiro Nakasone.

I have now received the original letter and I would be most grateful if it could be handed to Mrs. Thatcher.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

C.D. Powell, Esq.,
Private Secretary (Overseas Affairs),
Office of the Prime Minister,
10, Downing Street,
London, S.W.1.

Foreign and Commonwealth Office

London SW1A 2AH

25 July 1986

Dear Caroline,

Trade with Japan

Mrs Chalker will represent the Foreign Secretary at the Prime Minister's meeting on this subject on Wednesday 30 July at 4.00 pm.

Yours sincerely,

Sandra

(Sandra Phillips - Miss)
Assistant Private Secretary

Mrs Caroline Ryder
10 Downing Street

R 18/7

CDP

CDP 18/7

EMBASSY OF JAPAN
UNITED KINGDOM

London, 17th July 1986

Dear Prime Minister,

I have been asked by the Prime Minister of Japan, Mr. Yasuhiro Nakasone, to transmit the text of a letter he has written to you.

in pm's box 18/7

.... I have pleasure in enclosing herewith this message and will forward the actual letter as soon as it arrives in London.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

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

SUBJECT
CC MASTER
OF

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T130B/86

Prime Minister
CDP
12/7

(4)

T E X T

14th July 1986

Dear Mrs. Thatcher,

Thank you very much for your warm message of congratulations which came so soon after the election results had been confirmed.

This victory, I believe, displays not only the approval of my policy, both domestic and external, but a growing support of a progressive and dynamic conservatism.

Yours sincerely,

YASUHIRO NAKASONE
Prime Minister of Japan

The Rt.Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
No. 10, Downing Street,
London, S.W.1.
United Kingdom.

OFFICE OF THE PRIME MINISTER
TOKYO

July 14, 1986

Dear Mrs. Thatcher,

Thank you very much for your warm message of congratulations which came so soon after the election results had been confirmed.

This victory, I believe, displays not only the approval of my policy, both domestic and external, but a growing support of a progressive and dynamic conservatism.

Yours sincerely,

Yasuhiro Nakasone

Yasuhiro Nakasone
Prime Minister of Japan

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10, Downing Street
London, SW1
United Kingdom

10 DOWNING STREET

Prince Minto!

You wanted to be reminded to have a word with Alan Clark about the note on trade with Japan which he passed to you through Michael Alison.

DRN
14/7

See the trail in Today's Express.

NCW
14-7

DAILY EXPRESS 14.7.86

Trade war yellow card for Japan

By PAUL POTTS Political Editor

TRADE Minister Alan Clark is to give the Japanese a final warning this week to cut out their sharp trade practices.

If they ignore his "yellow card," Mr Clark is ready to hit back with curbs on imports. His outspoken warning due to be given to a group of Tory MPs, could lead to a trade war with Japan.

Despite the political risks, Mr Clark is determined to stand up to the Japanese. He wants to stop unfair tactics which he is convinced give them a large slice of the market at home and abroad.

Some Tory MPs are increasingly concerned at Britain's trade policies which allow other countries to dump cheap products on our market.

Mr James Pawsey, MP for Rugby and Kenilworth, is to write to Mr Clark about the threat to hundreds of jobs by the influx of cheap Greek cement.

He said: "It is a national disgrace and high time this Government took some positive action."

SUBJECT
cc master
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 128 8/86

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JAPANESE ELECTIONS : MESSAGE FROM THE PRIME MINISTER

1. PLEASE CONVEY TO MR. NAKASONE THE FOLLOWING PERSONAL MESSAGE FROM THE PRIME MINISTER. BEGINS. DEAR MR. NAKASONE, PLEASE ACCEPT MY WARMEST CONGRATULATIONS ON THE TREMENDOUS SUCCESS OF THE LIBERAL DEMOCRATIC PARTY IN SUNDAY'S ELECTIONS. IT IS A GREAT TRIBUTE TO YOU PERSONALLY, AND NOT LEAST I AM SURE TO YOUR OUTSTANDING CHAIRMANSHIP OF THE RECENT ECONOMIC SUMMIT IN TOKYO. WITH WARM BEST WISHES, YOURS SINCERELY, MARGARET THATCHER. ENDS.

HOWE

JAPAN : POLITICAL AND ECONOMIC BACKGROUND

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PS/MRS CHALKER
PS/MR RENTON
PS/MR RAISON
PS/MR EGGAR
PS/PUS
MR DEREK THOMAS
MR BRAITHWAITE
CHIEF CLERK
SIR W HARDING
MR FERGUSSON
MR GOODALL
MR RENWICK
MR MAUD
MR SLATER
MR BARRINGTON
MR DAVID THOMAS
MR WILSON
MR DAUNT

ADDITIONAL DISTRIBUTION
JAPAN: POLITICAL & ECONOMIC BACKGROUND

VC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 July 1986

JAPANESE ELECTIONS

Thank you for your letter of 8 July enclosing a draft message of congratulations from the Prime Minister to Mr. Nakasone. I have somewhat revised this and the enclosed version may now issue.

BF

(CHARLES POWELL)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.

OUT TELEGRAM

Classification	Caveat	Precedence
RESTRICTED		IMMEDIATE

ZCZC
TC
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TO TOKYO POST
TELNO

JAPANESE ELECTIONS : MESSAGE FROM THE PRIME MINISTER

1. Please convey to Mr. Nakasone the following personal message from the Prime Minister. Begins. Dear Mr. Nakasone, Please accept my warmest congratulations on the tremendous success of the Liberal Democratic Party in Sunday's elections. It is a great tribute to you personally, and not least I am sure to your outstanding chairmanship of the recent Economic Summit in Tokyo. With warm best wishes, Yours sincerely, Margaret Thatcher. Ends.

YYYY
MAIN
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Catchword:			
File number	Dept	Drafted by (Block capitals)	Telephone no
Authorised for despatch by:	Initials	Date/time	
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CCPC

Foreign and Commonwealth Office

London SW1A 2AH

8 July 1986

Dear Charles

Japanese Elections

The Liberal Democratic Party have won a landslide victory in the Lower House election in Japan, with 300 of the 512 seats, compared with 250 seats at dissolution. As described in Sir Sydney Giffard's Telegram No 717, attached, this is a major triumph for Mr Nakasone.

I enclose a draft telegram of congratulations from the Prime Minister.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

ADVANCE COPIES

7/6

JAPAN: Political and Economic Background

HD/FED

HD/ECD(E)

HD/TRED

SIR W HARDING

DR WILSON

MISS K WINDEYER OT2/DTI (Victoria St)

ADVANCE COPY

IMMEDIATE

~~RESIDENT CLERK~~

3.7.86

GRS 420

CONFIDENTIAL
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OF 070851Z JULY 86
INFO PRIORITY UKREP BRUSSELS, WASHINGTON, PARIS, BONN, PEKING
INFO PRIORITY SINGAPORE, SEOUL, HONG KONG, KUALA LUMPUR, MANILA
INFO PRIORITY BANGKOK, MOSCOW

MY TELNOS 707 AND 708 (NOT TO ALL): JAPAN: GENERAL ELECTIONS

1. THE RESULT IS 300 SEATS FOR THE LIBERAL DEMOCRATIC PARTY (LDP) IN THE LOWER HOUSE. THIS IS A TRIUMPH EXCEEDING ALL EXPECTATIONS BOTH FOR MR NAKASONE AND FOR THE PARTY MACHINE. IN JAPANESE TERMS, IT IS A LANDSLIDE.

2. THE IMPLICATIONS IN TERMS OF FACTIONAL STRENGTH ARE NOT, REPEAT NOT, YET CLEAR. NOR ARE THE UPPER HOUSE ELECTION RESULTS YET KNOWN: BUT IT SEEMS CERTAIN THAT THE LDP MUST HAVE STRENGTHENED THEIR POSITION THERE TOO. THE FULL RESULTS IN THE LOWER HOUSE (WITH STRENGTH AT DISSOLUTION IN BRACKETS) ARE AS FOLLOWS:

LIBERATL DEMOCRATIC PARTY	300	(250)
JAPAN SOCIALIST PARTY	85	(111)
KOMEITO	56	(59)
DEMOCRATIC SOCIALIST PARTY	26	(37)
JAPAN COMMUNIST PARTY	26	(27)
NEW LIBERAL CLUB	6	(8)
SHAMINREN	4	(3)
INDEPENDENT	9	(5)

3. THIS IS THE BEST RESULT THE LDP HAVE EVER ATTAINED, WITH A TURNOUT, AT 71%, A LITTLE LOWER THAN THE BEST. IT REPRESENTS A COMPLETE EXPOSURE OF THE WEAKNESS OF THE OPPOSITION PARTIES, AND ESPECIALLY OF THE JAPAN SOCIALIST PARTY (JSP) WHO HAVE NOW FEWER

COMPLETE EXPOSURE OF THE WEAKNESS OF THE OPPOSITION PARTIES, AND ESPECIALLY OF THE JAPAN SOCIALIST PARTY (JSP) WHO HAVE NOW FEWER SEATS THAN EVER BEFORE. IT REVERSES DRAMATICALLY AN APPARENT TREND OF GRADUAL DECLINE IN THE LDP'S STRENGTH.

4. IT MUST SIGNAL THE APOTHEOSIS OF NAKASONE. UNLESS IT SPLITS, WHICH SEEMS HARDLY LIKELY AT SUCH A MOMENT, THE PARTY WILL HAVE TO GIVE HIM CREDIT FOR THIS ACHIEVEMENT. NAKASONE HIMSELF HAS SAID THAT THE RESULT IS A PUBLIC ENDORSEMENT OF THE LIBERAL DEMOCRATIC PARTY'S COMMITMENT TO EDUCATIONAL, FISCAL AND ADMINISTRATIVE REFORM AS WELL AS TO SPECIFIC PROJECTS LIKE THE PRIVATISATION OF THE JAPAN NATIONAL RAILWAY SYSTEM.

5. A SPECIAL SESSION OF THE DIET WILL NOW BE CONVENED FOR THE FORMAL ELECTION OF THE PRIME MINISTER, AFTER WHICH A NEW CABINET WILL BE FORMED. THE DATE OF THIS HAS YET TO BE ANNOUNCED. (MEANWHILE, PERSONAL MESSAGES OF CONGRATULATION TO MR NAKASONE WOULD NOT BE OUT OF PLACE.)

6.

IN GENERAL TERMS, WE MUST NOW EXPECT NOT ONLY A MORE CONFIDENT AND ASSERTIVE BUT ALSO A MORE NATIONALISTIC JAPANESE GOVERNMENT. THE NEW GOVERNMENT WILL BE IN A POSITION TO PURSUE ECONOMIC POLICIES WHICH TAKE ACCOUNT OF THE REASONABLE CONCERNS OF JAPAN'S INDUSTRIALISED TRADING PARTNERS, BUT ITS WILLINGNESS TO STIMULATE DOMESTIC DEMAND TO THE EXTENT REQUIRED BY THESE CONCERNS MAY BE IN DOUBT. THE EXIGENCIES OF FACTIONAL NEGOTIATION MAY STILL HAMPER THE EMERGENCE OF A CLEAR LINE OF POLICY UNTIL AFTER THE LDP'S PRESIDENTIAL ELECTIONS IN OCTOBER.

7. WE SHALL REPORT DEVELOPMENTS.

GIFFARD

YYYY

TYHPAN 4782

NNNN

OUTWARD TELEGRAM

Classification	Caveat	Precedence
RESTRICTED		IMMEDIATE

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SECURITY CLASSIFICATION ~~RESTRICTED~~
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Distribution:—

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SIR W HARDING
DR WILSON

JAPANESE ELECTIONS : MESSAGE FROM THE PRIME MINISTER

1. Please convey to Mr Nakasone the following personal message from the Prime Minister. Begins. Dear Mr Nakasone, Please accept my warmest congratulations on the tremendous success of the Liberal Democratic Party in Sunday's elections. ~~My colleagues and I look forward to continuing to work with you and your Cabinet, especially in building on the recent successful Economic Summit. With best wishes,~~ Yours sincerely, Margaret Thatcher. Ends.

It is a great tribute to you personally, and not least (I am sure) to your outstanding chairmanship of the recent Economic Summit in Tokyo. With warm best wishes

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.

XY42 (Rev. 1983)

Private Secretary for distribution

cc Mr Fergusson

1. cc Mr Powell
2. back to me

AM 8/VII

London, 7th July 1986

Dear Mr. Fergusson,

I have received a message for Prime Minister Margaret Thatcher from Mr. Yasuhiro Nakasone, Prime Minister of Japan.

I am enclosing herewith the text of this message and would be grateful if you could be good enough to arrange for it to be passed to the Prime Minister's office.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

E.A.J. Fergusson, Esq.,
Deputy Under Secretary of State,
Foreign and Commonwealth Office,
Downing Street,
London, S.W.1.

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01-242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

4th June 1986

The Rt. Hon. Sir Geoffrey Howe, QC., MP.,
Secretary of State for Foreign and Commonwealth Affairs,
Foreign and Commonwealth Office,
LONDON. SW1A 2AH

Dear Geoffrey

In view of your most helpful intervention on Cable and Wireless' behalf with Mr. Abe, you will be pleased to see from the attached press release simultaneously in the U.S. and London that the first piece of our global strategy is being put in place.

In the next few days and weeks, we shall be seeing further press announcements covering our positions in New York and Japan.

I am copying this also to the Prime Minister in view of her valuable assistance in discussion with Mr. Nakasone.

Yours ever

Eric

Enc.

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

The following statement was issued in Vancouver, Washington, today (Wednesday) by Pacific Telecom Inc.

FOR IMMEDIATE RELEASE

PACIFIC TELECOM CABLE FILES AT FCC FOR PRIVATE TRANSPACIFIC FIBRE OPTIC CABLE

Pacific Telecom Cable Inc. filed today for an application with the Federal Communications Commission for a licence to land and operate in the United States a private submarine fibre optic cable (PPAC) extending between the U.S. and Japan. Pacific Telecom Cable is owned by Pacific Telecom Inc. (PTI) and Cable and Wireless plc (C&W).

Dennis W. Elliott, executive vice president of PTI, said: "This link will serve the important requirements between the U.S. and Japan. It will also comprise part of the privately-owned digital highway linking the Pacific and the Far East via the U.S. to the UK and Europe, the whole being targeted at providing customer choice in the main business areas of the world. We expect burgeoning demand."

Joe Crouch, director marketing, of Cable and Wireless, said: "The aspirations of our two organisations are mutually complementary and have characterised what promises to be an excellent working relationship to which we are looking forward."

Mr Elliott indicated that discussions are presently taking place with a group of Japanese entities with the intent of forming a joint venture between Pacific Telecom Cable and Japanese entities to install, maintain and operate the cable between Japan and the State of Washington. A connection with Alaska is also planned, principally for potential national security uses.

The capacity of PPAC will be sold or leased to private users on a non-tariffed, non-common carrier basis. It is expected that the $500 million cable will go into service in the second half of 1989, subject to a timely grant of cable landing licences.

The main Japan/U.S. link will contain at least three working optical fibre pairs each operating at a minimum of 280 Mbps. With appropriate terminal equipment the cable could carry at least 60,000 simultaneous telephone channels. The configured connection of U.S. terminals in Washington and in Alaska to the main link and to each other has yet to be decided. The exact landing points of the cable have not yet been determined.

Pacific Telecom Cable, Inc. is 80 per cent owned by PTI and 20 per cent owned by Cable and Wireless.

Commenting on the statement by Pacific Telecom, Mr Crouch said: "This is a most exciting development because it opens up customer choice. We firmly believe that the new, high quality digital systems which will come into service towards the end of this decade will in themselves create massive fresh demand.

"This PPAC cable will complement the transatlantic PTAT system in which Cable and Wireless has a 50 per cent interest. A pattern of digital terrestrial systems linking the United Kingdom, the United States and Japan as well as the rest of the Far East is now emerging.

"It will benefit Cable and Wireless in a number of ways - not least in ensuring that our Mercury Communications system in the United Kingdom will be able to extend its digital services across the globe without any loss of quality in its standards.

"I believe that the correct combination of quality and cost will be the market imperative of the next decade. We intend to compete strongly on both criteria and our interest in PPAC is a key part of our plans."

Issued by:
Corporate Press Office
Cable and Wireless plc
Mercury House
Theobalds Road
London WC1X 8RX

Contact:
Joe Crouch
Director, Marketing
Telephone:
01-242-4433 ext 4405

Contact:
Neville Hunter
Chief Press Officer
Telephone:
01-242-4433 ext 4486

Pacific Telecom Inc.
Brian Wirkkala
Telephone:
(206) 696-6918

Date: June 4 1986

NOTE TO EDITORS

PTI, based in Vancouver, Washington, is a diversified telecommunications company, which operates one of the largest non-Bell telephone companies in the United States. Among the many varied telecommunications activities in which it is involved through its subsidiaries, PTI provides local and long distance telecommunications services in Alaska, and local telephone services and access to the long distance network in a number of western states. PTI subsidiaries have installed and operate a number of fibre optic transmission systems in the United States. PTI subsidiaries also provide domestic and international voice, data, and video connections on a private line basis.

file

BM.

JD3AMG

bcBG

10 DOWNING STREET

From the Private Secretary

29 May 1986

NISSAN

The Prime Minister was grateful for the account of discussions with Nissan given in your letter to me of 22 May.

Mrs. Thatcher very much agrees with the tough line being taken by your Secretary of State.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry

JL

440

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

JU359
Secretary of State for Trade and Industry

22 May 1986

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister ?
The Chairman seems to be taking absolutely the right line.
Princess Diana is not opening the plant. You are.
DRN
23/5.

Dear David,

NISSAN

The Prime Minister mentioned Nissan to my Secretary of State recently and he thought it would be helpful for her to have a report on the current position.

Nissan have now put proposals setting out the basis on which they would be able to proceed with Phase 2 of the project. These reflect the following factors:-

- the commercial need to achieve viability for the Washington operation within a reasonable period. Output of 100,000 units a year is the threshold for this;

- build-up of production to these levels in the required time-frame depends on sales to the domestic market. Exports will not be possible until left-hand drive models (and reasonable European content) are available in Phase 2;

- the company's UK distribution system cannot, however, handle sudden large jumps in sales (zero to 90,000 in three years) particularly with the single model originally envisaged.

The company have therefore decided to introduce a second model but, to permit manageable development of sales and of the UK distribution network, they are also pressing for some relaxation in the terms governing Phase 1 set out in the 1984 Heads of

Agreement. Specifically they want:-

a Phase 1 cars to be treated as UK production and not as imports even though local content would be below 60%, significantly so in the early years. On revised volumes, this concession would apply to around 119,000 cars in the period 1986-90 of which some 60,000 units would be involved over 1987 and 1988;

b in addition, to import an extra 25,000 built-up cars from Japan above their normal allocation, spread over 1987 and 1988. These imports would be necessary to achieve a reasonable model mix;

c to have more time to reach 80% local content in Phase 2 production - 2 years instead of 18 months.

Under Nissan's proposals, there would be certain other changes to the project. Phase 2 production would start in 1989 rather than 1990 and output would eventually reach 120,000 cars a year instead of 100,000. In return for concessions on the treatment of Washington Phase 1 output, and for the additional imports required, Nissan would commit to full engine manufacture in the UK (only engine sub-assembly is currently envisaged). This would improve opportunities for UK suppliers of engine systems and components and, as the engine facility would only be half utilised in meeting the needs of the UK plant, substantial exports of UK-built engines to the company's overseas plants would be a possibility. No additional direct employment would be involved at Washington but, with local content comfortably exceeding 80%, the spin-off for the automotive components sector would be significant.

While the proposed engine plant is attractive, my Secretary of State has decided that the Nissan request for fundamental changes in the Heads of Agreement should be firmly rejected. The prospect of an additional 85,000 "Japanese" cars on the UK market over the next two years would be fiercely resisted, particularly by Ford and ARG, and a fresh public row with the motor industry would be a certainty. Concessions would also undermine the common approach which the Government has tried hard to maintain towards all Japanese-linked investment in the motor industry i.e a minimum of 60% local content at start-up of production for vehicles to be regarded as "British"; and 80% to be reached after a short transitional period. More generally, waiving important safeguards built into the Heads of Agreement would be criticised as yet further evidence that "Understandings" with foreign companies, whether Japanese or American, have little value.

Nissan will be given this response at talks with officials on 23 May. My Secretary of State does not believe that a tough approach will lead to any major upset with Nissan or their withdrawal from the project, to which they are deeply committed. Phase 2 seems certain to go ahead if over a longer timescale but with the strong commercial pressures on Nissan, particularly those arising from the appreciation of the Yen, the differences in the end may prove marginal. The only real loss might be the engine-machining plant but the benefits of this do not outweigh the risks inherent in showing weakness to the Japanese.

Mark Addison also asked about Press reports that the Princess of Wales would shortly carry out the official opening of the Washington plant. In fact, neither the Prince nor the Princess of Wales has any plans to visit Nissan in the UK, although they did call on the company during their recent tour of Japan. The position remains therefore that the opening of the Washington plant will be undertaken as agreed by the Prime Minister on Monday 8 Septemmber 1986.

Yours sincerely,

C Bradley

CATHERINE BRADLEY
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

10 DOWNING STREET

From the Private Secretary

22 April 1986

Access to Japanese Financial Markets

The Prime Minister was grateful for Mr. Howard's report on his recent visit to Japan and Singapore which was clearly most successful.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and the Governor of the Bank of England.

(CHARLES POWELL)

P. Madden, Esq.,
Department of Trade and Industry.

cc PS (1)

Prime Minister
Commend him for his efforts?
CDP
21/4
Yes - encourage and

To:

PRIME MINISTER

From:

MICHAEL HOWARD

17 April 1986

ACCESS TO JAPANESE FINANCIAL MARKETS

In Paul Channon's minute of ~~27~~ 27th March, he indicated that I would be meeting the Japanese Vice Minister for Finance, in Tokyo, to discuss reciprocal market opening measures. He proposed that I should seek to extend UK gains in the package under which County Bank and Barings will shortly receive Securities Branch Licences (SBL) in Tokyo and the Bank of England will grant a UK banking licence to Nomura.

.. I attach a note of my recent visit. You will see from paragraph two that I was indeed able to confirm that the package would also include SBLs for Morgan Grenfell and Samuel Montagu towards the end of the year.

In recording this success I should like to pay particular tribute to Sir Geoffrey Littler and his team for the preparatory work carried out in their continuing dialogue with Japanese officials.

I am copying this to the Foreign Secretary, the Chancellor of the Exchequer and the Governor of the Bank of England.

M.H.

MH

MN2ACV

CONFIDENTIAL

To:

Secretary of State

From:

Michael Howard

14 April 1986

VISIT TO FAR EAST, 1-7 APRIL 1986

I visited Japan and Singapore, primarily to discuss financial services issues with the regulators and with UK and local firms involved in the financial markets. Copies of my programme and detailed meeting notes are attached.

JAPAN

2. In Japan I held very satisfactory discussions on access to Japanese markets at the Ministry of Finance with Vice Minister Oba, Parliamentary Vice-Minister Kumakawa and Securities Bureau Director General Kishida. I was able to obtain confirmation that Securities Branch Licences (SBL's) would be granted to Barings and County Bank in mid-May and to establish for the first time that further SBLs will be issued to Samuel Montagu and Morgan Grenfell in the immediately following batch, late this year as part of the same "package". The other part of this package is that the Bank of England will very shortly be inviting Nomura to apply formally for a UK deposit-taking licence. We are making good progress in our policy of encouraging step by step reciprocal liberalisation of Japanese financial markets and I must pay tribute to the preparatory work carried out by Sir Geoffrey Littler and his team in their regular dialogue with the Japanese on this issue.

3. I visited a number of UK companies active in the market (Warburgs, County Bank, Barclays, WICO) and was impressed with the professional approach being shown. There was general recognition that getting established in Japan is a long haul, but the potential rewards are enormous. There will be particular scope for business in investment management of funds placed overseas by the very rapidly growing Japanese pension funds and other institutions. This is an area in

MN2ABN

which UK firms have particular expertise and although the major Japanese houses will seek to develop their own in-house capability, there should still be considerable opportunities for the UK. I also saw the two leading Japanese houses Nomura and Daiwa who both have sizeable operations here and who stressed the continuing importance they attached to London.

4. I visited the Tokyo Stock Exchange, where Warburgs have recently obtained a seat and will commence trading very shortly. I outlined the regime contained in our Financial Services Bill and discussed the scope for developing closer international co-operation between regulators in this field. The Japanese expressed a willingness to involve the UK in the bilateral discussions which they are having in this area with the USA. I shall be asking officials here to take this initiative forward.

5. Quite fortuitously, I was able to participate in a reception to celebrate Cable and Wireless' listing on the Tokyo Stock Exchange - the first UK company to do so, though I understand British Telecom and Barclays will follow shortly. Sir Eric Sharp was very complimentary about the helpful attitude of the Japanese authorities.

6. At my meetings at the Ministry of Finance and the Ministry of Foreign Affairs (where I met Mr Kunihiro, DG, Economic Affairs Bureau) I drew attention to UK trade concerns on whisky and tobacco and the problem of restrictions on foreign lawyers working in Japan. At the request of the Embassy I also expressed concern that the Japanese were considering reducing their contribution to the International Development Association (IDA), despite their own oil windfall.

SINGAPORE

7. In Singapore, the principal achievement was in the field of copyright protection. Copyright piracy in Singapore is estimated to have cost the UK record and book industry some £70 million in lost sales in 1985, a fact which I drew to public attention in TV, radio and press interviews. I met Sidek bin Saniff, Parliamentary Secretary at the Ministry of Trade and Industry and was given a copy of Singapore's just published Copyright Bill (modelled on Australian legislation) which, it was claimed, should guarantee satisfactory protection. Sidek assured me that Singapore will be ready to apply the Bill's provisions to the UK on a bilateral basis if, as seems likely, they have not acceded to the Universal Copyright Convention by the time the Bill comes into force at the end of this year.

MN2ABN

8. I met representatives of the British financial community who seem well placed to take advantage of Singapore's desire to become the "Switzerland of the Far East". It was pointed out that Singapore will have to liberalise its markets further and remove its restrictions on foreign ownership if it is to achieve this goal.

9. I discussed Singapore's new Securities Bill with Dr Koh Beng Seng at the Monetary Authority of Singapore (MAS). Partly as a result of a recent major collapse on the Stock Exchange, the Bill will impose a more rigorous regime with heavier reporting requirements and more clearly defined conduct of business rules.

10. In conclusion, this was a useful visit both in terms of the real progress on Japanese market liberalisation and as background for the remaining stages of our Financial Services Bill. I was reassured to hear, as in the USA, widespread support for the direction we are taking. It is clear that other markets will be watching London closely in the coming months.

11. I am most grateful to Sir Sidney Giffard and his staff in Tokyo (particularly Michael Lewis the Financial Attache), to Michael James in Singapore and to Richard Wells from FS Division, who accompanied me.

M.H.

MH

14 April 1986

cc Ministers
Sir Brian Hayes
Mr Caines
Mr Roberts
Mr Hilton FS
Mr Wells FS
Mr Lowry FS
Mrs Brown FS
Mr Hutton OT2
Mr Dunning OT2
Mr Tarnofsky IPCD
HM Ambassador Tokyo
Acting High Commissioner Singapore

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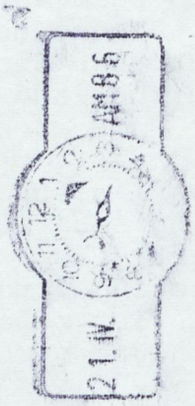
JAPAN Relations PTS



10 DOWNING STREET

From the Private Secretary

3 April 1986

Thank you for your letter of 2 April enclosing a draft message for the Prime Minister to send to the Chairman of Nissan following the death of Mr. Kawamata. The Prime Minister was pleased to agree to send a message in the following terms:

"It was with deep regret that I learned of Mr. Kawamata's death last week. As President of the Nissan Motor Company between 1957 and 1973 and Chairman between 1973 and 1985 he had an outstanding record of service. It is particularly sad that his death should have occurred such a short time before Nissan's new production line in England comes into operation, a project with which I know he was closely associated. Please accept my deepest condolences".

No doubt you are arranging for this to be delivered to Nissan via our Embassy in Tokyo.

TIM FLESHER

Robert Coll, Esq.,
Department of Trade and Industry

PRIME MINISTER

The former Chairman of Nissan, Mr. Katsuji Kawamata, died last Saturday and I enquired whether a message of condolence would go down well. I am told that it would. Our Tokyo Embassy will arrange for the message to be delivered. Are you content for a message to be sent in the following terms:

"It was with deep regret that I learned of Mr. Kawamata's death last week. As President of the Nissan Motor Company between 1957 and 1973 and Chairman between 1973 and 1985 he had an outstanding record of service. It is particularly sad that his death should have occurred such a short time before Nissan's new production line in England comes into operation, a project with which I know he was closely associated. Please accept my deepest condolences."

(Timothy Flesher)

3 April 1986

DCA.63

010

JU919
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

7 April 1986

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

As requested, I enclose a draft message of Condolence for the Prime Minister to send to the new Chairman of Nissan in response to the telex she received from the Company. A short background note on Mr Kawamata is also attached for your information. The text of the message has been agreed with our Embassy in Tokyo who will arrange for it to be delivered to Nissan.

Yours Sincerely,

Robert Coll

R COLL
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

999-1

As President of the Nissan Motor Company between 1957 and 1973 and Chairman between 1973 and 1985 ~~he was~~ he had an outstanding record of service.

DRAFT MESSAGE FROM PRIME MINISTER TO CHAIRMAN OF NISSAN

It was with deep regret that I learned of Mr Kawamata's death last week. It is particularly sad that his death should have occurred such a short time before Nissan's new production line in England comes into operation, a project with which I know he was closely associated. Please accept my deepest condolences.

DEATH OF MR KAWAMATA

Mr Katsuji Kawamata passed away on Saturday 29 March in Tokyo. He was 81 years old and was Chairman of Nissan Motor Co from 1973 to 1985. Although reluctant to support the establishment of the Nissan factory at Washington in North East England, he was reflecting the views of a particular faction. His subsequent conversion made possible the decision to proceed and he greatly valued his meeting with the Prime Minister.

A letter of condolence from the Prime Minister to be delivered by our Tokyo Embassy is supported by our Ambassador.

Vehicles Division
2 April 1986

31 MAR 1986/0753

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GXXX CO JPTT 163

TOKYO 163/117 31 1543 PAGE 1/50

R1/4

MR.NIGEL WICKS

PRINCIPAL PRIVATE SECRETARY TO

THE PRIME MINISTER

10-DOWING ST.

LONDON SW1

PLEASE CONVEY THE FOLLOWING MESSAGE TO THE PRIME MINISTER.

THANK YOU.

OBITUARY

MR.KATSUJI KAWAMATA,COUNSELLOR OF NISSAN MOTOR CO.LTD PASSED AWAY

DUE TO PUNCTURE OF ARTERIOSCLEROSIS AT9:35A.M. ON

SATURDAY,MARCH29,1986, AT TOKYO-WOMEN'S-MEDICAL-COLLEGE-HOSPITAL. HE

WAS 81YEARS OLD.

MR.KAWAMATA JOINED NISSAN FROM

COL 10-DOWING AT9:35A.M. SATURDAY,MARCH29,1986, 81YEARS

British TELECOM Telegram for enquiries dial the number shown in your dialling instructions

THE INDUSTRIAL BANK OF JAPAN IN 1947.
HE WAS PRESIDENT OF THE COMPANY FROM 1957TO1973 AND CHAIRMAN FROM
1973TO1985.
WAKE
DATE:WEDNESDAY,MARCH31,1986,18:30-20:00
PLACE:AZABUSAN ZENPUKUJI TEMPLE
6-21,MOTOAZABU 1-CHOME,MINATO-KU,TOKYO
TEL:03-451-7402
PRINCIPAL MOURNER:AKIO KAWAMATA,ELDEST-SON
FUNERAL SERVICE
DATE:TUESDAY,APRIL1,1986,13:00-15:00
PLACE:AZABUSAN ZENPUKUJI TEMPLE
6-21,MOTOAZABU 1-CHOME,MINATO-KU,TOKYO
TEL:03-451-7402
PRINCIPAL MOURNER:AKIO KAWAMATA,ELDEST-SON
COMPANY FUNERAL
DATE:FRIDAY,APRIL18,1986
-FUNERAL-12:30-14:00
-FUNERAL SERVICE-14:00-15:00
PLACE:AOYAMA FUNERAL

COL 1947. 1957TO1973 1973TO1985.
DATE:WEDNESDAY,MARCH31,1986,18:30-20:00 6-21,MOTOAZABU
1-CHOME,MINATO-KU,TOKYO TEL:03-451-7402
DATE:TUESDAY,APRIL1,1986,13:00-15:00 6-21,MOTOAZABU
1-CHOME,MINATO-KU,TOKYO TEL:03-451-7402 DATE:FRIDAY,APRIL18,1986
-FUNERAL-12:30-14:00 SERVICE-14:00-15:00

HALL
33-20,MINAMI-AOYAMA 2-CHOME,MINATO-KU,TOKYO
TEL:03-401-3653
PRINCIPAL MOURNER:AKIO KAWAMATA,ELDEST-SON
TAKASHI ISHIHARA,CHAIRMAN,NISSAN MOTOR CO.,LTD.WILL REPRESENT THE
COMPANY.
MITSUYA GOTO,GEN.MGR.,PUBLIC AFFAIRS,INTL-DIV,NISSAN

COL 33-20,MINAMI-AOYAMA 2-CHOME,MINATO-KU,TOKYO TEL:03-401-3653

CCPC

CONFIDENTIAL

CDP
27/3.

JU900

PRIME MINISTER

ANGLO-JAPANESE FINANCIAL TALKS

I have just seen Nigel Lawson's minute, dated 24 March, in which he reports to you some welcome progress and proposes some further moves on both sides before the Tokyo Summit so that this issue need not be acute at that time.

As he says, I accept the judgment that we should be ready before the Summit to agree to grant a banking licence to the Nomura securities company, but that the Japanese must first issue two further securities branch licences to British houses. Michael Howard will be seeing the Japanese Vice-Minister concerned in Tokyo on 3 April, and as DTI and Treasury officials have agreed can convey our message to him then.

I would however add that, of all the things the Japanese have been seeking from us in this area, a banking licence for Nomura is the one they value highest. It should therefore be sold as dearly as possible, against the background of the continuing shortfall in full reciprocity of financial opportunity between the two countries. I suggest therefore that Michael Howard should also draw attention to the next two securities branch

licences that, as Nigel mentions, we shall probably want some time before the autumn; and should, as far as he can, establish with the Japanese, that these further two licences are also to be considered part of the price for Nomura's licence here, not some advance payment towards a further move on our part later.

I am copying this minute to Nigel Lawson, and to Geoffrey Howe and the Governor of the Bank of England.

PC

PAUL CHANNON

27 March 1986

Department of Trade & Industry

1786 1986 BOARD OF TRADE BICENTENARY

999-49

JAPAN
RELATIONS
PT 5

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CONFIDENTIAL

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

PRIME MINISTER

ANGLO-JAPANESE FINANCIAL TALKS

I last minuted to you on this subject on 1 November, reporting a more promising outlook from the latest round of talks after disappointingly slow progress during the summer of 1985.

I am glad to say that there has indeed been improvement and the score is beginning to look quite respectable. We have:

- securities licences for Warburg, WICO, Kleinworts, Schroders and Cazenove (not to mention Vickers da Costa, Hoare Govett and Jardine Fleming which have good British connections but are not wholly British-owned);

- Trust Bank status for Barclays (sole British applicant);

- Tokyo Stock Exchange Membership for Warburg (but not for the only other British applicant, WICO).

And we have not yet given anything to the Japanese, although the Stock Exchange have recently given a seat to Nomura.

This is way ahead of the success of any other country apart from the United States. And the successful firms generally report that they are not encountering discrimination on the ground: indeed the climate is described as competitive but friendly.

We still have a number of complaints about the general restrictiveness of some operations and rules in the Tokyo markets which we share with the United States and others and will continue to press. But as far as specifically British interests are concerned, the number of outstanding cases is now much reduced:

- among "straightforward" applications, only Barings - the latest formal applicant but becoming rather delayed (no other merchant bank is yet sufficiently established and interested to make a formal application or deserve our pressure in their support immediately - although Morgan Grenfell could be ready in the summer and others later);

- the merchant bank arms of the four Clearing Banks, with County Bank (Nat West) as the clear front-runner, but all four are pressing - perhaps Samuel Montagu ready by late summer and the other two by the end of the year;

- apart from individual cases, the strongest outstanding UK interest is in the form of (and our eligibility for) investment management licences which the Japanese expect to decide and announce later this year.

Meanwhile the major Japanese demand still outstanding is the aspirations of four Japanese Securities Houses to have banking licences in London.

We thought it could be helpful to use the prospective Tokyo Summit to exert some leverage and try to accelerate matters. We therefore suggested to the Japanese Finance Ministry that it would be desirable - by resolving the problems in advance -

to avoid this possible bone of contention for your agenda with Prime Minister Nakasone. This seems to have worked. The Japanese have:

- pulled their own internal act together in order to meet Bank of England banking supervision requirements for the grant of any banking licences here to Japanese Securities Houses;

- conducted constructive discussions with the merchant bank subsidiaries of our commercial banks;

- promised privately to accord licences to County Bank and Barings before the Summit.

If these promises are fulfilled and no new problems arise I am satisfied that we shall have reached the position at which it will be right for us to grant one licence to a Japanese Securities House (it would clearly have to be Nomura, the biggest, which has had the most advanced discussions with the Bank of England), and that we should also do this just before the Summit. We would not of course enter into any commitments in respect of the remaining Japanese Securities Houses, and would want to see continued progress in Tokyo first.

I understand that the Governor of the Bank of England agrees with this approach and that the Secretary of State for Trade and Industry sees no objection. I am copying this minute to them and to the Foreign Secretary.

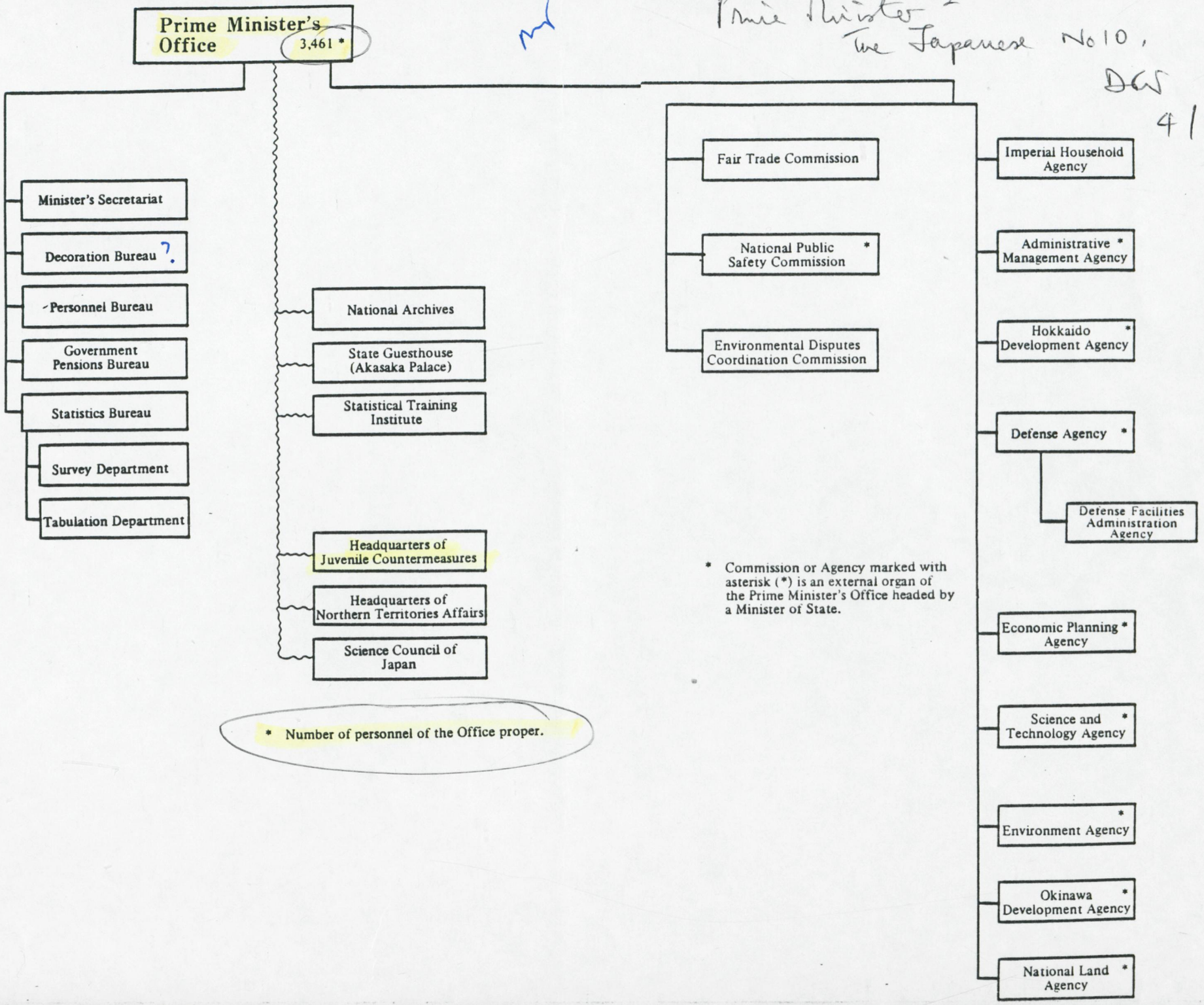
N.L.

N.L.
24 March 1986

JAPAN: Relations: PES.

md

Prime Minister 2
The Japanese No 10,
DGW
4/3



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PRIME MINISTER

HONDA

Mr. Walker has asked that you should know of disquiet in Midlands car circles, which he reports to you as a local MP, about rumours that Honda may establish a new car manufacturing plant at Swindon. This disquiet would, according to Mr. Walker, be increased if the plant included a new foundry complex since this would draw work away from the Midlands. Honda would, no doubt, seek various Government financial aids for any new plant and this would, Mr. Walker says, give rise to complaints of unfair competition etc.

DTI tell me that Honda own a large unused old airfield site near Swindon. But they know of no immediate plans by the company to expand beyond thier present distribution depot there. DTI would not necessarily want to encourage any development.

I pass this on because Mr. Walker's office said that he wished you to know.

N.L.W.

MT

N.L. WICKS
20 February 1986

ECL/70

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir Terence Beckett CBE
Director-General

CBI

(4)

Prime Minister

CDP
16/1

15th January 1986

Dear Prime Minister,

I write to thank you very much indeed for including me amongst the guests at the lunch to mark the Second Conference of the UK-Japan 2000 Group on Monday. It was a most interesting and enjoyable occasion which I know the whole Group appreciated.

The point you made in your speech at the lunch that the Japanese seem to be much better than the British at spotting the next, or next but one products that the world will need, is true. I came away from the weekend discussions with the Japanese impressed by exactly the same issue. Amongst other things, I am going to get some outstanding under thirty-five year olds in industry together to look at how this country and the world will be by the year 2000, particularly as far as markets and products are concerned, and to publicise their findings. They will still be under 50 by the year 2000 and some of them, I hope, will be running their own companies by then. It is clear that the Japanese are continually projecting themselves forward into the 21st Century. We must encourage our people to do the same. There is very little of this kind of thinking going on in this country at all. What I am suggesting will at least be a start.

Thank you again for having us to lunch at what I know was a very busy and anxious time.

Yours sincerely,

Terence Beckett

The Rt. Hon. Margaret Thatcher MP,
Prime Minister,
10 Downing Street,
London, SW1A 2AA.

(4)

01-493 6030

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X OBA

CDP

R 16/1

14th January 1986

Dear Prime Minister,

I should like to say how much I enjoyed the luncheon yesterday at 10 Downing Street for the participants at the UK-Japan 2000 Group.

It was indeed most kind of you to have included the Japanese members at the luncheon and I know that your warm hospitality was greatly appreciated by them all. I am sure that you share my hope that the cordial relations which happily exist between our two countries will be further enhanced by the activities of this Group.

Thank you for a most interesting occasion.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

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

SUBJECT cc MASTER
OPS

file CF JD
cc FCO
cc DTI

10 DOWNING STREET

THE PRIME MINISTER

14 January 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T9/86

Dear Prime Minister,

Thank you for your personal message of 26 December informing me that All Nippon Airways (ANA) had not selected the Airbus A300-600 to replace its present Tristar fleet, and for your assurance about the basis of that decision.

I was naturally disappointed that Airbus aircraft were not chosen on this occasion, and hope that future decisions about aircraft purchases will favour other strongly competitive products in which the United Kingdom has an interest. Further examples in addition to Airbus include the European Tornado for Japan's fighter support aircraft requirement about which I wrote to you in July 1985, and the British Short Brothers Sherpa C23A transport aircraft for the Japan Defence Agency. Another important area in which British companies would have much to offer would be co-operation on the FSX project.

These three cases are of course all ones in which your Government have a direct interest, and I look forward to hearing in due course that our two countries are to do business in at least some of these areas.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone

BM

CC PC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

PS/ Secretary of State for Trade and Industry

13 January 1986

Charles Powell

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Mark

In your letter of 27 December you asked for a draft reply for the Prime Minister to send to Prime Minister Nakasone of Japan in response to his message of 26 December, transmitted by the Japanese Embassy. This letter advised that All Nippon Airways (ANA) had not selected the Airbus A300-600 to replace its Tristar fleet. Mr Nakasone's message is a response to the Prime Minister's letter to him of 4 September 1985 in support of the Airbus bid for the ANA order. Similar letters to Mr Nakasone were also sent by M. Fabius and Chancellor Kohl.

2 In the event ANA have ordered 15 Boeing 767-300s plus 10 options for delivery between 1987 and 1990. This decision in favour of Boeing - though disappointing - is not unexpected. ANA already operate 25 of the shorter range Boeing 767-200s and the substantial commonality between the two versions provides significant benefits in economic and operational terms. In addition, Japanese aerospace companies have a 15 per cent stake, as sub-contractors in the B767 production programme. Notwithstanding these factors, reports from Post and other sources indicate that the contest between Airbus and Boeing for this latest ANA order was very close run.

3 Mr Nakasone's statement of his belief that the airline's decision was based on economic and commercial considerations makes it difficult for the Prime Minister to do more than express her disappointment. However, his letter provides an opportunity for her to refer to other forthcoming Japanese decisions on aircraft purchase in which the Government themselves will certainly have a hand, i.e Tornado, the Shorts' Sherpa, and FSX.

4 The Prime Minister wrote to Mr Nakasone in July to urge Mr Nakasone to consider the Tornado as a candidate for Japan's fighter support aircraft requirement. Mr Craxi and Mr Mitterand sent letters at the same time. No reply has been received. All

JF2ARJ

foreign manufacturers have been asked to complete questionnaires by March about their aircrafts' ability to meet a variety of technical requirements. None of them is likely to be able to satisfy the Japanese specifications; in this case the Japanese would consider themselves justified in pursuing the course which, in the MoD's view, they most wish to follow: domestic development of a new aircraft (the FSX project). If they follow this option, there is still much (e.g aero engines) which they will not be able to provide domestically and which British companies could supply.

5 The Japan Defence Agency has a requirement for a new military transport aircraft for which the Short Bros Sherpa C23A would be suitable. Shorts have asked for HMG's support in urging the Japanese Government to consider their aircraft favourably. In the company's view, military sales of the Sherpa could provide crucial impetus to their campaign to sell the related SD360 for civil use in Japan.

6 I attach a draft reply for the Prime Minister's consideration which includes references to these other opportunities. A copy of this letter and draft reply goes to Robert Culshaw (Foreign and Commonwealth Office) and Dennis Brennan (MoD). The letter has been cleared at official level with FCO and MoD.

Yours sincerely,

C Bradley

CATHERINE BRADLEY
Private Secretary

Encl

JF2ARJ

6'

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

His Excellency Mr Yasuhiro Nakasone
Prime Minister of Japan

Thank you for your personal message of 26 December 1985 informing me that All Nippon Airways (ANA) had not selected the Airbus A300-600 to replace its present Tristar fleet, and for your assurance about the basis of that decision.

I was naturally disappointed that Airbus aircraft were not chosen on this occasion, and hope that future decisions about aircraft purchases will favour other strongly competitive products in which the United Kingdom has an interest. Further examples in addition to Airbus include the European Tornado for Japan's fighter support aircraft requirement about which I wrote to you in July 1985, and the British Short Brothers Sherpa C23A transport aircraft for the Japan Defence Agency. Another important area in which British companies would have much to offer would be co-operation on the FSX project.

These three cases are of course all ones in which your Government have a direct interest, and I look forward to hearing in due course that our two countries are to do business in at least some of these areas.

CM.

JF2ASF

JAPAN PTS

Relations

LUNCHEON

To mark the
Second Conference
of the
UK-Japan 2000 Group

10 DOWNING STREET
MONDAY 13TH JANUARY 1986

The Rt Hon
The Prime Minister

Professor Keith Thurley

Mr. Nicolas Wolfers	Mr. Christopher Wathen
Mr. Nobutoshi Hagihara	Admiral Sir James Eberle
The Rt. Hon. Patrick Jenkin	Sir Peter Parker
Mr. Isamu Miyazaki	Mr. Keizo Saji
Mr. Richard Needham	The Lord Boardman
His Excellency the Ambassador of Japan	Mr. Kinya Niizeki
THE RT. HON. THE PRIME MINISTER	The Rt. Hon. Paul Channon
Ambassador ~~Admiral~~ Tadao Kato	Mr. Takashi Mukaibo
Mr. Tim Renton	The Rt. Hon. James Prior
Mr. Atsushi Shimokobe	Mr. Minoru Inoue
The Rt. Hon. Sir Michael Palliser	Sir Terence Beckett
Mr. Tandahiro Sekimoto	Mr. Tadashi Yamamoto
Sir Michael Wilford	Mr. Don Allday
Dr. William Wallace	Mr. Graham McCallum
Mr. Charles Powell	Mr. Nicholas Colchester

ENTRANCE

CBR B/i

BRIEF REPORT ON THE SECOND CONFERENCE OF THE UK/JAPAN 2000 GROUP

1. A useful three day meeting was held at Heythrop Park, Oxfordshire from 10 to 12 January. The Conference was jointly chaired by Mr James Prior and the former Japanese Ambassador to London, Mr Tadao Kato. Mr Patrick Jenkin will in future be the British Chairman. Mr Richard Needham continues to be an active participant. Sir Terence Beckett and the CBI made a strong input. They are issuing the Conference's communique and are to follow up with their Japanese equivalent, the Keidanren, to establish a mechanism for exchanging information on changes in regulations and procedures and to investigate grievances.

2. The Japanese team was a strong one. They saw Prime Minister Nakasone for support and blessing before they left for London. They are influential and pro-British. It is significant that one of their number was appointed Minister of Education in the end of year Japanese Cabinet re-shuffle (and so could not attend the Conference). Members of the Group include an investor in the UK (Mr Sekimoto of NEC who are making semi-conductors in Scotland) and a benefactor of a British university (Mr Saji of the whiskey producers, Suntory, who has given money to the LSE). Other members of the Group are on the forward looking Advisory Group established by Mr Nakasone.

3. The tone of the Conference was a constructive exchange of views between outward-looking men of affairs (it is not intended to be an action group implementing agreed conclusions). Both sides agreed on the need to discuss short term issues such as trade imbalances, third world debt and the nature of Japanese investment in the UK, as well as the value of taking a forward look to the year 2000 and of trying to encourage ways of improving knowledge of each other's country, particularly through education and exchanges. Members of the Group instinctively favour liberalisation and deregulation, and believe in international co-operation and communication.

4. There will be another conference in a year's time, probably in Tokyo.

Sue Goodchild

With the compliments of

THE PRIVATE SECRETARY

Sorry that time has made it impossible to type the attached letter, but the PM will wish to see all these papers before today's lunch.

Sandra Phillips

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

PS

DEPARTMENT: **TEL. NO:**

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

PS/No 10 Downing Street

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

PRIME MINISTER'S LUNCH FOR THE UK/JAPAN 2000 GROUP

1. Before her lunch today for members of the UK/Japan 2000 Group's Second Conference which was held over the weekend at Heythrop Park near Oxfordshire, the Prime Minister may wish to see a copy of the communique produced at the end of the Conference. It is being released to the press by Sir Terence Beckett and the CBI at 11 am this morning.

2. A brief report on the Conference is also attached, together with a copy of the original objectives of the 2000 Group.

3. Two Japanese speaking former members of the British Embassy in Tokyo will be on hand to assist with any pre-lunch conversation. One of them will interpret the Prime Minister's speech into Japanese and will also interpret if the Japanese leader of the delegation replies in Japanese, which is unlikely.

Enclosures—flag(s).....

UK – JAPAN 2000 GROUP

**Secretariat: Royal Institute of International Affairs, Chatham House,
10 St James's Square, London SW1Y 4LE (01-930-2233)**

P.6.86

SUMMARY OF DISCUSSIONS

The second meeting of the United Kingdom-Japan 2000 Group was held at Heythrop Park, Oxfordshire, England from 10-12 January 1986, following its first meeting in Oiso, Japan in February 1985. The Group was established after the bilateral Japanese-British summit meeting in June 1984 to improve understanding and to promote cooperation between Japan and the United Kingdom, looking ahead to changes in international politics and economics, and technology, which the two countries would be facing towards the year 2000. The meeting was jointly chaired by the Rt Hon James Prior MP and Ambassador Tadao Kato. Its discussions were informal and exchanged critical and constructive views in a friendly atmosphere. Before their departure for Britain, the Japanese team met with Prime Minister Yasuhiro Nakasone to discuss a number of issues in Japan-British relations. Both Japanese and British participants will be guests at a luncheon with the Rt Hon Mrs Margaret Thatcher MP, at No 10 Downing Street on 13 January.

The International Economy

The meeting discussed the increasing pace of change in international economic relations, and the problems of adjustment which these created.

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We recognised that the rapidity of technological and industrial change imposed strains on both our societies, and required some painful alterations in traditional values and institutions. Some participants felt that current international tensions are a transitional problem resulting from the different pace of adjustment to the transformation of industry required by technological advance. Others expressed the fear that current imbalances were likely to lead not to the re-establishment of a balance of mutual advantage, but to a progressive deterioration in Europe's competitive position vis-a-vis Japan, which would make it increasingly difficult to maintain an open international economy.

We share a sense of urgency and concern about the crisis facing the international trading system. Both countries have a vital interest in the maintenance of an open world trade system. The size of Japan's current trade surplus in itself imposes severe strains and encourages protectionist tendencies in the USA and Europe. A number of measures are essential to reduce this structural imbalance.

The misalignment of exchange rates and the lack of progress in coordinating national economic policies have contributed to the growth both of the Japan surplus and of the US trade deficit. In this connection the group welcomed the American initiative through the Group of Five to reduce exchange rate disparities, and parallel Congressional action to reduce the size of the US budgetary deficit. We noted that further active coordination of economic policies would be needed to maintain an adequate rate of international economic growth as the US deficit is brought under control, and that both Japan and Western European Governments will have to take initiatives to ensure that growth is maintained.

.../3

We noted, and welcomed, the significant progress which the Japanese government was now making in improving access to the Japanese market. But we recognised that market-opening measures in themselves cannot remove the structural Japanese trade surplus, and that longer-term and broader measures will be needed.

We urge the Japanese government to take unilateral as well as multilateral action to redress the balance. This should include measures to stimulate domestic demand including the improvement of the social infrastructure and specific measures to increase imports. It was appreciated that such measures raised difficulties in terms of domestic political acceptability, but that without them there is a danger of a trend towards international protection which would have disastrous consequences for Japan and its partners.
The British members noted that a number of formal and informal barriers to the Japanese markets still remain in areas where the UK has clear competitive advantage, and urged the Japanese government to make greater efforts to remove them. It was agreed that such problems of market access could usefully be addressed through contacts between the CBI and the Keidanren as a means of exchanging up-to-date information on changes in regulations and procedures and of investigating grievances.

Japanese participants emphasised the need for British exporters to make greater efforts to penetrate the Japanese market, and to pay continued attention to the quality and competitiveness of British goods. Both sides welcomed progress in industrial collaboration, and looked for the further development of collaboration through direct investment, joint ventures and technological cooperation. British participants stressed the contribution which Japanese direct investment could make to the British economy, following on from the contributions which American companies had already made, in replacing imports with

.../4

domestic production, in bringing management skills and technological advances into the British market, and in sharing in the future development of the British economy. Japanese participants emphasised, in turn, the increasing openness of Japan to foreign investment and the mutual advantages to be gained from British investment in Japan.

The integration of international financial markets, which is likely to move a good deal further during the coming decade, should bring London and Tokyo closer together. Both sides welcomed the gradual opening of the financial market, but recognised that this process still had a long way to go. Participants endorsed the benefits to each other's economy and financial institutions of continuing progress on deregulation. The Japanese authorities were encouraged to give consideration to the London model, as well as the New York model.

Prospects for the international economy can also be improved through action by the surplus industrialised countries to ease the debt burden on less-developed countries. The Baker proposals were welcomed by both sides and it was recognised that the commercial banking system needs a degree of support from governments in taking the strain. The long-term character of economic deprivation in Africa also calls for common action. The expansion of Japanese economic assistance to Africa was welcomed. We need to explore ways in which our expertise and resources can best be combined in encouraging and assisting African economic development.

Political Cooperation

The Group recognised the growing sense of common political interests between Western Europe and Japan, and anticipated that cooperation would grow steadily closer. The improvement of relations between the United States and the Soviet Union, symbolised by the Geneva summit meeting, was

.../5

welcomed. Hopes were expressed that the shift in leadership in the Soviet Union would lead to a progressive modification of Soviet foreign policy, even though changes were likely to be limited and slow and required a cautious response from the Soviet Union's neighbours.

Growing Soviet interest in the Asia-Pacific region and in the security and economic development of its eastern territories strengthened the need for a concerted response to developments in the Soviet Union from its Eastern and Western neighbours. Soviet uncertainty about developments in Eastern Europe and in China, which it sees as potential threats to its stability, also called for a careful response from Western Europe and Japan.

Both sides welcomed the re-opening of China to international economic and political cooperation, and agreed on their common interest in encouraging its continued development. The Chinese interest in active European participation in its economic development, alongside the roles played by Japan and the United States, was noted.

Broadening the Bilateral Relationship

We noted the expansion of educational, scientific and cultural exchange between Britain and Japan in recent years, while agreeing that much further expansion is needed over the next decade in order to share knowledge and experience and to improve mutual understanding. A stock-taking exercise will be commissioned during the coming year to assess the overall pattern of current exchanges and to identify areas where improvements are most urgent. We particularly noted the need to expand exchanges on the development and exploitation of advanced technologies. Reduction of airfares would contribute much to reducing obstacles to wider and more frequent contacts. So would a more flexible approach to the granting of work permits and

strengthening of the institutional structure for managing exchange programmes.

One area both sides emphasised was the need to reform the education system to adjust to the demands of technology and to its impact on society, while maintaining the principles of a broad and creative education. Papers will be presented to the 1987 meeting on approaches to educational reform in Britain and Japan. We agreed on the need to expand Japanese language teaching and studies of modern Japan in British universities and schools.

We look forward to the next full meeting of the 2000 Group in Japan in early 1987. Our priorities in preparing for that meeting, and in planning the work of the Group for the next three years, will be: to identify current obstacles to closer relations between the two countries; to propose measures to reduce them; to explore means of improving mutual understanding; to compare British and Japanese assumptions about future economic, political, technological and social developments; and to seek to identify common interests in adjusting to these developments.

BRITISH REPRESENTATIVES ATTENDING THE CONFERENCE

Rt Hon James Prior, MP (Chairman)	Chairman, GEC
Con Allday	Chairman, British Nuclear Fuels
Sir Terence Beckett	Director-General, CBI
Lord Boardman	Chairman, National Westminster Bank
Nicholas Colchester	Foreign Editor,Financial Times
Professor Ronald Dore	Assistant Director, Technical Change Centre
Sir James Eberle	Director, Royal Institute of International Affairs
Rt Hon Patrick Jenkin, MP	Conservative MP for Wanstead and Woodford
Graham McCallum	Executive Director, John Swire & Sons
Richard Needham, MP	Parliamentary Under Secretary of State at Northern Ireland Office
Sir Michael Palliser	Director, Samuel Montagu
Sir Peter Parker	Chairman, Rockware Group
Dr William Wallace (Rapporteur)	Director of Studies, Royal Institute of International Affairs
Christopher Wathen	General Manager, Midland Bank Int
Sir Michael Wilford	Director, Lloyds Bank Int
Nicolas Wolfers	Group Adviser (Asia & Pacific) Midland Bank Group

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Ambassador Tadao Kato (Chairman)	Adviser to President of Sumitomo Metal Industries
Naohiro Amaya	Adviser to Japan Industrial Policy Research Institute
Nobutoshi Hagihara	Historian and Writer
Takashi Hosomi	President, Overseas Economic Co-operation Fund
Minoru Inoue	President, Bank of Tokyo
Toshiki Kaifu	Member of the House of Representatives, Vice Secretary General of the Liberal Democratic Party
Isamu Miyazaki	Chairman, Daiwa Securities Research Institute
Takashi Mukaibo	Acting Chairman, Japan Atomic Energy Commission
Kinya Niizeki	Director, Japanese Institute of International Affairs
Keizo Saji	Chairman of Board and President, Suntory
Tadahiro Sekimoto	President, Nippon Electric
Atsushi Shimokobe	President, National Institute for Research Advancement
Shoichiro Toyoda	President, Toyota Motor Corporation
Tadashi Yamamoto (Rapporteur)	Director, Japan Centre for International Exchange.

THE UNITED KINGDOM-JAPAN 2000 GROUP

OBJECTIVES

The aim of this group is to assist in strengthening good relations and understanding between Britain and Japan, across the full range of economic, political, security and cultural issues. Its objectives in particular include:

1. to identify and build up common interests between the two countries, to define the principal problem areas in the relationship; and to recommend practical areas for cooperation;

2. to monitor the flow of exchanges between Britain and Japan, and to contribute to a broadening of that flow; to promote and improve public awareness in both countries of the importance of good relations between Britain and Japan;

3. to promote, and if necessary sponsor, specific studies relevant to Anglo-Japanese relations;

4. to provide advice to both governments and to the private sectors on specific actions and initiatives to reinforce the bilateral relationship and to improve cooperation between Britain and Japan in the international economy, in sharing global economic and political responsibilities.

(1984)

UK – JAPAN 2000 GROUP

**Secretariat: Royal Institute of International Affairs, Chatham House,
10 St James's Square, London SW1Y 4LE (01-930-2233)**

P.6.86

SUMMARY OF DISCUSSIONS

The second meeting of the United Kingdom-Japan 2000 Group was held at Heythrop Park, Oxfordshire, England from 10-12 January 1986, following its first meeting in Oiso, Japan in February 1985. The Group was established after the bilateral Japanese-British summit meeting in June 1984 to improve understanding and to promote cooperation between Japan and the United Kingdom, looking ahead to changes in international politics and economics, and technology, which the two countries would be facing towards the year 2000. The meeting was jointly chaired by the Rt Hon James Prior MP and Ambassador Tadao Kato. Its discussions were informal and exchanged critical and constructive views in a friendly atmosphere. Before their departure for Britain, the Japanese team met with Prime Minister Yasuhiro Nakasone to discuss a number of issues in Japan-British relations. Both Japanese and British participants will be guests at a luncheon with the Rt Hon Mrs Margaret Thatcher MP, at No 10 Downing Street on 13 January.

The International Economy

The meeting discussed the increasing pace of change in international economic relations, and the problems of adjustment which these created.

.../2

We recognised that the rapidity of technological and industrial change imposed strains on both our societies, and required some painful alterations in traditional values and institutions. Some participants felt that current international tensions are a transitional problem resulting from the different pace of adjustment to the transformation of industry required by technological advance. Others expressed the fear that current imbalances were likely to lead not to the re-establishment of a balance of mutual advantage, but to a progressive deterioration in Europe's competitive position vis-a-vis Japan, which would make it increasingly difficult to maintain an open international economy.

We share a sense of urgency and concern about the crisis facing the international trading system. Both countries have a vital interest in the maintenance of an open world trade system. The size of Japan's current trade surplus in itself imposes severe strains and encourages protectionist tendencies in the USA and Europe. A number of measures are essential to reduce this structural imbalance.

The misalignment of exchange rates and the lack of progress in coordinating national economic policies have contributed to the growth both of the Japan surplus and of the US trade deficit. In this connection the group welcomed the American initiative through the Group of Five to reduce exchange rate disparities, and parallel Congressional action to reduce the size of the US budgetary deficit. We noted that further active coordination of economic policies would be needed to maintain an adequate rate of international economic growth as the US deficit is brought under control, and that both Japan and Western European Governments will have to take initiatives to ensure that growth is maintained.

.../3

We noted, and welcomed, the significant progress which the Japanese government was now making in improving access to the Japanese market. But we recognised that market-opening measures in themselves cannot remove the structural Japanese trade surplus, and that longer-term and broader measures will be needed.

We urge the Japanese government to take unilateral as well as multilateral action to redress the balance. This should include measures to stimulate domestic demand including the improvement of the social infrastructure and specific measures to increase imports. It was appreciated that such measures raised difficulties in terms of domestic political acceptability, but that without them there is a danger of a trend towards international protection which would have disastrous consequences for Japan and its partners.
The British members noted that a number of formal and informal barriers to the Japanese markets still remain in areas where the UK has clear competitive advantage, and urged the Japanese government to make greater efforts to remove them. It was agreed that such problems of market access could usefully be addressed through contacts between the CBI and the Keidanren as a means of exchanging up-to-date information on changes in regulations and procedures and of investigating grievances.

Japanese participants emphasised the need for British exporters to make greater efforts to penetrate the Japanese market, and to pay continued attention to the quality and competitiveness of British goods. Both sides welcomed progress in industrial collaboration, and looked for the further development of collaboration through direct investment, joint ventures and technological cooperation. British participants stressed the contribution which Japanese direct investment could make to the British economy, following on from the contributions which American companies had already made, in replacing imports with

.../4

domestic production, in bringing management skills and technological advances into the British market, and in sharing in the future development of the British economy. Japanese participants emphasised, in turn, the increasing openness of Japan to foreign investment and the mutual advantages to be gained from British investment in Japan.

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Graham McCallum	Executive Director, John Swire & Sons
Richard Needham, MP	Parliamentary Under Secretary of State at Northern Ireland Office
Sir Michael Palliser	Director, Samuel Montagu
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Nobutoshi Hagihara	Historian and Writer
Takashi Hosomi	President, Overseas Economic Co-operation Fund
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Toshiki Kaifu	Member of the House of Representatives, Vice Secretary General of the Liberal Democratic Party
Isamu Miyazaki	Chairman, Daiwa Securities Research Institute
Takashi Mukaibo	Acting Chairman, Japan Atomic Energy Commission
Kinya Niizeki	Director, Japanese Institute of International Affairs
Keizo Saji	Chairman of Board and President, Suntory
Tadahiro Sekimoto	President, Nippon Electric
Atsushi Shimokobe	President, National Institute for Research Advancement
Shoichiro Toyoda	President, Toyota Motor Corporation
Tadashi Yamamoto (Rapporteur)	Director, Japan Centre for International Exchange.

A

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER TO MARK THE SECOND CONFERENCE OF THE UK-JAPAN 2000 GROUP ON MONDAY, 13TH JANUARY 1986 AT 12.45PM FOR 1.00 PM

The Prime Minister

Rt. Hon. Paul Channon, MP

Mr. Tim Renton, MP

British Participants

Mr. Con Allday	British Nuclear Fuels Ltd.
Sir Terence Beckett	CBI
The Lord Boardman	National Westminster Bank Ltd.
Mr. Nicholas Colchester	Foreign Editor, Financial Times
Admiral Sir James Eberle	Royal Institute of International Affair
Rt. Hon. Patrick Jenkin, MP	
Mr. Graham McCallum	John Swire & Sons Ltd.
Mr. Richard Needham, MP	
Rt. Hon. Sir Michael Palliser	
Sir Peter Parker	Rockware Group
Rt. Hon. James Prior, MP	
Professor Keith Thurley	Department of Industrial Relations, London School of Economics
Dr William Wallace	Royal Institute of International Affair
Mr. Christopher Wathen	Midland Bank International
Sir Michael Wilford	Lloyds Bank International
Mr. Nicholas Wolfers	Samuel Montagu & Co. Ltd.

Japanese Members

Ambassador Tadao Kato (Chairman)	Former Japanese Ambassador to the UK
Nobutoshi Hagihara	Historian
Minoru Inoue	President, Bank of Tokyo Ltd.
Isamu Miyazaki	Chairman, Daiwa Securities REsearch Institute
Takashi Mukaibo	Acting Chairman, Japan Atomic Energy Commission
Kinya Niizeki	Director, Japanese Institute of International Affairs

K

Keizo Saji	Chairman of Board and President, Suntory Ltd.
Tadahiro Sekimoto	President, Nippon Electric Co. Ltd.
Atsushi Shimokobe	President, National Institure for Research Advancement
Tadashi Yamamoto	Director, Japan Centre for International Exchange

His Excellency the Ambassador of Japan

10 Downing Street

Mr. Charles Powell

PRIME MINISTER

LUNCH FOR THE UK-JAPAN 2000 GROUP

You agreed to Richard Needham's request to host a lunch for this group, which will just have concluded its second annual conference. You will recall that you saw the British members of the group before they set off for Tokyo last year.

I attach:

A. A list of those attending.

B. Biographical notes on the Japanese guests.

C. A short note on the 2000 Group.

I also attach notes for a short speech at lunch.

C.D.P.

Charles Powell

9 January 1986

Foreign and Commonwealth Office

London SW1A 2AH

9 January 1986

Dear Charles

UK-Japan 2000 Group

We spoke last night by telephone and agreed that the reference in the Prime Minister's draft speech to Japanese aid being used to purchase EC food surpluses for the third world was best omitted.

I now attach personality notes on the Japanese members of the group.

I look forward to hearing what FCO participation you envisage in the lunch.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

B

CONFIDENTIAL

PERSONALITY NOTES - UK-JAPAN 2000 GROUP

Japanese Members

Ambassador Tadao Kato	Chairman of Japanese side of 2000 Group. Former Ambassador to Britain (1975/1979). Now adviser to President of Sumitomo Metal Industries Ltd. Speaks excellent English.
Naohiro Amaya	Adviser to the 'Japan Industrial Policy Research Institute'. Formerly outspoken Vice-Minister for International Affairs. 1980 persuaded Japanese vehicle industry to accept restraints on exports to USA. Speaks excellent English.
Nobutoshi Hagihara	Critic and historian specialising in the Meiji period. Tokyo, Pennsylvania and Oxford Universities. Author of articles about Sir Ernest Satow, nineteenth century British diplomat in Japan.
Minoru Inoue	President, Bank of Tokyo since September 1985. Was General Manager of London Office (1972). An internationally minded career banker.
Isamu Miyazaki	Chairman, Daiwa Securities Research Institute. Formerly in Government service specialising in economic posts. Speaks fluent English. Well disposed towards Britain.
Takashi Mukaibo	Acting Chairman, Japan Atomic Energy Commission. A Doctor of Technology, formerly President of Tokyo University. Speaks very good American-English.

CONFIDENTIAL

j26abt

Kinya Niiseki	Director, Japanese Institute of International Affairs. Formerly a Soviet specialist in the MFA. Retired as Ambassador to Moscow in the late 1970's. Took up his present post (the JIIA is affiliated to the MFA) in 1982. Speaks good English.
Keizo Saji	Chairman of Board and President, Suntory Ltd. Second generation Chairman of his family company, Suntory, Japan's leading whisky distillers. A shrewd businessman with philanthropic interests (World Wildlife Fund). Suntory is sponsor, with the British Council, of an English language teaching project. Recently appointed President of the Osaka Chamber of Commerce and Industry. (Kato is an advisor to Suntory).
Dr Tadahiro Sekimoto	President, Nippon Electric Co Ltd. A physicist by training: speaks good English. Consistently positive about NEC's investment in Scotland.
Atsushi Shimokobe	President, National Institute for Research Advancement, a think-tank dealing with a wide range of economic and technical subjects. Engaged in an energy project with Chatham House. Speaks moderate English: academic in manner: well disposed towards Britain.
Dr Shoichiro Toyoda	Third generation President of Toyota Motor Corporation. Speaks little or no English: a tough businessman, rarely forthcoming.
Tadashi Yamamoto	Secretary to the Japanese side. Director, Japan Centre for International Exchange. Talkative, competent rapporteur, with experience of the Trilateral Commission.

Ambassador Toshio Yamazaki	Ambassador to Britain since 1985. Official observer at 2000 Group 1986 conference. Speaks good English.

Foreign and Commonwealth Office

London SW1A 2AH

9 January 1986

Dear Charles,

UK-Japan 2000 Group

We spoke about the UK-Japan 2000 Group, for which I attached a list of participants in my letter to you of 8 January. As further background I now attach a short note on the origins of the 2000 Group, and the agenda for the 1986 conference.

Yours ever,

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

C

UK-JAPAN 2000 GROUP

The UK-Japan 2000 Group is a non-governmental body initiated by Mr Satoh, former Counsellor at the Japanese Embassy in London, and Mr Richard Needham MP, to promote relations between Britain and Japan. It held its inaugural conference in Japan in February 1985, with the blessing both of Mrs Thatcher and Mr Nakasone. The second conference is to be held on 11/12 January at Heythrop Park with politicians, businessmen, academics and journalists participating.

The UK side is led by the Rt Hon James Prior MP, Chairman of GEC. The Japanese team is headed by Ambassador Tadao Kato, former Ambassador in London and now adviser to Sumitomo Metal Industries Ltd.

Foreign and Commonwealth Office

London SW1A 2AH

8 January 1985

Dear Charles

UK/Japan 2000 Group: Speech by the Prime Minister

As requested, I enclose a draft speech for the Prime Minister to give to the Second Conference of the UK/Japan 2000 Group on 13 January.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

10 DOWNING STREET

From the Private Secretary

27 December, 1985.

I attach a copy of a letter the Prime Minister has received from the Japanese Prime Minister.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me as soon as possible please.

A copy of this letter and its enclosure goes to Robert Culshaw (Foreign and Commonwealth Office).

(Mark Addison)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

10 DOWNING STREET

From the Private Secretary

27 December, 1985.

Thank you for your letter of 27 December to the Prime Minister conveying a message to her from your Prime Minister.

I shall ensure that this is placed before her immediately.

(Mark Addison)

His Excellency Mr. Toshio Yamazaki

EMBASSY OF JAPAN
UNITED KINGDOM

London, 27 December 1985

Dear Prime Minister,

I have been asked by Mr. Yasuhiro Nakasone, Prime Minister of Japan, to transmit a message to you.

I have much pleasure in enclosing the text of his message herewith.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

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

file

NOTE FOR THE RECORD

cc: Mr. Wicks
Mr. Sherbourne
Mrs. Ryder
Mrs. Richards
Supt. Ray Parker

NISSAN OPENING

Following our discussion at the diary meeting last week, I have now agreed with Mr. Goto (01-493-3088) an amendment to the times for the Prime Minister's proposed visit. He is now working on the assumption that the Prime Minister will arrive at the Washington site shortly before midday on 8 September. She would tour the plant for about an hour. A lunch would then be laid on. She would leave at 1400 hours.

On the basis that it should take no more than two hours to complete the journey from Balmoral to Washington (by car to Aberdeen, then by plane), this should mean the Prime Minister would not have to depart from Balmoral before 1000 hours.

We shall need to confirm the times in writing to Mr. Goto, and ask him to prepare in due course a draft programme.

MEA

Mark Addison

27 November 1985

DG2AQS

SUBJECT cc OPS
MASTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T240/85

TEXT

26 December 1985

Dear Prime Minister,

I have been well aware of your special interest in All Nippon Airways (ANA)'s decision on the type of new aircraft which it will purchase to replace its major fleet, as expressed in your letter of last September.

Today, ANA announced its decision, but, to my regret, Airbus A300-600s were not chosen this time. I believe that the decision has been made on economic and commercial considerations.

Since deregulation in Japan's civil aviation is in progress: activities of airline companies are expected to become more intense in the future.

I hope that, despite today's ANA decision, Airbus Industry will continue its efforts to succeed in the future opportunities.

With warm personal regards,

(Signature)

Yasuhiro Nakasone

cc OPS
Master
Subject: Japan
Rels
Pt 5

LPO. 21

cc. FCO
HO

10 DOWNING STREET

THE PRIME MINISTER

15 November, 1985.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T215/85

Dear Prime Minister,

Thank you very much for your kind letter about Prince Hiro's stay in Britain as a student at Oxford University which was delivered to me personally by Ambassador Yamazaki.

It was a great honour to us that Prince Hiro chose our country in which to study and it gave me particular pleasure to entertain him to lunch at Chequers during his stay. I am glad that you consider that His Imperial Highness benefited both from his academic studies and from his personal contacts and experiences in the United Kingdom. I certainly share that impression and believe that his stay with us has highlighted the close and friendly relations between our two countries. I am most grateful to His Imperial Highness.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone.

FILE

DA

CPC

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

JAPANESE GALLERY AT THE BRITISH MUSEUM

You consulted me earlier about whether the Prime Minister was likely to change her mind about her decision not to write to Mr. Nakasone in support of the British Museum's appeal for their Japanese Gallery. I have a very firm indication that her views remain unchanged.

(Charles Powell)

13 November 1985

JCR

MRS GOODCHILD cc Mr Powell

LUNCH FOR JAPANESE DELEGATION: MONDAY 13 JANUARY

I rang Richard Needham this morning and he said there would be about 30 - 12 Japs and 15 Brits. Best to contact him direct at a later date about names. His secretary is called Sue Cornford. She is contactable at the House of Commons under Peter Walker's name as she also works for him.

(CAROLINE RYDER)

13 November 1985

10 DOWNING STREET

Caroline

Can you please find out from Richard Wheeler how many Japanese guests there will be

CDP

13/12/89

13/12/89

30

(1)

PRIME MINISTER

JAPANESE GALLERY AT THE BRITISH MUSEUM

You earlier declined to write to Mr. Nakasone urging him to support an appeal in Japan for funds for a Japanese Gallery at the British Museum. You thought it was wrong to write in effect a begging letter to another Head of Government.

The Museum have returned to the charge, pointing out that they are not asking the Japanese Government for money, only that Mr. Nakasone encourage Japanese industry and commerce to give to the appeal.

This doesn't seem to me to change things. It will still lose you face with Mr. Nakasone that we have to be begging him to help rustle up £5 million.

Confirm your original decision not to write?

Yes MT

CDP

CDP

12 November, 1985.

CF

I can't remember who they are or why they are coming. CDP

10 DOWNING STREET

MR. POWELL

LUNCH FOR JAPANESE DELEGATION MONDAY, 13 JANUARY

AT FLAP

How large will this lunch be?

Sue

12 November 1985

CF

JA

KLB

cc: DTI
FCO

10 DOWNING STREET

THE PRIME MINISTER

12 November, 1985

Dear Jim,

Many thanks for your letter of 28 October in which you suggest the possibility of my visiting the first Cryo Magnetic Resonance Imaging system in Japan when I am next there.

I am not actually going to Tokyo in February as you suggest though I shall be there in early May for the Economic Summit. Whether it would be possible to fit a visit to the MRI system into the crowded programme of an Economic Summit is rather doubtful. But I will certainly keep the possibility in mind and look at it when we come to settle my programme. As you know I am a great admirer of what is being achieved in Britain in the high technology medical diagnostic field.

Yours ever

Margaret

The Rt. Hon. James Prior, M.P.

RM

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

11 November 1985

Dear Charles,

Prince Hiro

Thank you for your letter of 30 October about the call by the Japanese Ambassador on the Prime Minister, during which he handed over a letter from Mr Nakasone dated 26 September.

I enclose a draft letter from the Prime Minister in reply to Mr Nakasone. In parallel we are passing Mr Nakasone's thanks to those most closely involved in Prince Hiro's stay in Oxford and to the Metropolitan Police Commissioner.

I am copying this letter to Stephen Boys Smith in the Home Office.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
PS/10 Downing Street

D[illegible]11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Prime Minister

DEPARTMENT: TEL. NO:

Reference

21

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

.....In Confidence

CAVEAT.....

Enclosures—flag(s).....

TO:

HE Mr Yasuhiro Nakasone
Prime Minister of Japan

Your Reference

Copies to:

SUBJECT:

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CDP.

Japan: Relations
pt 5

NO TRACE
GR'S?

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU569
Secretary of State for Trade and Industry

8 November 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

CDP 11/xi

Dear Charles,

Your letter of 29 October 1985 to Peter Ricketts at the FCO asked for my Department's advice about Mr James Prior's letter to the Prime Minister suggesting that she visit the Picker International Magnetic Resonance (MR) Imager at Chiba University in Tokyo when she goes to Japan next year.

Our advice is that the Prime Minister should make the visit if time permits. MR Imaging is becoming increasingly popular worldwide as a medical diagnostic technique and the commercial potential for MR imagers is very large. The technique is relatively new and Picker - a GEC subsidiary - succeeded in making an early impact in the market partly because of the UK's academic strength in the MR field. However, the company is coming under strong pressure from foreign competitors who entered the field after Picker.

A visit by the Prime Minister to the Chiba installation would certainly increase Picker's prestige and boost its chances of success in Japan and other markets.

I am copying this letter to Peter Ricketts (FCO).

Yours ever,

Michael.

MICHAEL GILBERTSON
Private Secretary

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

GR?

Foreign and Commonwealth Office

London SW1A 2AH

8 November 1985

Dear Charles,

JAPAN

Thank you for your letter of 29 October enclosing a letter dated 28 October from the Rt Hon James Prior to the Prime Minister about the possibility of her visiting MRI systems in Japan.

The Prime Minister has already seen a Magentic Resonance Imaging system at the National Heart Hospital earlier this year, and a visit to one in Japan would certainly highlight an aspect of medical technology that Britain is able to sell to Japan. Other things being equal, therefore, a visit would be a good idea, but it seems unlikely that the Prime Minister would be able to fit such a visit into the crowded schedule of an Economic Summit and a visit either before or after would be very difficult to accommodate. The Prime Minister is stopping over in Korea before the Summit, while the Prince and Princess of Wales are due to visit Japan only two days after the Summit and, we believe, Mr Mulroney is to stay on as an official guest of the Japanese Government after the Summit.

The visit of the Prince and Princess of Wales has not been made public yet, and should not, we suggest, therefore be mentioned to Mr Prior. We shall look into the possibility of MRI systems figuring in their programme.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

07.XI
PM85

RP6.69

CONFIDENTIAL

cc PS (2)

Prime Minister
CDD
1/xi

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

PRIME MINISTER

MT

at Gleneagles Pt 4

ANGLO-JAPANESE FINANCIAL TALKS

Nearly a year ago, in a minute of 19 November 1984, I reported to you the results of a first round of bilateral talks with officials of the Japanese Ministry of Finance, which led to the grant of licences to deal in securities in Tokyo to S.G. Warburg and to W.I. Carr.

For much of the time since then progress has been disappointingly slow. In June Barclays were successful in gaining a place on the list of nine foreign houses to be admitted to "Trust Bank" status (along with 2 Swiss and 6 American houses and there was no other British applicant). But the flow of licences for dealing in securities, which is what several British houses remain strongly interested in, dried up, and the Japanese put pressure on us to admit their securities houses in London into banking business here. We refused to bow to this pressure because the Japanese presence in London is already substantial, having been admitted freely in the past, whereas we are having to fight every step for entry to Tokyo.

The most recent round of bilateral talks took place on October 14 and our team has reported hopes now of better progress. They made it clear that the Japanese cannot expect favourable consideration of their applications in London unless they treat ours in Tokyo much more generously, and that the restrictions they have been applying accord ill with their protestations that they intend to liberalise their markets. The Japanese seem to have responded encouragingly. Specifically, Kleinworts have at last received the go-ahead on

Japan:
Relations PK-5

Subject
cc master

file BED
cc Sir C Powell

10 DOWNING STREET

30 October 1985

From the Private Secretary

Dear Peter,

CALL BY THE JAPANESE AMBASSADOR

The Japanese Ambassador called on the Prime Minister this morning to convey his government's thanks for the care and attention which had been given to Prince Hiro during his time in the United Kingdom. I enclose a copy of a letter from Prime Minister Nakasone which the Ambassador handed over. He also left two gifts from Prince Hiro. He asked that a particular word of thanks and appreciation should be conveyed to those who had been responsible for Prince Hiro's security during his stay.

In the course of a brief conversation, the Ambassador asked the Prime Minister if she believed that President Reagan would be making further proposals on arms control ahead of his meeting with Mr. Gorbachev. The Prime Minister said that her understanding was the President had it in mind to do so.

The Ambassador said that Japan was doing its best to open up its markets to foreign imports. The government was taking steps to increase domestic demand, particularly in the housing and general infrastructure sectors. Following the G5 meeting, the yen had appreciated significantly and was now some 12 per cent higher than the dollar. He hoped very much that the Prime Minister understood that his government was making a serious effort to respond to Western demands. The Prime Minister recalled that she had clashed with Mr. Nikaido on the question of the under-valuation of the yen at the IDU Conference in Washington in July. It now appeared that her own comments at that time had been justified and she was glad to see that the Japanese government had taken action over the yen. Much more remained to be done on the trade front.

I should be grateful for a draft reply to Mr. Nakasone's letter.

I am copying this letter (without enclosure) to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and Stephen Boys Smith (Home Office). I should be grateful if Stephen Boys Smith could pass on the Japanese government's appreciation to those in charge of Prince Hiro's security.

Yours sincerely,

(C.D. Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

James PRIOR MP
12/11

ID3 AD2

10 DOWNING STREET

From the Private Secretary

29 October, 1985.

I enclose a copy of a letter to the Prime Minister from the Rt. Hon. James Prior of GEC about the possibility of her visiting MRI systems in Japan.

The Prime Minister is not going to Japan in February, but will of course be there in May for the Economic Summit. It would be helpful to know whether you and the Department of Trade and Industry would advise a visit to such a facility, assuming there was time.

I am copying this letter and enclosure to Mike Gilbertson (Department of Trade and Industry).

C.D. Powell

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

file

Bay.

10 DOWNING STREET

From the Private Secretary

29 October 1985

I am writing on behalf of the Prime Minister to thank you for your letter of 28 October.

I will ensure that you receive a reply as soon as possible.

(C.D. Powell)

The Rt. Hon. James Prior, M.P.

CC PC
B/up

Foreign and Commonwealth Office

London SW1A 2AH

29 October 1985

Prime Minister
CDP
29/x.

mb

Dear Charles,

Call On Prime Minister by Japanese Ambassador: 30 October

The Japanese Ambassador, Mr Toshio Yamazaki, is calling briefly on the Prime Minister to present a gift and deliver a letter from Mr Nakasone conveying the gratitude of the Japanese Government for looking after Prince Hiro during his two years of study at Oxford. I attach a short brief and a personality note.

The Ambassador has met the Prime Minister on a social occasion (dinner for President Mubarak on 14 March), but this will be his first call.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CALL ON PRIME MINISTER BY JAPANESE AMBASSADOR: 30 OCTOBER

OBJECTIVE

1. To consolidate the advantages which we have gained vis-a-vis the Japanese Government through our reception of Prince Hiro (the Japanese Ambassador will be delivering a letter from Mr Nakasone conveying the gratitude of the Japanese Government and will also present a gift).

POINTS TO MAKE

2. Honour to have assisted in education of the Crown Prince's elder son. Hope Prince Hiro's memories of his two years at Merton College, Oxford will be fond ones.

3. Well remember hosting lunch for Prince Hiro at Chequers in February 1984.

4. Express hope that Prince Hiro will not be last member of Imperial Family to consider university education in UK. (There are rumours that Prince Hiro's younger brother, Prince Aya, may be considering coming to university here: but the Japanese have said nothing).

CALL ON PRIME MINISTER BY JAPANESE AMBASSADOR: 30 OCTOBER

MR TOSHIO YAMAZAKI

Born in 1922, Mr Yamazaki graduated from the Faculty of Law, Tokyo University in 1944. In 1946 he entered the Ministry of Foreign Affairs. In 1955 he took up his first overseas appointment as Third, later Second Secretary at the Japanese Embassy in London.

In 1962, Mr Yamazaki became Director of the British Commonwealth Division in the Ministry of Foreign Affairs. In 1964 he was again posted abroad as First Secretary, later Counsellor (1966) in the Permanent Mission of Japan to the UN in New York. From 1967 until 1971 he served again in the Ministry of Foreign Affairs as Director of the Financial Affairs Division in the Minister's Secretariat and then (1970) as Deputy Director-General of the Treaties Bureau. He was then posted to Washington as Counsellor (1971) later Minister (1972) and subsequently given the rank of Envoy Extraordinary and Minister Plenipotentiary (1974) en poste. In the same year he returned to the Ministry of Foreign Affairs, being appointed Director-General of the American Affairs Bureau. In 1977 he became Counsellor of the Minister's Secretariat and in 1978 Deputy Vice-Minister for Administration. His Ambassadorial career began in 1980 with a posting to Egypt and then in 1982 to Indonesia.

Mr Yamazaki is married with one son and one daughter. His interests include golf.

He has an impressive command of English; his wife's English is similarly excellent.

FAR EASTERN DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE
OCTOBER 1985

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH
01-493 8484

FROM THE CHAIRMAN
THE RT. HON. JAMES PRIOR, MP

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

28th October 1985

Dear Margaret

There is a strong rumour that you are planning to visit Japan next February. Picker International and Toray have a joint venture company engaged in selling MRI systems in Japan. I know you visited Donald Longmore and have taken a great interest in his work and are one of the few people who understand the technology and importance of what he's doing and its relevance to Britain's efforts in the high tech. medical diagnostic field.

It would be a great boost for Picker if it were possible for you to look at one of our MRI facilities. Chiba University in Tokyo has installed the first Cryo MRI system in Japan and this might be a suitable choice. We would, of course, arrange for either the Chairman or the Deputy Chairman of Picker to be in attendance if you were able to fit this into your programme. I know of the demands made upon you and we thought this might be a more interesting and worthwhile visit than some others.

Yours
Jim

Japan Refs?

file

Dsg

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister has considered your minute of 10 October about the proposed letter to Mr. Nakasone telling him of the British Museum's plans for a Japanese Gallery.

The Prime Minister is not keen to write as you propose since, however it is wrapped up, it would appear to be a begging letter. She thinks there must be other ways to enlist the support of Japanese industry.

C.D.P.

Charles Powell

14 October 1985

BM

010.

(1)

Prime Minister

Agree to write to Mr. Nakasone about this?

CDP 10/x

This is really a key-sig letter - do we have to send it at this?

Ref. A085/2603

MR POWELL

Lord Trend came in to see me the other day about the proposal of the Trustees of the British Museum to create a new Japanese Gallery to show their Japanese collection, only one fifth of which can now be displayed.

2. The Museum need to raise £5 million for this purpose; and they are seeking to raise it from Japanese as well as from British industry.

3. Lord Trend wondered whether the Prime Minister would be willing to write a letter to Mr Nakasone, the Japanese Prime Minister, to tell him of the British Museum's plans for a Japanese Gallery, to emphasise the value that such a Gallery would have in extending knowledge of Japanese civilisation and culture in this country and in generally promoting Anglo-Japanese relations, and asking him to let it be known among Japanese industrialists that he knew of the appeal and it had his blessing and support.

4. If the Prime Minister were willing to write to Mr Nakasone in this way, I would arrange with Lord Trend for the preparation of a draft letter; and I could take the draft letter and give it to the Japanese Prime Minister's Personal Representative at the Sherpa meeting next month.

RA

ROBERT ARMSTRONG

10 October 1985

From: STEVE MATHESON

INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

→ CDP
cc PW

4 October 1985

Pl copy to.
David Margrave

FINANCIAL SECRETARY

VISIT TO JAPAN, HONG KONG AND MAURITIUS

Mr Rogers, Mr Cockcroft and I visited Japan with ICL in September calling at Hong Kong on the way out and Mauritius on the way back. You might like to have this brief note of the outturn and to be aware that we generated some interest amongst Ministers in Mauritius which might surface during the Mauritian Prime Minister's current visit to the UK.

JAPAN

The primary purpose of the visit was to judge for ourselves the solidity of the ICL/Fujitsu collaboration and to satisfy ourselves that the quality and continuity of supply of Fujitsu equipment was secure for both current and future generations of computers. On all these issues we were given firm assurances by both Fujitsu and MITI (the Japanese equivalent of DTI) and from

---

c. Chancellor of the Exchequer
Minister of State
Sir Peter Middleton
Mr Monger
Dr Freeman
Mr Scholar
Mr Lord
Sir Lawrence Airey
Mr Rogers
Mr Pollard
Mr Matheson
Mr Cockcroft
PS/IR

our own visits to Fujitsu headquarters and two factories we have no doubt about that company's capacity and quality. Fujitsu expressed very high regard for ICL's design and engineering expertise. We were assured at Executive Director (Main Board) and Director level that the current Series 39 (Estriel) design and the fully compatible successor now being developed were secure through to at least 1996 and that we "should not worry" about the security of supply of computers and associated peripheral equipment since ICL was not just a customer but "part of the family".

On balance we were reassured about the ICL/Fujitsu link, but on the wider question (not for us) of UK/Japanese trade and collaboration it looks very much like a one-way street. The Director General at MITI made pleasant statements about the ICL arrangement as an important example of technological collaboration between Japan and the UK but there is no question that Japanese interests come first. And the possibility of some reciprocal trading between ICL and Fujitsu seemed non-existent. I shall be passing on to DTI some of the impressions we picked up.

HONG KONG

Hong Kong involved discussion with the Treasury about an accounting and management information system supplied by ICL. We need not bother you with details.

MAURITIUS

We were originally looking for a convenient stop-over between Japan and South Africa (before it was decided that Mr Cockcroft alone should visit the ICL installations there) and agreed on Mauritius at the request of ICL, supported by the Foreign Office. Our understanding was that we would give the Finance Minister and his officials the benefit of our own experience in planning systems and in the use of the private sector. What we walked into was an expectation that we would provide the expertise they need as development aid. It took considerable investigation, argument and discussion to sort it all out, I hope to everyone's satisfaction. We persuaded them in the end that what they had to start with was some O & M consultancy (from the private sector, not from us).

The Ministerial interest in Mauritius in what we were doing was very high and Mr Rogers and I have been asked to have lunch with the Mauritian Prime Minister and his party when they are in London next Monday. I do not expect anything more to emerge from that but record the fact in case the subject does come up during any possible contacts now or in future at Ministerial level.

Steve Matheson

STEVE MATHESON

SCMAGF

10 DOWNING STREET

BF

Carol/Ing 3/F

cc. 30 Oct. at 9.15. cc.

I have spoken 3/10. to the Jap Ambo & told him it may be 3/4 weeks before we can get him in. He accepts this.

Cd. you please fix a time with his office: then honour is satisfied.

CDP

2/10

010

CSC ①

Prime Minister
The diary is awful. But this could be done in literally 10 minutes
Agree, for after CHOGM?
CDP 1/X.

Let him come in 10-day

Foreign and Commonwealth Office

London SW1A 2AH

1 October 1985

Dear Charles,

Call on Prime Minister by Japanese Ambassador

The Japanese Ambassador has approached us with a request for a call on the Prime Minister. I know that it would be most unusual for the Prime Minister to agree to such a call, but in view of the circumstances I think that the case is worth putting to you.

The Ambassador has received, and wishes to hand to the Prime Minister, a letter from Mr Nakasone conveying the gratitude of the Japanese Government for all that we have done in Britain in looking after Prince Hiro during his two years of study at Oxford. The Japanese value the connection between the Imperial Family and our own Royal Family very highly, and the decision of the Imperial Family that Prince Hiro, as eldest son of the Crown Prince, should spend two years at Oxford was, as you know, a mark of signal favour towards the United Kingdom and confidence in our relationship. It is natural for the Ambassador to wish to convey the feelings of his own Prime Minister personally to Mrs Thatcher on this occasion. Prince Hiro leaves the UK on 10 October, having by common consent both greatly enjoyed and benefited from his time at Oxford.

If the Prime Minister were able to spare ten minutes to receive the Ambassador, it would I am sure pay dividends in helping to consolidate the advantages which we have gained vis-a-vis the Japanese Government through our reception of Prince Hiro. The Japanese pay great attention to these small details, which can have a disproportionate effect; at a time when we need to speak formally to them on trade and other economic matters, the value of such gestures is all the greater.

The Ambassador has said that he would be happy to deliver the letter either this week, at a time to suit the Prime Minister's convenience, or after the Party Conference. I should be grateful if you could let me know whether a time can be found.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

Subject
ccops
master

OFFICE OF THE PRIME MINISTER
TOKYO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T168AB/85

September 26, 1985

Dear Mrs Thatcher.

On behalf of the Government and people of Japan, I should like to express my most sincere gratitude to you and the people of your country for the generous hospitality so kindly extended to Prince Hiro throughout his two years' stay in Britain as a student at Oxford University.

I understand he has not only studied about Britain, the founder of parliamentary democracy, but also broadened his horizon and developed his personality through his studies and experiences. I am sure he has gained insight into and first-hand knowledge of various aspects of Britain, such as history, culture and tradition, with which it has enriched and contributed so much to human civilization.

He will undoubtedly consider it most fortunate to have been given such an opportunity and to have enjoyed two youthful years among the British people. His experience will be an asset of immeasurable value not only for his future, but also for the promotion of good relations between our two countries, which is always one of the foremost desires of the Japanese people and myself.

The Right Honorable
Mrs. Margaret Thatcher, MP
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland

I hope you will convey my gratitude and very best regards to those of your Government, particularly the security staff, who have been closely involved in Prince Hiro's stay in your country.

With best wishes,

Yasuhiro Nakasone

Japan Rels
Pt 5

PA

NISSAN

NISSAN MOTOR CO., LTD.

LONDON OFFICE
Incorporated with limited liability in Japan

23rd September 1985

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON S W 1

Dear Prime Minister

Although you were away in the Middle East, I was most interested to watch BBC TV's 2-part series on 10 Downing Street which was aired over the weekend.

I was interested firstly because it was exactly 250 years ago that Sir Robert Walpole moved into 10 Downing Street as your first Prime Minister, and it just so happens that Nissan's new office in London was his residence. Sir Robert Walpole's portrait still hangs in the hallway.

I was interested secondly, and not the least importantly, because the second part of the programme gave me an insight into your life as Prime Minister at 10 Downing Street. In addition to yourself, it showed some of the Ministers that I have had the pleasure of knowing as well as Robin Butler, Bernard Ingham and Stephen Sherbourne. Above all, the programme made me aware all the more of the tremendous responsibility and workload being placed on your shoulders.

I am pleased to learn that you have kindly accepted the invitation from Mr Tsuchiya, Managing Director of Nissan Motor Manufacturing (UK) Limited, to their grand opening scheduled for September next year. The buildings in Sunderland have just been completed and turned over to us by Sir Robert Mc Alpine and Sons.

With my best wishes,

Yours sincerely

5 Arlington Street, St. James's, London SW1A 1RD Tel: 01-493 3088 Telex: 297066 NISMOL G Facsimile: 01-408 1194

Bemax O

NOTE FOR FILE

I spoke to Mr Tsuchiya's Personal Assistant (a Japanese lady) and offered her Monday 8 September 1986 for the Prime Minister's visit to Nissan. I told her that Mrs Thatcher would be happy with a two hour programme starting at 10am. I mentioned the security angle but when Nissan have confirmed the date we should write a letter confirming the above details.

CAROLINE RYDER

20 September 1985

file

BEM.

cc SS
Press
DTI.

10 DOWNING STREET

20 September 1985

From the Private Secretary

Dear Mr. Tsuchiya

This is to confirm following my conversation with your Secretary this afternoon, that the Prime Minister is looking forward to opening your manufacturing plant in Washington on Monday 8 September 1986. The timetable we agreed was that the Prime Minister would arrive at 1000 hours and the programme would last two hours.

As I know Caroline Ryder explained on the telephone to your Secretary, it is important that, for reasons I know you will understand, we keep advance knowledge of the Prime Minister's intention to visit Nissan to as small a number of people as possible. We would plan to make press announcements only a day or so in advance of the visit. Our detectives will of course be in touch with you nearer the time to discuss the appropriate arrangements for security and our press office, too, will be contacting you to sort out the publicity arrangements for the opening.

It would be very helpful if you were able to let us have a draft programme for the Prime Minister's visit, say by July next year.

I look forward to hearing from you in due course.

Yours sincerely
Mark Addison

(Mark Addison)

Mr. T. Tsuchiya

EA

1491/002

DRAFT LETTER

√18

From : Prime Minister

To : Susumu Nikaido
Vice-President
The Liberal Democratic Party
11-23 Nagata-Cho 1-Chome
CHIYODA-Ku
Tokyo 100
Japan

DG2ANN

Dear Mr Nikaido,

Thank you for your letter of 6 September. I very much enjoyed my participation in the IDU Party Leaders Conference in Washington. I was particularly glad of the opportunity provided by the meeting to discuss world economic problems with you and other participants.

2. I am most grateful to you for the stimulating and thoughtful note, enclosed in your letter, on Japan's role and in particular that of the Yen in the world economy.

3. I am reassured by what is said in your note that there is no real difference between us in our diagnosis of the position of the Yen and of the factors affecting it. We are both agreed that the large capital outflows from Japan in recent years, in particular to the United States, have contributed to keeping the value of the Yen on the foreign exchange markets lower than is justified and desirable in the light of Japan's international competitiveness and that this has in turn been a factor in the persistence of large current account imbalances.

4. There is also, I believe, a large measure of agreement between us on what now needs to be done. In particular, I share your views on the importance of action to liberalise and internationalise your financial and capital markets and to encourage the international use of the Yen. I am encouraged by the steps which Japan has already taken or announced and look forward to further progress in this direction. As you say, it is particularly desirable that these measures should increase demand for the Yen, thus attracting capital inflows into Japan and promoting a stronger exchange rate. With this in mind it would seem that action to remove any remaining disincentives there may be to inward capital flows and to ensure the availability of a wide range of Yen assets, at competitively-determined interest rates, should merit particular priority. Without this there is a risk that the welcome measures Japan has taken to remove controls on outward capital flows could have the opposite effect.

5. More generally, I welcome what you say in your note about Japan's determination to play its part in rectifying present external imbalances and in contributing to balanced world economic growth, both through measures to increase domestic demand and to open up your internal market. As regards Japan's distribution system, we welcome the willingness expressed by your Government to study ways in which the present structure may represent a serious barrier to the penetration of the market by foreign suppliers.

6. I am most grateful to you for setting out your views so fully. I look forward to further progress in all the areas you have described.

JAPAN: Rels
AS

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
10 Downing Street
London
SW1

cc Press Office
(ready to discuss if you wish)

1. Charles Powell
2 CF to consult X.

10 September 1985

Dear David

THE YEN

Further to your letter to Rachael Lomax of yesterday I enclose the letter which Mr Nikaido has sent to the Prime Minister. Mr Shiozaki, the Liberal Democratic Party Vice Administrator, who passed the letter to the Economic Secretary this afternoon, said that it would not be released until tomorrow morning (our time) and it therefore will not, presumably, be in time for tomorrow's press.

X) Officials here are, as requested, drafting a reply.

Yours ever,

A M ELLIS
PRIVATE SECRETARY

Ate

CF

35

10 DOWNING STREET

From the Private Secretary

9 September 1985

Dear Rachel,

THE YEN

Charles Powell here has received privately an advance copy of the letter which is to be handed to the Economic Secretary tomorrow afternoon (copy attached).

Mr Nikaido apparently intends to release the letter to the press tomorrow night, our time. Mr Powell expressed regret at this, pointing out that it would mean a sharper reply from us which we would in turn also want to release.

The Prime Minister is not back in London until Wednesday night, but we shall no doubt want to issue a reply to Mr Nikaido's letter very smartly.

I am copying this letter to John Bartlett (Bank of England) and John Mogg (Department of Trade and Industry).

Yours sincerely,

David

DAVID NORGROVE

Mrs Rachel Lomax,
H M Treasury

Subject to master ops

File SRW

cc FCO
DTI

10 DOWNING STREET

THE PRIME MINISTER

4 September 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No T158/85

Dear Prime Minister,

I understand that All Nippon Airways will reach a decision shortly on the type of new aircraft which it will buy to replace its present Lockheed Tristar fleet. As you may be aware, Airbus Industrie is vigorously pursuing with the airline this important opportunity for the sale of Airbus A300-600s. The United Kingdom and its partners in the Airbus programmes, France, West Germany and Spain, have been greatly encouraged by the world-wide sales successes achieved by Airbus Industrie. I am confident that on commercial grounds the Airbus represents a very competitive option.

I know that you well understand the very great importance which the United Kingdom and its European partners attach to a substantial increase in the quantity of their manufactured goods purchased by Japan. The procurement of a European aircraft such as the Airbus would be a significant step, and much in keeping with the intentions set out in your Action Programme for Improved Market Access. I hope very much that this consideration will be taken fully into account.

With warm best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone

OID.

CC NO
PC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU934
Secretary of State for Trade and Industry

3 September 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Mark,

AIRBUS SALES TO JAPAN

I would be grateful if you would seek the Prime Minister's agreement to write to Prime Minister Nakasone of Japan in support (in relatively low-key terms) of the Airbus Industrie (AI) bid to win a large order from All Nippon Airways (ANA), a major Japanese domestic airline. You will recall that the Prime Minister wrote to Mr Nakasone in July to promote the sale of Tornado aircraft to the Japanese Defence Agency.

ANA has, for some months, been considering new wide bodied aircraft types to replace its ageing Tristar fleet. The contenders are the Boeing 767 (with virtually no UK content) and the Airbus A300-600 (for which British Aerospace manufacture the wings). During their visits to Japan earlier in the year, both the Secretary of State for Trade and Industry and Mr Pattie took the opportunity to promote the Airbus as a suitable aircraft to meet ANA's needs and, of course, as a contribution towards redressing the trade imbalance between Europe and Japan.

A senior AI team was in Tokyo last week for final discussions with ANA on the AI bid to supply 15 A300-600s plus 10 options. Although ANA already operates a sizeable B767 fleet and the Japanese aerospace industry participates in the Boeing 767 production programme, AI believe that their bid is highly competitive with Boeing's in all respects, is receiving fair and serious consideration from ANA and thus stands a reasonable chance of success. Their major concern is last minute US political pressure on the Japanese Government to influence ANA's decision in favour of the Boeing aircraft. ANA's decision is expected in early September.

The AI team, at the end of their Tokyo visit met jointly with representatives from the Embassies of the four Airbus partner countries to consider how the Airbus bid might best be further supported. The conclusion drawn was that parallel letters from the four European Prime Ministers to Prime Minister Nakasone, expressing the hope that the ANA decision would be taken on purely private, commercial grounds, would be helpful. We have established that M Fabius, Chancellor Kohl and Sr Gonzales are willing and intend to write to Prime Minister Nakasone in terms broadly similar to the attached draft. If the Prime Minister is content to proceed on these lines, which Ministers here strongly recommend, I should be grateful if Peter Ricketts (Foreign and Commonwealth Office) to whom I am copying this letter, would arrange for immediate transmission of the text of the letter, with the original to follow by bag.

Yours Sincerely,

Andrew Lansley

ANDREW LANSLEY
Private Secretary

10 DOWNING STREET

THE PRIME MINISTER

27 August 1985

Dear Mr. Tsuchiya,

Thank you for your letter of 8 August. I am sorry for the delay in replying but, as my Office explained to you, I have only recently returned from holiday.

I am very grateful to you for asking me to open your manufacturing plant in Washington next September, and I should be delighted to accept. I shall ask my Office to get in touch with yours to discuss the arrangements in more detail.

Yours sincerely

Margaret Thatcher

Mr. T. Tsuchiya

SUBJECT cc Master
OPS

Prime Minister 2

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 152 B/85

EMBASSY OF JAPAN
UNITED KINGDOM

19/8

London, 19th August 1985

Dear Prime Minister,

In the temporary absence of the Ambassador, I have been asked to forward to you the following message from Prime Minister Nakasone :

> "On behalf of the people of Japan, I should like to thank you very much for your message concerning the recent crash of the JAL passenger aircraft.
>
> "Your kind sentiments have been duly passed on to those who have suffered loss of their families in the tragic accident."

YASUHIRO NAKASONE
Prime Minister of Japan

MT

Yours sincerely,

Eiji Seki

Eiji Seki
Minister Plenipotentiary

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

PRIME MINISTER

You will remember that Lord Marsh earlier this year asked if you would be willing to mark the beginning of production at Nissan in the North East next year in the Autumn. You wrote back saying that you would be delighted to take this on.

Subsequently, it came to light that there might be Union difficulties which could put Nissan off pursuing the invitation. It has turned out that these unhelpful noises were coming mainly from the local authority, and neither Lord Marsh nor Nissan wish to take them seriously. The upshot is that Mr Tsuchiya, the Managing Director of Nissan UK, has now formally written to you inviting you to open their plant in September next year.

I enclose a draft letter of acceptance for your signature.

Mark Addison

MARK ADDISON

13 August 1985

file

SSL

10 DOWNING STREET

From the Private Secretary

13 August 1985

Thank you for your letter to the Prime Minister of 8 August. As you may know, she is not at present in the Office, but I shall ensure your letter is placed before her on her return.

MARK ADDISON

Mr. T. Tsuchiya

Subject
ops
master

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 151/85

6

RESTRICTED

1467 - 1

DD 122350Z TOKYO
GRS 85
RESTRICTED
DESKBY 122350Z
FM FCO 121800Z AUG 85
TO IMMEDIAE TOKYO
TELEGRAM NUMBER 369 OF 12 AUGUST
JAL DISASTER

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR NAKASONE. BEGINS:

THE NEWS THIS MORNING OF THE CRASH OF A JAPAN AIR LINES PASSENGER AIRCRAFT WAS A TERRIBLE SHOCK TO US ALL. WE IN BRITAIN SHARE WITH THE PEOPLE OF JAPAN THEIR SORROW AND GRIEF OVER THE TRAGIC LOSS OF LIFE THAT HAS OCCURRED. PLEASE EXTEND MY DEEPEST SYMPATHY TO ALL THE FAMILIES OF THE BEREAVED. ENDS.

YOUNG
NNNN
DISTRIBUTION
LIMITED
FED
SCD
MAED
CONS D
NEWS D
PS/LADY YOUNG
SIR W HARDING

COPIES SENT TO
No. 10 DOWNING STREET

FCJ 186/1

RICHARD NEEDHAM, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

(Lunch PPS with SG)

Mrs. Caroline Ryder,
Prime Minister's Private Office,
10 Downing Street,
London, SW1.

12th August, 1985

Dear Caroline, cc. 2018.

You are a saint! I had made a proper nonsense of asking you to let the Prime Minister see the Japanese 2000 Group members in the morning as I had thought they would wish to catch the lunchtime plane back to Tokyo. But because Nakasone gave us lunch it appeared a great slight for the Prime Minister not to do likewise. The Japanese are all happy to stay over for another day at their own expense.

Many thanks for getting me out of a hole!

Yours

Richard

P.S. I do hope you will have a good rest

Foreign and Commonwealth Office

London SW1A 2AH

12 August 1985

Passed to Jeers
16.25.

Dear Mark

MESSAGE OF CONDOLENCE FROM THE PRIME MINISTER TO PRIME MINISTER NAKASONE OF JAPAN

A Japan Air Lines Boeing 747, carrying 524 passengers and crew, crashed this morning during an internal flight from Tokyo to Osaka. There is no news yet of any survivors. There is no evidence so far that the crash was due to sabotage by terrorists, and first reports suggest that the crew were having difficulty with one of the aircraft doors.

In view of the extent of this tragedy Ministers here feel that it would be appropriate for the Prime Minister to send a message of condolence to Prime Minister Nakasone. I attach a draft and would be grateful if you could let me know whether the Prime Minister is content for it to be despatched. The Palace are looking into the possibility of a message from The Queen to Emperor Hirohito.

Yours ever

Stewart Eldon

S G Eldon
Private Secretary to
Baroness Young

M J Addison Esq
No 10 Downing Street

MESSAGE FROM THE PRIME MINISTER TO PRIME MINISTER NAKASONE

The news this morning of the crash of a Japan Air Lines passenger aircraft was a terrible shock to us all. We in Britain share with the people of Japan their sorrow and grief over the tragic loss of life that has occurred.

Please extend my deepest sympathy to all the families of the bereaved.

Approved, from Indian.

Passed to Lady Tang's office by 'phone 12/8.

CHARLES

We will have to get briefing from the FCO, but as I am not quite sure what this Group is, I am uncertain as to what to ask for!

C.R.

CAROLINE RYDER

9 August 1985

a CDP
Sue Goodchild

10 DOWNING STREET

From the Private Secretary

9 August 1985

Even though this is still live (lunch) I have decided to file away.

I have now had a chance to discuss with the Prime Minister the possibility of her entertaining the members of the 2000 Group who will be visiting London early next year.

Mrs. Thatcher would be delighted to offer them lunch here at 10 Downing Street on Monday, 13 January and in due course we will of course require a full list of those who will be attending. The lunch will be 1245 for 1300.

CAROLINE RYDER

Richard Needham, Esq., M.P.

SRW

R1078

NISSAN

NISSAN MOTOR MANUFACTURING (UK) LIMITED

WASHINGTON ROAD,
SUNDERLAND,
TYNE & WEAR
SR5 3NS.
Telephone: (0783) 373881
Telex: 538214 NMUK G
Facsimile: (0783) 369524
(0783) 373377

TT/PDW/FS

8th August, 1985.

CF
Pite glue.

The Rt. Hon. Mrs. Margaret Thatcher, P.C., F.R.S., M.P.
10 Downing Street,
Westminster,
LONDON.
W.1.

Dear Prime Minister,

It gives me great pleasure to invite you formally to conduct the official opening of our manufacturing plant in Washington, Tyne and Wear on a mutually convenient date in September 1986.

If you are able to accept, we would be delighted to welcome you and look forward to a splendid occasion.

Yours sincerely,

T. Tsuchiya

T. Tsuchiya
Managing Director

Japan PTS

Relating

NOTE FOR THE RECORD

NISSAN

Lord Marsh rang the Office today to inform us that the Nissan main Board had decided they did wish to invite the Prime Minister to inaugurate production in the North East next year. They would prefer a date in late September.

Lord Marsh reported that he did not expect there would be a significant amount of local opposition to the visit. It seemed that the trade union position which had been reported to us earlier had been largely inspired by the local authorities.

Mr. Toshia, Nissan's Managing Director, will be writing to the Prime Minister shortly to invite her formally.

MEA

8 August 1985

DG2ALV

MR. TOWERS

c Mr Taylor

QUESTIONNAIRE FROM NKS

Reference your minute dated 6 August.

I suggest you reply to NKS on the following lines:

You regret, for reasons of security, you cannot supply them with all the information they seek about 10 Downing Street. But you hope the following details may be helpful. No. 10 is in fact, two houses which were joined together in 1732. The house facing Downing Street is a typical late seventeenth century town-house which was re-fronted in the eighteenth and enlarged in the twentieth centuries. The house at the back was built, also in the seventeeth century but on a much grander scale, by a daughter of Charles II. The reception rooms can accommodate approximately 200 people and the main dining room can seat 65 people.

No part of the house is accessible to the general public.

TCG.

P.S. JOCE

PP

6 August 1985

MR TAYLOR

MR JOCE

6/8.

QUESTIONS ABOUT NO 10 AND CHEQUERS FROM THE JAPANESE NEWSPAPER NKS (THE EQUIVALENT OF THE FINANCIAL TIMES)

NKS are asking a number of Western Governments about the official residencies of their leaders. They have asked the following about No 10 and Chequers.

1. What is the age and character or style of the houses?

2. What are the areas in square metres?

3. How big are the main reception halls?

4. What are the running costs?

5. What are the staff numbers?

6. What are the security staff numbers?

7. How many staff are permanently on call?

8. What security systems are there?

9. What is the level of public accessibility?

I do not imagine we will wish to answer many of these questions, but could I have your advice please.

Their deadline is noon Wednesday, 8 August.

NT.

NICOLAS TOWERS

6 August 1985

w/e Box

PRIME MINISTER

RICHARD NEEDHAM AND

25 LEADING JAPANESE PARLIAMENTARIANS, BUSINESSMEN AND ACADEMICS

You have agreed to have a meeting with them on Monday 13 January at 11.00 a.m. for an hour. Richard Needham has now asked whether it would be possible for you to give them a meal. When our group went to Japan, Nakasone apparently entertained them.

I have sought advice from Charles Powell and he thinks it would be a good idea, but that it would be unnecessary to have a meeting and a meal. The problem about Monday 13 January is that it is the first day the House is back, but if you would be prepared to forego your lunch with colleagues (you can entertain them the following week), we could manage a meal.

Content to offer the Japanese delegation lunch?

Yes MT

CR.

1 August 1985

(2)

Your Ref Prime Minister

Your points are clearly getting through and making the Japanese squirm

AP CDP

with compliments

J. G. LITTLER

Treasury Chambers
Parliament Street
London SW1P 3AG
Tel: Direct Line 01-233
Switchboard 01-233-3000

010

FROM: SIR G. LITTLER
DATE: 1 AUGUST, 1985

NOTE FOR THE RECORD

CALL BY JAPANESE AMBASSADOR

The Japanese Ambassador called on me at 3.30 p.m. on Wednesday, 31 July. I understand that he had called on Mr. Rifkind during the morning, and that much of the discussion was very similar.

2. The Ambassador took me at rather tedious length through the statement of the previous day by Prime Minister Nakasone on the Japanese action programme for liberalisation.

3. I said that we would of course want to study the details of the proposals more carefully; that I would not comment at all on the measures designed to affect merchandise imports; but that I would like to make two or three other comments:

- the direction of the measures was obviously welcome, but the speed of action promised was in some respects disappointing, given the scale and urgency of the problem;

- I was particularly disappointed that the package of measures in relation to financial markets contained nothing which had not previously been promised in the British and American bilateral negotiations with Japan, and the gradual and piecemeal nature of the changes did not seem to me to promise early substantial effects;

- I noted with interest the intention to expand the Japanese aid programme, and expressed the strong hope that this would not be tied to Japanese exports, or to the combination of Japanese and non-competitive developing country exports;

- on a separate but related theme, I told the Ambassador of the meeting I had held in Paris the previous week with Vice-Minister Oba, in which I had represented to him the extreme disappointment and rising irritation in London over the failure of the Japanese authorities to make further progress in admitting British houses to licences to deal in securities in Tokyo.

Each point was briefly discussed and the Ambassador took note.

4. The Ambassador then complained about remarks reported to have been made by the Prime Minister on her recent visit to Washington, to the effect that the Japanese authorities were deliberately keeping the yen exchange rate low, and that her view on this was widely shared among other industrial countries. He challenged me to quote any statement by Finance Ministers of industrial countries to this effect.

5. Picking up one particular point he made, I said that I certainly could not quote any criticism that in very recent years the Japanese authorities had intervened in the foreign exchange market with the object of artificially depressing the value of the yen. I would also not dispute his suggestion that the present relationships between major currencies, which were widely believed to be in disequilibrium, owed a great deal to the mix of policies in the United States. However, I said that there was also a very widely held feeling among Finance Ministers in Europe, and it was the view of the United Kingdom authorities that the structure of Japanese regulations on capital account transactions was very heavily biassed; there was virtually unlimited freedom for capital outflow combined with extensive restraint on capital inflow. This must have an effect in holding down the value of the yen. Moreover, Japanese statistics showed that the Japanese had invested some $48 billion in the United States last year, with only modest offsetting flows in the opposite direction, and this had been and continued to be an important element in maintaining the high value of the dollar in relation to the Yen and other currencies.

6. The Ambassador noted my comments and accepted that they were valid points, but nevertheless regretted that the Prime Minister had spoken in terms which had caused much resentment in the Japanese press and among his authorities at home.

GEOFFREY LITTLER

cc PS/Chancellor
PS/Economic Secretary
Sir Peter Middleton
Mr. Lavelle (o/r)
Mr.Fitchew
Mr.Kelley (o/r)
Mr.A.Turnbull,No.10
Mr. Cary (FCO-Mr.Rifkind's Office)
Mr. Loehnis, Bank of England
Mr. Caines, DTI

File

DSG

52

PRIME MINISTER

RICHARD NEEDHAM AND

25 LEADING JAPANESE PARLIAMENTARIANS, BUSINESSMEN AND ACADEMICS

You have agreed to have a meeting with them on Monday 13 January at 11.00 a.m. for an hour. Richard Needham has now asked whether it would be possible for you to give them a meal. When our group went to Japan, Nakasone apparently entertained them.

I have sought advice from Charles Powell and he thinks it would be a good idea, but that it would be unnecessary to have a meeting and a meal. The problem about Monday 13 January is that it is the first day the House is back, but if you would be prepared to forego your lunch with colleagues (you can entertain them the following week), we could manage a meal.

Content to offer the Japanese delegation lunch?

CR

1 August 1985

D89

10 DOWNING STREET

From the Private Secretary

1 August 1985

Just to let you know that I am taking up with the Prime Minister the matter of the meal for the Japanese delegation, and will come back to you as soon as I have an answer.

Caroline Ryder (Mrs)

Richard Needham, Esq., M.P.

GRS 800
RESTRICTED [FRAME EXTERNAL]
DESKBY 300900Z
FM TOKYO 300710Z JUL 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 532 OF 30 JULY
AND TO IMMEDIATE DTI (FOR OT2)
INFO IMMEDIATE UKREP BRUSSELS
PRIORITY WASHINGTON

MIPT: JAPANESE ACTION PROGRAMME ON MARKET OPENING: EMBASSY COMMENT

1. THE GENERAL APPROACH AND MUCH OF THE CONTENT OF THE ACTION PROGRAMME IS AS FORESHADOWED BY PRIME MINISTER NAKASONE IN HIS 9 APRIL STATEMENT AND THE JAPANESE GOVERNMENT'S PUBLISHED FRAMEWORK, AND DETAILS ON TARIFFS, OF 9 JULY. BUT THERE ARE PERHAPS MORE USEFUL AND POSITIVE ITEMS IN THE ACTION PROGRAMME THAN WE HAD EXPECTED, AND A GREATER SENSE OF URGENCY IN MANY OF THE DEADLINES FOR IMPLEMENTATION.

2. THE SECTION ON TARIFFS AND QUOTAS IS PERHAPS THE LEAST SATISFACTORY AND MOST SUSCEPTIBLE TO THE ACCUSATION OF TOO LITTLE TOO LATE. THE GOVERNMENT HAVE BEEN UNABLE TO DELIVER ANY RADICAL NEW PROPOSALS. WHERE SIGNIFICANT CHANGES ARE ENVISAGED, THEY ARE TOO OFTEN MADE CONDITIONAL UPON FURTHER BILATERAL OR MULTILATERAL NEGOTIATIONS. THE MAFF HAVE CLEARLY PROVED TO BE THE HARDEST TO BUDGE OF THE AGENCIES INVOLVED. IT WAS NOT UNTIL THE FINAL GOVERNMENT MEETING THIS MORNING THAT THE PRIME MINISTER AND HIS SUPPORTERS WERE ABLE TO SECURE A COMMITMENT TO ''IMPLEMENT'' REDUCTIONS (UNSPECIFIED) ON PLYWOOD TARIFFS AS OPPOSED TO THE FORMULATION 'GIVE POSITIVE CONSIDERATION TO REDUCTIONS' CONTAINED IN DOCUMENTS HANDED TO US EARLY THIS MORNING.

3. MANY OF THE PROPOSALS ON TARIFFS ARE ALSO IMPLICITLY SUBJECT TO RECIPROCITY.

4. OTHER SECTIONS OF THE ACTION PROGRAMME ARE MORE POSITIVE. IN PARTICULAR, THOSE DEALING WITH STANDARDS AND CERTIFICATION AND GOVERNMENT PROCUREMENT SEEM TO US TO REPRESENT A SIGNIFICANT SHIFT IN ATTITUDES, PARTICULARLY AS THEY ARE ACCOMPANIED (A POINT EMPHASISED BY THE MFA) BY ADMINISTRATIVE ARRANGEMENTS TO IMPROVE TRANSPARENCY AND TO PUBLICIZE IMPLEMENTATION, AND BY A COMPLAINTS PROCEDURE.

5. MEASURES ON STANDARDS AND CERTIFICATION IN IMPORT PROCEDURES SHOULD IMPROVE MARKET ACCESS PARTICULARLY IN THE AREAS OF PHARMACEUTICALS, COSMETICS AND MOTOR VEHICLES, WHICH ARE ALL OF INTEREST TO THE UK. OVERALL THE EFFECT SHOULD BE TO MAKE MARKET ENTRY EASIER (WITH WE WOULD HOPE SOME EFFECT ON THE PERCEPTION OF THE JAPANESE MARKET AS DIFFICULT) AND SHOULD MEAN BOTH THAT MARGINAL RETURNS

/ FOR

FOR COMPANIES RISE AND THAT COMPANIES CAN SPEND MORE TIME ON PROMOTING THEIR PRODUCTS AND LESS IN DEALING WITH THE BUREAUCRACY.

6. WE WILL OF COURSE NEED TO LOOK AT THE PRACTICAL EFFECTS OF THE UNDERTAKINGS ON GOVERNMENT PROCUREMENT, BUT THERE IS CERTAINLY SCOPE IN THE ACTION PROGRAMME FOR THE GOVERNMENT TO TAKE A POSITIVE LEAD IN IMPROVING PURCHASES OF FOREIGN GOODS.

7. THE FINANCIAL SERVICES CHAPTER TAKES A CASE BY CASE APPROACH REFLECTING THE DETERMINATION OF THE MOF TO PROCEED WITH FINANCIAL LIBERALIZATION AT ITS OWN PACE. THERE ARE NO SIGNIFICANT RELAXATIONS ON MARKET ENTRY FOR FOREIGN BANKS AND SECURITIES COMPANIES. ON THE OTHER HAND, THE RANGE OF ACTIVITIES AND THE FLEXIBILITY OF OPERATION OF EXISTING BANKS AND SECURITIES COMPANIES, AS WELL AS INSURANCE COMPANIES, SHOULD IMPROVE.

8. THERE ARE ITEMS OF PARTICULAR INTEREST TO THE UK IN THE SERVICES AND IMPORT PROMOTION SECTION: LIBERALIZATION OF THE ACTIVITIES OF FOREIGN LAWYERS, AND THE RELAXATION OF CIVIL AVIATION REGULATIONS WHICH SHOULD PROVE OF BENEFIT (THE LATTER FOR SUCH COMPANIES AS SHORTS AND BAE). IT IS QUESTIONABLE HOW FAR GOVERNMENT-SPONSORED PROMOTIONAL ACTIVITIES WILL EFFECTIVELY INCREASE THE SIZE OF THE MARKET FOR IMPORTS. WE MAY HEAR COMPLAINTS FROM COMPANIES AIMING AT HIGH PRICED 'NICHE' MARKETS, AND THE SCOPE FOR PARALLEL IMPORTS MAY WELL INCREASE.

9. NOT EVEN THE JAPANESE EXPECT THE ACTION PROGRAMME TO PRODUCE SUBSTANTIAL SHORT-TERM RESULTS. CERTAIN ELEMENTS OF IT CONTINUE TO DEMONSTRATE A LACK OF OPENNESS AND LITTLE SENSE OF URGENCY. BUT THERE ARE RATHER MORE ITEMS THAN WE INITIALLY EXPECTED WITH RELATIVELY SHORT DEADLINES FOR ACTION. OUR OWN INTERPRETATION IS THAT THE PRIME MINISTER AND HIS SUPPORTERS, AS WELL AS POSSIBLY THE MFA AND MITI, WERE KEEN TO ATTACH DEADLINES BY WHICH NEW MEASURES SHOULD BE IMPLEMENTED. THE CUMULATIVE EFFECT COULD BEGIN TO BECOME VISIBLE BY SPRING OR SUMMER 1986, ALTHOUGH THIS WOULD NECESSARILY DEPEND UPON WIDER MACRO-ECONOMIC MOVEMENTS, IN PARTICULAR OF EXCHANGE RATES. THE JAPANESE GOVERNMENT'S UNDERTAKING TO EXPAND DOMESTIC DEMAND MIGHT ALSO HAVE SOME EFFECT NEXT YEAR. THE MFA

/ TOLD

TOLD US THAT THE EMPHASIS HERE WOULD BE ON DEREGULATION, TAXATION REFORMS AND MEASURES TO STIMULATE SPENDING. IF THE SPECIAL COMMITTEE ON THE EXPANSION OF DOMESTIC DEMAND IS ABLE TO REACH EARLY CONSLUSIONS, IT IS POSSIBLE THAT APPROPRIATE MEASURES COULD BE INCLUDED IN THE 1986 BUDGET.

10. PLEASE SEE MIFTS.

ADVANCE COPIES PLEASE TO FED AND ECD(E), FCO, AND TO HUTTON AND MS WINDEYER, OT2, DTI.

GIFFARD

(ADVANCED AS REQUESTED)

FRAME EXTERNAL

ECD(E)
FED

COPIES TO:

MR HUTTON OT2)
MS WINDEYER OT2) DTI

BF 8/7/85

10 DOWNING STREET

Cameron

Pl. bfor Monday.

I will spk to Feb, and we can go back to Dil after that.

I take it Dil are not pressing?

MCA 5/7

Cameron.

I have spoken to John Moore & told him we are still awaiting a reply from Lord Merrill MCA 12/7

file

(62)

MR INGHAM

MR SHERBOURNE

NISSAN

I understand that you are each lunching separately with Mr Goto, under the auspices of Geoffrey Tucker, in the next two weeks. I did so today.

The main item they raised with me was the possibility of the Prime Minister's opening the Nissan plant. The projected date is the Autumn of 1986. There was a hiccup because it was said that local opinion would be opposed to her opening the plant. It turns out that this came mainly from the Chairman of Tyne and Wear and results largely from their oppposition to the Abolition Bill. Nissan seem to be returning to the idea of the Prime Minister opening the plant and confirm that it would be possible for her to helicopt directly into the site in order to by-pass demonstrations.

We discussed dates briefly. I said that the most convenient time might be around 8 September 1986, when the Prime Minister is returning from Balmoral and before any overseas trip which she makes in that month. An alternative is October, but, as Geoffrey Tucker pointed out, there could be the motions about protectionism at the Labour Party Conference which would make this project more controversial.

Mr. Goto also told me that, on present form, Nissan are likely to take a favourable decision about Phase II of the development earlier than expected, ie. well before the end of 1987.

E. E. R. BUTLER

8 July 1985

No, but I am having lunch with the Chief Executive of Nissan on Mon. 8 July and will inquire then. FERB

~~Robin~~

Any further news from Lord Marsh?

MCA 3/7.

Mark.

DTI have phoned Garden Room to ask if they could have, for their records, a copy of the PM's final reply to Lord Marsh about her possible opening of the new Nissan plant.

The last letter they had was the PM's reply to Lord Marsh saying "delighted, and we will sort out a date" - that was in May.

Since then, there has only been FERB's minute of 10 June (at flap), on which you have written "we are not letting DTI for now".

Do you want to speak to DTI?

CST
2/7

10 DOWNING STREET

From the Private Secretary

MR HATFIELD

JAPANESE EMBASSY: NO. 10 QUESTIONNAIRE

You passed to me the letter from Mr Tsunozaki, requesting information about the building here at No. 10.

I enclose a draft reply, couched in general terms, which you may like to send him. It has been cleared with Robin Butler and Peter Joce.

27 June 1985

LETTER FROM RICHARD HATFIELD TO JAPANESE EMBASSY

Thank you for your letter of 18 June seeking information about the facilities at No. 10 Downing Street. I am afraid, for reasons of security, I cannot supply you with all the information you seek. In particular, I am unable to respond to questions 4 and 6 in your short questionnaire beyond saying that the house is protected by security measures. But I hope it will be helpful if I let you have a short reply in general terms to some of the other points covered in your questionnaire.

No. 10 Downing Street houses the Prime Minister's office and also contains residential accommodation, with all the usual domestic facilities, for the Prime Minister's own use. The house also contains the offices of the Prime Minister's Private Secretaries, her political office, a group of policy advisers, the press office, and secretarial, clerical and ancillary staff.

The reception rooms can accommodate approximately 200 people, and the main dining room can seat about 65.

I hope this information is helpful to you.

Content as amended
PRB 26.6.

MR BUTLER

MR JOCE

As we are not asked about the number of staff I would prefer the last sentence (management) of para 2 to be omitted - otherwise content. On a point of detail we can answer Q6 - it is No.
TJ 27.6.

We have received a request from the Japanese Embassy for information about the facilities available at No. 10. I have checked with the Cabinet Office, and this is a bona fide request, although a rather strange one. Apparentlythe Japanese have a penchant for sending questionaires to all and sundry. I attach a reply, couched in very general terms, which I propose to send Mr Tsunozaki. I should be grateful for any comments.

Mark Addison

MARK ADDISON

26 June 1985

JC
PJ

01-493 6030.

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

18th June 1985

Dear Mr. Hatfield,

In connection with my telephone call today, I enclose herewith a questionnaire on the building which houses the Prime Minister's Office.

I hope you will be able to give me some assistance in this matter.

Yours sincerely,

Toshio Tsunozaki

Toshio TSUNOZAKI
First Secretary

R. Hatfield, Esq.,
Principal Private Secretary
to Sir Robert Armstrong,
Cabinet Office,
70 Whitehall,
London, SW1A 2AS.

Enc.

c. Mark Addison
(No. 10)

I understand that the Japanese are thinking of renovating / reorganising their own PMs office and have therefore sent Richard this curious letter. ~~[illegible]~~ I imagine you might be able to give some sort of answers – though rather general – to Qns 1, 2 and 3, though not to 4, 5 and 6 for obvious security reasons. Any thoughts?

Ros Mallyan.
APS/for R Armstrong 20.6.85

Questionnaire on the building which houses the

Prime Minister's Office (10 Downing Street)

1. What is the area covered by, and what are the facilities of, the residential area?

2. What is the area and what are the facilities of the Protocol Function Area? (For example, how many people can sit in the main dining room, reception room, etc?) 65 200

3. Can the Prime Minister's office building accommodate departments which assist the Prime Minister, such as the Prime Minister's secretariat? NOW small including being a staff [illegible], and Policy advice & new ancillary staff

4. What are the security measures in force on the premises and those taken for the building? (For example, walls, underground paths, heliport, bullet-proof glass etc.) including security [illegible] & clerical & domestic staff

5. Are there any necessary improvements to be made on the present building? NO

6. Is it possible to have a copy of the floor plan?

Questionnaire on the building which houses the

Prime Minister's Office (10 Downing Street)

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6. Is it possible to have a copy of the floor plan?

PRIME MINISTER 10 June 1985

E(A) DISCUSSION: COMMERCIAL POLICY TOWARDS JAPAN

Further deregulation of the Japanese financial market looks the most promising route towards reducing Japan's trade surplus.

The Yen is undervalued. The deregulation which has so far been achieved - notably the removal of exchange controls in 1980 and the establishment of a Euroyen market - has encouraged an outflow of funds ($50 billion last year) in search of higher interest rates. This weakened the Yen, making Japanese products more competitive and the Japanese market more difficult to penetrate. If deregulation can be pursued further, eg less regulation of interest rates on bank deposits and Post Office savings accounts, new financial instruments, such as Treasury Bills, freer access to the market by foreign banks - Tokyo would compete better for savings, Japanese interest rates would probably rise, and so would the Yen.

We want better access to this market. The 75 foreign banks in Tokyo account for only 1% of all the Yen deposits, whereas 30 or so Japanese banks in London take 2½% of all sterling deposits. Our merchant banks are finding it hard work obtaining securities dealing licences in Japan (2 have done so recently; several more are still waiting).

Tactics

We should try two approaches:

1. Try to persuade the Community to put the "internationalisation of the Yen" as a main priority. Our partners will have less interest than we have in access to the Japanese market for financial services, but they ought to share our concern that the Yen should be higher.

2. Adopt a robust bilateral negotiating stance with the Japanese on access. There is a queue of Japanese seeking access to the London market. We should use what powers we have, and bluff where we do not, to secure an open policy on the part of the Japanese. The Banking Act, 1979 provides us with useful leverage, which the Chancellor is much keener to use than the Bank of England. The Act does not specifically refer to reciprocity, but it provides a means of exerting pressure by administrative delays. The Act refers to "fit and proper persons", "proper banking bodies", and it enables us to satisfy ourselves that the supervisory régime in Tokyo is as we would wish to see.

Imports

We should go along with setting the Japanese a target level on manufactured imports, as a percentage of GDP, with the threat that failure to achieve this would trigger GATT action. We should be aware of the limitations in this approach:

1. If Japan imports more manufactures, her import-competing industries will do something else; quite possibly, they will export more. In other words, this measure will not reduce the trade surplus by as much as we might hope.

2. Any target will be arbitrary. There is no reason at all why, for example, the OECD average propensity to import manufactures would be appropriate, since Japan's economic structure reflects her heavy dependence on imports of oil and raw materials, and her outstanding manufacturing capabilities. Large economies also tend to import proportionately less than small ones. The target ought to be set sensitively, so as to avoid placing the Japanese under an unreasonable obligation, which, sooner or later, will make them sullen and less co-operative than Mr Nakasone is proving.

Recommendations

1. Go for financial liberalisation with a two-pronged attack. Ask Nigel Lawson to explain what sanctions we can impose on Japanese banks to secure reciprocal access to the Tokyo market.

2. Support the import target concept, provided that it is set at a realistic level.

Nicholas Owen

NICHOLAS OWEN

1. Mr. Turnbull
2. Mr. Addison } to see
3. Mr Ryder — we are not telling DTI for now.
4. File cc.

Note:- I spoke to Lord Marsh accordingly. He thanked the PM for her generosity and said that he wanted to discuss further with Nissan. They might yet want to invite the PM, nonetheless. Action with him.

FERB
11.6.

PRIME MINISTER

OPENING OF THE NISSAN PLANT

Lord Marsh telephoned this afternoon. He said that the unions had told the Nissan management that they would object to your being invited to commission the plant. Nissan did not want to antagonise the trade unions in this way and were not inclined to press the point (though this does not sound exactly like the dawn of a new era of industrial relations!).

Lord Marsh said that Nissan would like to come in an explain the situation to you. My reaction is:

(i) whatever you may think of Nissan's attitude, I am sure that you would not want to press them to invite you to open the plant if they feel that it would get the undertaking off on the wrong foot;

(ii) if we are quietly going to drop the idea, it would be better to do it quietly and not increase the risk of a story leaking that Nissan had been to explain to you why they could not invite you to carry out the opening.

Agree that we should tell Lord Marsh that, if Nissan do not want to invite you to open the plant you are content that it should be quietly dropped?

Yes MT

F.E.R.B.

10 June 1985

CONFIDENTIAL

Qz.04497

MR FLESHER

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON ECONOMIC AFFAIRS, 11 JUNE, 10.15 am

I attach a brief for the Prime Minister on commercial policy towards Japan (E(A)(85) 33).

I am sending copies to Sir Robert Armstrong and Mr Wiggins.

D F Williamson

D F WILLIAMSON

7 June 1985

cc to B/UP.

MINISTERIAL SUB-COMMITTEE ON ECONOMIC AFFAIRS, 11 JUNE AT 10.15 am

Chairman's Brief

UK AND COMMUNITY COMMERCIAL POLICY TOWARDS JAPAN
(E(A)(85)33)

PURPOSE OF MEETING

1. To decide the United Kingdom line in the review, expected to begin later this month, of Community policy towards Japan.

BACKGROUND

2. Ministers agreed at ES(84)1st Meeting that the United Kingdom's best interests continued to lie in combatting protectionism; that we should therefore take a generally positive attitude to further rollback; and that, in particular in any new GATT round, it should be one of our objectives to open up the Japanese economy. This objective has been consistently pursued in subsequent contacts with the Japanese. Success so far has been almost negligible. The Japanese trade surplus with the rest of the world is expected to be over $50,000 million in 1985.

3. The Secretary of State for Trade and Industry's Note, therefore, draws attention to the lack of progress made by Japan in liberalising its economy. The details of Prime Minister Nakasone's Action Programme, which are expected to be unveiled in September, will be a test of Japanese good faith. Something may then be achieved. The discussions, however, at the Trade Expansion Committee on 30-31 May and the Community-Japan high level talks on 3-5 June were not good, with the Japanese appearing more interested in defending their own

system and the status quo than in finding ways of meeting European problems and complaints. At these meetings the Commission identified some specific Community interests and stressed to the Japanese that it will not be enough to concentrate on satisfying United States requests.

MAIN ISSUES

4. In E(A)(85)33, the Secretary of State for Trade and Industry argues that the Community needs to take a tougher and more concerted line towards the Japanese. We should seek to persuade our Community partners that the prime objectives now should be - to secure an increase in Japan's imports of manufactured goods to reach a target level which should be set in line with that for OECD countries, and - the internationalisation of the yen through the more rapid liberalisation of financial markets.

5. Recent soundings by posts in other Community capitals suggest there is widespread dissatisfaction about the rate of progress, and pessimism - particularly in Paris - about the Japanese intention to deliver.

6. The memorandum (E(A)(85)33) refers to a risk that foreign criticism - and in particular the threatened introduction of United States discriminatory measures against Japanese imports this autumn - could drive the Japanese into a more isolationist and nationalistic mood. It is, however, evident that open international trading is in their own best interest. This risk, therefore, by no means precludes taking a tougher line in further discussions with the Japanese.

Import Target

7. An import target for manufactured goods would provide a means of testing the effectiveness of market opening measures. It is likely to be more effective than the recent level of general discussions in which the Japanese have always stalled. The Japanese are likely to argue that because of their dependence on imported raw materials, it is unreasonable to expect them to reach the same import propensity level as the Community. It might therefore be more effective to set import targets for several major sectors rather than a single global figure. The United States did not support earlier the concept of an import target, but we understand that they may be prepared to reconsider this position.

Sectoral Approach

8. The United States has put substantial resources into the Market Opening Sector-Selective (MOSS) scheme, which has identified four priority sectors (telecommunications; electronics; forestry products; and pharmaceuticals and medical equipment) for detailed joint study to identify the effective barriers to Japanese imports. Neither the United Kingdom nor the Community are likely to have adequate resources to mount an initiative on a similar scale. There could also be some difficulty in getting Community agreement on priority sectors. We have seen the Trade Expansion Committee as a possible vehicle for getting action on specific sectoral requests, but the lack of progress at last month's Trade Expansion Committee means that the Community will need to think about how it can be made more effective. We should not decide lightly to abandon the Trade Expansion Committee altogether however, in the absence of other fora in which to put detailed and specific pressure on the Japanese.

Financial Markets and Role of the Yen

9. Liberalisation of Japanese financial markets and promotion of an international role for the yen are key objectives. The Japanese themselves wish to see Tokyo as a major financial centre and among Community countries the United Kingdom has a particularly strong interest in seeing improved access to Japanese financial markets. For competence reasons, we would prefer to continue to pursue this topic primarily on a bilateral basis rather than in a Community framework but the Treasury's series of discussions with Japanese officials has so far made disappointing progress.

10. Treasury officials and the Bank of England have identified means by which existing instruments for obstructing Japanese participation in United Kingdom financial markets could be used if significant progress is not made. These are not, however, by themselves likely to provide sufficient leverage to secure the opening of Japenese markets.

GATT Article XXIII

11. The threat of reactivating the GATT Article XXIII action may carry some weight with the Japanese, but probably only if the United States give support. Some member states - including the Germans - would be reluctant to agree to reactivation but may be prepared to agree to it as a reserve threat. It should be kept in reserve but not too much importance should be attached to it.

Contact with the United States

12. The United Kingdom and the Community need to keep in close contact with the Americans on policy towards Japan, particularly since work on market opening is likely to continue well into the proposed new GATT round. The Americans are however reluctant to be seen to be acting in open concert with the Community, and have tended to believe that they can make satisfactory progress on their own with the Japanese. This attitude may change, depending on the success of the sectoral exercise and the shape of the detailed Action Programme.

Voluntary Restraint Arrangements

13. The Community's voluntary restraint arrangements with Japan expire at the end of 1985. A Community review of the desirability of renewing or revising these would not prejudge the outcome of the review which United Kingdom Ministers have already requested of our own national voluntary restraint arrangements with Japan and other third countries. Even if it were concluded that it would not be desirable to continue the Community agreements, their dismantlement could be used as a bargaining counter in multilateral trade negotiations.

HANDLING

14. The Secretary of State for Trade and Industry will introduce the paper. The Foreign and Commonwealth Secretary may want to comment on the likely amount of support within the Community for a tougher line on Japan, and on the scope for closer concertation with the United States. The Chancellor of the Exchequer may wish to comment on the financial services and yen internationalisation aspects of the paper.

CONCLUSIONS

15. You may be able to conclude that:

i. the United Kingdom should make quite clear to the Japanese, both through the Community and in bilateral contacts, its mounting concern about the slow rate of progress on trade liberalisation;

ii. the Community must maintain pressure on Japan to take practical steps to liberalise her internal markets; to promote a wider international role for the yen; and to raise manufactured imports to a target level (which could be set by sectors) in line with that for OECD countries;

iii. the role of the Trade Expansion Committee should be reviewed in order to ensure that the Community's specific requests are pursued as vigorously as possible;

iv. the United Kingdom should argue for the possibility of reactivation of the Community's action under GATT Article XXIII to be kept open, and for the Japanese to be made aware that this option could be pursued if substantial progress is not made within a reasonable timescale;

v. the United Kingdom should support vigorous action by the Community against unfair trade practices such as dumping, and a full review of the Community's existing voluntary restraint arrangements with Japan before their expiry at the end of 1985;

vi. there should be closer contact between the Community and the United States about their policy towards Japan (while maintaining our own bilateral consultations with the United States), and support from the United States and other trading partners in seeking significant concessions from Japan in any new GATT round;

vii. the United Kingdom should continue bilateral discussions with the Japanese on financial services and the role of the yen;

viii. if Prime Minister Nakasone's Action Programme proves to be a damp squib and other progress is unsatisfactory, Ministers should review the situation again in the autumn.

Cabinet Office
7 June 1985

PART 4 ends:-

MEA to CR 23/5/85

R Hatfield to Cooper-Coles. 15.5.85

PART 5 begins:-

DF Williamson to TF 7.6.85

Inches 1 2 3

Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

Grey Scale #13

A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19

C Y M