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IMMEDIATE TO UKREP BRUSSELS

TELEGRAM NUMBER 876 OF 15 DECEMBER

HITACHI MAXELL

*Mr. Scola*

*A.F.C. 16/12*

1. AS YOU KNOW, MINISTERS ARE VERY CONCERNED ABOUT THE DELAY IN SECURING COMMISSION APPROVAL OF THE PROPOSED SECTION 8 AID TO HITACHI MAXELL. IN VIEW OF THE SERIOUS RISK THAT THE COMPANY MIGHT WITHDRAW IF THERE IS FURTHER DELAY, WE HOPE THAT IT MAY BE POSSIBLE TO PERSUADE THE COMMISSION NOT TO OPEN AN ARTICLE 93(2) PROCEDURE AT THEIR MEETING NEXT WEEK.

2. GRATEFUL, THEREFORE, IF YOU COULD URGENTLY SEEK MEETINGS WITH THORN, ANDRIESSEN, DAVIGNON AND GIOLITTI, UNDERLINING THE IMPORTANCE WE ATTACH TO AN EARLY FAVOURABLE DECISION ON THE CASE. YOU MAY WISH TO DRAW ON THE FOLLOWING AS APPROPRIATE:-

(I) THE PRIME MINISTER IS TAKING A CLOSE PERSONAL INTEREST IN THE CASE AND HAS EXPRESSED DETERMINATION THAT THE PROJECT SHOULD PROCEED AS SOON AS POSSIBLE.

(II) WE RECOGNISE THAT IT IS NECESSARY FOR THE COMMISSION TO OBSERVE ESTABLISHED PROCEDURES IN THEIR EXAMINATION OF POTENTIALLY CONTROVERSIAL AID CASES. BUT, IN THIS CASE, A DECISION TO OPEN THE ARTICLE 93(2) PROCEDURE COULD WELL INDUCE THE COMPANY TO WITHDRAW IMMEDIATELY. IT WOULD BE DIFFICULT TO AVOID THE IMPRESSION THAT THE COMMISSION HAD 'KILLED OFF' THE PROJECT, WHICH WOULD HAVE DAMAGING POLITICAL CONSEQUENCES, BOTH IN TELFORD AND IN THE UK GENERALLY.

(III) WE APPRECIATE THE SENSITIVITIES SURROUNDING THE QUESTION OF JAPANESE INWARD INVESTMENT, AND IN PARTICULAR THE CURRENT CONTROVERSY OVER COMPETITION BETWEEN JAPANESE AND EUROPEAN FIRMS IN THE FIELDS OF VCRS. BUT THIS SHOULD NOT PREVENT THE COMMISSION FROM UNDERTAKING A REALISTIC

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ASSESSMENT OF WHAT IS ACTUALLY INVOLVED IN THE TELFORD CASE. IT WOULD BE WRONG TO ALLOW ANTI-JAPANESE CONCERNS TO OBSCURE THE FACTS.

(IV) THE MANUFACTURE IN THE UK OF CASSETTES, WHICH WOULD OTHERWISE BE IMPORTED FROM JAPAN, WOULD HAVE NO MEASURABLE EFFECT ON THE BALANCE OF ADVANTAGE BETWEEN JAPANESE AND EUROPEAN VIDEO RECORDER PRODUCERS. THE OUTCOME OF THE COMPETITION BETWEEN EUROPE AND JAPAN, IN THIS FIELD, WOULD DEPEND ON SUCH CRUCIAL FACTORS AS PRICE, QUALITY AND RELIABILITY OF THE PRODUCT ITSELF, NOT ON THE SOURCE OF SUPPLY OF THE CASSETTES.

(V) THE AMOUNT OF AID ENVISAGED (AMOUNTING TO 1 PERCENT OR LESS OF THE RETAIL COST OF THE CASSETTES) IS, IN ANY CASE, SO SMALL AS TO BE INCAPABLE OF GIVING THE REAL ADVANTAGE TO THE RECIPIENTS.

(VI) THE PROJECT IS IMPORTANT TO THE DEVELOPMENT OF A COMMUNITY MANUFACTURING BASE FOR VIDEO TAPES. IT CARRIES THE PROSPECT OF LONGER-TERM PRODUCTION OF HIGH TECHNOLOGY MANUFACTURING AND WILL MAKE A CONTRIBUTION TO REDRESSING THE PRESENT TRADE IMBALANCE BETWEEN THE COMMUNITY AND JAPAN.

(VII) THE PROJECT WOULD CREATE BADLY-NEEDED JOBS IN AN AREA WITH AN UNEMPLOYMENT RATE OF OVER 20 PERCENT. WE BELIEVE IT WOULD BE UNREASONABLE TO ARGUE THAT THE UNEMPLOYMENT CASE IS INVALID ON THE GROUNDS THAT TELFORD IS NOT LOCATED IN A FORMERLY-DESIGNATED ASSISTED AREA. IT IS NECESSARY FOR ANY REGIONAL POLICY TO HAVE SUFFICIENT FLEXIBILITY TO TAKE ACCOUNT OF 'BLACK SPOTS'. THIS IS CONSISTENT WITH THE COMMUNITY OBJECTIVE OF CONCENTRATING RESOURCES ON THE AREAS OF GREATEST NEED. THE FACT THAT THE UK INTENDS TO CREATE AN ENTERPRISE ZONE IN TELFORD IS FURTHER EVIDENCE OF THE GOVERNMENT'S RECOGNITION OF THE PARTICULAR PROBLEMS OF TELFORD. [COPIES SENT TO NO 10 DOWNING ST]

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