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Secretary of State for Industry

28 November 1980

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

Dear Sir,

NISSAN

Thank you for your helpful and positive letter of 14 November.

2 It is clear that you, Peter Carrington and I agree about the EEC implications of Nissan's proposals. As you will have seen from my minute of 20 November to the Prime Minister, Tom Trenchard has now had further talks with Nissan, and our task is now to give the company a clear response with the minimum of delay. Officials from the Department of Industry will be in touch shortly with the other Departments concerned to take matters forward.

3 I am copying this letter to the Prime Minister, Peter Carrington, Geoffrey Howe and Robin Ibbs.

Kevin Keene



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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Secretary of State for Industry

24 November 1980

The Rt Hon The Lord Carrington PC KCMG MC
Secretary of State for Foreign &
Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

(2)

Prime Minister

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Pius*

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*Pius
- 24/11*

John Peter.

NISSAN

I read your minute of 19 November with interest and have delayed replying until after our further meeting with the company; you will by now have seen a copy of my note of 20 November to the Prime Minister. I agree generally with your analysis of the likely response from the rest of the Community, and I am glad to see your conclusion that if, for economic and industrial reasons, we decide to endorse Nissan's plans, we should not let EEC, or more especially French, hostility deter us.

2 I am not sure I agree with all your suggestions for handling the politics of the matter, although I recognise these are questions which can only really be dealt with if and when we are much closer to a public announcement. In particular, I think it would be unwise to give the French advance warning once agreement was reached with Nissan. It would not mitigate their hostile reaction, and would simply be interpreted as a sign of weakness on our part; put another way, would the French do this for us? Unrestricted access to European markets is a crucial element of Nissan's plan, and if we are content that the car to be built here meets the origin requirements, we should do nothing to suggest we might be worried about this. If the project goes ahead, once the initial blaze of publicity is over it can be defended on its merits, along the lines set out in your minute. As you know, we are taking the same, robust position in the case of the BL/Honda Bounty.

3 On the export front, I agree that because of the competition rules public statements will have to be made with great care. But if the plan goes ahead I think we should still make it quite clear that a major factor in our decision was the prospect of substantial exports to the rest of the EEC on the basis that Nissan would be making the UK its main centre of operations in Europe; and that we saw scope for redressing the severe trading imbalance

/in cars ...



in cars with the rest of the Community. However, as you will have noted in our recent discussions, Nissan set their face against publicly declared export targets. They are prepared to say only that a substantial part of production will be exported, without specifying how much or where to; your point may therefore be met.

4 As far as Nissan's exports to Europe from Japan are concerned, those to the UK will have to be reduced appropriately, and the company is under no illusions on that score. But as far as reductions in direct exports to the rest of the Community are concerned, I am very doubtful whether that would be negotiable even if it were desirable. In what is bound to be a complex negotiation, I think we shall have to concentrate on the issues which really matter to the UK; in any case, Nissan has stressed that it does not control the sourcing policies of its independent dealerships.

5 I am sending copies of this letter to the Prime Minister, Geoffrey Howe, John Nott and Robin Ibbs. |

Law

Kear

NISSAN MOTOR CO., LTD.

SECRET

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

Masataka Okuma
Executive Vice President

November 17, 1980

COMMERCIAL - IN CONFIDENCE

Lord Trenchard M.C.
Minister of State
Department of Industry

Dear Lord Trenchard:

In this letter we are pleased to set out our preliminary programme for investing in Britain. We also attach, for your information, a more detailed Aide Memoire.

Nissan's intentions are to contribute to the British economy both technically and economically by manufacturing cars in Great Britain. This would involve:

- ¶ Establishing and operating a factory on a 'green-field' site, located in either a development area, or a special development area.
- ¶ Producing a medium-sized car from the Nissan range which should be complementary to, and not directly competitive with, BL's new models. The model would sell mainly in the United Kingdom but a significant share would be exported to the EEC.
- ¶ Using many British-manufactured components in order, eventually, to achieve over 80 per cent local content and to create many new jobs.

The project, to implement these intentions, has the following characteristics:

1. Large scale. The final production capacity of the factory will be about 200,000 cars a year. (The factory will consist of a car assembly plant incorporating: a paint plant, a welding plant, a stamping plant, a unit assembly plant, a machine plant and so on). A flat land area of about 800 acres will be needed. Direct employment will be about 4,350 people at full capacity, with 80 per cent local content.

2. Location in an area of high unemployment. The sites under consideration are Immingham (Humberside), Corby, Kirkby (Merseyside), South Wales and the North East. At least one of these sites, Immingham, appears to be a distinct possibility for the project.

November 17, 1980

3. High local content of 60 per cent in the initial stage will gradually be increased to 80 per cent

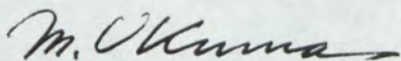
- From the beginning the standard and semi-standard parts will be of British or EEC manufacture. As far as possible non-standard parts will also be purchased or produced in Great Britain or the EEC. Castings, forgings and other parts will be purchased from BL if competitive in quality and price.
- Stamped parts will be locally produced using an economic production method matching the output level.

4. Technology transfer from Japan to the U.K. The U.K. design development function will be enlarged in the future. Nissan will transfer its design and production engineering 'know-how' and its production, quality and cost management methods.

5. Tight schedule. Provided the U.K. Government approves the project by the Spring of 1981, construction would start in 1982 and production start-up will be at the end of 1984. Full production will be achieved about 2 years after production start-up. An alternative schedule could be considered which would bring production start-up forward by 6 months, but with only 40 per cent local content intially.

Nissan believes that this investment will be commercially sound - and bring significant benefits to the U.K. economy as well. The Aide Memoire sets out some preliminary order-of-magnitude estimates of the local employment (direct and indirect) and balance of payments impact of the project. At our meeting we would like to discuss the prospects for Her Majesty's Government announcing their support in principle for the project. A feasibility study will be required before a definitive proposal can be prepared. This will involve detailed discussions with suppliers and so forth; and the support of HMG will be needed before these discussions can move ahead.

Yours sincerely



Masataka Okuma
Executive Vice President

Attachment

POSSIBLE NISSAN INVESTMENT
IN UK

1. Nissan is considering a large investment in assembly capacity in Europe to protect its current and potential market position. The total investment will be some £275 millions* and will fund a major, modern production facility designed to be cost competitive with those of other European manufacturers. Construction of the plant for Nissan could begin in 1982 and at least 1,000 workers at peak will be directly involved in the £30 million construction phase; and orders for plant and machinery will amount to an estimated £145 millions. Longer term, the project will provide 4,350 jobs directly and up to an estimated 30,000 indirectly in the European steel and automotive component industries.

2. Nissan now plans to invest on a greenfield site in the United Kingdom. It will incur all the financial risks of the enterprise itself to ensure complete management control - so that the project can be organized to give the highest probability of competitive and financial success. Within these constraints Nissan is anxious to cooperate fully with the EEC (and U.K.) automotive industries. For the convenience of Her Majesty's Government (HMG) this Aide Memoire explains in turn

- a) The scale of Nissan's planned investment: the project will realize internationally competitive scale economies
- b) The reason why Nissan prefers a U.K. base
- c) Nissan's grounds for anticipating the support of the British Government for the project.
- d) The need for public support in principle for the project from HMG, before a detailed programme and investment proposal can be prepared.

SCALE OF
THE PROJECT

3. In order to attain competitive cost levels, Nissan's production volumes must be high enough to achieve the economies of scale available to its world-scale competitors in the U.K. market. Only specialist luxury models commanding a high selling price can be competitive on a smaller scale. Nissan is therefore prepared to make a major investment.

- 3.1 Capacity. The final production capacity of the factory will be about 200,000 cars per year of a single model (the factory will consist of a car assembly plant incorporating: a paint plant, a welding plant, a stamping plant, a unit assembly plant, a machine plant and so on). Thus, the plant will be large enough to achieve internationally competitive unit costs.

* - Throughout this document figures are based on an exchange rate of £1 = 550 yen and on 1980 prices

- 3.2 Employees. In addition to the immediate employment created by the construction contract, (at least 1,000 direct jobs at peak) the project would employ approximately 4,350 workers at full capacity (assuming 80 per cent local content). Approximately 3,700 of these will be hourly paid. An estimated 30,000 jobs in the European steel and component supply industries will also be protected, most of them (hopefully) in the United Kingdom.
- 3.3 Site. A flat land area of approximately 800 acres will be required, out of concern for the environment and to ensure an efficient layout of plant and facilities. A single 800 acre location is preferred to reduce factory overheads, to allow for future expansion of the local content and production volume and to provide for inventory storage, since cars are often subject to fluctuations in demand. Location close to a port and with good road and rail communications is desirable.
- 3.4 Schedule. A feasibility study is required before a definitive proposal can be prepared. Nissan will start work on the detailed planning as soon as the project receives Government approval. From this time until production begins, approximately 3-4 years will be required. Thus, initial production could start in 1984 and would be 80,000 cars per year employing 1,500 employees (directly) rising to full capacity and employment after two years. Employment in supplying industries would increase from some 24,000 in 1983 to approximately 30,000 in 1985.

REASONS FOR
PREFERRING A
U.K. BASE

4. Although attractive incentives are available from other European locations - e.g., Belgium and the Netherlands, Nissan would prefer to invest in the United Kingdom for sound commercial reasons.

- 4.1 There is a stronger market position in the United Kingdom to safeguard and build on. Nissan is stronger in the United Kingdom than in other European markets with a 6 per cent share in 1979. More than 500,000 of its cars are now on the roads in Britain. To protect this position Nissan will manufacture a medium size car in the United Kingdom.

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This model has been chosen because it competes in one of the largest European segments (and one in which import penetration in the U.K. is high) and in the fleet market and will therefore have good export potential. It will not compete with the new BL Metro project. It is estimated that a significant part of production will be exported, mainly to other EEC countries.

4.2 The United Kingdom has an internationally competitive automotive component industry. As far as price and quality constraints allow, components will be locally sourced. The local content should rise from 60 per cent when production starts to 80 per cent in two stages. At this time, the value of bought-in components will be an estimated £230 million per annum, mainly sourced from the U.K. Initially standard and semi-standard parts will be purchased from the United Kingdom or other EEC suppliers if no suitable U.K. source can be found. Naturally to diffuse the concerns of other EEC countries, some parts will be sourced from them. Unit assembly, e.g., engine and transmission, is planned to start early on. The possibility of purchasing unit assemblies locally will be considered if quality standards can be achieved by EEC suppliers. Stamped parts will be produced in the United Kingdom (using British steel), subject to achieving economic production methods for the output level. The table shows the two-stage build up that Nissan now envisages.

TABLE 1: BUILD-UP OF NISSAN U.K. PRODUCTION

Stage	Approximate Local Content	Local Operation and Content
1.	60%	<ul style="list-style-type: none"> - Purchase of standard/semi-standard parts and of large trim parts in UK/EEC - Assembly of engine, transmission, axle and steering with ^{some} parts purchased in UK/EEC - Welding, painting and assembly
2.	80%	<p>In addition to Stage 1</p> <ul style="list-style-type: none"> - Production of body panel in U.K. - Production of the engine, transmission, axle and steering in U.K.

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This schedule has the advantage of a high level of local content from production start-up. An alternative schedule could be considered, that would bring forward the production start-up date by six months. This would, however, necessitate a lower initial level of local content, as shown in Table 2.

TABLE 2: ALTERNATE BUILD-UP OF
NISSAN U.K. PRODUCTION

Stage	Approximate Local Content	Local Operation and Content
1	40%	<ul style="list-style-type: none">- Purchase of standard/semi-standard parts and of large trim parts in U.K./EEC- Welding, painting and assembly
2	60%	<p>In addition to Stage 1</p> <ul style="list-style-type: none">- Assembly of engine, transmission, axle and steering with parts purchased in U.K./EEC
3	80%	<p>In addition to Stage 2</p> <ul style="list-style-type: none">- Production of body panel in U.K.- Production of the engine, transmission, axle and steering in U.K.

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4.3 A suitable site appears to be available with a pool of workers with most of the necessary skills. Of the sites that have been examined so far* Immingham in the Humberside Development Area appears to have some important advantages for Nissan

- Several 800 acre sites are available in an area already designated for industrial use - so there is no need to redesignate agricultural land. No other U.K. location appears to provide 800 acres on a single site.
- The sites have good rail, road and international air communications (particularly via Amsterdam) and there are good deep water port facilities with the possibility of a private jetty.
- The land itself is flat, well drained, with main services (electricity, water etc.) available, and protected by a sea wall. It will have to be piled however; but this should be reflected in the price to be paid per acre.
- An adequate supply of all categories of labour appears likely to be available locally although bus services will probably be required to bring workers from Scunthorpe and Hull.

Other sites can, of course, still be considered when detailed discussions can take place with Local Authorities.

4.4 Many Japanese companies have already invested in Britain. Although on a smaller scale than Nissan, this shows that Japanese production and commercial practices can flourish in the U.K. environment - and also that Japanese expatriate managers and their families are made welcome. This experience base will also be very helpful in ensuring that Nissan adapts smoothly and sensitively to British custom and practice.

BENEFITS FOR THE U.K. SHOULD BE SUBSTANTIAL

5. Nissan believes that the project holds promise of major benefits for the U.K. economy and would provide a boost to business/public confidence at an opportune moment. While the precise impact cannot be assessed until a detailed programme has been decided, the project will have a positive balance of payments impact on both the capital and trading accounts; as the following preliminary estimates show.

* - In Corby, Merseyside, Solihull, South Wales, the North East, West and Central Scotland.

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TABLE 3: POSSIBLE IMPACT ON CAPITAL ACCOUNT
(£ million - at 1980 prices)

PRELIMINARY

Total Investment	275
Less estimated grant on eligible assets say (25%-35%)	45-60
Less 25% financed in the U.K. (assumption for illustrative purposes only)	70
Approximate net contribution to U.K. . balance of payments on capital account	145-160

6. In addition, it would be reasonable to assume (based on conservative projections of the effect of the project's impact on import levels) that the U.K.'s Trade Balance would improve by about £200 million (at 1980 prices and exchange rates) once the plant is operating at or near its planned capacity.

7. In addition to the positive effect on the Balance of Payments, the project will create direct jobs in an area of high unemployment, and indirect jobs in industries now in serious trouble. 4,350 direct jobs will be created and an estimated 30,000 jobs in component and supply industries, at full capacity and assuming 80 per cent local sourcing. Some increased employment would materialize quite soon as construction begins in 1982. Government revenues would also benefit from a higher tax base.

- 7.1 Nissan will locate its plant in an assisted area in support of the Government's regional policy. Almost 30,000 people (10.4 per cent of the working population) in Humberside were unemployed on September 5, 1980, 10,000 more than a year previously.
- 7.2 Other factors being equal, Nissan will give preference in sourcing decisions to suppliers located in assisted areas so that jobs can be preserved or created in these regions.
- 7.3 Jobs would be protected at British Leyland (BL) through component sourcing contracts. Provided consistent price, quality and delivery arrangements can be made with BL, as many components as possible will be sourced from them.

8. Other more qualitative benefits would also be available to the U.K. from the project, which would demonstrate a new approach to labour relations. It will show that a British industry can produce competitive products with modern methods and appropriate manning levels. At full capacity some 46 cars per worker will be produced annually, well in excess of levels now achieved in Europe, even allowing for differences in the degree of vertical integration.

9. In addition, Japanese design and production technology would be transferred to the United Kingdom. Although initial design and development work will be centred in Tokyo, consideration will be given to transferring the activity related to UK production to the United Kingdom in the future. Professional engineers and skilled workers will be temporarily transferred from Japan, to oversee and train personnel in the United Kingdom, at each stage of the project - i. e., construction, production start-up, model change, etc. Additionally key U.K. workers will be sent to Japan for technical instruction and in-plant training.

NEED FOR PUBLIC
SUPPORT IN PRINCIPLE
FROM HMG

10. For Nissan an essential prerequisite to further progress with the project will be public support from HMG: Nissan is not willing to risk even the appearance of predatory investment against local wishes because:

- The project is economically risky and local commitment at every level is vital to success. Nissan does not want to see the project become a political 'football'.
- Public Government support will be important to minimise the impact of any opposition. Domestic manufacturers may not welcome a new and efficient competitor - and some Trades Unions may also oppose the productivity targets required for successful operation.
- Nissan is unwilling to commit funds to investments in hostile markets. The pressure for off-shore investment is increasing across the board. As Nissan's recently announced USA truck facility illustrates, Nissan faces a range of investment opportunities outside Japan and is not prepared to commit funds if local support is not forthcoming. The exceptional drain on Nissan management resources that would be required in such circumstances would not be acceptable.

11. Nissan cannot make further progress in assessing the attractiveness of individual locations or the practicality of component supply arrangements in the U.K. without being specific about the scale and details of the project. Without the support in principle, of HMG for the project, Nissan will not be able to proceed further with a detailed feasibility study. An early response would enable Nissan to proceed toward a final decision.

Japan
COPY NUMBER: 2 OF 10 COPIES

From the Secretary of State

SECRET

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

14 November 1980

Dear Secretary of State

NISSAN

Your minute of 28 October to the Prime Minister drew attention to the Community dimension of the proposed Nissan investment. I have asked --- my officials to look at the proposals from this angle, and a note by them is attached.

The size of this proposal clearly means that it will be a major test for the Community's attitude to its common market and for its nerve on inward investment in sensitive sectors. Let us be in no doubt that we can expect no spirit of European generosity to welcome Japanese investment in Britain. If we believe that it is in the national interest for Nissan to come to the United Kingdom we must do three things.

First, the "Community proofing" must make absolutely sure that we have left no loopholes for other Member States to exploit and to use the Treaty to prevent the success of the arrangement. Secondly, we must not let our approach be dogged by an obsession with the letter of the Treaty. We are working for the best deal for Britain, and we must be as ingenious as our partners would be in defending it. Thirdly, we must remember that we are not in a strong position: we

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From the Secretary of State

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need Nissan more than they need us, and if we try to tie them down with conditions to pacify existing United Kingdom producers or to mollify our European partners we shall see the whole project slip through our fingers.

It would help if my officials could be kept closely in touch with the negotiations as they advance, so that as more detail is known the points in the note can be kept in view against the considerations I have listed above.

I am copying this letter to the Prime Minister, to Peter Carrington, Geoffrey Howe and Robin Ibbs.

Yours sincerely,

John Nott

JB

JOHN NOTT

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

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NISSAN INVESTMENT IN THE UNITED KINGDOM: COMMUNITY CONSIDERATIONS

Our partners' attitude will be determined by three things.

First, the prospective challenge in their home and European export markets, including United Kingdom. Nissan say they envisage United Kingdom production replacing their direct exports first to the EC and later to EFTA and that they would be ready to agree export targets with the United Kingdom Government. We shall need to handle this carefully - not simply to head off challenge on free circulation and competition policy, but to minimise political reaction in other Member States. An exclusive European franchise for the United Kingdom plant by an agreed date might be a more acceptable approach.

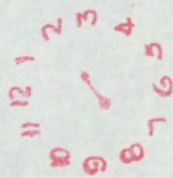
Second, our partners will react to whether there are any pickings in the deal for them. Nissan have already commented that they envisage 'local' content would include purchase elsewhere in the EC and not exclusively in the United Kingdom. We seem to have pointed out that United Kingdom components would be 'local'. As to the 'regulatory' soundness of this argument, the competition rules need careful thought, but we shall have to watch that we do not push our political luck too far on this one. Might we not do better to get an 'understanding' about selected United Kingdom priorities? I understand we are already pressing hard on engine units. And let us recognise Nissan may start looking for a more accommodating Community partner if we are too inhibiting for them.

Third, some of our partners will be hostile anyway but even more so if they see the deal as the thin end of the wedge undermining Japanese apprehension of Community solidarity. The advantages of the deal to United Kingdom look much too important to allow this to weaken energetic pursuit of the negotiations. Any of our partners - including France - despite anything Giraud said - would do the same if it suited their book. As the Foreign Secretary points out, it looks as though Alfa Sud have already done so in Naples. Nonetheless, we want to reduce the risk of France - or others - rushing into restrictive attitudes or of prolonged legal action thereafter. The French will present a big problem. This is another reason why it is worth looking at an exclusive European franchise for United Kingdom production. We would be more optimistic of getting this from Nissan than particular export shipment levels. And it would make it just that more difficult for other EC States to take and certainly to sustain restrictive action. It could be presented as linking industrial co-operation and new Community jobs with fewer exports to the Community from Japan.

Miss M J Lackey
WEG

13 November 1980

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SECRETARY OF STATE FOR INDUSTRY

NISSAN

1. In your minute of 28 October to the Prime Minister, you asked for my views on the possible effects of a deal with Nissan on our EEC relationships in general and with those in France in particular.
2. If a decision is reached to go ahead with this investment I see no reason why we should encounter serious difficulties with the Commission, although we will need to ensure that the deal meets Community regulations. I understand that John Nott is examining this aspect. Nor should we have any difficulties with the majority of our partners in the Community. The Italians are apparently themselves setting up a link between Nissan and Alfa; though we know little about it, it could provide a useful precedent. The Germans, despite public concern about the rapid rise of Japanese car imports, are politically committed to a free market. But we can expect a stormy ride with the French. Giraud, the French Minister of Transport, warned against Japanese investment in the motor industry at the Anglo-French Summit in September. The French will therefore seize on any Nissan deal to argue that it is yet another success by the Japanese in finding a back door for their exports to the Community. Although it seems that Michael Edwardes is ready to face this competition, the French will probably be genuinely concerned about the effect Nissan competition would have on their already weak Peugeot-Citroen subsidiary in the UK, Talbot, and in other Community markets including France itself.
3. If it is decided for sound economic and industrial reasons that the Nissan investment should go ahead, I see no reason why we should be deterred by these French concerns.

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Japan 9
 1. Mr. Alexander
 2. Mr. Smith
 FCO comments on the Nissan proposals. (Nissan are visiting London on 18 November for further talks: you will remember that this is very sensitive commercially).

MS

D.
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It seems to me that we have a good case of our own, which we should be ready to defend vigorously. It would, as a first step, be tactically sensible to give the French advance warning when agreement has been reached with Nissan. We should explain to them that we share their concern about the level of imports from Japan: and that, by encouraging genuine Japanese investment of this kind in the Community, we are developing a responsible relationship with the Japanese, which will make it easier to persuade the Japanese to open their markets to European imports.

4. If we are to take this line with the French, there are two steps that I would advise. First, we shall need to ensure that, in any agreement, Nissan translate their undertaking to reduce their exports to the UK into a firm promise. In addition, I wonder if we could consider seeking some understanding that their direct exports to the rest of the Community would also be reduced (though of course this would have to be in terms which avoided any implication that there might be a limit to the share of our community partners' markets which UK built Nissan cars could eventually enjoy). Such an undertaking would cut much of the ground from under the French argument. We should, at the same time, aim to ensure that the drop in exports by Nissan is not simply taken up by other Japanese car manufacturers. Secondly, we should avoid any public statement by Nissan on export targets for the UK operation. Whatever might be agreed privately, statements of this kind might well get us into difficulties with the Community's competition rules, and would provide a focus for strong criticism from France and our other community partners.

5. Finally, I would want to stress the danger, which you recognise in your minute to the Prime Minister, of stringing the Japanese along and subsequently making difficulties. This

/would be



would be very damaging for long term development of a more constructive and stable relationship with Japan in which investment, industrial collaboration, and containment of Japanese car imports into the UK must feature strongly.

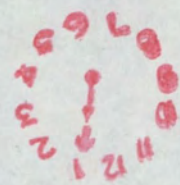
6. I am copying this minute to the Prime Minister. Geoffrey Howe, John Nott and Robin Ibbs.

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(CARRINGTON)

Foreign and Commonwealth Office

10 November 1980



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TO PRIVDITY FCO

TELEGRAM NUMBER 630 OF 5 NOVEMBER

INFO PRIORITY UKREP BRUSSELS, BONN, PARIS, WASHINGTON

SAVING ALL OTHER EEC POSTS AND OECD PARIS

ECONOMIC RELATIONS WITH JAPAN

1. WE ARE FACING A £1000 MILLION VISIBLE TRADE DEFICIT WITH JAPAN THIS YEAR. FOR THE FIRST TIME IN 5 YEARS THE JAPANESE HAVE FAILED TO KEEP TO THEIR SHARE OF THE BRITISH CAR MARKET AS AGREED IN INDUSTRY TALKS. OUR EXPORTS TO JAPAN ARE STAGNANT AND SEEM LIKELY TO FALL RATHER THAN RISE IN THE NEXT 12 MONTHS. OUR INVISIBLE SURPLUS OF £300 MILLION IS ALSO UNDER PRESSURE. JAPANESE INDUSTRIAL INVESTMENT IN BRITAIN IS INCREASING BUT THE PACE IS SLOW AND THE BENEFITS AT PRESENT LIMITED. THE JAPANESE ARE INVESTING HEAVILY IN NEW TECHNOLOGY WHICH WILL PUT THEM FURTHER AHEAD. THE PROSPECTS FOR FUTURE YEARS IS NOT GOOD.
2. AGAINST THIS BACKGROUND AND THE FORTHCOMING NOVEMBER FOREIGN AFFAIRS COUNCIL DEPARTMENTS WILL BE REVIEWING OUR POLICY AND IT MAY BE HELPFUL IF I SET OUT THE POSITION AS SEEN FROM HERE.
3. OUR OBJECTIVES REMAIN TO:
 - (A) REDUCE THE TRADE IMBALANCE AND INCREASE OUR EXPORTS TO JAPAN:
 - (B) REDUCE THE PRESSURE FROM JAPANESE IMPORTS PARTICULARLY IN SENSITIVE SECTORS, AND
 - (C) POLITICALLY MAINTAIN JAPAN'S PRO-WESTERN STANCE.
4. NEITHER OF OUR FIRST TWO OBJECTIVES IS BEING ACHIEVED. I HAVE WRITTEN TO CAINE IN THE DEPARTMENT OF TRADE WITH SUGGESTIONS FOR CHANGES IN OUR EXPORT PROMOTION STRATEGY. IN PARTICULAR WE MUST GO ON URGING THE MAJOR BRITISH FIRMS NOT ALREADY REPRESENTED HERE TO BECOME MORE INVOLVED WITH THE JAPANESE (TO EXPAND THEIR EXPORTS TO JAPAN, TO BUY JAPANESE TECHNOLOGY, TO WORK WITH JAPANESE FIRMS IN THIRD MARKETS AND TO DEVELOP JOINT VENTURES HERE, IN BRITAIN AND ELSEWHERE). BUT WHATEVER CHANGES WE MAKE IN OUR EXPORT STRATEGY, THEY WILL TAKE TIME TO HAVE AN IMPACT AND IN THE SHORT TERM THE IMBALANCE IS LIKELY TO GET WORSE. WE MUST THEREFORE PRESS THE JAPANESE HARD TO EXERCISE RESTRAINT NOT ONLY IN CURRENTLY SENSITIVE SECTORS SUCH AS CAR AND CONSUMER ELECTRONICS BUT OTHER AREAS WHERE THEIR TECHNOLOGY AND PRODUCTIVITY IS AHEAD OF OURS AND A THREAT DEVELOPS. THE POSITION ON (C) IS SATISFACTORY BUT THE DANGERS ARE LONG NOT SHORT TERM. JAPAN RECOGNISES THAT FOR THE PRESENT SHE NEEDS WESTERN ESPECIALLY US, SUPPORT BUT A "ROGUE ELEPHANT" JAPAN SCENARIO REMAINS A POSSIBILITY IN THE LONGER TERM.
5. JAPANESE OBJECTIVES SEEM TO BE TO (A) MAINTAIN MAXIMUM SCOPE FOR THEIR EXPORTS OF MANUFACTURED GOODS IN WORLD MARKETS (FREE TRADE POLICIES HAVE SUITED THEM WELL SINCE THEY HAVE ACHIEVED A COMMANDINGLY COMPETITIVE POSITION IN IMPORTANT SECTORS): (B) GIVE PRIORITY TO ECONOMIC RELATIONS WITH THE UNITED STATES SO THAT

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THESE DO NOT DETERIORATE TO A POSITION IN WHICH THEY MIGHT SERIOUSLY PUT AT RISK POLITICAL AND DEFENCE RELATIONS AND (C) DEAL WITH THE EUROPEAN PROBLEM IN A LONGER TIME FRAME, PLAYING ON DIFFERENCES OF APPROACH AMONG MEMBERS OF THE COMMUNITY AND AGREEING TO THE MINIMUM OF EXPORT RESTRAINT WHICH THEY CONSIDER NECESSARY TO AVOID PROTECTIONIST MEASURES.

6. ON THE WHOLE THE JAPANESE HAVE SUCCEEDED IN ATTAINING THESE OBJECTIVES BUT THEY FEAR THAT AFTER THE US ELECTIONS, ESPECIALLY IF THE ITC REPORT ON CARS GOES AGAINST THEM, THEIR PROBLEMS WITH THE UNITED STATES WILL INCREASE. THEY ARE BEGINNING TO RECOGNISE THAT THE PRESSURES IN EUROPE ARE GROWING RAPIDLY BUT THEY DO NOT ENTIRELY TAKE THE COMMISSION SERIOUSLY AS A NEGOTIATING PARTNER AND STILL HOPE BY PROCRASTINATION AND MINOR CONCESSIONS TO KEEP THE EUROPEANS FROM EXERCISING EFFECTIVE AND CONCERTED PRESSURES ON THEM. AS FOR 5 (A) THEY PIN THEIR FAITH IN THE GATT SYSTEM BELIEVING THAT THE REST OF THE WORLD WOULD SUFFER JUST AS MUCH AS THEY WOULD FROM THE CHAOS WHICH WOULD ENSUE IF THE SYSTEM BROKE DOWN.

7. IT SEEMS TO ME THAT WE NOW NEED TO:

i) DEFINE SPECIFICALLY WHAT WE WANT FROM THE JAPANESE AND CAN REALISTICALLY EXPECT TO GET FROM THEM;

ii) GET OUR MESSAGE ACROSS TO THE JAPANESE CONSISTENTLY AT ALL LEVELS.

iii) AT THE SAME TIME ANALYSE WHAT MEASURES WE CAN IF NECESSARY TAKE TO DEAL WITH JAPANESE IMPORTS ENSURING THAT WE TAKE FULL ACCOUNT OF THE INEVITABLE RETALIATION; BUT NEVER THREATEN UNLESS WE REALLY MEAN WHAT WE SAY (THE JAPANESE WILL RUMBLE US AND OUR VOICE WILL COUNT LESS IN FUTURE); IF POSSIBLE GIVE THE JAPANESE THE CHANCE TO MAKE CONCESSIONS WITHOUT LOSS OF FACE IE PRIVATE RATHER THAN PUBLIC PRESSURE;

iv) WORK FOR AN EFFECTIVE AND UNITED EUROPEAN POSITION SO THAT THE JAPANESE CANNOT DIVIDE AND RULE;

v) LIAISE CLOSELY WITH THE AMERICANS ON THE JAPANESE ECONOMIC THREAT.

8. PLEASE SEE MIFT ABOUT THE LEAD UP TO THE FOREIGN AFFAIRS COUNCIL.

FCO PASS SAVING ADDRESSEES

CORTAZZI

(REPEATED AS REQUESTED)

THIS TELEGRAM
WAS NOT
ADVANCED

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