



*copied to
N. Edwards Muri Ab.*

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PS/ *Secretary of State for Industry*

(0 February 1981

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

Do you want to react?

No. no.

*MAP
12/2*

Dear Mike

See

S/S Wales

Muri-Ab.

In the recent correspondence concerning the Secretary of State for Wales' visit to Japan next month, my Secretary of State has noticed references to the sensitivity of inward investment from Japan. He fully recognises this. At the same time, he points out that when British firms object to particular proposals on the ground that they are themselves already supplying that market satisfactorily, they are looking at the position from their own point of view; other interested parties may not entirely agree with them.

2 Ten years ago there were virtually no Japanese owned manufacturing enterprises in Britain; now there are two dozen of them (in addition, of course, to the larger number of Japanese banks, trading companies and sales and service operations established here). This compares with around 1,000 US-owned and nearly 300 German owned manufacturing enterprises in Britain. We have identified Japan, along with the United States, West Germany and Switzerland, as a high priority country for the promotion of Britain as a location for direct industrial investment. In view of Japan's increasing internationalism and the large potential benefits to the British economy from closer links with Japanese industry and technology (including inward investment but also other forms of collaboration), this is surely right.

3 On the question of how our inward investment effort in Japan should best be conducted, and the role of Ministers in it, there may be room for further discussion. It may be that a more selective approach by sectors of industry is needed. But in the last analysis investment decisions are taken by companies for their own commercial reasons, and this is something we should encourage when Japanese companies are considering investment in Britain. My Secretary of State hopes therefore that the references in your two letters to John Craig to the interests of established manufacturers are not to be taken as casting doubt on our general policy of encouraging inward investment from Japan.

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

Yours ever Richard Brit

FILE

VLB

Japan

16 February 1981

The Prime Minister has seen your letter to me of 10 February, about our general policy of encouraging new investment from Japan. She has noted the points made by your Secretary of State.

M A PATTISON

Richard Riley, Esq.,
Department of Industry.

Dr



From the Secretary of State

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John Wiggins Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
London, SW1P 3HE

2
Ami Hiroshi
Trade are doubtful
whether we, on our
own, can take
tougher action against
the Japanese.

I just don't think we
deserve a realistic view.
Unless we make
action one of our community take
we shall succeed
one of our of getting hold
the advantages and all
the disadvantages of liberalisation
to be able to do it.

11 February 1981

Dear John

ANGLO-JAPANESE TRADE AGREEMENT

In his letter of 11 December Tim Lankester recorded that my Secretary of State had agreed to look at the possibilities of limiting Japanese import penetration and in particular to examine the option of invoking the Anglo-Japanese Trade Agreement. I am sorry that you have not had a reply sooner, but this subject has been examined extensively in connection with EC/Japan trade relations, about which my Secretary of State has written to the Foreign Secretary today.

The agreement referred to is the Treaty of Commerce, Establishment and Navigation between the United Kingdom and Japan of 1962 (the Anglo-Japanese Trade Treaty). The first protocol to this Treaty permits either contracting party, subject to consultations, to restrict the imports of the other on conditions modelled on those of Article XIX of the GATT - ie in circumstances where increased quantities of imports cause or threaten serious injury. Notice would have to be given to the Japanese that we were concerned about the imports and we would be required to enter into consultations within seven days of our notice in order to seek mutually acceptable solutions. Failing such a solution we could take unilateral action after 30 days following the start of the consultation, in which case the Japanese would be free to retaliate.

Should
not be
difficult

There are three principal obstacles to this route. First, although the Treaty predates Accession we are not confident that the United Kingdom has power to invoke its provisions independently, and we believe that the Commission would have (and certainly would claim) the right to take part in any consultations with the Japanese which we instigated. This would effectively mean that we should have to convince the Community in advance of the justice of our case. On the other hand, the existence of the Treaty entitles us to expect a favourable reaction from them when protection is needed. We may not of course share the same view of what constitutes the need for protection. The only precedent is special steels, where Japanese penetration grew from virtually nothing to over 5% over 5 years and the Commission agreed to negotiate for us a VRA which gave the Japanese a volume representing just over 3% of the 1978 market.

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From the Secretary of State

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Secondly, it is essential to bear in mind that about a third of Japanese imports - including the most sensitive - are covered by voluntary restraint arrangements. Having the Treaty in the background has, we believe, enabled us to get undertakings at the industry level which would otherwise not have been available, and so far it has been possible to avoid rigid Community scrutiny of these arrangements. If we were to invoke formally the Treaty to deal with any specific sectors of imports, we should assume that, by placing our relations with Japan on a different basis, we would be liable immediately to lose the benefit of these existing voluntary restraints, covering cars, consumer electronics, special steels and pottery. And the Community could not be expected to rescue us in these other areas without our going through all the procedures to show that imports had increased to such an extent that serious injury had resulted.

Thirdly, our exports to Japan which amounted to nearly £600m in 1980 would be put at risk. High quality wool cloths (Japan is our best market) and Scotch whisky (Japan is our second best market) would be obvious targets for retaliation.

These three obstacles pose the question whether the Treaty has any formal value. It is our view that its existence adds weight to our discussions - and those of our industries - with the Japanese. Whatever our doubts about the ease with which it could be invoked, the Japanese do seem to regard it with respect. But we do not see advantage in recourse to its provisions at this stage.

The French have two weapons in their armoury. First, they have 27 formal quotas on a number of products, (including certain consumer electronics products) which predate the Treaty of Rome; quotas actually in existence are obviously much more remote from Community review than any new initiative, though the changing pattern of imports over the years has eroded the significance of these quotas. Secondly, the French language must inhibit trade links; since English tends to be the second language of the Japanese, the United States and the United Kingdom are obvious targets for Japanese exports. Furthermore the French consumer has a greater propensity to buy national products than the British consumer (for example, in the case of cars) and dealers in French goods are permitted to deal roughly with the importing community. The stories of French car distributors who find that a proposed transfer of dealership in Japanese cars threatens their membership of the local Rotary Club are probably founded on fact! There is no obvious way that we can easily introduce such similar invisible barriers to Japanese imports.

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From the Secretary of State

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Of course, given Japan's lack of natural resources it is inevitable that she will seek to run a surplus on her manufactured trade, and the restriction of imports of Japanese goods to the Community could have the effect of diverting them to third markets where they may well be in competition with us. We ought therefore to take advantage of any opportunity we get to persuade the French and Italians to drop their own quotas and take a fair share of Japanese imports. But the prospects for this are decidedly slim.

I am sending copies of this letter to Tim Lankester (Number 10), George Walden (Foreign and Commonwealth Office), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

Yours sincerely,

S. Hampson

S HAMPSON
Private Secretary

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