

CONFIDENTIAL



From the Secretary of State

Willie Rickett Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London SW1

Prime Minister

The DOT's advice on how to deal,  
during your visit to Japan, with the  
problem of imports of machine tools.

We can discuss at Tuesday's briefing  
meeting.

A.J.C.-g.

9 September 1982

Dear Willie,

MS

JAPANESE EXPORTS OF MACHINE TOOLS

1 Your letter of 31 August asked for details of decisions reached by Trade and Industry Ministers on imports of Japanese machine tools. As you know, officials have been considering the impact on our machine tool industry of current high levels of Japanese imports of numerically controlled (nc) machine tools in particular nc machining centres and nc lathes.

2 My Secretary of State wrote to members of OD(E) last week proposing that steps should be taken to promote the negotiation of a voluntary restraint agreement (VRA) between United Kingdom and Japanese industry, under which Japanese exports to the United Kingdom of nc machine tools would be restricted. OD(E) colleagues have indicated their broad agreement to this course of action.

3 The need to take action in support of a VRA rests upon the importance of sophisticated machine tools in the development of advanced manufacturing systems so as to improve manufacturing industry's productivity. The considerable effort and Government support so far committed to fostering a domestic United Kingdom capability in nc machine tools is threatened in two crucial sectors of nc machining centres and nc lathes by rapidly increasing Japanese penetration of the United Kingdom market. (In the case of nc machining centres, the Japanese market share has risen from 1% by volume in 1977 to 60% in 1981; in the case of nc lathes this share moved from 21% to 44% over the period.) With the increasing emphasis in production technology on a systems approach, of which machine tools are a central feature, the loss of a United Kingdom capability would also threaten the future of other industries supplying equipment for such systems, eg robots and mechanical handling equipment.

4 There is little likelihood of action by the European Community as a whole in the immediate future; either across the board under Article XIX of the GATT, or selectively just against the Japanese. Although the Commission introduced import surveillance over both sectors in February 1981, other Member States have been less affected by these imports in the last year or so. The assessment is that we would fail to get the necessary support for a Community-wide control.

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*From the Secretary of State*

5 In the view of the Department of Trade, there is a sustainable case for selective action in respect of nc machining centres under the terms of the Anglo-Japanese Trade Treaty and the relevant Community legislation. The case for import controls on nc lathes is weaker. Nevertheless there would be tactical advantage in seeking restraint in both sectors particularly as restraint of machining centres alone could lead to an increased attack on our nc lathe market. But in view of the uncertainties in both cases and the commitment to pay compensation or accept retaliation for the loss of business by Japan, pursuing formal safeguard action does not seem an attractive option. Consequently, Ministers are agreed that it would be preferable to pursue a bilateral inter-industry understanding on the lines of that for car industry.

6 The Prime Minister's visit to Japan allows a very useful opportunity to present to the Japanese government both the concern with which Japanese exports to the United Kingdom in these sectors (and others) are regarded, and our wish to secure talks between the United Kingdom and Japanese industries with the object of reaching an understanding on voluntary restraint. The Department of Trade has provided full briefing and a line to take on this matter. In discussions with the Japanese authorities, while putting firm emphasis on our support for a VRA on nc machining centres and lathes, we strongly recommend that the Prime Minister avoids any reference to the possibility of formal action. Japanese sensitivities on their government/industry relations - as well as those of our Community partners - would also suggest avoidance of public reference to our request for a restraint understanding; but it would of course be useful to make clear publicly that our general concern had been brought to the attention of the Japanese government.

7 The European Commission is being sounded out later this week for its tacit acquiescence to this course of action.

8 I am copying this letter to the Private Secretaries to OD(E) members and to Sir Robert Armstrong.

*Yours sincerely*

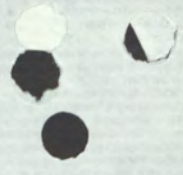
*John Whitlock*

JOHN WHITLOCK  
Private Secretary

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JP

10 DOWNING STREET

*From the Private Secretary*

13 September 1982

JAPANESE EXPORTS OF MACHINE TOOLS

The Prime Minister has noted the contents of your letter of 9 September to Willie Rickett. She expects that her briefing meeting tomorrow on her visit to the Far East will cover this issue.

A. J. COLES

John Whitlock, Esq.,  
Department of Trade.

SM



✓  
C. D. H. M. D.  
Trade

10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Julian,

Thank you for your letter of 24 August about the machine tool industry. I am well aware that this industry currently faces a number of problems, not least in the form of competition from Japan, and I understand the concerns expressed to you by Mr. Balding of Beaver Machine Tools. In so far as rationalisation may be one way of responding to these problems by improving competitiveness through high volume production, this must be a matter for the industry itself to decide and act upon, guided by its own commercial judgement. I do not think there is a role for Government in such a process.

I agree with Mr. Balding on the need for a British capability to produce machine tool control systems to compete with those available from Japan. Indeed, he and I exchanged correspondence on this particular subject earlier this year and I was pleased to be able to tell him that the Department of Industry has given financial and other assistance to GEC to help to speed up their work in developing a range of such control systems.

That is one way we are trying to help the UK machine tool industry. I accept also that the Government has a part to play in seeking some solution to the problem of the rapid rise in Japanese machine tool exports to the UK in recent years - particularly of numerically controlled lathes and machining centres. You may be assured that when I visit Japan later this month I shall urge positive Japanese action to deal with this problem.

Yours  
Margaret

Sir Julian Ridsdale, C.B.E., M.P.

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(2)

Prime Minister

To be aware - this will be covered in the briefs.

FCS/82/128

A. J. C. 7/9.

*MS*

SECRETARY OF STATE FOR TRADE

Prime Minister's Visit to Japan: Machine Tools  
and other trade restraints

1. Thank you for your letter of 2 September explaining the problems over imports of Japanese numerically controlled machine tools.
2. I agree with the general course of action proposed. I should like, however, the following tactical points to be taken into account in the Prime Minister's briefing for her visit to Tokyo.
3. I suggest that the Prime Minister should be advised to speak firmly, but in general terms, about our continuing concern at the levels of certain categories of Japanese imports into the UK. She might mention, by way of illustration, forklift trucks as well as machine tools, and also perhaps the need to work out arrangements for colour television once the present licensing system, which I understand is based on patent rights, expires next year. She might also remind the Japanese that the Community as a whole is seeking assurances from the Japanese Government that there will be effective moderation of exports, particularly in the three sectors identified as sensitive by the Council of Ministers - vehicles, colour television and tubes, and machine tools. But I would see disadvantage in the Prime Minister going into detail about voluntary restraint arrangements <sup>or</sup> on the prospects for safeguard action. I am conscious that our case for restraint varies from product to product (the case on numerically controlled lathes is, I understand, rather weak). I suggest that the details of how justified our individual cases are, or how they might best be dealt with, should be left for officials and/or the industries concerned to pursue rapidly thereafter.

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4. Secondly, I suggest that the Prime Minister should be advised not to go into detail about voluntary restraint arrangements or safeguard action in any public statement. She will doubtless wish to make clear that she brought our general concern to Japanese attention. But any specific references to the type of arrangements we hope to achieve may elicit unhelpful public statements from the Japanese Government (who are reluctant to be publicly associated with inter-industry understandings on export restraint) and in effect reduce the prospects of success in any subsequent negotiations.

5. Finally, I note that the paper enclosed with your letter refers to the need to inform the EC Commission in advance of the action we propose to take. I agree that this is desirable.

5. I am copying this minute to the Prime Minister, to other members of OD(E) and to Sir R Armstrong.

CF:1

(FRANCIS PYM)

Foreign and Commonwealth Office  
7 September 1982

7 SEP 1982

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

JF1497  
*Secretary of State for Industry*

6 September 1982

W Rickett Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*App. in CF*

*Type letter please.*

*WRC 9/9.*

*Dear Willie,*

We spoke about your letter of 25 August seeking advice on the letter to the Prime Minister from Sir Julian Ridsdale about the machine tool industry and I told you inter-Departmental discussions were nearing a conclusion on the line the Prime Minister should be advised to take on machine tools when she visits Japan later this month. In view of this you agreed to let us have an extension on your deadline for advice on the correspondence.

2 The effects on the UK machine tool companies of increasing levels of imports from Japan have been a matter of increasing concern to the point where Departments have recently considered the case for some form of restraint. This has resulted in a recommendation from the Secretary of State for Trade to colleagues circulated on Thursday, 2 September that for her visit to Japan the Prime Minister should be briefed to raise with the Japanese Government our wish to see established a bilateral, inter-industry voluntary restraint arrangement (VRA) governing exports of NC machine tools to the UK. You will have seen a copy of this letter.

3 Department of Industry Ministers will be agreeing to the Secretary of State for Trade's proposal and we think it unlikely any other Departments will object. All the indications are therefore that the Prime Minister will be advised to take this line with the Japanese. The attached draft reply to Sir Julian is based on that assumption but you may wish to delay a little longer to have clear confirmation of the position before the letter is actually sent to him. Your letter to me of 31 August indicated the Prime Minister's wish to know of Ministers'



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decision on this question by the beginning of this week. The Department of Trade will, no doubt, be in touch with you about this, and will take the lead in briefing the Prime Minister.

4 Department of Trade and ourselves are agreed that it should not be disclosed outside Government at this stage that the Prime Minister will be pressing the Japanese specifically for a VRA on NC machine tools. If this were to become general public knowledge in advance of her visit it could well prejudice the chances of a constructive Japanese response. In addressing this point the draft letter to Sir Julian therefore indicates the Prime Minister will press the Japanese hard on exports of NC machine tools but stops short of divulging the exact nature of the approach.

5 I am copying this letter to John Whitlock at Department of Trade.

*Yours ever*  
*Catherine Varley*  
for DAVID SAUNDERS  
Private Secretary

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

SIR JULIAN RIDSDALE CBE MP  
HOUSE OF COMMONS  
LONDON SW1A 0AA

Thank you for your letter of 24 August about the machine tool industry. I am well aware that this industry currently faces a number of problems, not least in the form of competition from Japan, and I understand the concerns expressed to you by Mr Balding of Beaver Machine Tools. ~~Nevertheless~~ <sup>In</sup> so far as rationalisation may be one way of responding to these problems by improving competitiveness through high volume production, this must be a matter for the industry itself to decide and act upon, guided by its own commercial judgement. ~~I have to say~~ <sup>I.e.</sup> I do not share Mr Balding's view that there is a role for Government in such a process.

~~Where~~ I ~~do~~ agree with Mr Balding ~~is~~ on the need for a British capability to produce machine tool control systems to compete with those available from Japan. Indeed, he and I exchanged correspondence on this particular subject earlier this year and I was pleased to be able to tell him that the Department of Industry has given financial and other assistance to GEC to help ~~to~~ speed up their work in developing a range of such control systems.

That is one way we are trying to help the UK machine tool industry. I accept also that the Government has a part to play in seeking some solution to the problem of the rapid rise in Japanese machine tool exports to the UK in recent years - particularly of numerically controlled lathes and machining centres. You may be assured that when I visit Japan later this month I shall ~~take every opportunity to impress strongly on the Japanese that they must take some positive action to alleviate this particular problem.~~ <sup>argue</sup> <sup>urge</sup> <sup>the Japanese</sup> <sup>Japanese</sup> <sup>deal with</sup> ~~take every opportunity to impress strongly on the Japanese that they must take some positive action to alleviate this particular problem.~~

*John 3/2*



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Francis Pym MC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

6 September 1982

*N. B. P. R. vlt.*

*Dear Secretary of State*

*A.S.C. 7/9.*

I have seen Arthur Cockfield's letter to you of 2 September concerning the disastrous penetration of the Japanese into the machine tool industry. Whilst I am naturally in no way opposed to our attempting to reach a bilateral understanding for a voluntary restriction on imports, I do wonder how much longer we can continue a policy in which our rivals are highly protectionist and after immense damage has been done we seek some restraint as to further damage being done.

On a number of occasions over the last six years the United States has been tough with Japan and obtained some results although in no way nearly enough. I believe that to some extent we are now in a competition with other countries as to who is the toughest with Japan. Whoever is the toughest will get the most collaboration with them.

When one examines the record of the motor industry - with the various forms of protection which have applied in Spain and Japan in contrast to the vast imports we have received from both of those countries - I do wonder if there is any more we should do in being very brutal to countries which are not actually trade partners but trade dominators.

I am circulating this to the Prime Minister, other members of OD(E) Committee and to Sir Robert Armstrong.

*Yours sincerely*

*Robert Lawson*

*P* PETER WALKER  
(dictated by the Minister  
and signed in his absence)



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06 SEP 1982

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JF1494

Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

6 September 1982

Lord Cockfield  
Secretary of State for Trade  
1-19 Victoria Street  
LONDON  
SW1H 0ET

*N. S. P. N. J. J.*

*A. S. C. 6/9.*

*Dear Arthur,*

Thank you for copying to me your letter of 2 September to Francis Pym about imports of numerically controlled machine tools from Japan. My officials have been working with yours on this subject and have kept me informed about progress.

2 The machine tool industry itself is of sufficient importance to the UK's manufacturing sector for this problem to be one of considerable concern. However, there are wider adverse implications for our ability to become a competitive force in the rapidly growing market for advanced manufacturing systems if the high technology sector of our machine tools industry - which the Japanese are attacking specifically - becomes seriously weakened. My Department is giving considerable sums of assistance to industry, not only to improve efficiency through greater use of such systems but to ensure UK companies can supply systems to meet the demand. A strong domestic capability in numerically controlled machine tools is central to these efforts.

3 For these reasons I agree strongly that an inter-industry voluntary restraint agreement with Japan should be sought as you propose and that the Prime Minister should be briefed to raise the matter during her visit to Japan.

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

*Your ever*  
*Patel*



Prime Minister (2)  
As expected.

From the Secretary of State

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The Rt Hon Francis Pym MC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

Mr Coleridge  
over to you  
MUS 6/9  
I see we are  
to make the  
in Japan.  
MUS 2/9  
I shall need to  
discuss this  
our history  
mechanics  
not  
2 September 1982

Dear Francis,

Officials at EQO Committee have been considering the impact of Japanese competition on the United Kingdom machine tool industry. I attach a paper which sets out the position, in particular the rapid increase in Japanese penetration of our numerically-controlled machining centre and lathe markets - and sets out the Department of Trade's recommendations for action.

My view is that the maintenance of a domestic United Kingdom capability in these sectors of the machine tool industry is of real importance to our overall industrial performance. To protect these sectors from the threat of a very high level of Japanese import penetration we should encourage our industry to reach a bilateral understanding with their counterparts in Japan voluntarily to restrict Japanese exports. In addition, it would be helpful if the Prime Minister could stress our concern during her visit there this month.

I should be grateful for the approval of the recommendations in the paper by members of OD(E). Given the short time available before the Prime Minister's departure, I would hope that we could agree the line I have proposed by correspondence, and by Monday 6 September.

I am circulating this to the Prime Minister, other members of OD(E) Committee and to Sir Robert Armstrong.

Yours,  
Arthur  
LORD COCKFIELD

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## IMPORTS OF JAPANESE MACHINE TOOLS : NUMERICALLY CONTROLLED LATHES AND MACHINING CENTRES

### Introduction

One of our prime industrial objectives must be to upgrade the technology and productivity of British manufacturing industry through improving process technology. Central to this is the development of advanced manufacturing systems, and the development and application of sophisticated machine tools. A domestic UK capability in this sector will become increasingly important as the need for tailor-made systems for individual applications increases. Considerable effort and Government support have been committed to this end, in particular through the recent schemes of support for robotics and flexible manufacturing systems. These are now threatened by the competition from Japan faced by two crucial sectors of the machine tool industry, numerically controlled (nc) machining centres and lathes where Japanese export efforts have been concentrated.

### JAPANESE PENETRATION OF THE UK MARKET

2 Japan has concentrated volume production and export efforts in the selective and advanced technology sector of the machine tool industry represented by nc lathes and machining centres and Japanese exports to the UK (to a degree greater than has occurred in the EC as a whole) have increased markedly, albeit irregularly, to the extent that they are now a serious source of worry. In the nc machining centre market, Japanese penetration increased steadily from 1 per cent by volume in 1977 to 55 per cent in 1981; though the volume of imports in first five months of 1982 fell by 22 per cent (Japanese statistics), their market share in the first quarter only fell to 47 per cent. In the nc lathe market, Japanese penetration increased from 21 per cent by volume in 1977 to 53 per cent in 1980 but fell to 42 per cent in 1981. In the first quarter of 1982 it was running at a level of 34 per cent by value - though the volume of exports to the UK rose in the first five months by 53 per cent (Japanese statistics).





## EFFECTS OF IMPORTS

3 UK production in these two sectors is estimated by the Machine Tool Trades Association (MTTA) at £20m (machining centres) and £25m (lathes), with employment of perhaps 7,000. As a whole, the UK machine tool industry is facing very difficult trading conditions and severely depressed markets. 11,000 jobs (over 20 per cent of the labour force) were lost in the two years 1980 and 1981 and a further 4,000 are estimated to have already gone in 1982. Output in the fourth quarter of 1981 stood at an index figure of 50 compared with a 1975 base of 100. While the general world recession is clearly a major influence, there is evidence that the present level of Japanese exports to the UK already represents a significant factor contributing to the current difficulties faced by UK manufacturers of nc lathes and machining centres. It is not possible to clearly separate the lathe and machining centre sectors from the general machine tool area but examples of the general damage claimed to have been caused by Japanese competition are:

- Kearney Trecker Marwin where 100 redundancies took place in 1981 and more are planned in 1982; net profits fell from £2.1m in 1980 to a loss of £0.3m in 1981 and a greater loss is forecast for 1982; declining UK sales (which the company blame specifically on Japanese competition) have so reduced cash resources that an essential product development programme is in danger and senior management in the parent company - Vickers - are concerned about KTM's long future as a maker of machining centres;
- TI Churchill (member of the Tube Investment Machine Tools Ltd) where over the last two years sales have fallen by one third and losses totalling £2m have been incurred; 200 redundancies were declared last year and the whole future of nc lathes production is under review; and
- Cincinnati Milacron where 474 redundancies (25% of the workforce) were declared at the beginning of 1982 and



Japanese imports were specifically cited by management as a contributory factor; in 1980 and 1981 they believe they lost machining centre orders worth £4m to Japanese imports, and have this year lost orders worth £1.2m.

4 Although a number of British companies are investing major resources to meet the Japanese competition (Alfred Herbert are particularly bullish on their prospects) either by investing in high technology equipment comparable to that in Japan or by concentrating on more sophisticated non-standard equipment, these adjustments take time, and most British companies fear that the increased share of the UK market taken by the Japanese could undermine their business irreparably in the period of adjustment. Furthermore, the nc sector represents the greatest potential for growth and, with newly industrialised countries becoming increasingly significant suppliers of less sophisticated machine tools, the UK industry must establish itself in nc if it is to survive in the long term.

5 These fears are reinforced when the vulnerability of this sector of the UK industry is considered against the situation in other major EC countries manufacturing machine tools. Our industry claims that the UK suffers a much higher level of import penetration than either France or Italy. Though Germany imported a higher volume of nc lathes and machining centres in 1981 than the UK, these sectors are relatively less important parts of her machine tool industry. While the German market remains open, the French have a system of prior surveillance for these products which it has been claimed inhibits imports, and there are reports (which we are trying to check) of unofficial measures in Italy.

6 There are already strong protectionist pressures in the US (seeking, for example, exclusion of Japanese machine tools from investment tax relief), such that Japanese producers in these sectors may further direct their attention towards the UK market. Added to this, a very high level of stocks (perhaps enough to satisfy a whole year's demand) is reported to be held both by exporters and



in the US. There is a real danger that, unless restrained, Japanese exporters will intensify their attention on the UK - particularly if checked elsewhere. (The Japanese Government sanctions an export cartel ostensibly in order to prevent cut-throat pricing - but there is little sign of its effectiveness).

The US position, (where Japanese imports represent 97 per cent by volume of all nc machine centre imports, and 85 per cent by volume of nc lathes imports), shows what could well occur in the UK unless restrictions are agreed.

7 Discussions with certain Japanese machine tool companies indicate that a restraint on their exports to the UK might encourage them towards collaboration agreements with UK companies or the choice of the UK as a European manufacturing base - either of which would bring benefits. With an increasing emphasis in production technology on a systems approach, of which machine tools are a central feature, the loss of a UK capability would also threaten the future of other industries supplying equipments for such systems e.g. robots and mechanical handling equipment.

8 The disadvantage of users being unable to purchase Japanese nc machine tools would be primarily one of price. <sup>(at least 20%)</sup> The technological qualities and capabilities of British nc lathes and machining centres are comparable with those of the Japanese. British manufacturers undoubtedly have the capacity to meet additional demand despite the very significant contraction of the UK industry over the last two or three years. In discussion of demand for nc equipment generated by the Small Engineering Firms Investment Scheme (SEFIS) at a meeting



of NEDO's Machine Tool EDC in May, the MTTA reported that over-  
capacity was at such a level that 50% more orders would be no  
problem for UK industry to handle. SEFIS has now closed and although  
it provided some boost in demand, it was not a large enough scheme  
 to take up all this slack.

#### ALTERNATIVE COURSES OF ACTION

##### Formal Import Controls

X 9 My Department have considered the two cases against the usual  
 Community and GATT criteria. Our general view is that there is  
little likelihood of any action by the EC as a whole in the immediate  
 future either across-the-board against all imports under Art. XIX  
 of the GATT or selectively against the Japanese. Though the  
 Commission introduced import surveillance over both sectors in  
 February 1981, the European trade association's recent proposal to  
 the Commission for a 50% tariff has lacked German support and  
 does not appear to be progressing.

10 We judge, however, that there is a sustainable (although,  
 against Community criteria, not strong) case for selective action  
in respect of nc machining centres under the terms of the Anglo-  
Japanese Trade Treaty and the relevant Community legislation.  
 Conversely we consider the case for import controls on nc lathes  
to be much weaker and do not believe there is any chance of the rest  
of the Community supporting proposals for import controls by the UK.  
 In view of the uncertainties in both cases and the commitment to pay  
 compensation or accept retaliation for the loss of business by  
 Japan, pursuing formal safeguard action does not seem an attractive  
 option.

##### Bilateral inter-industry VRA

11 An alternative would be the conclusion of an industry to  
industry agreement in which, formally, Governments would take no part.



Though inter-industry talks two years ago were unsuccessful, the Japanese Government might now be prepared to encourage its industry to discuss with the MTTA the possibility of a VRA on nc machine tool exports, particularly if they felt this might help to reduce future pressure for formal EC action. <sup>Though MITI would resist a proliferation of VRAs,</sup> <sup>we receive</sup> reminders from time to time from sources inside the Japanese Government that there may be scope for further bilateral understandings in the case of acute problems for the UK. But past experience shows that their achievement may require the underlying threat of action under our Treaty if the Japanese fail to respond (as in the case of light commercial vehicles last year). As indicated in para 10, the MTTA have a comparatively strong negotiating position in this respect so far as nc machining centres are concerned, but a very weak one on nc lathes; if we actually used the selective safeguard in the Treaty, the Japanese would have a right to retaliate.

#### Tactics

12 Tactically there may be advantages in the MTTA initially seeking inter-industry arrangements in both sectors despite the weakness of the lathe case. If the Prime Minister were to raise the matter during her visit to Japan in mid-September there is a chance of making headway, particularly if the Japanese are sufficiently embarrassed by their lack of support for the UK over the Falklands crisis to wish to make some concessions to our requests. The Prime Minister would not wish to give the Japanese an opportunity to quiz her on the relative merits of the two cases and we would suggest therefore that she refer to serious problems in the nc machine tool sector as a whole and avoid detailed discussion on machining centres and lathes. The UK industry would have to clearly understand that if their opposite numbers in Japan were not forthcoming on lathes, they could not look to HMG for any formal support in this area in Brussels unless the current situation were to change dramatically. An inter-industry arrangement on machining centres alone could of course lead to an



increased Japanese attack on our nc lathe market (as Japanese machine tool companies tend to be in both sectors), but even so, given the importance of the nc machining centre sector, this would still be worthwhile.

#### PROPOSED ACTION

13 To prevent the present difficult position from worsening, it is therefore proposed that steps should be taken to promote negotiation of a voluntary restraint agreement between the MTTA and its Japanese equivalent, under which Japanese exports to the UK of nc machine centres (and nc lathes on the basis described in para 12) would be restricted. The aim might be an agreement, with a definite time limit (perhaps 3 years) with a benchmark of 1981 import levels but perhaps allowing for an element of orderly growth. To achieve this, it will be necessary to:

- (i) inform the Commission of the proposed action. Informal soundings made of DGIII indicate that the Commission is unlikely to support any Community initiative, but gave no indication of Commission hostility to a British initiative - however this is primarily a matter for DGI, who would need to be sounded out on this.
- (ii) <sup>then</sup> give warning to the Japanese authorities, both via normal diplomatic channels and specifically in the course of the Prime Minister's visit to Japan this month, of the concern with which Japanese exports to the UK of high technology machine tools are regarded, and that we seek an inter-industry VRA (this could be backed by an implied threat to resort to the formal protection provisions which exist under the Anglo-Japanese Trade Agreement if agreement on machining centres is not forthcoming); and
- (iii) support the MTTA in negotiating a voluntary agreement on the basis described in para 12 above.

(i) Japanese penetration of the UK machine tools market (by sector)

	<u>nc machining centres</u>		<u>nc lathes</u>	
	value %	volume %	value %	Volume %
1977	2	1	9	21
1978	9	11	21	33
1979	13	22	22	40
1980	29	41	31	53
1981(e)	41	55	30	42
1982 (first quarter)	32	47	34	n/a

(ii) Imports (by sector) to the UK market

	<u>nc machining centres</u>			<u>nc lathes</u>		
	<u>Total Imports</u>	<u>Japanese Imports</u>		<u>Total Imports</u>	<u>Japanese Imports</u>	
	£m	£m	Volume	£m	£m	Volume
1978	9	1.6 (18%)	31	17.4	6.5 (38%)	180
1979	12.7	3.5 (27%)	76	31.5	10.6 (34%)	338
1980	18.2	9 (49%)	173	37.9	17.4 (46%)	582
1981(e)	20.3	13.3 (66%)	230	33.7	13 (39%)	320
1982 (first quarter)	4.7	3 (62%)	50	9.6	4.3 (45%)	129

Source:OTS

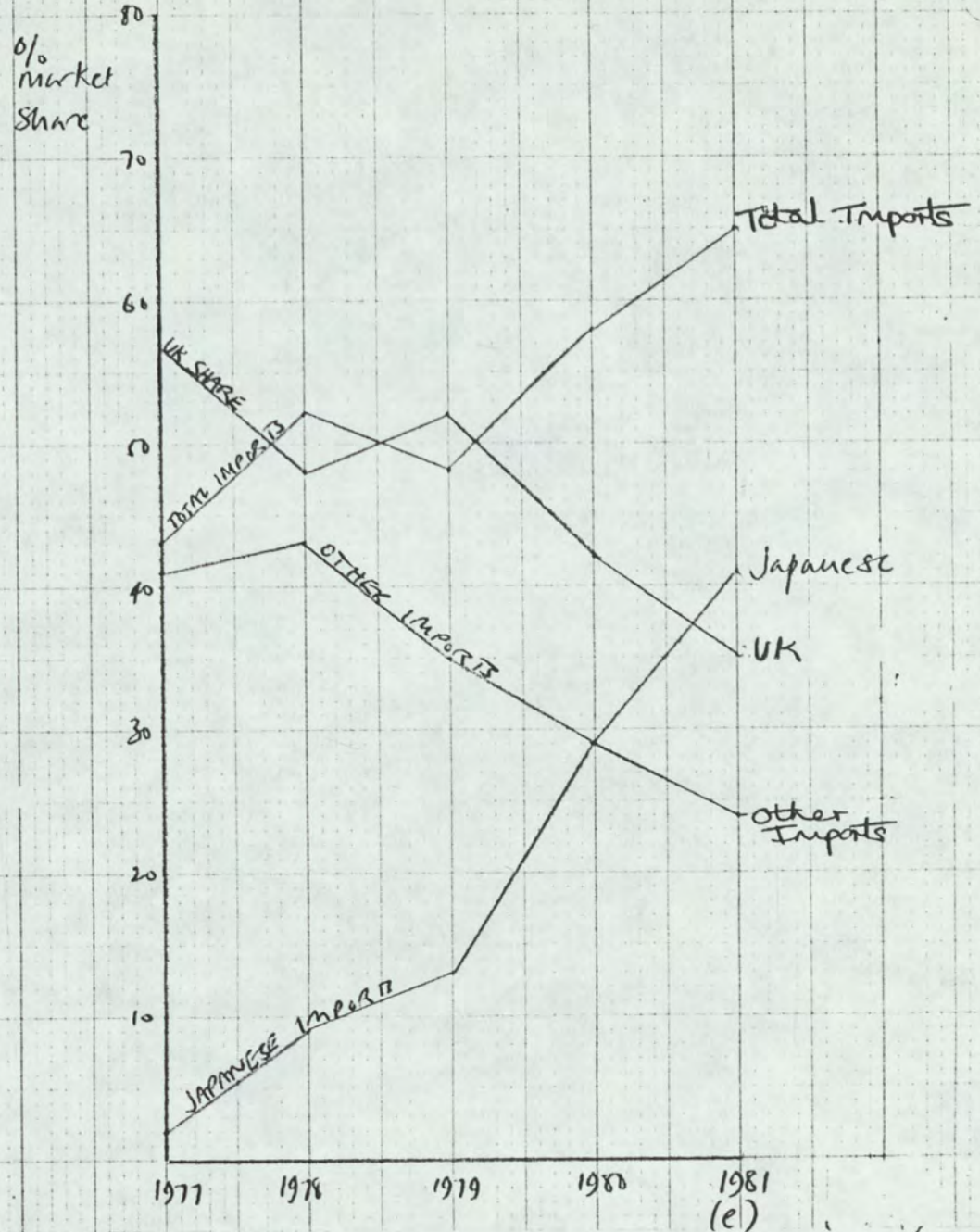
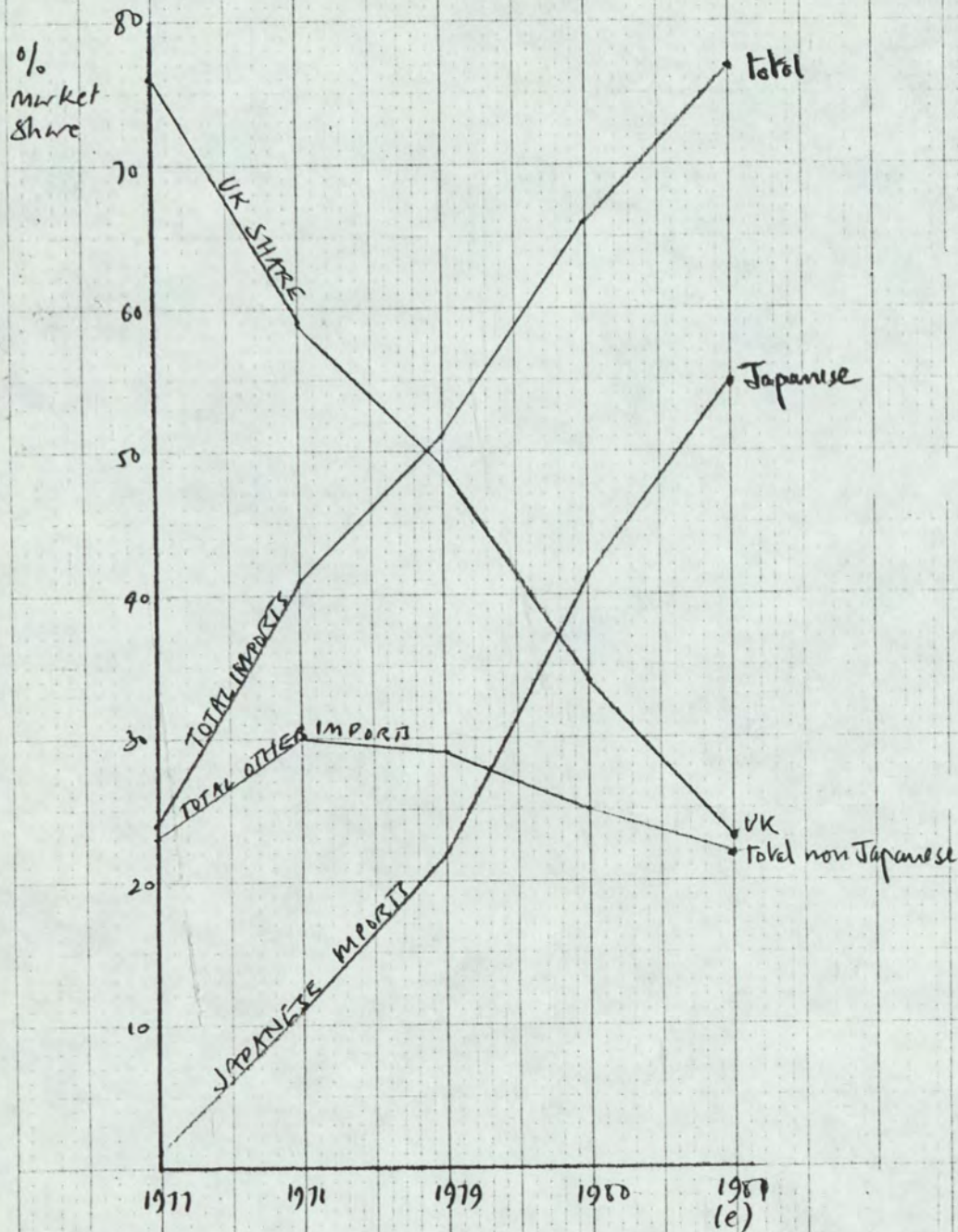
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# IMPORT PENETRATION OF UK MARKET NC MACHINING CENTRES

Source: DTB/Business Monitor Calculation

(by volume)

(by value)



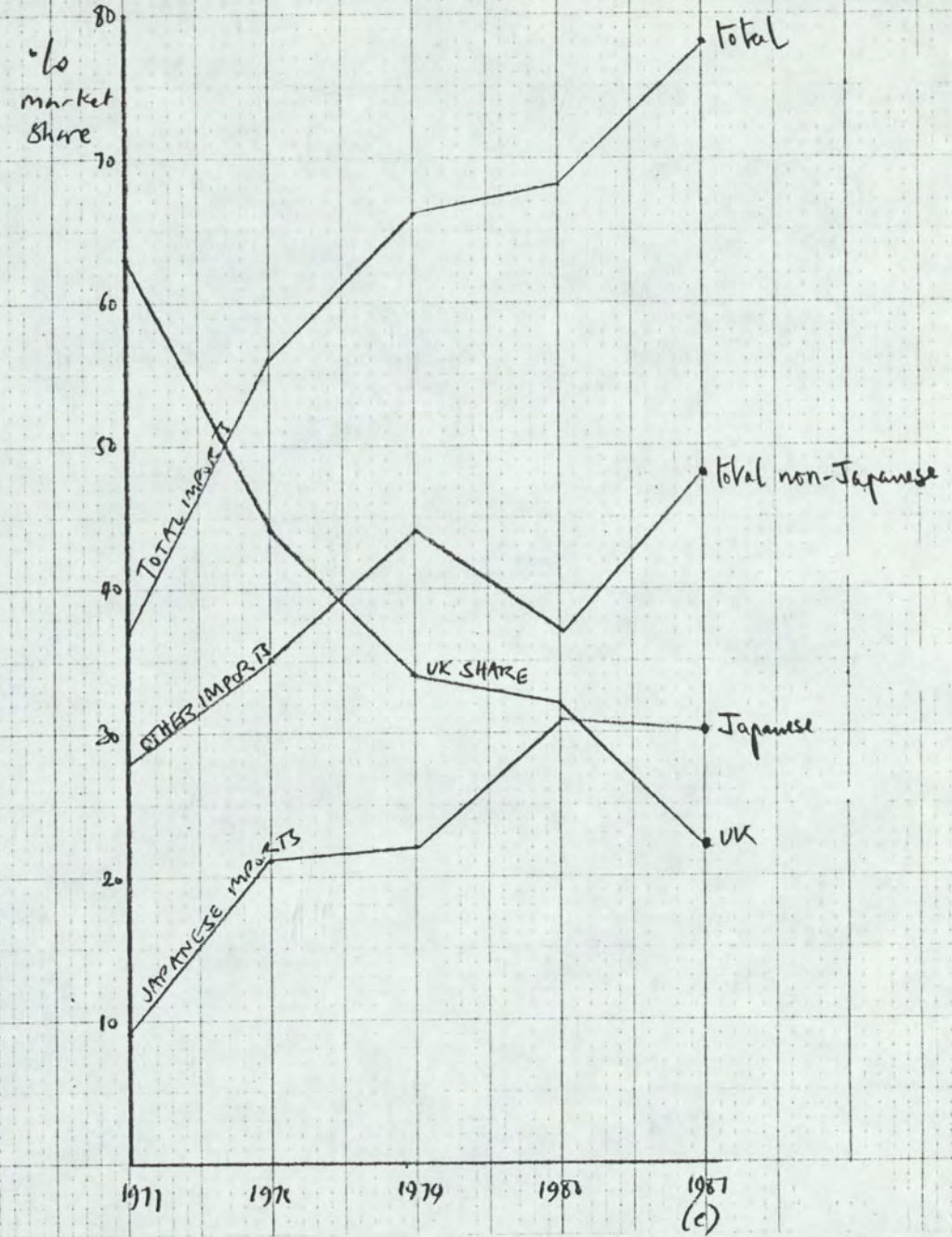
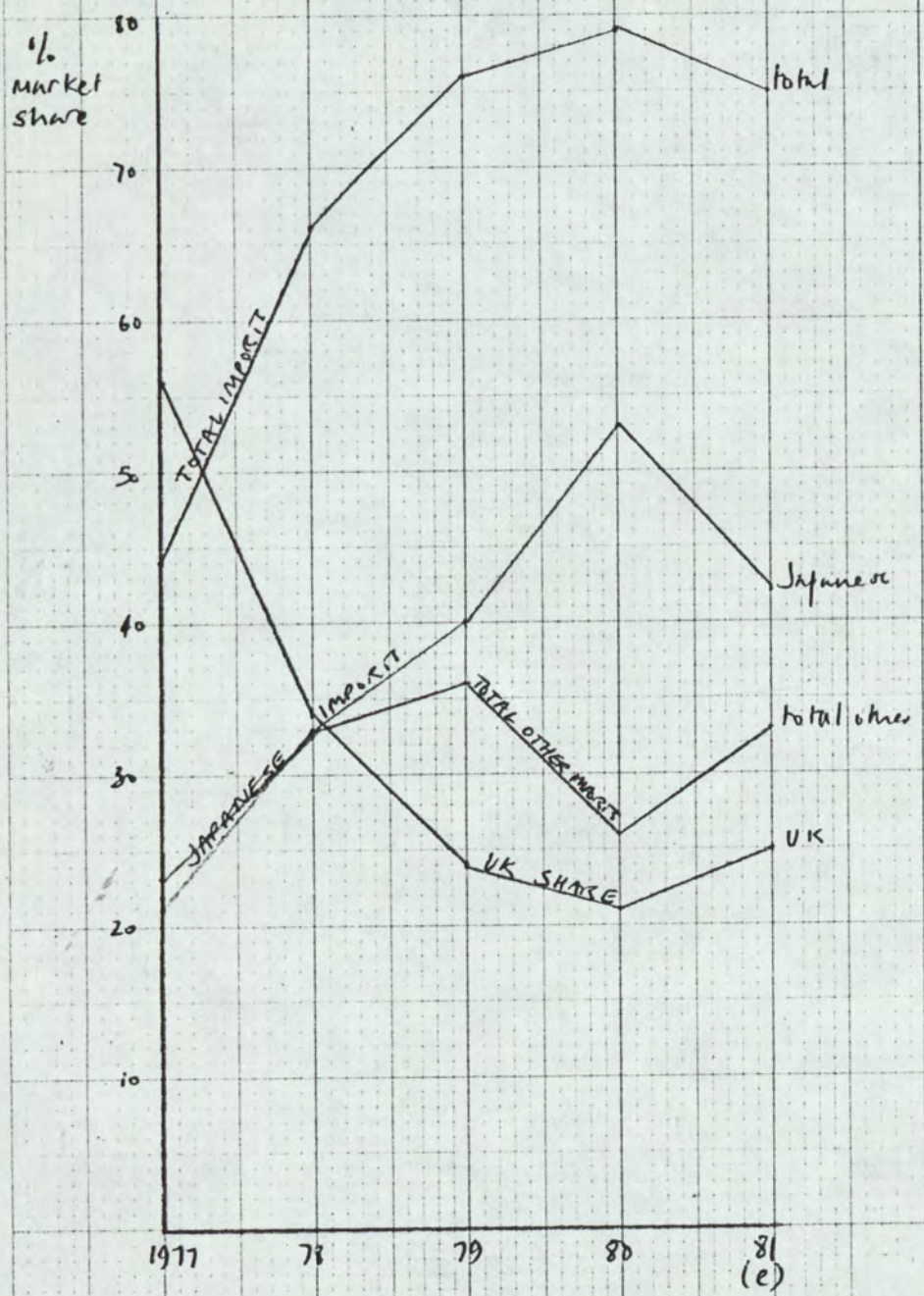


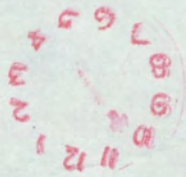
(1) IMPORT PENETRATION OF UK MARKET  
 NC LATTICE

Source: OIS/Business Monitor Calculation

(by volume)

(by value)





SEP 2 1982

cc to Japan: Pding on  
PM: Trip

file

da



10 DOWNING STREET

*From the Private Secretary*

31 August 1982

Exports of Japanese Machine Tools

I told you that the Prime Minister was anxious to send an early reply to Sir Julian Ridsdale's letter of 24 August which I sent to you on 25 August, in which he expressed his concern about growing levels of exports of Japanese machine tools and the state of the UK industry.

The Prime Minister has since seen FCO telegram number 316 to Tokyo of 24 August, which explains that proposals will be submitted to Trade and Industry Ministers this week on this subject. She has commented that this timetable must not slip and that she must be informed of the decisions reached by Trade and Industry Ministers in good time before her trip to the Far East, preferably by the beginning of next week.

W. F. S. RICKETT

Dr. David Saunders,  
Department of Industry.

A

St Julian RIDSDALE 31/8  
MP



10 DOWNING STREET

GR

I think I sent this to Industry  
copied to Trade. Could you  
please tell Industry the P.M.'s  
comment, and say that the sooner  
they can let us have a draft  
reply the better.

WR

26/8

Many thanks

Billie  
26/8

I contacted D/I and they aim to  
let us have something by next  
Tuesday (31 August).

LPO  
26 8 82



he sw

10 DOWNING STREET

*From the Private Secretary*

25 August, 1982

I enclose a letter to the Prime Minister from Sir Julian Ridsdale, M.P., in which he calls for the rationalisation of the machine tool industry, and for protection from the import of Japanese machines.

I should be grateful for a draft reply which the Prime Minister might send to Sir Julian by 8 September.

I am copying this letter to John Whitlock (Department of Trade).

W. F. S. RICKETT

Dr. David Saunders,  
Department of Industry

5

MFJ

*file*

25 August 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 24 August. I shall place this before the Prime Minister, and a reply will be sent to you as soon as possible.

WR

Sir Julian Ridsdale, CBE, MP.

*WR*

From Sir Julian Ridsdale, CBE., MP.,

2



HOUSE OF COMMONS  
LONDON SW1A 0AA

Aug. 24th. 1982.

Prime Minister  
we will let you have a  
cc: Mr. Gow reply.

Admin needed  
urgently from <sup>how</sup> <sup>with</sup>  
Trade Industry  
not.

Dear Prime Minister.

Ralph Howell asked me on the  
14th August to visit the Beaver Machine  
Tool Factory in his constituency which is  
so badly affected by the latest Japanese  
competition from Yamasaki (Appendix A).  
I made a visit last Friday August 20th.

This revolution in machine tools  
has resulted in sanctions being demanded  
in the U.S.A. over imports from Japan.  
(Appendix B).

Mr V.H. Balding, the owner and  
Managing Director of Beavers, is extremely  
concerned because of this intensive cut-throat  
competition.

As you are visiting Japan so

very soon I feel that you should know his views. He has an impressive factory, probably a last bastion of our dying machine tool industry. He told me very forcibly that he will not be able to survive without help.

He says "Unless the Government takes decisive action in a few weeks, Britain will not have an effective machine tool industry left in two to three years time."

He suggested. " The Government working with the industry through the MITA should encourage the industry to rationalise so the Companies remaining could get volume production and so compete worldwide with the Japanese and others." But he said "It cannot be done without a home-produced SNC"





HOUSE OF COMMONS  
LONDON SW1A 0AA

controlled system at least as good as Fanuc and with the same credibility plus world wide service as Fanuc give." He emphasised "Companies engaging in the rationalisation programme should give an irrevocable under-taking for at least a 10 year programme of production." He estimates that the whole programme would be carried out for approximately £150 million to £200 million.

I also attach a round robin (Appendix C) which is being gathered together by the machine tool industry and this may get publicity in September before you go to Japan.

I hope we in Europe and The States can work out something to help our

machine tool industry. Surely some way  
must be found to enable us to buy this  
new technology. <sup>?</sup> —————

————— How brave of you to get it  
done all in one day. You are not going  
to appreciate having your leg pulled for  
some time!

Yours ever,

*Italian*

The Rt. Hon. Mrs Margaret Thatcher, MP.,

**T**ODAY Yamazaki — a Japanese machine tool company — storms ahead of its world rivals with a new machining centre programming and control system and a new low-price machine range that is likely to leave the competition gasping for breath.

Without extra cash for new developments it is certain that the UK machine tool industry will not survive this latest onslaught in the competitive sector.

Market trends are already dismal. Last year total sales of machine tools produced by British companies was relatively small at £437 million, a drop on 1980 by 26%. And the government's much-vaunted small firms investment scheme (Sefis) has not provided the instant boost to the industry that was hoped for when it was launched in March. Would-be buyers who have been given approval to go ahead and buy new equipment are instead sitting on the fence waiting for the upturn.

Machine tool industry campaigner Ron Lynch has called many times for reduced interest rates and incentives to enable the manufacturing industry to invest but where will the orders go?

The world is about to be hit by the next generation of machining centres. The term CNC is being superseded in the alphabeti-spaghetti language by automatic production computer system (APCS).

Yamazaki is now reaping the benefits of properly applied flexible manufacturing. When its £9 million showpiece factory in Japan opened in October, Teruhiko Yamazaki forecast a payback inside two and a half years for the FMS — obviously it was building predictions for success in a new product line-up.

Yamazaki's Mazatrol T1 CNC lathe control system with two-dimensional conversational programming has been accepted as a significant step forward for lathe programming. But the machining centre with its three dimensional aspects, larger tool capacities and considerably longer programmes creates far greater problems for the system designer. But you get there eventually. In what must be the biggest step forward since the touch trigger probe (and in a similar vein to the lathes T1 system) the new Mazatrol M1 for machining centres is now available. Yamazaki has succeeded for one reason — resources, it cost £2.5 million and 130 000 man hours to develop. Obviously Yamazaki is after

# Machine tools: can

## The UK's ailing machine tool industry takes a turn for the worse today with news of a Japanese system that defies competition.

### By Michael Wildish

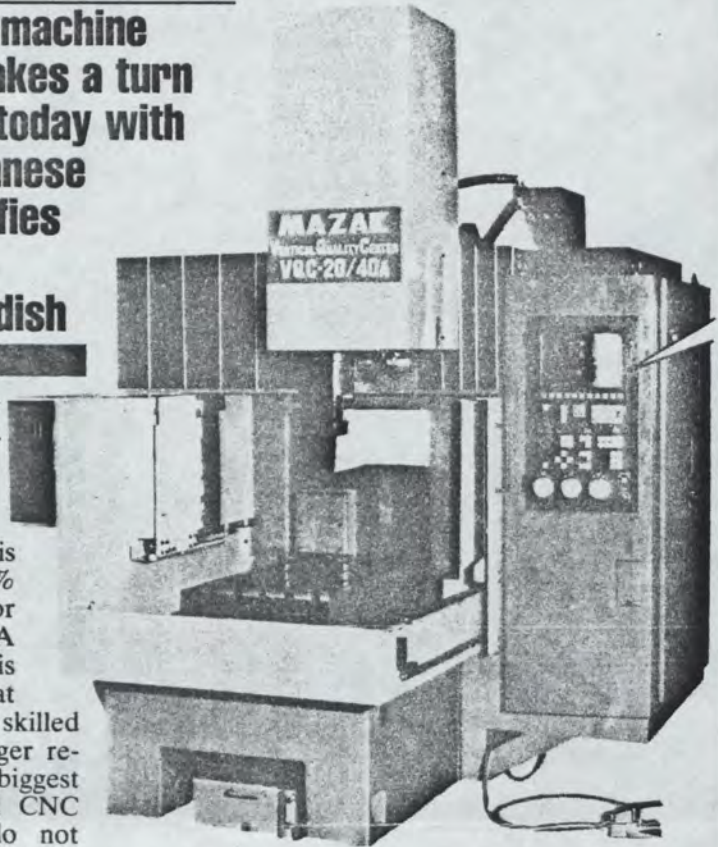
sales, but the potential of this system to the end user is dramatic. Manpower reduction in programming is said to be as high as 95% of the time required for conventional CNC. A far bigger potential is made available in that the need for a highly skilled programmer is no longer required. Probably the biggest drawback to potential CNC users is that they do not understand the technology.

To prove its simplicity, Robert Wilkinson, managing director of Yamazaki UK, aims to train his complete staff including the receptionist to undertake programming for customer demonstration. 'It's so simple,' he said, 'if you can read a drawing you can programme the machine.' Reading the component drawing however is probably the biggest hurdle.

By linking a computer with a 14-inch CRT screen and producing in the software a conversational mode of question and answer routines the task becomes simple.

Automatic selection of optimum cutting conditions for various materials are stored and familiarity of tool names and their dimensions are no longer required. Selection of machining unit in point, line or face patterns is a press button operation and the CRT displays tooling layout, program, toolfile and data, positions and alarms plus a programming check display.

Utilising the programming check function the co-ordinate views of x-y, y-z and x-z; the perspective view and toolpath can be checked by a five

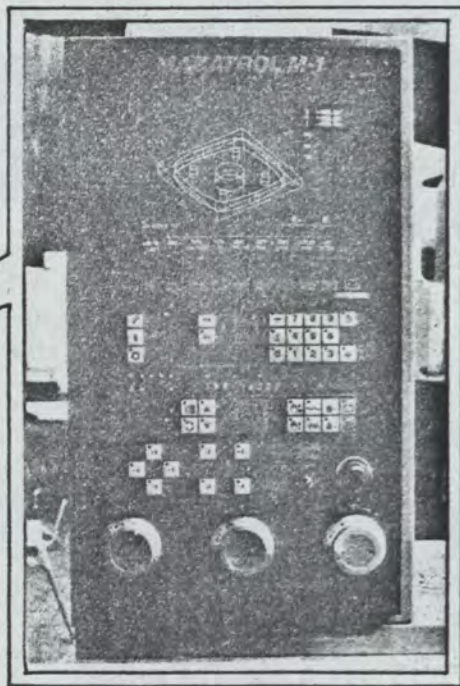


colour display of the respective machining patterns. A homing-in function enables the magnification of a particular feature to be carried out for better clarification.

All this can be carried out in the office, remote from the machine shop, or on the machine while existing components are being machined. Machine communication with the Mazatrol is by fibre optics when remote operation is called for, eliminating the effect of electrical fluctuations causing interference.

A storage capacity of 16 programmes is equal to 160 m of tape or, as an option, 5 000 m can be held. For the multi-component specialist a library of cassettes can be built up, each holding around 32 jobs. The system has the facility to control several machines. More importantly the equipment already on site for programming does not become obsolete, conventional computer-assisted programming systems can be interfaced with the Mazatrol through the NC tape output and translated automatically into Maza-

# the UK compete?



Above: 3-D simulation puts a new perspective on programming — it all but talks. Left, the VQC 20/40A will be selling for £45 500

trol's own language. The step by step conversational programming system displayed on the 14-inch colour CRT screen starts with the selection of elements from a 'menu display.'

Material is selected from seven most common types plus the facility for up to eight specials according to the user's choice. The machining patterns are then selected from a total of 13 point types such as drilling, nine linear types like line centre or seven for face operations such as face milling. Machining allowance and surface roughness designations are then selected.

After entering the cutter diameter the automatic selection of cutting conditions is made—depth of cut, cutting width, feed rate and number of cuts from the data base. By answering questions about the finished component, quantity on table, spacing and workpiece contour by x and y values, the computer automatically calculates start and finish of the cutter path and the number of passes.

Hole boring normally requires the

calculation of multiple tool selection and programming data. For Mazatrol, the question — answer routine needs the diameter of the finished hole and depth, co-ordinate values x and y from the datum and size of chamfer. From this data the automatic tooling programme will then select all the necessary tools for the function and display on the CRT in the machining order required.

Normally after tape preparation 'air cutting' for proving out is undertaken — all non productive time — and when cutting starts single block checking through the cycle is needed. This makes programming relative to the engineer's experience and manual fine tuning, although savings can be made on the machining time the time spent proving is expensive.

This can now be proved on the CRT screen. The programmed contour can be displayed not only in x-y, y-z and x-z but three-dimensional perspective. This display can be rotated through any axis in five degree segments for checking. The complete programmed contour can be colour displayed and every machining pattern for checking with tool path simulation and cycle time calculation. Automatic tool length measurement combined with length measuring equipment on the machine gives continuous length compensation. Updating can be carried out eliminating manual tool offset compensations when tools or component datums are changed.

The machine tool setters' bible where he records all details can be dispensed with due to the Mazatrol's ability. A total of 160 kinds of tool can be displayed on the CRT's tool data display including names corresponding to magazine pocket number, nominal diameter, length, thrust, horsepower, life factor and operational hour log. The tool file display holds 32 tools as an information control. Information includes: tool type, nominal diameter, tool material, maximum allowable depth of cut on the z axis, the number of cutting edges and cutting angles.

The positional display shows present position on the x, y, and z axes, work piece number being machined, process number, tool pocket number, feed rate, spindle and cutting speed. Load figures for the cutting spindle and z

axis feed and over 200 alarm information elements are also displayed along with programming mistakes.

Typical savings with the programming unit — although relative to the programmer's ability — include five and a quarter hours on an aluminium casing that normally takes six hours and four and a half hours on a complex cam profile. Yamazaki at Worcester is opening its doors to engineers between 20 and 24 September to prove it.

This new system has been added to Yamazaki's latest vertical machining centre range aimed at the popular sectors covering 80% of components manufactured the VQC 20/40 A double column travelling headtype. With a 20 tool magazine, 7.5 hp ac drive and table travel x 635 mm, y 508 mm and z 460 mm and a throat measurement of 320 mm is available for under £46 000. The top of the range VQC 20/50 B type 1 000 x 508 x 460 mm 10 hp ac and two pallets is under £60 000.

While the go-ahead has been given for a European project, the decision still has to be made on the site, whether West Germany, Belgium or here at Worcester.

Meanwhile, the American factory is well on schedule and will be running by the end of the year. Since April the FMS line has been put through its paces in Japan and with complete confidence Yamazaki will be running the machine system on production at the Chicago machine tool show in September, manned only by robots. After the show the line will be installed in the Kentucky factory.

One British company could however gain from the stepping up of pressure with the new products. Renishaw from Wotton under Edge in Gloucestershire, manufacturers of the touch trigger probes, now feature in Yamazaki's latest catalogue which is no mean achievement. John Deer, managing director, could not comment on any contract decisions but says design, development and production are all going ahead with rapid expansion.

The re-education of people managing and using this type of equipment is important. The state of art shows that the job is becoming simpler. CNC programming 10 years ago was a brain teaser and a chore. That no longer applies and the technology must be accepted for production survival. But the UK machine tool industry has to be there with the products and the price in competition, and it must have the support on hand. E

For details of industrial development sites contact Gareth Isaac or Tony Parker, Dept FT, The Civic Centre, Newport, Gwent, Tel: (0633) 65491

Wednesday August 4 1982

et  
Appendix 10

# Sanctions demanded in U.S. over imports from Japan

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE U.S. machine tool industry is urging President Ronald Reagan to use his authority to deny investment tax credits to American companies buying certain machine tools from Japan.

They claim this untried weapon could help save major sectors of U.S. industry from annihilation by Japanese imports.

Under the U.S. investment tax credit system, a purchaser of capital equipment benefits in two ways: taxes are reduced by 10 per cent of the purchase price and tax deductions are permitted in the form of depreciation for the full purchase price. The combined effect is equivalent to a price reduction of about 15.18 per cent.

Mr Reagan was first formally petitioned to act on these tax credits earlier this year by Houdaille Industries, of Fort Lauderdale, Florida. The demand has won the official support of the nationwide Electronic Industries Association (EIA).

There is a high electronic content of the machine tools in question at the centre of the

demand — numerically controlled machining centres and Japan's share of the U.S. market for numerically-controlled machining centres jumped from only 3.7 per cent in 1976 to 50.1 per cent in the first nine months of 1981.

The Japanese share of the punching machine market rose from 4.7 per cent to 37.6 per cent over the same period. The industry says there is a "substantial likelihood" that these trends will continue.

Industry officials are unsure how long the White House will take to act on the petition, given that there is no precedent, and no existing procedural machinery to deal with it.

The U.S. Trade Representative's Office, however, has agreed to proceed as expeditiously as possible, and a ruling could come within 60 days.

The industry argues that Presidential action would achieve a number of objectives: First, it would allow the American machine tool industry to compete with Japanese imports on a more equal basis, saving jobs and averting bankruptcies.

Secondly, Houdaille says, it would prevent the undermining of American defence readiness, which would be compromised by dependence on foreign sources for numerically-controlled machine tools.

Third, it would send a clear signal to Japan that U.S. Administration does not intend to stand idly by while Japan targets and picks off major American industrial sectors.

The EIA says that denial of investment tax credits could have a sufficient impact on Japanese imports to force Tokyo to respond in a meaningful way to U.S. trade concerns—unlike the patchwork of "largely ineffectual" anti-dumping, countervailing duty and escape clause remedies.

Presidential authority to order withholding of tax credits is contained in an obscure section of the Revenue Act of 1971, which says that such action may be taken if a foreign country engages in "discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting U.S. commerce."

The EIA believes that Houdaille has amassed a watertight

case proving that the Japanese Government is not only tolerating a domestic and international machine tool cartel, but that over the years it has actively encouraged its formation and operation.

Houdaille's evidence is contained in a copyright petition hundreds of pages long and three-and-a-half inches thick. The evidence is said to have been painstakingly obtained in a series of interviews with senior Japanese officials and from Japanese documents never before translated into English.

Among many other charges, Houdaille says that the Japanese Government is diverting millions of dollars worth of yen generated by Japanese betting on cycle and motorcycle races into export industries, including the machine tool cartel.

Price-fixing in the machine tool industry, it goes on, is formally immunised from Japan's anti-monopoly law, and the Tokyo Government has covertly granted the cartel informal immunity for other practices that restrict competition.

# Carron Holdings calls in receivers

By Charles Batchelor

CARRON HOLDINGS, the Falkirk maker of baths, sinks and pillar boxes, called in the receivers yesterday in the face of mounting losses.

Carron's shares were suspended at 18p—below the par value of 25p—putting a market valuation of only £3.02m on the company.

The company was founded in 1759, and supplied cannon to Wellington's armies at Waterloo and Nelson's fleet at Trafalgar. In more recent times it has concentrated on making pressed steel sinks, cast iron, steel and plastic baths, radiators, gas and electric cookers and Post Office pillar boxes.

The recession had reduced markets in almost every sphere of Carron's activities last year, it said in its latest annual report. Housing starts remained at a low level, while last winter's severe weather brought building to a standstill.

In a statement released yesterday Carron said the difficult trading conditions of the past 2½ years had led to losses which had put a severe strain on the group's resources.

The sale of assets, much of it property not required for manufacturing activities, went much more slowly than originally expected, it added.

The CBI's July trends survey is a picnic. On the menu *minceur*—are destock orders, weakening of intentions and generation of optimism. Wh happens curious, particular the survey was put when base rates were higher than they are how little concern there to be about the level rates as a direct consequence of investment.

West Midlands businesses, which see general liquidity problems to some extent an excellent new investment their top priority, a general complacency about the level of demand, the problem of securing adequate return—largely a function of

At present the Government seems unwilling to correct alleged deficiency of demand by cutting interest rates, which, in falling as rising, are the principal economic management not at all clear from survey that cheaper money will encourage manufacturing companies, at any rate a larger financial de

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# £500m tranche of Treasury stock

Appendix "B"  
20

CONFIDENTIAL

The following companies, manufacturers of NC lathes and or machining centres are experiencing very severe market conditions throughout the world.

There has been a serious deterioration this year and the companies see no prospect of a viable future given the current market conditions.

The main problem arises from the over-supply of Japanese NC lathes and machining centres, which are accumulating in unsold stocks around the world, and further depressing already weak markets.

Urgent assistance is sought from the British government to enable the UK machine tool companies, who are dependent on NC lathes and machining centres to survive in the short term.

The companies are all engaged in measures to improve their operating effectiveness and they stress that these activities will continue - but in order to survive they need a breathing space.

SIGNATURES

- ..... Alfred Herbert Company Ltd
- VH Balding* *Signe o Ketch. 10.8.82* ✓  
..... Balding Engineering Ltd
- ..... The Butler Machine Tool Co Ltd
- ..... Cincinnati Milacron Ltd
- ..... Dean, Smith & Grace Ltd
- ..... Kearney & Trecker Marwin Ltd
- ..... The 600 Group
- ..... Stuart Davis Machines Ltd
- ..... TI Machine Tools Ltd

9

APPENDIX C

DRAFT FROM PRESIDENT OF MTTA TO PRESIDENT OF CECIMO

Those of our members concerned with the manufacture of NC machine tools are increasingly concerned at the penetration of Japanese machines whose market share has risen from zero to over 50% in five years.

Since this was discussed at the Hague meeting matters have deteriorated. In the absence of a lead from CECIMO national delegations and national governments will be forced to take action for there is a real danger that the European NC machine tool industry will be eliminated as other industries already have.

-----

Table 1 Japanese share of total U.K. market (percent)

Year	All machine tools	NC lathes		Machining Centres	
	by volume	by volume*	by value	by volume*	by value
1977	1.8	21	9	1	2
1978	2.7	33	21	11	9
1979	3.3	40	22	22	13
1980	5.9	53	31	41	29
1981	6.4	43	31	55	41

Source: Dept. of Industry  
Customs & Excise

- Notes: 1. "Volume" figures are in terms of number of machines.
2. No volume data are given for "all machine tools", because the figures are substantially affected by erratic large shipments of machines of very low value.



Figure 4. Size of domestic market and proportion taken by imports

Major countries, 1981

Source: American Machinist

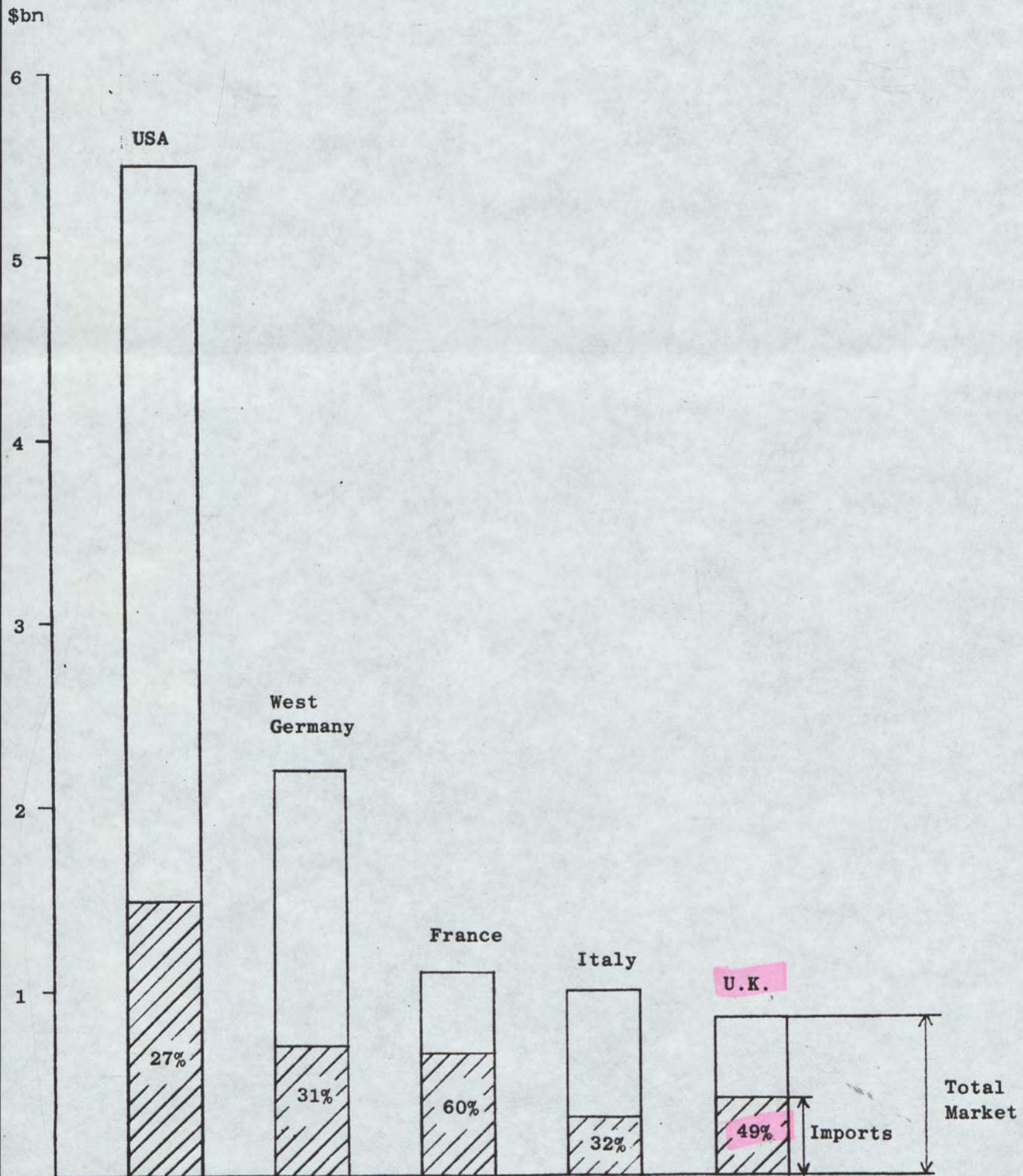
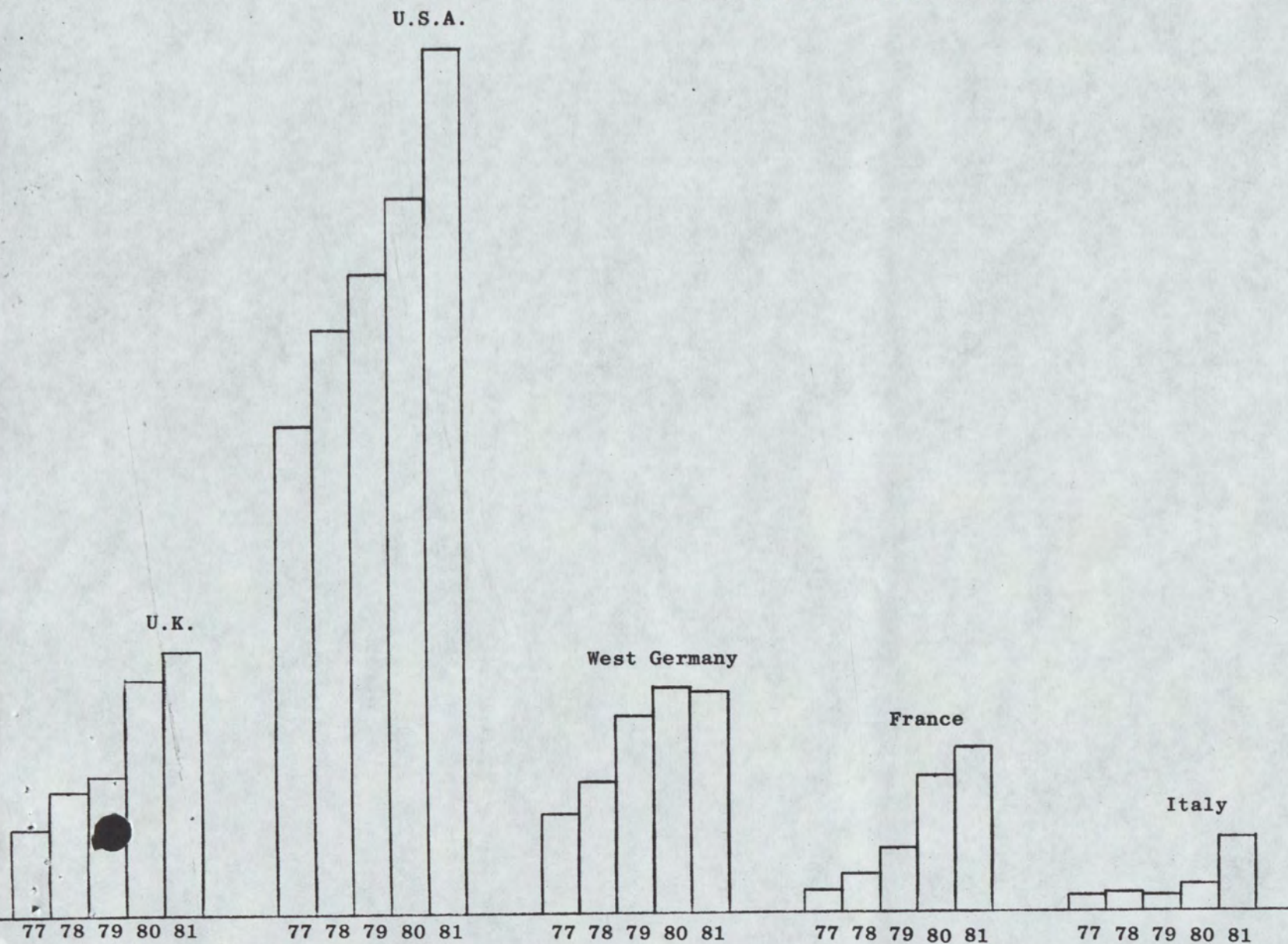


Figure 5. Japanese imports as percentage of total imports

Major countries, 1977-81

Source: National Trade Statistics



Prime minister

You will see from this that the Department of Trade and Department of Industry are already pursuing the problem raised by Sir Julian Ridsdale. They hope to put proposals to ministers early next week.

CONFIDENTIAL FRAME EXTERNAL

GRS 434  
CONFIDENTIAL  
FRAME EXTERNAL  
FM FCO 241800Z AUG 82  
TO PRIORITY TOKYO  
TELEGRAM NUMBER 316 OF 24 AUGUST  
INFO UKREP BRUSSELS

Please keep them to it. Though damage has been done already

LM  
26/8

EXPORTS OF JAPANESE MACHINE TOOLS

1. MINISTERS ARE SHORTLY TO CONSIDER WHETHER HMG SUPPORT SHOULD BE GIVEN TO UK MACHINE TOOL INDUSTRY'S WISH TO SET UP INTER-INDUSTRY UNDERSTANDING WITH JAPANESE INDUSTRY SO AS TO RESTRAIN LEVELS OF EXPORTS OF NUMERICALLY CONTROLLED (NC) MACHINING CENTRES AND LATHES. ISSUE WAS RECENTLY DISCUSSED BY INTER-DEPARTMENTAL COMMITTEE

(COPY OF PAPER AND MINUTES ARE BEING SENT BY CONFIDENTIAL BAG) WHICH AGREED THAT IF, AFTER FURTHER EXAMINATION OF INDUSTRY'S CASE, MINISTERS DECIDED THAT ACTION IN ONE OR BOTH SECTORS WAS JUSTIFIED (THE CASE FOR MACHINING CENTRES BEING THE STRONGER), STEPS SHOULD BE TAKEN TO TRY TO SECURE A VRA.

2. DOT/DOI WILL BE SUBMITTING TO MINISTERS WITHIN COMING WEEK POINTING TO HIGH JAPANESE PENETRATION OF UK MARKET (ESTIMATED 42 PER CENT BY VOLUME FOR LATHES IN 1981 AND 55 PER CENT FOR MACHINING CENTRES) AND DAMAGE CAUSED TO UK INDUSTRY. DEFINING DAMAGE AS CAUSED BY JAPANESE COMPETITION RATHER THAN ECONOMIC RECESSION MAY PROVE DIFFICULT, AND BOTH DOI AND MACHINE TOOL TRADES ASSOCIATION ARE WORKING ON THIS. BUT GIVEN LEVEL OF CONCERN ABOUT TRADE RELATIONS WITH JAPAN IT APPEARS PROBABLE THAT DOT/DOI MINISTERS WILL WANT TO PURSUE SOME FORM OF ACTION.

3. THESE PRODUCTS ARE ALREADY UNDER COMMUNITY WIDE SURVEILLANCE. WE SHALL WISH TO ENSURE THAT COMMISSION WILL RAISE NO OBJECTION TO INFORMAL BILATERAL UNDERSTANDING AND WE WILL INITIATE CONTACTS WITH THEM ON THIS ONCE WE HAVE MINISTERIAL CLEARANCE. MEANWHILE, GRATEFUL FOR YOUR VIEWS ON CHANCES OF SUCCESS WITH JAPANESE. WHILE YOU OBVIOUSLY CANNOT PRESENT MITI WITH ANY SPECIFIC PROPOSAL AT THIS STAGE, WE ARE CONSCIOUS

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THAT THE PRIME MINISTER'S VISIT NEEDS THOROUGH PREPARATION AND SHE IS UNLIKELY TO SECURE ANY POSITIVE COMMITMENT IF WE SPRING THIS ON MITI AT THE LAST MOMENT. IT MAY BE HELPFUL THEREFORE IF YOU WERE TO WARN MITI THAT THE PM MAY WELL EXPRESS CONCERN ON THIS SUBJECT DURING HER VISIT, AND THAT AN OPTION BEING CONSIDERED IN LONDON IS POSSIBILITY OF AN INTER-INDUSTRY UNDERSTANDING. FOR YOUR OWN INFORMATION AT THIS STAGE, THE MTTA WILL BE SENDING A DELEGATION TO JAPAN IN OCTOBER FOR THE MACHINE TOOL FAIR AND THIS COULD BE THE OCCASION FOR CLINCHING THE DEAL.

4. YOUR TELNO OTTER 3 ASKED FOR CONSIDERATION OF PRIORITY ON DIFFERENT SECTORAL RESTRAINT PROBLEMS. DOI ADVISE THAT MACHINE TOOLS SECTOR IS MORE IMPORTANT THOUGH, HAVING APPARENTLY MADE SOME HEADWAY WITH MITI ON FORK LIFT TRUCKS, THEY WOULD BE RELUCTANT FOR EFFORTS TO ACHIEVE BITA/JIVA TALKS TO BE PUT ON ONE SIDE.

PYM

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