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Anglo-Japanese Model (2)

Prime Minister

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FCS/82/132

THE MINISTER FOR AGRICULTURE, FISHERIES
AND FOOD

Trade Relations with Japan

1. Thank you for your letter of 6 September. I have dealt separately with the specific issue of machine tools but it may be worth adding a few points about our general approach to relations with Japan.
2. We all agree that a serious problem exists and share your sense of frustration. But I am sure it is not your intention to imply that members of this Administration have ever been less than robust in our dealings with the Japanese. At the same time we have taken the view, confirmed most recently by OD on 27 May, that it would be counter-productive, particularly in terms of our efforts to attract inward investment from Japan, for us to get out ahead of other major industrialised countries in bringing pressure to bear. I acknowledge your point that the United States carries more clout with Japan than we do. But I really do not think the Americans can be said to have achieved particularly impressive results on the trade front so far. Their 1981 trade deficit with Japan (\$15.8 billion) was comfortably in excess of the estimate for the European Community as a whole (\$11.3 billion). To my mind this reinforces the conclusion reached by OD that what we really need is a powerful international consensus to bring about effective movement on the part of the Japanese, and that, without taking the lead, the UK should encourage the development of such a consensus. I realise that the EC has not gone nearly so far, nor so fast, as we should

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have liked. But some progress has nonetheless been achieved in working out a common Community approach and I am strongly of the view that it deserves our support. This is a point the Chancellor made in earlier correspondence and it has been very effectively reinforced by the President of the CBI whose recent letter to the Prime Minister says that:

'... pressure on Japan ... should be mainly from European sources ... it is desirable to avoid specific anti-British attitudes being generated in Tokyo ...'

3. In the last resort import controls always remain a possibility. I note Nicholas Ridley's explicit support for action under the bilateral Treaty if the Japanese prove uncooperative over machine tools. But I think we should bear in mind that this - which would require Community support - is not a cost-free exercise. As Arthur Cockfield points out, the Treaty gives the Japanese an automatic right to retaliate. Our exports to Japan are not so negligible that we can afford to discount this possibility, nor do I think we should lose sight of the fact that we should in effect be exposing sectors of British industry which are competitive in Japan (many of them in food processing) to the risk of having to pay the price for giving protection to those sectors which are hardly competitive in their domestic market. This is quite apart from the risk of damage to our wider interests outlined in the previous paragraph.

4. This is not to say that I am in any way opposed to continuing to take a strong line with the Japanese. Indeed I reiterated our concern about trade to the Japanese Foreign Minister when he called

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on me on 3 September. But all these considerations combine to reinforce my view that the Prime Minister will want to consider carefully in the light of these considerations and those in my earlier letter the terms in which she presents our case for export restraint to her Japanese counterpart.

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

JP

(FRANCIS PYM)

Foreign and Commonwealth Office
15 September 1982

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