

MR. COLES ✓

Japan Policy Prime Suzuki

A & C. 20/9

Mr. Kato expressed concern to me that neither Prime Minister had had their promised discussion on East-West relations, with particular reference to the Soviet pipeline and the Japanese difficulty over the Sakhalin oil and gas project. He urged me to brief the Prime Minister to raise this topic over dinner tonight with Mr. Suzuki. The Japanese would like to have our views on how to solve the problem of "this entanglement with the US". They were encouraged by Mrs. Thatcher's preliminary comment to Mr. Suzuki during his welcoming call to the effect that the fundamental unity of the alliance had not been affected.

Mr. Kato is in any case briefing Mr. Suzuki to touch on this topic during dinner tonight.

Suggested points to make

1. Interested to hear how Sakhalin project has been affected by American measures.
2. Agree that this difficult Transatlantic dispute only benefits the Russians.
3. Doubt US view that trade can be used as a lever to achieve the sort of political and security changes in Soviet policy which they appear to envisage.
4. This is particularly true when the ^{of} three industrial democracies have firms which have already committed themselves in contracts.

Background

The Japanese appear to have ^{accepted} ~~expected~~ that they will not be invited to go to the meeting of Foreign Ministers in the US to

/ discuss

discuss the problem, but Mr. Kato has said that the Japanese Prime Minister attaches importance to solidarity, and will follow the discussions in America "with keen interest".

Arnold

20 September, 1982

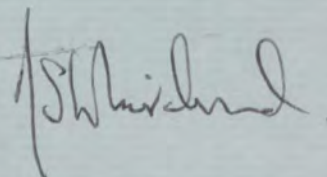
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Private Secretary (Mr Coles)

h.a.

PRIME MINISTER'S MEETING WITH MR SUZUKI ON 20 SEPTEMBER

1. I saw Mr Kato again this afternoon and spoke as agreed.
2. On the agenda I said that the Prime Minister would prefer to take item (vii) "UK/Japan bilateral economic problems" immediately after item (i) political cooperation between the UK and Japan. Item (viii) on technological cooperation could follow. Thereafter the agenda might be as suggested by the Japanese, taking East/West economic relations next.
3. The Prime Minister agreed that the Middle East, South East Asia, Korea etc. could be left over to the talk with Mr Sakurauchi.
4. The Prime Minister would be prepared to have an exchange of views on the situation in the Federal Republic of Germany. (It is not clear exactly when this will come but Mr Suzuki will lead into it by asking for the Prime Minister's views at a suitable moment.)
5. On Japanese interest in being included in the Five-Power Foreign Ministers meeting in New York later this month, I said that this presented difficulties. The French had only reluctantly agreed to attend. On the other hand, the Netherlands and the Commission were both very keen to be included, although my understanding was that they would not be. This was a preparatory meeting and participation might most reasonably be limited to countries involved in the pipeline and which had had denial orders issued by the United States against shipments. In the future, there should be wider discussions in the Group of 7. Some consideration might be given to bringing forward the next SHERPAs meeting and possibly to advancing the next Economic Summit.
6. Mr Kato took note and said our position was clear. In particular, he noted the exclusion of the Netherlands and the Commission. He repeated that Japan was prepared to participate but was not specifically asking to do so. In response to my question, he said that Japan had not yet approached any other countries about this.
7. In these circumstances, I said that presumably Mr Suzuki would not raise the matter in the way that had been proposed by Mr Kato yesterday although the general subject would undoubtedly come up. The Japanese will, I think, wish to be kept closely informed of progress at the meeting; there might be some advantage in the Prime Minister offering to do this.



19 September 1982

J S Whitehead

TALKS WITH MR. SUZUKI

1. Political Co-operation between the UK and Japan
 - (a) Need for closer consultation a main theme of 2 speeches - at your banquet tonight, and at Press Club tomorrow.
 - (b) Want to hear Japanese views on many world problems.
 - (c) We have annual consultations at Foreign Minister level. Recently agreed to have regular consultations at official level on East/West affairs, Africa and the Middle East and aid. Good.
 - (d) We must maintain contact at our level. Hope you will feel free to send me messages on matters of importance to you. (Hope you will visit us in London soon).
 - (e) Differences over Falklands. Disappointed at the time, but that is now in the past. UN General Assembly - we can't negotiate with Argentina.

We hope U.S. are anxious about this.
Consultation - to joint action.
No institutional framework - like E.C. N.A.T.O.

2. Economic Co-operation between the UK and Japan

- (a) Thanks for rapid translation of your speech.
- (b) Shall be speaking publicly about UK welcome for Foreign investment. Only 24 Japanese manufacturers

in UK - compare 180 from Germany and 1000 from USA.

✓ 7,000 jobs so far. - note had beginning.

(c) DOI/MITI agreement. List of projects of interest to UK handed to MITI in May. Look for progress at next official talks in Tokyo in November. Disappointed at lack of progress from Japanese side.

←

Only 2 for MITI.

but denied.

(d) Recent import packages welcome. But impact on growing trade deficit with UK not likely to be significant.

Want Japan to change attitude to foreigners.

(e) Acute need for Japan to increase imports of manufactured goods. 3% of GDP for Japan compared with 6% for EC as a whole and 5% for the US.

Further

(f) Hope to sell you British Aerospace 146 when your domestic fleet replaced in 3 to 4 years. Also, consider Harrier and other defence equipment.

Wanna 1000.
663:
990. 1000.

1980. \$5-
~~1981~~ \$5
1982
Sea Harrier
Search-velvet
action

(g) Welcome effective operation of vehicles understanding and Japanese government contribution.

✓

Assn. of British Chamber of Commerce.

(h) Bilateral inter-industry understandings essential to avoid need for Government intervention.

✓

British can - Sea / (i)
Harrier.

(i) especially concerned about level of exports of numerically controlled machine tools to UK.

Japanese penetration of market for nc machinery centre increased from 1% in 1977 (by volume) to 60% in 1981 - and of UK nc lathe market from 21% in 1977 to 44% in 1981. Will Japanese government ask its industry to meet ours and try to reach an understanding on export levels of nc machine tools?

On manufacturing in U.K.

*Talks by October, within
2-3 weeks, within
MITA*

3. Technology agreement

Officials have reached agreement on joint statement (Flag A) envisaging further discussions with a view to preparing a draft text. I want an agreement that means something and brings practical benefit. (if necessary). Exclude science - would undermine Anglo/Japanese cultural agreement and Royal Society agreement and dilute value of agreement concentrating on technology.

4. East/West Economic Relations

- (a) New York Foreign Ministers' meeting (UK, US, Germany France and Italy).

We wanted this ages ago but French obstructed. Have at last agreed. These 5 are all involved in specific project. (Siberian pipeline) and have had US denial orders against shipment. They then have a particular problem to discuss. But there should be wider discussions later in Seven. Could consider bringing forward meeting of 7 personal representatives, and perhaps even Economic Summit.

- (b) Sakha lin - how affected by American measures?

5. China

- (a) Impressions of party congress
- (b) Deng's position
- (c) Suzuki's own visit - where going?
- (d) Do Chinese listen to Japan?
- (e) Hong Kong - we shall do everything possible to maintain

Hong Kong as a prosperous and stable financial and commercial centre. Chinese must understand that if they harm confidence by unreal plans for its future, great harm could be done.

6. India

Suzuki to lead (item is at their suggestion).

7. International Economic Situation

- (a) Banking crisis. Mexico. Argentina (?) Eastern Europe.
- (b) World recession beginning to affect Japan.
- (c) Need for greater Japanese reliance on domestic growth. Speed with which Japan reduces budget deficits should take account of short-term private demand.

The Yen.

8. GATT Ministerial Meeting

EC decision to seek consultations with Japan under dispute. Settlement procedure of GATT reflects increasing anxiety felt throughout EC at present unsatisfactory situation.

Hope you will respond constructively. Otherwise have to consider option of further action in GATT.



The two Prime Ministers have noted the progress which has been made in industrial and scientific cooperation between Britain and Japan. They agreed that further efforts should be made in the field of technology. They have accordingly instructed their officials to hold further discussions with a view to preparing a draft text.

UK exports to Japan

| | |
|----------------------|--------|
| 1979 | £ 600m |
| 1980 | £ 600m |
| (first 10 mths) 1981 | £ 519m |

UK visible trade deficit with Japan

| | |
|---------------------|--------|
| (first 6 mths) 1982 | £ 990m |
| " 1981 | £ 643m |

EC visible trade deficit with Japan

| | |
|---------------------|---------|
| 1980 | \$9.3b |
| 1981 | \$10.3b |
| (first 6 mths) 1982 | \$4.7b |

Imports of manufactured goods

| | |
|--------------|-----------|
| <u>Japan</u> | 3% of GDP |
| EC | 6% of GDP |
| US | 5% of GDP |

MS

Prime Minister.

MR. BUTLER

c.c. HE
Mr. Whitehead

The International Trade Scene

This note is intended to show how various trade aspects are inter-related and to highlight the main points. The Prime Minister can use any or all of it. There is some deliberate deference to some Japanese points of view.

2. The UK and Japan as large trading nations both have a vital interest in a healthy trade and payments system. The problems at the present time are immense - from a protectionist US Congress to huge indebtedness in e.g., South America.

3. Japan and UK both recognise need for prudence and careful management - for the recession itself adds to the tensions and makes these more difficult to handle. That is why we support the holding of the GATT Ministerial in November - in the hope that some problems can be solved or put on the way to solution and confidence in the GATT system maintained.

4. GATT Ministerial still needs more preparation - difficult issues need careful handling, but we have great confidence in Arthur Dunkel (who has just left Tokyo) and whom the Prime Minister met privately in Geneva.

5. No secret that were some hesitations in some EC elements about whether risk of GATT Ministerial failure made postponement the wiser course. We ourselves did not hesitate, and those who did have come round to our point of view.

6. Japan and UK both have much to fear from US protectionism - understand new cases imminent against Japanese steel imports and powerful lobbies want virtually to exclude all imported cars. Not only danger of loss of US market - but spiral that US protectionism would cause. Our protectionist elements would ask us to emulate the US.

7. We do not doubt that US Administration doing its best. But they, like EC, find Japanese propensity to import manufactures too low. Nobody is saying that Japan should not have surplus on manufactures to buy food raw materials - she must. What the EC and US are saying is that Japan has not yet fully participated in the exchange of manufactured goods between industrial nations that has formed a dynamic part of world trade picture.

8. Illustrate this in two ways. First, Japan's imports of manufactures as per cent of GDP is around 3 per cent. The US is 5 per cent and the EC 6 per cent, and in both the US and EC this figure has been rising. Second, compare Japan's imports of manufactures per head with others.

1980: \$ per head

| | |
|-------|------------|
| Japan | 230 approx |
| US | 550 approx |
| EC | 800 approx |

9. We welcome the two import packages introduced this year. But we particularly welcomed Mr. Suzuki's statement on the occasion of the second package calling on public officials and private firms to "extend a welcoming hand to foreign products and investment". We acknowledge that the average tariff in Japan - on industrial goods - is low. But the Japanese economy was fairly closed until a decade ago, so it was good that the situation as it is now was underlined by Mr. Suzuki. We know, of course, that it is our job to sell our products, but when they are good we want a fair chance.

10. The EC action in GATT under Article 23 should be seen in this light. Recognise that Japan finds complaint broadly based, but two points:-

/ (a)

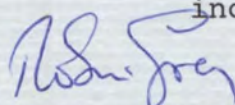
- (a) We are not asking Japan to change whole social system but to bring home the perception of an unequal balance of advantage in EC/Japan trade.
- (b) Use of GATT procedures strengthens GATT and in every way preferable to protective threats as for example from US Congress.

]]. The fact that EC Foreign Affairs Council will not this week have Japan on its agenda does not mean divisions or loss of interest. We have immediate problems with US on pipeline and steel. The concern about Japan is shared in the Community and there has been much drawing together of member states, including Germany, in the past 2 years.

]2. In general UK/Japan problems being handled by common sense and prudence. Welcome investments we have and want more to create jobs. Understandings in a number of sectors working well - on numerically controlled machinery centres and lathes there are difficulties with Japanese imports rising sharply over past few years to take half the market. Britain must have a capability of its own in this area. Hope therefore that discussion and cooperation between our industries can be pressed forward urgently.

]3. It seems hopeful that UK/Japan problems can be managed by mixture of:

- (i) prudence in Japanese exports (especially at this difficult time)
- (ii) Vigorous selling by us, with your public welcome
- (iii) A growing exchange of texhnoogy and investment in all industries - service or manufacturing.


ROBIN GRAY

19 September, 1982.