cc HMT
CO
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PM

10 DOWNING STREET

THE PRIME MINISTER

24 December 1982

Dear George.

Thank you for your letter of 25 November about the need for expanding the UK car market, and the way in which this might be achieved. I understand that since our meeting on 18 October you have met Geoffrey Howe to present your arguments in some detail, particularly in relation to Car Tax and have had informal discussions with John Wakeham and Jock Bruce-Gardyne.

I am afraid I cannot say more than this at the present time.

Yours sincerely

Margaret Thatcher

G.H. Turnbull, Esq.,

CF

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Michael Scholar Esq
10 Downing Street

21 December 1982

Dear Michael.

Your letter of 1 December requests a draft reply for the Prime Minister to send to George Turnbull of the SMMT.

You will notice that we only suggest a brief reply. This is because the Chancellor has already had a detailed presentation of the case from the SMMT at which he had a chance to examine their arguments, which were as set out in the letter sent to the Prime Minister. We think it therefore necessary only to refer to that conversation and to assure Mr Turnbull that we are considering the Industry's case fully.

why? MLS.

Yours sincerely,

Jill Rutter

JILL RUTTER

Pl type for PM

DRAFT TO THE PRESIDENT OF THE SMMT

Thank you for your letter of 25 November about the need for expanding the UK car market, and the way in which this might be achieved. I understand that since our meeting on 18 October you have met Geoffrey Howe to present your arguments in some detail, particularly in relation to Car Tax and have had informal discussions with John Wakeham and Jock Bruce-Gardyne.

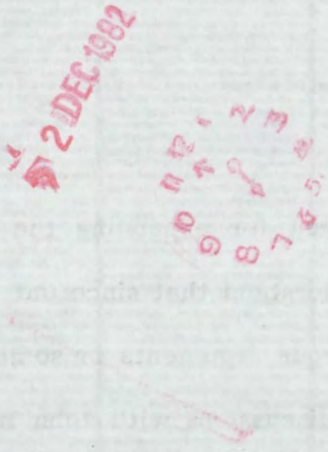
I can assure you that the points you have raised in your letter will be carefully considered, and the arguments for action on Car Tax thoroughly examined. ~~As you say, the possible~~ effect on the level of imports is one of the factors to be taken into account, and we shall be keeping a close eye on the industry's performance during the coming month ~~or two.~~

I am afraid I cannot say more than this at the present time.

MT

PM: Meeting with G Turnbull (SNMT):

Oct 82.



DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Michael Scholar Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

15 December 1982

Dear Michael,

Your letter of 1 December enclosed a letter from Mr Turnbull of the SMMT about Japanese vehicle imports. A draft reply is enclosed on which the Department of Industry has been consulted.

As noted in the E Committee paper on United Kingdom/Japan taken today, a reduction in the Japanese share of the United Kingdom market below 10% would require formal HMG action. The attached draft stresses the need for JAMA to ship cars in 1983 at the same level as this year, which would lead to an overall share around 10.4% - on the basis of a rather larger United Kingdom market next year.

We have not yet received a detailed report of the recent SMMT/JAMA talks at Leeds Castle. It is clear, however, that the talks for 1983 were less satisfactory than for 1982, in that JAMA's commitments for 1983 on shipments of cars and light commercial vehicles were less detailed than those given for 1982. JAMA's reply to Mr Turnbull's letter to them, setting out the SMMT's undersanding of what was agreed, will be important indication of JAMA's interpretation of the talks.

After eleven months of 1982, Japanese import penetration is 11.1% for cars and 11.7% for LCVs. Shipment levels at the eleven month point were within agreed levels.

Yours sincerely,

JOHN RHODES
Private Secretary

PT Type for PM as amended

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

CONFIDENTIAL

G H Turnbull Esq
President
The Society of Motor Manufacturers
and Traders Limited
Forbes House
Halkin Street
LONDON
SW1X 7DS

Thank you for your letter of 26 November about the SMMT's talks with JAMA. I was glad to hear that shipments for both cars and commercial vehicles overall this year are expected to be in line with the earlier undertakings given by JAMA.

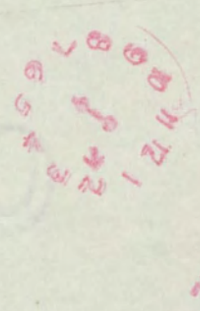
As you know, the Government is most concerned that the understanding should work effectively. I made this quite clear to the Japanese government during my visit to Tokyo in September as an important point of our drive first to contain and then to reduce the enormous imbalance of our trade with Japan. Though most of the increase in this deficit is due to rising levels of imports in other sectors, vehicle imports from Japan constitute a very significant proportion of the total. I was therefore most disappointed to note that JAMA would not give any specific quantitative undertaking on shipments next year, either for cars or commercial vehicles. When you next have discussions with JAMA - which I note may be early next year - I hope that you will press for a more detailed commitment on shipment levels, and even phasing in 1983.

I fully appreciate your view that it would be difficult for JAMA to be persuaded to make a very significant reduction in shipments without further HMG involvement. However, a more specific commitment by JAMA to ship the same number of cars in 1983 as this year - given your higher estimate of the United Kingdom market - would be ~~an important sign~~ better than nothing of progress. I would hope you would also be able to clarify the position on light commercial vehicles to ensure that JAMA have accepted your proposal for a market penetration based on the average of the years 1978/79/80 and that JAMA will not be importing heavy goods vehicles to the United Kingdom. We would certainly do all we could to support you in this.

But I hope you will buy.

- END -

PRIME MINISTER Oct 82



10 DOWNING STREET

From the Private Secretary

1 December 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.H. Turnbull, President of the SMMT, dated 26 November. This reports his talks with the Japan Automobile Manufacturers' Association.

I should be grateful if you, in consultation with other departments, could provide a draft reply for the Prime Minister's signature, to reach me by Wednesday 15 December.

I am sending a copy of this letter and enclosure to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

John Rhodes, Esq.,
Department of Trade.

re: B.

10 DOWNING STREET

From the Private Secretary

1 December 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.H. Turnbull, President of the Society of Motor Manufacturers & Traders Ltd, about expanding the UK car market.

I should be grateful if you, in consultation with other departments, could provide a draft reply for the Prime Minister's signature, to reach me by Wednesday 15 December.

I am sending a copy of this letter and enclosure to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Miss Jill Rutter,
H.M. Treasury.

Ja 15

10 DOWNING STREET

From the Private Secretary

1 December 1982

I am writing on behalf of the Prime Minister to thank you for your letters of 25 and 26 November. These are receiving attention and a reply will be sent to you as soon as possible.

M.C. SCHOLAR

G.H. Turnbull, Esq.

2 pp's 2

FROM THE PRESIDENT - MR G.H. TURNBULL

SMMT THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.
FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS
TELEPHONE 01-235 7000

25 November 1982

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London S.W.1

R 26/11
by hand.

Prime Minister

Two letters from Mr Turnbull. One repeating his plea for the abolition of the 10% special car tax, and one reporting the outcome of his talks with the Japanese. We will let you have a draft reply.

LWR
26/11

Dear Prime Minister,

You were kind enough to allow me to discuss some of the wider problems of the United Kingdom motor industry at our meeting on 18th October and you will no doubt recall that I outlined the SMMT's case for expanding the UK car market. Such is our strength of feeling on the issue and such, we believe, is its importance to the British economy, that I hope you will understand why I felt I should write to you more fully on the subject.

Before going further may I say how much we appreciated the Government's action in July in abolishing Hire Purchase Controls. This gave equality of treatment to our products in competing for available credit and has led firstly to an upturn in demand for new cars and secondly, to faster movement of second-hand cars through the retail dealerships. The increase in our market is not yet great, although I am pleased to say that the UK share of this slightly bigger market has increased in October with the same trend continuing into the present month.

The problems of the industry, however, need a much more radical and strategic approach and in the view of the SMMT there is no doubt that if the British vehicle manufacturing and component industry does not increase its production and its profits - for the two go hand in hand - then it will fail to attract the investment it needs to compete with the rest of the world. In turn this will mean an acceleration of the industry's already rapid decline. In ten years British car production has already gone down by half from 1.8 million to 0.9 million units. The consequences on employment in the industry, presently running at 320,000, excluding electrical, glass and rubber industries, will be obvious. Perhaps less evident, though of the greatest gravity, will be the effect on the Balance of Payments where the nation will not only continue to lose the benefits of the exports produced by the industry, but will also, as its share of the domestic market collapses, have to pay for additional car and component imports. The total adverse effect on the Balance of Payments would, we estimate, be in the order of £5 to £8 billion per annum.

.../2

This is the real issue - the continuation or the collapse of the British vehicle manufacturing and component industry.

To obtain the investment we need, we know that more sales and more production are not the only requirements. We have to continue to improve our operating efficiency, the lack of which in the past two decades was a major contributory factor in decisions taken by multi-national companies to invest outside the UK. Happily our progress in the past few years in improved productivity and quality, and labour costs, has been considerable: and we will do more. But I emphasise that these measures will not be enough unless we can sell and produce more.

It has been said by the industry's critics that the remedy is in our own hands, that we should be competitive enough to win back lost sales from the importers. While we understand this point of view, such an approach to solving our problems is simply not realistic. There has been no such reduction in the share of the importers in European markets like West Germany, France and Italy where imports, excluding so called "tied imports" (imports of cars by companies who have manufacturing facilities in the country) were last year 27%, 28% and 45% respectively compared with 37% in the UK. What makes the UK's <u>total</u> imports appear so high is the level of tied imports from the multi-nationals who have, during the years of our industry's poor performance, invested largely on the Continent and moved their import share from 13% to almost 21% in four years.

This position cannot be turned around overnight: but I am satisfied from recent discussions with the multi-nationals that they would, given the prospect of a larger market in the UK, invest more in the UK and most certainly produce more in the UK. Such action would reduce the overall level of imports from the Continent, and eventually make it possible to consider exporting from the UK.

The SMMT fully acknowledges that the success of the Government in reducing inflation and in taking up positions based on principle and resolution has been a vital factor in helping us to change attitudes in our industry. Indeed, it is our support for the general thrust of Government policies which would make decisions to invest in the UK easier for our members. But these decisions do and must depend crucially on the size of the British market. Its present size and future projections based on present economic forecasts means it will simply not be big enough.

These are the principle reasons why we are pressing for the abolition of the 10% Special Car Tax at the earliest possible date. We deny emphatically that this would result in a bigger market share for imports, which we believe would decline from present levels. We would contend also that other ways of reducing the overall level of Government taxation, such as reducing personal taxation, would be far more likely to boost imports where we have little defence in industrial terms, eg sales of such items as videos, hi-fi equipment, televisions, radios and also, probably, an increase in spending on overseas holidays.

.../3

Moreover, we believe that tax received from a higher level of car sales and car ownership would by the second half of this decade more than compensate for immediate revenue losses.

Our UK motor industry is in great peril. We are determined to do our part to make it safe, but without the rapid creation of a bigger home market our efforts will almost certainly fail.

In summary, therefore, we believe that the abolition of the Special Car Tax must be regarded as an investment in the future and a means of giving Britain's largest manufacturing industry its second chance and, incidentally, a fair chance to compete with all the other consumer durables available in the market.

If it would be helpful I would, of course, be delighted to explain to you personally some more of the details of the motor industry's case.

Kind personal regards.

Yours sincerely.

George Turnbull