



PRIME MINISTER

*MS*

1) Mr Scherer

2) Pire Murkin

see also minute for

*Jr*

Mr Younger  
(attached)

4/5

VISIT TO THE USA: 8-20 APRIL 1983

The main purpose of my visit was to encourage investment in the UK by US companies; and to discuss views on the business climate both here and in the US. I also used the visit specifically to explore - in a meeting with the senior management of AT&T, at a presentation given by consultants Arthur D Little, and also at several meetings with individual companies in the sector - developments in the US telecommunications market and their implications for the UK. Besides a brief stop in New Jersey to meet AT&T, my visit took me to the West Coast - San Francisco, Santa Clara (Silicon) Valley and Los Angeles; Denver and Colorado Springs (including a meeting with Inmos); and to New Orleans, San Antonio and Houston in the South. Altogether I visited fourteen companies, had five formal speaking engagements in addition to many more informal discussion platforms, and had eleven sessions with the media including meetings with the Boards of prominent local newspapers.

#### Business Views

2 I found the high technology business community cautiously optimistic that a recovery has now started which is likely to be sustained. This optimism is tempered by past experience of



"recoveries" and by concern that the continuing Federal Budget deficit may yet cause interest rates to rise again. The picture elsewhere was less encouraging. The oil supply industries for instance have not yet started to recover from their depressed state.

3 When I spoke about the UK, I found that I was speaking to sympathetic even enthusiastic audiences. American perceptions of what is happening here are greatly improved. There is a strong contrast drawn between our success in curbing the PSBR and the failure of the White House and Congress to agree on measures to control the Federal Budget deficit. There is also growing recognition of the improvements in industrial relations, though the old "strike-torn" image still persists in some quarters. The message that, with the reliefs now available, Corporation Tax is one of the lowest in Europe comes as a surprise. High technology companies readily acknowledge the technological skills of the British workforce.

4 There is, therefore, considerable interest in the UK not just as a subsidiary manufacturing location, but also, increasingly, for joint ventures with UK companies. Whilst the recession has clearly affected business plans, I was able to discuss a number of projects for UK investments. In the telecommunications market especially I found companies were developing a keen awareness of the opportunities now opening up in the wake of our



liberalisation programme. Many were anxious for advice and I took the opportunity of explaining that we warmly welcomed foreign interest in our new markets when it brought added value to the UK. We asked that the process should be a reciprocal one; UK companies must be able to benefit from US liberalisation - something that is by no means always the case.

5 There is one point I would like to highlight out of these discussions: the importance which virtually all the high technology companies I met attached to the use of a generous stock option regime as a means of retaining and motivating high calibre executive staff. Time and again companies volunteered strong views on the importance of this incentive to their success.

#### Other issues

6 The sessions with the business and banking community and with the media proved valuable opportunities to educate business and community leaders in our policy over oil prices and extraterritoriality. I encountered considerable interest and an alarming degree of misunderstanding on our stance over the former. I was repeatedly asked whether it was the UK's intention to try to "manage" the price of oil on the assumption that we were, OPEC-style, critically dependent on the price fluctuations of this commodity. I had to spell out - to a surprised though usually receptive audience - that oil accounted only for a small



share of the UK's GDP and tax receipts, that we had consumer interests of greater importance to counterbalance our interests as a producer, and that our policy was therefore firmly market determined.

7 I also took every opportunity to spell out the considerable concern with which Europe, and particularly the UK, views the extraterritoriality issue and the possibility that the Export Administration Act will be renewed in its present form. Most businessmen received the message very seriously, as well they might in their own commercial interests. Indeed, it was clear many were pleased to hear support for a view they already held. On protectionism, there was agreement with our view in principle, though support tended to be less vocal!

#### AT&T

8 I had an extremely helpful meeting with senior management of AT&T including the Chairman of AT&T (Mr Charlie Brown) and the Chairman of AT&T International (Mr Jim Olson) which has, I believe, firmly laid the ground for future development of the investment opportunities in our respective markets. AT&T gave me a full and frank account of their views on telecommunications developments and their investment intentions in the UK. For my part, I explained our views on AT&T investment into the UK market and the sensitivities to which this will give rise if not



carefully and responsibly handled. We attached great importance to the benefits which AT&T could bring, through investments and partnerships, to the UK's manufacturing and R&D base; and we hoped very much that AT&T would make the UK its European base. The opening up of our markets should lead to value-added investments, not just screwdriver operations. We agreed that there should be further contacts at official level to progress ideas and ventures already under discussion - these include the production of radiophones, digital switching equipment and state of the art microchips (eg 256K Ram). In addition we have good hopes that they will make the UK the centre for their advanced communication services (ie all advanced forms of value added network services) outside the US.

#### Inmos

9 My meeting with Dr Petritz and his colleagues was reasonably encouraging though I have no doubt we shall need to continue exercising a careful watch on developments. I had to caution Dr Petritz on going outside his brief in his enthusiasm for promoting the US facility, through opportunities in the US market. Naturally enough, the company played down the technical difficulties which continue to affect the 64K Dynamic Ram. But they have lost no customers so far and are clearly confident that measures taken to improve the test facilities will go a long way to eliminate their current production problems. They were bullish about the financial prospects for 1983: whilst the

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forecast for the year is for an overall loss of £7m, they claimed to be on target for a return to profit in the last quarter. It is evident that the new Chairman we insisted on, Malcolm Wilcox, is making a considerable, and very welcome, contribution.

General

10 The CND campaign in Britain is getting wide coverage on the US television networks. Even while we were there I saw several interviews with the Greenham Common women, lengthy pictures of the Good Friday demonstration and not unsympathetic commentaries by media interviewers. The British Government's case simply did not come over at all. No-one had heard of Michael Heseltine's visit to the Berlin Wall, no-one knew the figures for the broad public support for our policy on the nuclear deterrent. Nor did Americans seem to be aware of the difficult arguments we had had with the Administration over the zero option. (I mentioned all this to Michael Heseltine before his 4-way discussion on television with Henry Kissinger and others last weekend.)

Conclusion

11 I was once again very impressed by the arrangements made by our posts in the United States for most effective programmes. There are two points I should like to record. First, I was particularly impressed by the excellent media coverage arranged



in my programmes - a lesson no doubt learnt from exposure gained through the Falklands crisis - and I am convinced that this added considerably to the impact which I was able to make. Second, it is evident to me that at least in some places the necessary co-ordination of the IBB's national efforts to promote investment in Britain with the separate regional promotion efforts of Scotland and Wales is not effective. I was told, for instance, that the Scottish effort to promote Scotland as a separate entity led to a survey finding in one area that people believed that Scotland was not in the Common Market! I am bound to say that with each visit I make, I become more and more unhappy that the proliferation of Territorial and Regional offices is divisive and is becoming counter productive. To have separate and competing offices in say New York and San Francisco while our post at Houston has to cover an area which stretches from Denver to New Orleans seems a misuse of the available resources. We are due to review in E(EA) in mid 1984 the arrangements we agreed in July 1982. There would, I believe, be advantage in taking an earlier look and I shall be following this up in E(EA).

12 I would like to express my thanks particularly to Mr Hugh Overton, Director, British Trade Development, New York, Mr David Lawrence, Deputy Consul General in San Francisco, Mr and Mrs George Finlayson with whom we stayed in Los Angeles, Mr Richard Tallboys who accompanied us in Denver, Houston and New Orleans - and to Mrs Tallboys for organising a most valuable

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buffet reception - and also to the Honourable James Coleman Jr who is our acting Consul General in New Orleans. I was able to give a small dinner party in his honour, inviting a number of prominent local citizens and there is no doubt that this was much appreciated. He does a magnificent job for us.

13 I am copying this minute to Geoffrey Howe, Francis Pym, Jim Prior, Michael Heseltine, George Younger, Nicholas Edwards, Nigel Lawson, Arthur Cockfield and to John Sparrow.

PJ

P J

4 May 1983

Department of Industry

POST-SCRIPT:

Telecoms liberalisation really works! I spotted a cut-price phone shop called "El Cheapo Belle"!

P. J.