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PRIME MINISTER

VISIT TO THE WEST COAST OF THE UNITED STATES

I visited Los Angeles, the San Francisco area and Seattle in the week of 13-18 May. This visit was complementary with the one which I paid to Washington and New York in February.

2 California is now the most populous state in the USA, with 25 million people. It is also one of the most prosperous. It has been calculated that if California were an independent country, it would rank seventh in the world in terms of GDP. The Greater Los Angeles area alone would rank fourteenth. As well as being one of the most prosperous consumer markets in the world, with an average family income of about \$35,000 (£25,000), California has the largest concentration of aerospace and defence industries, mainly in the south, and the most important single centre for the exploitation of modern electronic technologies in "Silicon Valley" to the south of San Francisco. The state is thus a prime target for my Department's efforts both to

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promote exports to countries where we can expect payment, and to attract inward investment of high quality, particularly in the high technology industries.

3 The combination of economic recovery in the US and a favourable exchange rate provide a unique opportunity for our firms to expand their exports to the United States. They are taking advantage of it, with non-oil sales to the US up by 30% in the first quarter of 1984 compared with the same period of 1983. There is strong evidence of an upsurge in interest on the part of British firms in selling to the West Coast. But the figures available suggest that our market share on the West Coast still lags behind that in the East and the mid-West; and in places I saw evidence that our European competitors may have a stronger presence in some consumer markets than we do. The British Overseas Trade Board are mounting a number of carefully targetted initiatives to try to improve the situation; promotions of British goods will be mounted by several department stores on the West Coast in the autumn; special efforts are being made to promote exports in eight "priority sectors" which our Posts have identified as being particularly promising; and a professional market research study is being undertaken into the extent to which British firms who sell well on the

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East do less business in the West, and the reasons for it. I am confident that the effect of these actions will be to boost our sales further.

4 It was clear from my meetings that the UK is seen by many firms on the West Coast as the natural location for investment in Europe, now strongly reinforced by our industrial and taxation policies which are seen as highly favourable to business. Among the firms I visited in Silicon Valley, two are inward investors on a significant scale; the others were clearly interested in the UK. I was also told by Litton Industries in Los Angeles that they were planning to enter the European market for microwave ovens by forming a joint company with the Italian firm Zanussi, and with production to be located in the UK at Peterlee.

5 Recurrent themes in my discussions with representatives of high technology companies, and of banks, were the willingness of managers in the more mature companies to strike out on their own and found new companies; the ready availability of venture capital to help them, much of it from UK-based financial institutions; and the close and constructive interaction between the universities and high

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technology industry. There are lessons here for our own policies which need no emphasis.

6 The timing of my visit was very opportune in relation to our efforts to put an end to the application by California and other states of unitary taxation to our companies, and I was able to have useful and constructive discussions on the subject in Sacramento with Governor Deukmejian of California and with leaders of both parties in the state legislature. All of these agreed that unitary taxation should no longer be applied to foreign-based multinational companies. Hearings had already begun on a bill which would achieve this change. I was able to point out one or two particular ways in which proposed amendments to this bill would bear unfairly on British companies, and received sympathetic response. Our Washington Embassy will be following this up. The major concern of the State is, of course, to replace revenue which they consider will be lost if unitary tax is no longer applied beyond the "water's edge"; some proposals for doing this are causing difficulty with US-based multinationals. Both the Governor and the legislators ruled out measures which overtly favoured

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foreign-based companies; but all expressed optimism that a solution acceptable to everyone could be found.

7 I was able to visit the two major manufacturers of civil aircraft in the US, Boeing and McDonnell Douglas. Both expected a continuation of the resumed growth in air traffic after several difficult years. As was to be expected, both companies sought to cast doubt on the market prospects of the A320, but there were no recriminations on our decision to support it. Boeing foresee a bright future for the V2500 engine and spoke very highly of their UK suppliers, particularly Rolls Royce and Shorts. It is striking that this company alone provides a bigger market for UK exports than Poland or Kenya - and pays as well!

8 This was for me a most stimulating and instructive visit, and it was made possible by the hard work of our Consuls General in Los Angeles and San Francisco and their staff, and by the excellent contacts which they have built up. I hope that in return I was able to give a positive picture of recent trends in the UK and explain the policies we are following to maintain the momentum, as well as giving

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the debate on unitary tax, a nudge in the right direction.

9 I am copying this minute to the Foreign and Commonwealth Secretary, to the Chancellor of the Exchequer and to the Secretary of State for Education and Science.

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15 May 1984

Department of Trade and Industry

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