

CCB/UP



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 422
GTN 215
(Switchboard) 01-215 7877

PS / Secretary of State for Trade and Industry

18 November 1986

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Prime Minister

You will want to put
him in a position to
report back let you
feel strongly about the

Dear Charles,

PRIME MINISTER'S MEETING WITH MR SAITO : 16.30 19 NOVEMBER

I attach a short brief for the Prime Minister's use at this meeting.

Japanese surplus.

EDD
18/11

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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BOARD OF TRADE
BICENTENARY



PRIME MINISTER'S MEETING WITH MR SAITO, PRESIDENT OF THE KEIDANREN :
16.30 19 NOVEMBER

Purpose of meeting

Mr Saito is leading a mission to EC capitals and has asked to call, no doubt to assure the Prime Minister that the Keidanren firmly supports action to remove trade friction. He is also meeting the Chancellor and Mr Channon separately.

Objectives

To stress concern at Japan's global and bilateral trade surpluses and the need for urgent Japanese action to remove barriers to trade, increase imports and promote structural change.

LINE TO TAKE

1. Recognise Keidanren's advocacy of market opening and a switch from export to domestic led growth.
2. Concerned at continued growth of Japan's trade surplus. Appreciation of Yen will not be sufficient: macro-economic measures needed as suggested by Maekawa Committee.
3. Despite modest progress on market-opening, problems remain which undermine credibility of commitment to genuine liberalisation. Community have lost patience on alcoholic drinks and launched GATT case. Removal of discriminatory grading system is a clear priority.
4. A stronger Yen means imports are now more competitive. What is Keidanren doing to encourage Japanese industrialists to increase foreign purchases?
5. Purchase of V2500 powered Airbus A320 as a replacement for All Nippon Airways Boeing 727 Fleet would also give a positive lead.
6. UK main focus for Japanese investment in Europe: Very welcome provided that it contributes fully to the economy.



ESSENTIAL FACTS

Mr Saito

1. Mr Saito, the Chairman of Nippon Steel, became Chairman of the Keidanren in May (personality note attached). The visit to the UK is part of a European tour during which he will see M Delors, Dr Waldheim and M Chirac.

Trade Balances

2. The UK's trade deficit within Japan in the first 9 months of 1986 was £2,733M (£2,294M over the same period in 1985). Japan's current account surplus is projected to reach over \$80bn in FY 1986; \$60bn with the US and \$15bn with the EC.

Japanese Measures

3. Japan's surpluses reflect principally macro-economic and structural factors. Despite pressure from the US and Europe, the Japanese have been slow to move. The one significant exception has been the strengthening of the Yen (up 40% against the dollar since the Plaza Agreement of September 1985). There now needs to be a major switch from exports to domestic consumption as a source of growth - Mr Nakasone has affirmed his commitment to initiating the necessary changes as recommended by the Maekawa report on restructuring. It remains to be seen how far and how fast the Japanese will act.

4. The Japanese have announced eight market opening packages in recent years. The current 3 year Action Programme was announced in July 1985 and covers tariffs, quotas, import procedures, standards and certification, government procurement and financial market services. Some progress is being made, eg. reductions in tariffs, the granting of security dealing licences to foreign firms, but there is still a tendency for some agencies to seek to defend sectional interests such as agriculture and the confectionery or drink industries from liberalising.

EC Action

5. The principal EC action against Japan is on alcoholic drinks, which was referred to the GATT in October. The Community seeks an end to discrimination in Japan's liquor tax (in particular the current method of grading). An LDP Tax Committee is expected to come up with proposals for reform at the end of December.

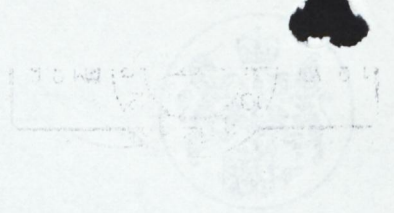
6. The Community is due to review the general situation on Japan and progress on the alcoholic drinks case at the January Foreign Affairs Council.

All Nippon Airways

7. All Nippon Airways (ANA) are looking for up to 20 150-seat aircraft to replace their ageing Boeing 727s, and a decision on aircraft type is expected in the near future. Airbus Industrie's A320 aircraft is currently being evaluated by ANA, along with competition from McDonnell Douglas and Boeing. Airbus Industrie believe that their chances of winning this contract are improved by the fact that the A320 can be powered by the V2500 engine, produced by



International Aeroengines in which Rolls Royce and the Japanese Aero Engine Corporation (JAEC) are both partners (JAEC have a 23% workshare). We understand M. Chirac will also raise this issue with the Keidanren.



International agreements in which both houses and the Japanese have entered
operation (A.I.C.) are both parties (and have a 5% workable) as understood
China will also raise this issue with the Government.

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