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PRIME MINISTER

JAPAN

I have just returned from Tokyo where I had discussions with Prime Minister Nakasone (who sends his best wishes) with the Ministers for Foreign Affairs, International Trade and Industry and Posts and Telecommunications, and with the Vice Minister for International Affairs at the Ministry of Finance, the Chairman of the LDP Tax Reform Committee and the Keidanren. In the context of encouraging inward investment, I met Nissan, Sony, Fuji, Honda and NEC. I visited the Tokyo Stock Exchange to discuss improved access for British financial institutions.

2 The purpose of the visit was of course was to further British interests both generally by pointing out the problems caused by the trade surplus and specifically by raising a number of important issues. Your meeting with Saito of the Keidanren - although reported inaccurately in the Japanese press - was a useful start. Leading Japanese Ministers are also very much aware of the GATT challenges on alcoholic drinks and the US/Japan semiconductor agreement.

3 The main themes which I developed both in meetings and in a speech to the Keidanren were:

- The problem of trade surpluses continues to be of major concern to Japan's trading partners, and must be tackled.

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- Japan must now take strong economic measures to reinforce the process of adjustment from export to domestic led growth.
- Every effort must be made to reduce trade frictions, such as the discriminatory treatment of alcoholic drinks.
- Real and visible progress is needed in opening Japan's markets and improving access for foreign exporters of goods and services, particularly in the financial field.

4 Will the Japanese ever do anything about these issues?

The Prime Minister himself has, of course, been sensitive to international criticism for some time; the emphasis in my talks with Minister Tamura of MITI and Foreign Minister Kuranari in particular was on settling problems. Even Mr Yamanaka the Chairman of the LDP Tax Reform Committee appeared to be prepared to consider how the tax regime on alcohol might be made non-discriminatory. The notorious ski and seat belt problems appear closer to solution. So there are a few straws in the wind. But I remain dubious about the likelihood of real progress. The Japanese themselves say they have serious political problems and the Yen revaluation is beginning to affect export volumes and company profitability.

5 I also pursued a number of specific issues. The key ones, all of which I raised with Mr Nakasone were:

- (a) Alcoholic drinks: I warned that any solution must allow whisky and other imported drinks to compete on an equal basis with their domestically produced counterparts. We shall know in mid-December whether the LDP's and the Government's proposals meet our demands.

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(b) Reciprocity in financial markets: I made it clear that if, despite the progress to date in granting licences, our firms were frustrated in their efforts to secure access to the Tokyo market, I would be prepared to use the reciprocity powers under the new Financial Services Act.

(c) Airbus: I reinforced your initiative in writing to the Prime Minister, by underlining the excellence of the aircraft, its competitiveness and the impact which a substantial purchase would have on our trade deficit.

(d) Cable and Wireless: There is the possibility that C&W might participate in Japan's international telecommunications service, so opening the door to more British exports in a highly competitive sector. But there is a great deal of Japanese resistance to the involvement of a foreign company. The pressure will have to be kept up.

6 It is essential to maintain continual pressure on the Japanese; to push existing cases as hard as possible and to firm time constraints; and to press our rights under GATT. My visit was a necessary part of this process, but we must keep up the momentum. Japanese Ministers are coming over next week to Brussels for the EC/Japanese meeting, a crucial one at which it should become clearer what can be achieved. Accordingly I shall be seeing the MITI Minister in London on Monday and I believe that Geoffrey Howe is to see Kuranari in Brussels.

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7 Finally, I would like to thank the new Ambassador and his staff for my excellent programme. Sir John Whitehead's experience and knowledge of Japan was of invaluable help to me.

8 I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

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PAUL CHANNON

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