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Prime Minister (2)



Ms 23/12

PRIME MINISTER

JAPANESE MACHINE TOOLS

There has now been a further round of talks between the Machine Tool Trades Association (MTTA) and their Japanese counterparts on the level of Japan's exports of numerically controlled (nc) machine tools to this country - a problem which you highlighted while in Tokyo.

I am pleased to say that the talks have led to a confidential understanding which is acceptable to our industry. The Japanese side have agreed to a volume reduction in their imports next year of nc machining centres and lathes. The reduction represents a 25% cutback on present levels in the case of machining centres and 20% in the case of lathes. In addition, the MTTA were informed that the Japanese Government are to increase the floor price fixed by the Japanese machine tool exporters' cartel. This will also have an effect on Japanese exports worldwide though less significant for the UK than their decision specifically to restrain exports to this country.

The raising of the cartel's floor price has advantages for the Japanese in terms of public presentation. Their officials have stressed that the agreement on volume restraint, which is strictly confidential to the actual negotiating team, and to HMG and MITI, would be jeopardised if even its existence became known more widely. They claim that leakage of any information about it could attract the attention of the Japanese Fair Trade Commission and, more importantly, could lead to requests for similar treatment from other countries (in particular the United States). They have therefore strongly requested that details of the agreement should be confined to those directly involved in the talks. I believe it is in our interest to go along with the Japanese in this and that we should say no more publicly than that we expect that imports of these kinds of machine tools will moderate, given the Japanese side's intention to adopt prudent export policies.



CONFIDENTIAL

This success owes a great deal to the pressures exerted on both sides by their respective Governments. It is a clear response by MITI to our expressions of concern about our bilateral trading relationship generally and in the machine tools sector particularly. They will have the none-too-easy task of ensuring that their diverse industry toes the line. To encourage them in it, I shall be writing to the new MITI Minister, Mr Yamanaka, to thank him for his help.

You may wish to note that there have been developments in a further problem area - fork lift trucks. The Japanese industry, when they met their British counterparts, offered to reduce exports of counterbalanced fork lift trucks to the UK to the average market share for 1979-82 (about 20% compared to the current 25%) even though the UK market is decreasing. This was in response to the British industry's request for a reduction of the Japanese share to 12%. Although disappointingly the British industry received no written commitment, they are reported to be reasonably content with the outcome. They expect the Japanese industry will be undertaking a measure of voluntary restraint on the lines offered. The two sides will meet again next June to review the position.

We are now faced with the problem of protecting these bilateral understandings while giving continued support to the Commission in its efforts to get the Japanese to moderate their exports to the Community. They have at last shown themselves willing to negotiate on products which have been causing us difficulty and we must follow up your letter to M. Thorn by giving them full support. Nevertheless, I am sure we have done better by going down the inter-industry route, at least on machine tools, than by relying solely on the Commission. There is a delicate balancing act to be performed.

I am copying this to members of OD(E) Committee.

DEPARTMENT OF TRADE

1 Victoria Street

London SW1

23 December 1982

John Cockfield

LORD COCKFIELD

[Approved by the Secretary of State and signed in his absence]

Japan



c. FCO
HMT
LPSO
MAFF
LOD
CO

10 DOWNING STREET

From the Private Secretary

24 December 1982

JAPANESE MACHINE TOOLS

The Prime Minister was grateful for your Secretary of State's minute of 23 December, which she has read without comment.

I am sending copies of this letter to the Private Secretaries to the Members of OD(E).

M. C. SCHOLAR

John Whitlock, Esq.,
Department of Trade.

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