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TELEGRAM NO 34 OF 20 JANUARY

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VISIT TO JAPAN OF SECRETARY OF STATE FOR INDUSTRY:

TALKS WITH MR YAMANAKA

Mr Gunderland } OT2/ }
 Mr Dunning } DOT. }
 Mr Boles 101015

1. THE SECRETARY OF STATE FOR INDUSTRY HELD TWO AND A HALF HOURS OF TALKS ON 19 JANUARY WITH THE JAPANESE MINISTER FOR INTERNATIONAL TRADE AND INDUSTRY, MR YAMANAKA.

THESE TALKS FOLLOWED THE FIRST PLENARY SESSION OF AN INTERNATIONAL CONFERENCE ON SMALL BUSINESS POLICY, CHAIRED BY MR YAMANAKA, AT WHICH MR JENKIN DESCRIBED HMG'S SMALL BUSINESS POLICY AND THE IMPORTANCE ATTACHED TO ENCOURAGING INNOVATION AND WEALTH-CREATION BY SMALL BUSINESS.

2. MR JENKIN'S MEETING WITH MR YAMANAKA FOLLOWED ANNOUNCEMENTS ON 18 JANUARY BY SANYO AND HITACHI-MAXELL OF DECISIONS TO ESTABLISH MANUFACTURING FACILITIES IN BRITAIN FOR VTRS AND VTR TAPES. THESE ANNOUNCEMENTS HAVE CREATED MUCH PRESS INTEREST HERE BECAUSE OF THE SENSITIVITY OF VTR EXPORTS TO BRITAIN AND THE EC AS A WHOLE. THEY ARE ALSO SEEN AS A RESPONSE TO BRITISH PRESSURE FOR INCREASED JAPANESE INVESTMENT IN THE UK.

3. IN THE FIRST PART OF HIS DISCUSSION (OVER LUNCH) WITH YAMANAKA, MR JENKIN EMPHASISED THE INTEREST STIMULATED BY MR NAKASONE'S STATEMENT ON JAPANESE ECONOMIC MEASURES TO DEAL WITH JAPAN'S TRADING IMBALANCE. ALTHOUGH HE HAD NOT CONSULTED HIS CABINET COLLEAGUES ON THIS STATEMENT, MR JENKIN SAID HE CONSIDERED THAT IT REPRESENTED A SIGNIFICANT POLITICAL COMMITMENT BY THE JAPANESE GOVERNMENT. IT WAS NOW IMPORTANT TO BUILD ON THIS STATEMENT AND TO ACHIEVE

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IT WAS NOW IMPORTANT TO BUILD ON THIS STATEMENT AND TO ACHIEVE CONCRETE RESULTS.

4. MR JENKIN EXPLAINED THE GREAT CONCERN FELT IN LONDON ABOUT THE SCALE OF THE ANGLO-JAPANESE TRADE IMBALANCE, WHICH WAS GETTING WORSE. IT COULD NOT CONTINUE AT THIS LEVEL. JAPANESE PURCHASES FROM BRITAIN HAD TO INCREASE AND WE ALSO LOOKED TO FURTHER NEW JAPANESE INVESTMENT; ONLY 24 JAPANESE FIRMS HAD INVESTED IN THE UK COMPARED WITH 200 FROM GERMANY AND 1,500 FROM THE USA. BRITISH GOODS WERE NOT UNCOMPETITIVE IN WORLD MARKETS EG. AEROSPACE AND VEHICLE COMPONENT EXPORTS. BUT THE ONE MARKET WHICH IT WAS DIFFICULT TO PENETRATE WAS JAPAN. AN ILLUMINATING EXAMPLE WAS AEROSPACE EXPORTS, WHERE THE UK WAS INTERNATIONALLY COMPETITIVE. BUT UK EXPORTS TO JAPAN IN 1980 WERE ONLY £30 MILLION. THE JAPANESE GOVERNMENT IN FOLLOWING UP MR NAKASONE'S STATEMENT NEEDED TO FIND WAYS ROUND SUCH OBSTACLES AS EXISTED IF THE UNDERLYING PROBLEM WAS TO BE SOLVED.

MR JENKIN WOULD ALSO BE FOLLOWING UP THE NAKASONE STATEMENT IN HIS MEETINGS WITH THE KEIDANREN AND KANKEIREN, TO SEE HOW THEY COULD HELP TO ACHIEVE ITS OBJECTIVES.

5. IN THE CONTEXT OF INCREASING JAPANESE IMPORTS, MR JENKIN CALLED FOR:

(A) PUBLIC PURCHASING OF BRITISH EQUIPMENT EG. IN THE ENVIRONMENTAL ENGINEERING FIELD:

(B) PROCUREMENT OF BRITISH CAPITAL EQUIPMENT BY JAPANESE COMPANIES:

(C) THE PURCHASE OF BRITISH DEFENCE EQUIPMENT, EG. HARRIER, SEARCHWATER RADAR AND THE FH 70 HOWITZER.

(D) ASSISTANCE FOR TDA TO BUY THE BBA 146 (FINANCE AND THE PROVISION OF ROUTES).

6. MR YAMANAKA RESPONDED BY EMPHASISING THE ABSENCE OF A SATISFACTORY DIALOGUE BETWEEN THE EC AND JAPAN. BUT WITHIN THE EC, HE THOUGHT JAPAN'S RELATIONSHIP WITH BRITAIN TO BE AMONG THE BEST. HE NOTED THAT BRITAIN HAD

~~BRITAIN TO BE AMONG THE BEST.~~ HE NOTED THAT BRITAIN HAD NOT TAKEN 'UNFAIR' MEASURES LIKE ~~FRANCE~~ OVER VTR IMPORTS. HE TOOK MR JENKIN'S POINT ABOUT BRITISH COMPETITIVENESS. ON DEFENCE EQUIPMENT, HE REFERRED TO THE CONSTRAINTS IMPOSED UPON JAPAN BY ITS SPECIAL SECURITY RELATIONSHIP WITH THE US. AS FOR THE BAE146, ITS PURCHASE BY TDA WAS HINDERED BY THE COMPANY'S SERIOUS FINANCIAL DIFFICULTIES. FURTHERMORE, AGAINST THE BACKGROUND OF THE LOCKHEED SCANDAL AND FORMER PRIME MINISTER TANAKA'S CURRENT TRIAL, THE JAPANESE GOVERNMENT COULD NOT BE SEEN TO BE RECOMMENDING THE PURCHASE OF ANOTHER CIVIL AIRCRAFT TO A JAPANESE CARRIER.

7. IN THE SECOND PART OF THE DISCUSSION, AFTER LUNCH, THE FOLLOWING QUESTIONS WERE DISCUSSED.

8. JAPANESE INVESTMENT.

(A) ON VTRS, MR JENKIN SAID THAT BRITAIN WISHED TO AVOID GOING DOWN THE POITIERS ROUTE.

HE WELCOMED SANYO'S DECISION BUT HOPED THAT MITSUBISHI, TOSHIBA AND MATSUSHITA MIGHT FOLLOW THEM. MR YAMANAKA REPLIED BY SAYING THAT MITSUBISHI WERE EXPLORING SITES FOR A VTR PLANT PRODUCING 100,000 UNITS A YEAR. LIVINGSTON WAS THE LEADING CANDIDATE. THERE HAD, HOWEVER, BEEN NO PUBLICITY ABOUT THIS AND THE CONFIDENTIALITY OF THE INFORMATION SHOULD BE PROTECTED (SEE MIFT). HE ADDED THAT WE COULD NOT EXPECT ALL THE VTR COMPANIES TO INVEST IN THE UK.

(B) MR YAMANAKA SAID THAT HE HAD BEEN TOLD BY YAMAZAKI MACHINE TOOLS THAT THEY INTENDED TO INVEST IN BRITAIN.

(C) MR JENKIN SAID THAT THE NISSAN PROJECT WAS OF SYMBOLIC IMPORTANCE TO THE UK, AND HE KNEW THE UK COULD RELY ON MITI'S STRONG SUPPORT TO BRING IT TO FRUITION.

9. INDUSTRIAL COOPERATION.

MR JENKIN MENTIONED PROJECTS WHICH HE HOPED MITI WOULD ENCOURAGE: SUMITOMO-RHM, MITSUBISHI ELECTRIC-ACORN, GESTETNER-MITA, GESTETNER-MATSUSHITA, MUIRHEAD-OKI.

MR YAMANAKA REFERRED TO DIFFICULTIES OVER GETTING BATB APPROVAL FOR PRODUCTS INVOLVED IN THE PLESSEY-NEC AND ANSAPHONE-NEC COLLABORATIONS. HE ALSO SAID THAT THERE HAD STILL BEEN NO APPROACH FROM BRITISH COMPANIES TO CERTAIN POTENTIAL JAPANESE COUNTERPARTS. MR JENKIN SAID THAT IT WAS IMPORTANT TO AVOID ANY DELAYS ON THE PART OF EITHER GOVERNMENT.

10. THIRD MARKET COOPERATION.

MR JENKIN REAFFIRMED BRITISH SUPPORT FOR SUCH COOPERATION BUT CALLED FOR A BETTER EXCHANGE OF INFORMATION FROM THE JAPANESE SIDE.

11. ARTICLE XXIII

MR YAMANAKA EXPRESSED DISMAY ABOUT THE DECISION TO MOVE TO ARTICLE XXIII.2. MR JENKIN SAID JAPAN SHOULD UNDERSTAND THAT THE EC WAS UNITED ON THIS DECISION.

12. JAPANESE EXPORTS TO BRITAIN

MR JENKIN:

(A) ON MACHINE TOOLS, THANKED MR YAMANAKA FOR MITI'S COOPERATION:

(B) ON HEAVY GOODS VEHICLES, EMPHASISED THE NEED FOR JAPAN NOT (NOT) TO BEGIN SHIPMENTS:

(C) WARNED THAT IF THERE WAS NO IMPROVEMENT IN THE BILATERAL ECONOMIC CLIMATE (AN IMPLICIT REFERENCE TO NISSAN) HMG MIGHT HAVE TO PRESS FOR OVERALL REDUCTION IN SHIPMENTS OF CARS:

(D) EMPHASISED THE NEED FOR AGREEMENT BETWEEN THE FORKLIFT TRUCK INDUSTRIES. MR YAMANAKA WAS AWARE OF THE PROBLEM AND SAID IT WOULD BE RESOLVED AT INDUSTRY LEVEL.

13. MR JENKIN CONCLUDED WITH AN INVITATION TO MR YAMANAKA TO VISIT LONDON.

TO VISIT LONDON.

14. MR YAMANAKA WAS FRIENDLY AND PLACATORY THROUGHOUT. HE SEEMED RELUCTANT TO GO DEEPLY INTO THE ISSUES OF SUBSTANCE. THIS MAY BE BECAUSE HE IS STILL FINDING HIS FEET AS MITI MINISTER AND MR JENKIN WAS ONE OF HIS FIRST FOREIGN GUESTS. BUT HE HAS A REPUTATION AS AN AGGRESSIVE POLITICIAN. THIS PROBABLY REFLECTS UNCERTAINTY IN JAPAN IN THE FACE OF GROWING PRESSURE FROM THE EC, INCLUDING BRITAIN IN PARTICULAR, AS WELL AS GENUINE CONCERN ABOUT THE STRENGTH OF FEELING IN EUROPE.

15. JAPANESE PRESS REFLECTING MITI GUIDANCE SEEMS TO HAVE FOCUSED ON THE SECRETARY OF STATE'S WARNING REFERRED TO IN PARA 12 (C) ABOVE.

16. ADVANCE COPIES TO GILL: HOPE, IBB: WOODROW, INF: AND-GENT, JCA3 (DOI): SUNDERLAND AND DUNNING (OT2, DOT). COLES (NO 10) AND ELLIOTT, FED.

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