Prime Minister

PRIME MINISTER

MEETING WITH THE GERMANS

As you noticed, Mr. Jenkin will not be there. The delegation will be accompanied by the German Ambassador and Sir Jock Taylor. We suggest that you receive them in the White Room and that you ask Dr. Ruhfus to introduce the members of the delegation.

In the briefing you asked about the breakdown between oil and manufactures in our exports to the FRG. The breakdown is as follows:

Oil:	£1.4 billion
Manu-facturing:	£3.4 billion
Other:	£0.7 billion

Particular points you might like to make include:

(i) the imbalance between UK investment in the FRG and vice-versa. Our investment there is four times higher at nearly £1500 million. In this context you might like to take the opportunity of stressing the Government's approach to make this country a more attractive place to invest in, e.g. sound money, better labour relations.

(ii) the imbalance of trade. We imported £7.5 billion from the FRG in 1982 (visible trade). They imported £5.5 billion from us (non-oil only £4 billion).

TF (?)

25 April 1983

PS/ Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JF3320

22 April 1983

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim

PRIME MINISTER'S MEETING WITH GERMAN HIGH LEVEL MISSION, MONDAY, 25 APRIL 1983

... As discussed with Steve Nicklen, I enclose a revised brief for
... the Prime Minister for the above meeting. I also enclose a programme and list of Mission members.

2 I must apologize for the unsuitability of the original brief; I hope that the enclosure will now be suitable.

Yours ever

Andrew Coop

ANDREW COOP
Private Secretary

Encls

HIGH LEVEL MISSION FROM GERMANY

INVESTMENT

Line to Take

HMG welcomes investment from overseas for the many benefits it brings. UK investment in the FRG is four time's higher than FRG investment in the UK. We believe more investment from the FRG would be mutually beneficial.

Background

At end-1980 total UK investment in FRG was £1480 million compared with FRG investment of £340 million in UK. UK investment in FRG was £376 million in 1980 compared with FRG investment in UK of £34 million.

HIGH LEVEL MISSION FROM GERMANY

TRADE

Line to Take

HMG welcomes the close trading links between UK and FRG which in 1982 led to combined imports and exports of nearly £13 billion, and made the FRG the UK's largest export market in Europe and second only to the USA. We look forward to a further growth in trade in 1983 and beyond and to an extension of the UK market in the FRG as a means of improving the balance of trade between us.

Background

UK visible exports to FRG in 1982 were £5½ billion. Imports from FRG were £7½ billion. This mainly reflects the strength of the £ in 1982 and continues the trend of the past few years in the FRG's favour.

Breakdown between
Oil & manufactures

Oil £1.4 billion
Manufacturing £3.4 billion
Other £0.7 billion

High Level Mission of German Industrialsits

VEBA (Defensive)

Line to take

1 We would welcome UK investment by VEBA in commercially sound enterprises.

2 In the case of chemicals, opportunities are most likely to be found in the higher value products.

3 Defensive (if the question of oil barter for inward investment is raised.) It is not possible to determine in advance what view the Government might take of special assistance to companies wishing to make major investments in the UK. However, contributions to the UK economy are taken into account when judging applications for licenses, and an offer could be made to explore further long term security of supply if this were raised.

Background

1 Veba is West Germany's largest industrial concern and is 40% owned by the FRG government. Mr R von Bennigsen - Foerder Chairman of Veba has been concerned with his company's efforts to gain access to North Sea oil for several years. He relates his continued interest to a statement by the Prime Minister, at a lunch in Bonn in Autumn 1980, of the benefits German investors in the UK could draw from Britain's oil and gas supplies.

2 He has been told by officials that if Veba were to consider a major investment in the UK the terms and conditions would be a matter for negotiations, in which it would be open to Veba to raise the question of access to North Sea oil.

3 HMG has no oil directly in its gift, and if Veba were looking for purely commercial advantages they would have to negotiate with the companies. Only if Veba were looking for understandings in the operation of Government policy would we have something to offer in direct exchange for investment. If Veba were seeking licences any proposed investment could be taken into account as contributions to the UK economy are already among the licensing criteria.

EAST-WEST ECONOMIC RELATIONS **(DEFENSIVE)**

LINE TO TAKE

1 After last year's pipeline dispute, West agreed we must make a concerted effort to create a new framework in the difficult area of East-West economic relations. We attach importance to this. Past divisions in the West have only given comfort to the Soviet Union.

2 Work in hand in various international organisations on specific aspects of East/West economic relations.

BACKGROUND

On 29 December 1981, in response to the imposition of martial law in Poland, the US administration announced selected economic measures towards the USSR including wider export controls on US origin oil and gas equipment and technology. On 18 June 1982 these were extended to cover exports by overseas licensees and subsidiaries of US companies. The main project immediately affected was the West Siberian pipeline for which firms, including US subsidiaries, in the UK, West Germany, Italy and France had been awarded contracts. The unilateral, retroactive (affecting existing contracts) and extra-territorial nature of the action taken by the US administration caused concern to the UK and other W European countries.

2 Following the US action, the British & European governments took steps to ensure that their companies could comply with legally binding contractual obligations. Section 1 of the Protection of Trading Interests Act provides HMG with such powers and the Secretary of State for Trade gave directions under Section 1(3) of the Act to specific companies concerned not to comply with the US measures. The US administration reacted by announcing Temporary Denial Orders prohobiting the export of US oil and gas equipment to a number of the European companies involved, including John Brown Engineering.

3 Urgent discussions aimed at the resolution of the problem took place in Washington last autumn between the Western countries involved. The US decided to lift sanctions, and the June 1982 and December 1981 measures were rescinded in their entirety with effect from 13 November 1982. In parallel Western countries agreed on the need to formulate a common approach to East West economic relations and to a number of studies in this field. Work is now underway in various international fora (COCOM, OECD, NATO, EC); the studies are looking at a number of aspects of East/West trade relations including trade in strategic goods and energy requirements. Heads of State and Government will take stock of this work at Williamsburg.

GERMAN HIGH LEVEL MISSION 25/26 APRIL 1983

UK COMMITMENT TO EC (WITHDRAWAL) (Defensive)

Points to Make

1 HMG and the Liberal/Social Democratic Alliance recognise the benefits of Community membership. Although the Labour Party is at present proposing to include in its election manifesto a commitment to withdraw, many leading figures in the party (including the Shadow Foreign Secretary) do not share this commitment.

2 Even in its advocacy of withdrawal, the Labour Party recognises that it is in the interest of all parties to negotiate an amicable and viable outcome to any withdrawal negotiations; it accepts that the UK's obligations under the GATT will continue in force. (This must have implications for the future status of our tariffs).

3 The Labour Party envisage withdrawal would take place within the lifetime of a Parliament. It is likely to be at least as complicated as accession. The effect of a long drawn out process of disentanglement is likely to give pause to any government facing a heavy programme of manifesto commitments.

Background

The Labour Party is at present committed to include withdrawal from the EC in its next election manifesto. Withdrawal negotiations on the basis that the Labour Party apparently envisage would take into account the need for a viable and amicable settlement. Such negotiations would be long and complicated, and a viable outcome would almost by definition have to reflect the substantial trade between the UK and our Community partners (at present more than 40% of total UK trade). It also has serious implications for some of the other small member states who are heavily dependent on the UK market.

There are some signs that elements of the Labour Party may be changing their stance on EC membership. But given the rapid changes in the economic situation of the Western world and the likely alterations that will occur as a result of the enlargement of the Community, it seems difficult to imagine that the present Labour Party policy, on its current underlying assumptions, could be seriously sustainable over a five-year time span.

GERMAN HIGH LEVEL MISSION

EXTRATERRITORIALITY (ETT) (Defensive)

Line to Take

We are concerned that the US Administration's recent proposals for the renewal of the Export Administration Act largely ignore the concerns of foreign governments and the business community. The ETT provisions are unchanged and there is a proposal to ban imports by foreign companies which violate US trade sanctions. We must all redouble our lobbying efforts to persuade US Administration not to urge economic war on its friends.

Background

1 The problem of the extraterritorial application of US commercial laws and regulations has a long history and is a major irritant in UK/US commercial relations. The most recent and blatant example was the US oil and gas embargo on the USSR. The problem arises because of action against UK companies under US antitrust law; because of US claims to jurisdiction on the basis of nationality; and because of an excessive application by the US of a legitimate jurisdiction.

2 This year the US Export Administration Act (EAA), on which many of the objectionable US export controls are based, including those on oil and gas equipment, must be re-authorised by Congress. The UK has made representations about the objectionable provisions of the Act and consider it important that the Commission, other governments and business interests maintain pressure on the US to modify the Administrations proposals. The Germans generally share our view but seem less disposed to press the US than we are.

AGILE COMBAT AIRCRAFT (Defensive)

Line to Take

The UK Government welcomes the initiatives and the private venture capital that the British Aerospace Industry has put into their P110 and ACA studies. It is hoped that the current round of talks between the RAF, the German, French and Italian air forces will lead to a common requirement for a new fighter to build upon the UK's recently announced Experimental programme. The Anglo-German-Italian partnership which produced the successful Tornado obviously provides a sound basis and the UK would hope that Germany would look first to Britain as an international collaborative partner in such a venture.

Background

The Agile Combat Aircraft (ACA) arose out of a UK industry funded study for a fighter to meet the requirements of the RAF and the export market during the 1990s. The Secretary of State for Defence announced the agreement to support an Experimental Aircraft Programme (EAP) at the Farnborough Air Show in September 1982. Following the EAP announcement the French Minister of Defence announced a similar French demonstrator programme. Within the FRG government there are political pressures to increase collaboration with France. MBB, which is a participant in the EAP, have maintained their desire to continue to work with their Tornado partners but will require government support to continue their share of development. If the FRG government is prepared to support a collaboration with France but less prepared to fund a collaboration with the UK MBB will be obliged to move away from BAe towards Dassault.

LIST OF MISSION MEMBERS

Prof Dr Rolf Rodenstock
President
Bundesverband der Deutschen Industrie

Senator Hermann Becker
Chairman
Philipp Holzmann AG

Herr Rudolf von Bennigsen-Foerder
Chairman
VEBA AG

Herr Dr Klaus Pohle
Board Member
Schering AG

Professor Dr Herbert Grunewald
Chairman
Bayer AG

Professor Dr Hans Guenter Mueller
Chairman
Mannesmann Demag AG

Herr Dr Kurt Werner
Managing Director
Maschinenfabrik Goebel GmbH

Herr Dr Ulrich Weiss
Board Member
Deutsche Bank

Herr Tyll Necker
Managing Director
HAKO Werke GmbH & Co

Rev 20.4.83

Herr Dr Dieter Spethmann
Chairman
Thyssen AG

Professor Gero Madelung
Chairman
MBB GmbH

Herr Gert Becker
Chairman
Degussa AG

Dr Karl-Ludwig Bresser
Board Member
Dresdner Bank AG

Herr Wolfgang Seelig
Board Member
Siemens AG

Herr Dr Hans Joachim Langmann
Chairman
Firma E Merck

Annex B

VISIT OF SENIOR INDUSTRIALISTS FROM THE FEDERAL REPUBLIC OF GERMANY

PROGRAMME

MONDAY 25 APRIL 1983

09.00	Meeting with His Excellency Herr Juergen Ruhfus KBE, Ambassador of the Federal Republic of Germany, at Claridge's Hotel, Brook Street, London W1 (The Mirror Room)
10.00-12.00	Seminar at Claridge's Hotel, The Mirror Room
10.00	Minister of State for Industry, Mr Norman Lamont MP
	Address of Welcome
10.05	Professor Dr Rodenstock
	Reply
10.10	Norman Lamont MP
	"Creating a climate for growth - Mrs Thatcher's Four Years"
10.25	Discussion
10.55	Coffee
11.10	Sir Peter Carey
	"UK Industrial Performance and the High Technology Revolution"
11.25	Discussion
11.55-12.00	Summing up
12.15-14.15	Lunch hosted by Mr Norman Lamont MP
	Lancaster House, St James's, SW1
14.30 - 15.15	Meeting with the Secretary of State for Energy, The Rt Hon Nigel Lawson MP
	Department of Energy, Thames House South, Millbank, SW1

15.30 - 16.15	Meeting with the Secretary of State for Trade, The Rt Hon Lord Cockfield
	1 Victoria Street, SW1
16.30 - 17.15	Meeting with the Chancellor of the Exchequer, The Rt Hon Sir Geoffrey Howe QC, MP
	HM Treasury, Parliament Street, SW1
17.30	Call on the Prime Minister, The Rt Hon Margaret Thatcher MP
	10 Downing Street, SW1

EVENING PROGRAMME ACCOMPANIED BY WIVES

18.30	Reception hosted by His Excellency the Ambassador of The Federal Republic of Germany, Herr Juergen Ruhfus, KBE
	Embassy of The Federal Republic of Germany, 23 Belgrave Square, SW1
20.30 for 20.45	Dinner hosted by the Chairman of the British Overseas Trade Board, The Rt Hon Earl Jellicoe, DSO, MC
	Trinity House, Tower Hill, EC3

TUESDAY 26 APRIL 1983

09.00	Depart Claridge's Hotel
09.30- 10.30	Meeting with the Minister of State Foreign and Commonwealth Office, The Rt Hon The Lord Belstead
	Foreign and Commonwealth Office, Downing Street West, SW1
10.45- 12.15	Meeting with representatives of the Confederation of British Industry, led by Sir Austin Bide
	Centre Point, 103 New Oxford Street, WC1
12.45- 14.15	Lunch hosted by The Deputy Governor of The Bank of England, Mr Kit McMahon
	The Bank of England, Threadneedle Street, EC2

14.30- 15.30	<u>Meeting with the General Secretary of the Trades Union Congress, The Rt Hon Lionel Murray OBE</u> Trades Union Congress, Congress House, Great Russell Street, WC1
16.00- 17.00	<u>Meeting with the Secretary of State for Industry, The Rt Hon Patrick Jenkin MP</u> Ashdown House, 123 Victoria Street, SW1
17.45	<u>Press reception hosted by the Rt Hon Patrick Jenkin MP</u> Claridge's Hotel, Brook Street, W1 (The Mirror Room)

EVENING PROGRAMME ACCOMPANIED BY WIVES

19.15 for 19.30	<u>"The Pirates of Penzance" - an operetta by Gilbert and Sullivan</u> Theatre Royal, Drury Lane, WC2
22.45	<u>Dinner hosted by Sir Jock Taylor KCMG HM Ambassador to The Federal Republic of Germany</u> Le Relais Restaurant, Cafe Royal, 68 Regent Street, W1

INVEST IN BRITAIN BUREAU

JH 543

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

22 April 1983

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear John

PRIME MINISTER'S MEETING WITH GERMAN HIGH-LEVEL MISSION, MONDAY 25 APRIL 1983

I enclose a brief for the Prime Minister for the above meeting.

2 Unfortunately, my Secretary of State has not had the opportunity to see this brief and will be doing so over the weekend. I will inform you on Monday morning if he has any further comments.

3 I do apologise for the quality of the typing and the bulkiness of the brief. However, in view of the wide interests of the Missioners, it was felt that the topics raised could be far-reaching. We suggest that the Prime Minister may wish to concentrate on the specific issues ie briefs 18-29. In particular Herr Bennigsen-Foerder may raise the question of access to North Sea oil (brief number 28) and Herr Madelung intends to mention Anglo-German collaboration on the Agile Combat Aircraft (brief number 19c).

Yours ever

Andrew Coop

ANDREW COOP
Private Secretary

MISSION OF SENIOR GERMAN BUSINESSMEN: 25 & 26 APRIL 1983
BRIEFING FOR MINISTERS

CONTENTS

1 Background, objectives, programme, and participants

UK Economy and Industry

2 Recent Developments in the Economy
3 Industrial Strategy
4 Impact of 1983 Budget on Industry
5 Industrial Relations and Disputes
6 Productivity
7 Oil Prices

FRG

8 West German Economy

European Community

9 EC Industrial Policy
10 EC Budget
11 EC and Japan
12 UK Committment

Inward Investment

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16 Japanese Investment in the UK
17 Anglo-Japanese Industrial Cooperation

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b) BL/BMW collaboration
c) Nissan
d) Trade with Japan

19 Aerospace
a) Messerschmitt (MBB) and Airbus
b) The Tornado
c) Agile Combat Aircraft (ACA)

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21 Pharmaceuticals

22 Chemicals and Petrochemicals

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25 Fixed Channel Link

26 East-West Economic Relations

27 Extraterritoriality

28 Veba and access to North Sea Oil

29 Industrial and Competition Policy interaction

VISIT OF SENIOR INDUSTRIALISTS FROM THE FEDERAL REPUBLIC OF GERMANY

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	Le Relais Restaurant, Cafe Royal, 68 Regent Street, W1

INVEST IN BRITAIN BUREAU

VISIT OF SENIOR WEST GERMAN BUSINESS LEADERS 25-26 APRIL 1983

ORIGIN

1 The visit is taking place at the invitation of the Secretary of State for Industry and has the full support of the Bundesverband der Deutschen Industrie (the W. German equivalent of the CBI). The visit follows similar missions from Germany in 1977, from Switzerland and the Netherlands in 1978 and France in 1980.

2 The group consists of 15 senior German industrialists from the banking, pharmaceutical, electronics, aviation, chemical, steel and oil sectors of industry and will be led by Professor Dr Rolf Rodenstock, President of the BDI.

OBJECTIVES

3 The purpose of the visit is to enable the group to obtain an up-to-date first hand view of Britain's economic situation and prospects for the future with the object of creating a favourable impression of Britain's industrial and trading potential and of fostering a positive attitude among German industrialists towards Britain as a partner for industrial collaboration and as a location for overseas investment.

PROGRAMME

4 The programme for the visit includes meeting with the Prime Minister, Chancellor of the Exchequer, Secretaries of State for Industry, Energy and Trade, Minister of State at the Foreign and Commonwealth Office a team from the CBI and the General Secretary of the TUC. They will also meet the Chairman of the British Overseas Trade Board, industrialists and leading figures in commerce and the city institutions, including the Deputy Governor of the Bank of England.

5 The visitors can be expected to want to talk politics, economics and industrial philosophy, and to be interested in topics such as the social consequences of large scale unemployment, structural change, extra-European competition, and possible cross frontier cooperation on R&D, as well as factors affecting Britain's economic performances and company profitability.

MISSION MEMBERS

5 Brief notes on mission members and the companies or other organisations they represent are attached (Annex A). The programme for their visit is at Annex B.

LIST OF MISSION MEMBERS

Prof Dr Rolf Rodenstock
President
Bundesverband der Deutschen Industrie

Senator Hermann Becker
Chairman
Philipp Holzmann AG

Herr Rudolf von Bennigsen-Foerder
Chairman
VEBA AG

Herr Dr Klaus Pohle
Board Member
Schering AG

Professor Dr Herbert Grunewald
Chairman
Bayer AG

Professor Dr Hans Guenter Mueller
Chairman
Mannesmann Demag AG

Herr Dr Kurt Werner
Managing Director
Maschinenfabrik Goebel GmbH

Herr Dr Ulrich Weiss
Board Member
Deutsche Bank

Herr Tyll Necker
Managing Director
HAKO Werke GmbH & Co

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Herr Dr Dieter Spethmann
Chairman
Thyssen AG

Professor Gero Madelung
Chairman
MBB GmbH

Herr Gert Becker
Chairman
Degussa AG

Dr Karl-Ludwig Bresser
Board Member
Dresdner Bank AG

Herr Wolfgang Seelig
Board Member
Siemens AG

Herr Dr Hans Joachim Langmann
Chairman
Firma E Merck

GERT BECKER

Chairman of the Board of Directors, Degussa AG, Frankfurt.
Born 1933

He has spent his entire business career with the Degussa company which he joined in 1954 after high school. 1956-60 special training, 1960-62 representative of Degussa in Teheran, 1962-66 assistant to the Managing Director of a Degussa-owned company in Brazil, 1966-71 Manager of the Ceramic Colours branch of Degussa, since 1971 member of the Board (8 members), since 1977 Chairman of the Board.

Degussa AG (Deutsche Gold- und Silber-Scheideanstalt) was established in 1873: its fields of activity include precious metal refining, manufacture of carbon black, liquid bright gold and ceramic colours and glazes, potassium cyanide and silver nitrate, pharmaceuticals and precious metal trading. Degussa AG employs about 13,000 people generating a total group turnover in 1980/81 of over DM10,000 million: exports amount to about 58%. Degussa AG has 17 plants in the Federal Republic with concentration in the Cologne and Frankfurt areas. The group has wide interests in Asia, the Americas as well as in Europe. In the UK Degussa AG has its own Sales Company and a 50/50 joint venture with ICI in ID Chemicals Ltd, London, the management of which is in ICI's hands.

DIPL ING HERMANN BECKER

Chairman of the Board of Directors, Philipp Holzmann AG, Frankfurt.
Born 1926.

Becker joined Philipp Holzmann AG in the mid-sixties and worked in several departments and abroad. In 1973 he was appointed to the present position of "Spokesman" of the Board. In addition to being an honorary Senator of Karlsruhe University, he holds other leading positions and appointments in German organisations and companies. It was largely due to his efforts during the last decade that Philipp Holzmann AG became the Federal Republic's largest building contractor.

Philipp Holzmann AG was established in 1849. The company carries out all kinds of building construction and civil engineering works (multi-storey buildings, factories, bridges, warehouses, airports, harbours, roads, tunnels etc). At present almost 70% of its turnover is derived from activities outside Germany, primarily in Middle East countries, South America and in the United States where it owns two subsidiary companies. Woldwide the company employs about 41,300 people. Although not active in the UK the company does occasionally purchase materials from British suppliers and employs the services of British sub-contractors for projects in third countries.
Philipp Holzmann AG is a contractor member of the European Channel Tunnel Group in which Becker takes a personal interest.

RUDOLPH VON BENNIGSEN-FOERDER

Chairman of the Board of Management, VEBA AG, Düsseldorf.
Born 1926 in Berlin.

Studied law. Spent seven years (1950-1957) in the Federal Finance Ministry, where he was concerned with the Government's industrial shareholdings. Joined VEBA in 1959, becoming General Manager in 1965 when VEBA was partially denationalised. Appointed to the Board of Management in 1969, and Chairman in 1971.

He is on the supervisory board of many large companies, including Friedrich Krupp and Salzgitter and Ruhrkohle AG as well as the Allianz Insurance Company. Also Honorary Consul-General for Norway. Took part in the 1977 Mission to the UK of leading German businessmen.

VEBA

Founded in Berlin in 1929 as Vereinigte Elektrizitaets-und Bergwerke AG. Name changed to VEBA and transferred to Düsseldorf in 1970. The Federal Government has a 43.75% stake in the company, the balance being held by some 700,000 shareholders. The company employs over 81,000 people.

Turnover, the largest of any company in Germany was DM49 billion, of which 44.7% exports, in 1981 an increase over 1980. After modest growth in the first half of 1982, turnover in most sectors has eased reflecting recession in the economy as a whole. Both oil and chemical sectors have been especially

/hard

hard hit. VEBA AG has interests in:

i) Electricity, including Preussische Elektrizitaets AG Hanover - operates 36 power plants using coal, natural gas, oil and nuclear energy.

ii) Petroleum, including VEBA Öl AG, Gelsenkirchen - crude oil and natural gas exploration and production; Deminex GmbH, Essen - established in 1969 to build up an independent crude supply base for the German oil industry; Exploration activities supported by the Federal Government; Aral AG, Bochum - 56% owned (28% Mobil). Nearly 6000 filling stations in Germany and some 200 in neighbouring countries.

iii) Chemicals
Chemische Werke Huels AG - manufactures over 1000 products ranging from organic and inorganic chemicals to polycondensates and agrochemicals.

iv) Trading and transport owns its own worldwide trading and service company, including ocean shipping, forwarding and wholesale marketing.

v) Other interests include VEBA Glas AG, Essen (100%) - the second largest hollow-glass manufacturer in the FRG, and Ruhrkohle AG. Essen (27.2%) - coal mining, coal hydrogenation.

UK INTERESTS

Huels (UK) Ltd, Orpington
G Harbottle & Co Ltd, Newcastle-on-Tyne (representing Stinnes)
Brenntag (UK), Kingston-upon-Thames "
Ferguson, Wild & Co Ltd, London "
Raab Karcher (UK) Ltd, Salford

Rhenus International, Felixstowe
Rhenus Transport Ltd, London

DR KARL-LUDWIG BRESSER

Member of the Board of Managing Directors of Dresdner Bank AG since 1973 with special responsibility for European operations.

Born 1922 in Hanover.

Read Law and Political Science at the University of Münster, and obtained his doctor's degree. Worked in Hamburg as a solicitor, specialising in maritime law, before joining Dresdner Bank in 1955. Worked as branch manager before becoming head of the Corporate Loan Department in Düsseldorf in 1967 with responsibility for the bank's entire lending business in the western region of the Federal Republic of Germany. 1970, appointed Deputy Member of the Board. Full Board Member since 1973.

Founded in 1872, Dresdner Bank AG is recognised as one of the 'Big Three' Federal German Banks. It has holdings in firms and credit institutes in Europe, Australia and the Far East and the Americas. The bank's business volume was up DM 30 m to DM 82 billio during the first ten months of 1982. The Dresdner Group's business volume increased over the same period from DM 169.7 billion to DM 175.2 billion.

Dresdner Bank assumed the role of coordinator for international and German banks during negotiations on the rescheduling of Polish debts due to Western banks in 1982, agreement on which was finally reached last November.

/The

The Dresdner Bank Group has about 1,400 branch offices in Germany and abroad and employs some 34,000 staff, approximately 7,500 of whom work overseas.

UK Interests

Dresdner Bank first opened a branch in London in 1895. The present London branch has existed since 1973 when it was converted from a Representative Office. Its volume of business is currently around DM10 billion, primarily in wholesale banking. Retail banking is not envisaged at the present, nor are there any plans to open offices at other locations in Great Britain. Dresdner Bank is active in some 30% of trade settlements between Germany and Great Britain and the bank is, inter alia, lead manager of the DM-loans of Barclays, Bass, Electricity Council and Glaxo. Dresdner Bank was involved in the financing of North Sea oil projects such as Deminex/Thistle Field, and enjoys close cooperation with Barclays as a member of the ABECOR banking group. The bank was active in the introduction of a number of leading UK companies to the German stock market. Dresdner Bank's joint manager in London has for many years been Chairman of the German-British Chamber of Commerce there.

PROFESSOR DR HERBERT GRÜNEWALD

Chairman of the Board of Management, Bayer AG, Leverkusen.
Born 1921, Weinheim.

Professor Grünewald studied chemistry at the universities of Frankfurt/Main and Heidelberg and joined Bayer as a chemist in 1956, working on organic analysis. He became a Board Member with responsibility for administration and personnel in January 1968, and Chairman in 1974. He is a member of numerous economic, scientific, athletic and cultural committees and organisations. He is Chairman of the Supervisory Board of Erdölchemie GmbH (jointly owned by Bayer/BP); Member of the Supervisory Boards of Allianz Versicherung, Degussa AG, Hapag Lloyd, Karstadt, and VEBA. He is also President of the Association of the Chemical Industry.

Professor Grünewald took part in the 1977 Mission to the UK of leading German businessmen.

Bayer AG, Leverkusen was founded in 1863 in Wuppertal as Friedrich Bayer & Co; it became part of IG Farben in 1925. British action in 1947 to establish a separate Bayer unit was confirmed in 1951. The name was changed to Bayer AG in 1972. The company has some 350,000 shareholders and employs some 63,000 people.

Turnover worldwide in 1981 was DM34 billion. A further increase in early 1982 was outweighed by poor results in the second half, attributed to a significant weakening of demand, with plants working at lower capacities. No sign of an upturn in 1983 is foreseen, with losses forecast at DM100-150 million.

Bayer manufactures some 6000 products including dyestuffs, processing and ancillary products for the textile, fertiliser, paper, paint and plastic industries; chemicals, pharmaceuticals, plastic materials and fibres, insecticides and photographic materials.

Bayer also wholly owns several other companies including Agfa, and has substantial financial participation in other companies, including Afga-Gervaert, Erdölchemie in Cologne (with BP). In addition, Bayer are partners in a large number of manufacturing companies abroad.

The UK subsidiary, Bayer UK Ltd at Richmond is the headquarters and holding company for Bayer interests in the UK. These cover agricultural chemicals, dyestuffs, fibres and inorganics, latex, phamaceuticals, plastics and surface coatings and polyurethane. The company also owns Agfa-Gevaert Ltd, Washington.

In 1978 Bayer acquired Miles Laboratories Inc, in the USA and thus Miles Laboratories Ltd at Slough. This company has received substantial assistance for a project at Bridgend. Also in 1978 Bayer acquired the former Uniroyal latex production facilities at Bromsgrove.

DR HANS JOACHIM LANGMANN

Chairman of the Board of Directors, E Merck, Darmstadt.
Born 1924.

Dr Langmann read physics at Göttingen and Heidelberg where he obtained his doctorate. After an academic career first as an Assistant at the Physics Institute in Heidelberg and then as a member of the Scientific Council of the Nuclear Research Centre at Karlsruhe, Dr Langmann joined Merck in 1961 and became Chairman in 1964.

His honorary offices include:-

- Vice President of the Federation of German Industry;
- Member of the Advisory Council on Foreign Trade of the Federal Ministry of the Economy;
- Treasurer and Vice-President of the Association of German Chemical Industry.

He holds seats on the boards of a number of leading German companies.

Merck traces its history to a pharmacy in Darmstadt in 1668; the manufacturing concern was founded in 1827. The company, still owned by the founding family in the form of a general partnership, manufactures a wide range of pharmaceuticals, industrial and laboratory chemicals, and diagnostic kits.

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The company has at least a 50% share in subsidiaries in 31 overseas countries worldwide, including the UK, employing more than 19,000 evenly divided between domestic and foreign operations. Turnover in 1981 was almost £600 millions, up from £500 millions in 1980. The company attaches importance to its social responsibility towards its workforce, and has extensive pension, medical, housing etc schemes.

PROFESSOR GERO MADELUNG

Deputy Chairman of the Board of Management, Messerschmitt-Boelkow-Blohm (MBB), Munich.

Born 1928, Berlin.

Studied at the Technische Hochschule Stuttgart and at the Clarkson Institute of Technology (USA). 1950-52 worked for General Electric in the United States. 1952 joined MBB. 1963 became member of the Board. Managing Director of Panavia GmbH upon company's foundation in 1969. 1975 made honorary Professor of aerospace technology at Munich Technical University. 1978 took over from Helmut Langfelder as Chairman of MBB after a period in charge of the military aircraft division. In January, 1983 was replaced as Chairman after a boardroom vote, but remained as Deputy Chairman with responsibility for aircraft, particularly military aircraft.

Messerschmitt-Boelkow-Blohm GmbH, Ottobrunn employs some 39,000 people. 1981 turnover was DM4,800 million. The firm is divided into six divisions:

The Dynamics Division: a euphemism for the design, manufacture and support of missile systems, including MILAN, HOT and Roland.

Helicopters and Transport Systems Division: Manufacture of the BO105 helicopter and the BK 117 (German/Japanese joint venture for a 10-seater utility helicopter).

Military Aircraft Division: largely dedicated to the MRCA Tornado multi-national fighter and technical and logistic support activities for the F104G Starfighter and the F4 Phantom II.

Transport Aircraft, Hamburg: concerned with the Airbus programme. Other aircraft although to a lesser extent are the Transall C160 mili transport, the F28 Fokker Fellowship (in conjunction with Fokker) and the HFB 320 Hansa Jet.

/Space Division:

Space Division: develops satellites and probes, data transmission systems, propulsion systems for rockets stages, thrusters etc.

Ottobrunn Facilities Operations Division: the executive and administrative centre of the company.

About 80% of the firm's turnover comes from military business. It receives heavy funding from the German Government. The firm has recently absorbed another German aerospace company, VFM. There is now only one other firm of any consequence in the field, Dornier, which is still a privately owned family undertaking.

MBB have a wholly owned subsidiary in the United States, and holdings in firms in France and Spain.

The company is looking hard for ventures to replace several programmes which are past (or passing) their peak, notably Tornado.

HERR TYLL NECKER

Sales Director of Hako Werke (Hamburg).

President of the VDMA (Verband Deutscher Maschinen und Anlagenbau e.V.) Frankfurt since 1980. Vice President and Treasurer of German Federation of Industry (BDI).

Born 1930 in Berlin.

Necker joined Hako Werke (Hamburg) as Sales Manager in 1950 after studying political economics and philosophy at the universities of Göttingen, Munich and Hamburg.

Necker also sits on various institutes and trade associations including the Foreign Trade Committee of the Federal Economic Ministry.

Hako Werke GmbH & Co is a family firm. One of the leading European manufacturers of industrial cleaning and horticultural equipment including small tractors and lawn mowers. Group turnover of DM136 million, 46% from exports in 1981. Total employees 1,000 approximately. Short time working at Bad Oldesloe (nr Hamburg) in operation. Subsidiaries in Belgium, Denmark, France, Great Britain (Northampton), Italy, Holland, Norway, Sweden, Spain, and USA. (Turnover in USA last year DM15 million).

DR KLAUS POHLE

Member (responsible for Finance and Administration) of the Board Schering AG, Berlin.
Born 1937, Potsdam.

Pohle studied law and business administration in Germany and Harvard. He worked with BASF from 1966-1980, finally as Finance Director and joined the Board of Schering on 1 January 1981. Appointed to present position in January 1982. He is also a member of the Board of Deutsche Bank.

Schering was founded in 1871. Of the top 250 German firms (standing at No 62) it is the only one with headquarters exclusively in Berlin. It had a turnover in 1981 of DM3,828 million, a 19% increase over the previous year. Turnover has increased in each of the last 5 years and sales abroad account for 70% of the group total. The group has some 140 plants and subsidiaries around the world engaging in production of pharmaceuticals for agriculture and industry and fine chemicals; and distribution points in most western European countries including one at Burgess Hill in Sussex.

PROF DR ROLF RODENSTOCK

President of the BDI (German Federation of Industry) Cologne.
(Vice President since 1952).
Born 1917 in Munich.

School and studies in Munich 1937-1942. Rodenstock has been a member of the management of Rodenstock Optische Werke since 1945 and became owner following the death of his father in 1953. He has been a lecturer since 1947 becoming a professor in Business Economics in 1956 (University of Munich). He is President of the Munich Chamber of Commerce and made a name as an Economist when Director of the Rodenstock Institute of the German Economy (IDW).

He was President of the Association of Optical and Mechanical Industry 1949-1964 and is presently member of several supervisory boards among them Kodak AG, Stuttgart; Deutsche Spiegelglas AG; Esso AG, as well as member of board of German Employers Federation. He was Vice President of the BDI from 1952 to 1978, when he became President. Many honorary awards.

Optische Werke G Rodenstock was founded in 1877 and took its present form of a limited partnership in 1919. At present there is one major partner with limited liability, Erika Schantz, and Prof Dr Rolf Rodenstock is partner with unlimited liability. 5,900 people are employed and the company had a turnover in 1981 of DM600 million.

In its factories in Munich, Regen and Ebersberg, all in Bavaria, the firm manufactures spectacles and lenses (main item of turnover), optical test instruments and equipment as well as professional photographic lenses.

WOLFGANG SEELIG

Member of the Board of Management, Siemens AG, since 1976 with special responsibility for communications projects.

Born 1927 in Berlin.

Grammar school education. Joined Siemens-Schuckardt Werke AG (energy), a subsidiary of Siemens & Halske AG, as Siemens was then, as a trainee in 1947. Completed his training in radio engineering with Siemens & Halske in 1949. Spent several years in foreign affairs division of S & H/SSW with responsibility for Latin America. 1960-1965 Executive Director of Siemens Venezolana SA in Caracas after which he returned to the foreign affairs division of S & H/SSW in Germany. 1970 became Head of medical engineering projects. 1976 Member of the Board of Siemens AG and Head of telecommunications projects. 1979 Head of Communications Group. He has particular responsibility for large-scale projects overseas (see Egyptian example below). Seelig is President of the Federation of German Electrical Industries and Vice-President of the Federation of German Industry (BDI) as well as being on the boards of a number of German companies.

Originally founded in 1875, Siemens has the third largest turnover among German companies and is the fifth largest electrical engineering group in the world. Turnover 1980/81 was DM34.6 bn, half of which was achieved outside FRG. Breakdown: power engineering 30%, communication engineering 28%, data systems 6%, electrical installation 9%, medical engineering 8%, components 5%, miscellaneous 8%. DM1.8 billion contract signed in 1979 to devlop Egypt's communications across the board is perhaps the most striking example of Siemens' interest in

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Third World projects sometimes arranged at governmental level and often involving not only several groups within Siemens itself but also other German and foreign firms.

In Britain, Siemens has a headquarters and a production plant (turnover 1979/80 £46.4 m) manufacturing electronic teleprinters and low/medium voltage controlgear. But this represents only a small involvement by Siemens' standards. Phonophor Acoustics Ltd, another of Siemens' UK interests manufactures hearing aid amplifiers.

DR DIETER SPETHMANN

Chairman of the Board of Management, Thyssen AG, Duisburg. Born 1926, Essen.

Studied law and economics. Joined Thyssen in 1952 after a spell with the Gelsenkirchen Mining Co. Became Financial Manager in 1958, member of Executive Board in 1970 and Chairman in 1973. Chairman of the Iron and Steel Industries Federation. A powerful figure in the European steel industry, with high level contacts all over the world. Commands respect not merely for his personal qualities but also as head of one of the most efficiently managed industrial organisations in the FRG.

Member of numerous supervisory boards, BP Germany; Dresdner Bank; Siemens; Ford Motor Company (European Advisory Board).

Founded in 1880, the Thyssen group is the largest steel company in Europe. It is a public joint stock company with some 210,000 shareholders, employing some 144,000. External turnover in 1981/82 totalled DM30.6 billion, an increase of 8.7% over 1980/81, when the company made a loss and halved its dividend. Generally regarded as the strongest of the German steel firms, extensive diversification has placed it in a better position than most to survive the current crisis in the steel market.

The Thyssen group is broken down into four major areas:

i) Steel. Including that of four subsidiaries, turnover

/in 1981/82

in 1981/82 was up 10.7% on the previous year (reflecting higher prices achieved by production quotas within the EEC).

ii) Speciality steel. Seven subsidiary companies with a 1981/82 turnover of around DM 3 milliard.

iii) Capital Goods and Manufactured Products. Includes Thyssen Industries AG, The Budd Company, (purchased in 1978), and over 60 subsidiaries in the FRG and abroad. Products include complete transfer lines, locomotives, ships, off-shore platforms, heavy castings, propulsion systems, railcars, lifts, components for passenger cars and trucks, machine tool components, environmental protection equipment, burnt lime products.

iv) Trading and Services. Comprises Thyssen Handelsunion and a number of transportation companies. Trading is carried out in steel and steel products, coal and scrap; also crude oil and fuel oils, the main growth area and source of profits for the Thyssen group as a whole.

DR ULRICH WEISS

Board Member Deutsche Bank AG (responsible for organisation and administration).

Born 1936 in Bremen.

1955-57 apprenticeship at Deutsche Bank AG in Bremen and Hamburg. 1957-63 studied Theory of Business Management at University of Hamburg, worked for a year at Bankers Trust Company, New York. Has worked for Deutsche Bank in Frankfurt since 1967 becoming Branch Manager in 1975.

Dr Weiss was appointed to the Board in 1979 and became a full member in early 1982. Described as "brilliant", he has risen rapidly through the ranks at Deutsche Bank. He has been particularly active in developing the Bank's retail banking services and has had much to do with Eurocard/Eurocheque business. He is responsible for the bank's computerisation programme, but remains active, as most Board Members are, in foreign business. He is on the Board of Directors of the European Banking Company, London and Brussels.

Deutsche Bank AG (founded in 1872) is one of the "Big Three" German Banks and has probably weathered the recession best of them all. In 1981 turnover grew by 10% to DM118.2 billion (1980=6.4%). Besides the expansion at the parent company, the growth at their mortgage banks and foreign subsidiaries was the main factor behind the increase in the group's business volume to 196.4 billion, an increase over the previous year of DM18.3 billion. The bank has some 40,000 employees.

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The bank has holdings of over 25% in a number of well known German firms including Daimler Benz, Philipp Holzmann and Hapag Lloyd. Deutsche Bank AG has some 580 main branches in the Federal Republic and a large number of sub-branches; it has foreign branches and subsidiaries in most Western European countries including the United Kingdom, the Americas, and the Far East; and there are representative offices in China, the Soviet Union and a number of countries in Africa and the Middle East.

DR KURT WERNER

President of the Management Board, Maschinenfabrik Goebel GmbH, Darmstadt.

Born 1925.

Dr Werner studied economics and political science at Frankfurt and Heidelberg, doctorate in 1947. After one year with the Hessische Elektrizitaets-AG Darmstadt, he joined Goebel in 1949 and became President in 1970. There are believed to be family links with the original founder of the company. Among his many other appointments are those of Chairman of the BDI Committee for Foreign Trade and Integration, membership of the Praesidium of the Bundesverband der Deutschen Industrie (BDI), and President of the International Printing and Paper Fair in Düsseldorf. He was a member of the Top Level German Industrial Mission to the UK in the autumn of 1977, and led a follow-up mission to the UK in 1980.

Maschinenfabrik Goebel GmbH, which in 1978 celebrated its 150th anniversary, is Germany's leading manufacturer of special multi-colour printing machines for bank notes and postage stamps, and of high speed printing presses for plastic foils and packaging materials. It employs about 1,100 people; annual turnover is in the region of DM85 million. About 70% of the company's production is exported, some to the UK where the firm has two agents.

PROFESSOR DR HANS GUENTER MUELLER

CHAIRMAN OF THE BOARD OF MANAGEMENT, MANNESMANN DEMAG AG, DUISBURG.

BORN 1926

STUDIED MATHEMATICS, PHYSICS AND METALLURGY AT UNIVERSITY OF COLOGNE 1949-54, GRADUATING WITH A DEGREE IN PHYSICS BEFORE JOINING THE MAX-PLANCK INSTITUTE FOR METAL RESEARCH IN 1952. 1956 BECAME DR OF ENGINEERING AFTER STUDIES AT AACHEN TECHNICAL HIGHSCHOOL. 1958 JOINED MANNESMANN AG IRON AND STEEL WORKS, HUCKINGEN. 1968 JOINED MANNESMANN MEER AG BOARD WITH SPECIAL RESPONSIBILITY FOR TECHNOLOGY BEFORE BECOMING MEMBER OF THE BOARD OF DEMAG AG END OF 1975. 1980 BECAME CHAIRMAN OF THE BOARD OF MANAGEMENT, MANNESMANN DEMAG AG, DUISBURG.

MANNESMANN DEMAG AG HAS ITS ORIGINS IN THE MECHANICAL WORKSHOP OF HARKORT AND CO FOUNDED IN 1819. IN 1910 THIS COMPANY JOINED WITH DUISBURGER MASCHINEN AG (FOUNDED 1862) AND BENRATHER MASCHINENFABRIK AG (FOUNDED 1891) TO BECOME DEUTSCHE MASCHINENFABRIK AG, DUISBURG. DEMAG BECAME A MEMBER OF THE MANNESMANN GROUP (WHO HAVE AN 89.6 % SHARE IN THE COMPANY) IN 1972. DEMAG'S TOTAL TURNOVER IN 1981 WAS SOME DM 2.93 BILLION AND THE COMPANY EMPLOYS SOME 22,700 PEOPLE OF WHOM APPROXIMATELY 18,500 ARE EMPLOYED IN GERMANY AND 4,200 ABROAD. THE COMPANY INVESTED SOME DM 82 MILLION IN R AND D IN 1981 ESPECIALLY IN THE APPLICATION OF MICRO-ELECTRONICS IN THEIR INDUSTRY. THIS IS THE EQUIVALENT OF 3.4 % OF THEIR DOMESTIC TURNOVER.

THE DEMAG GROUP IS MADE UP OF A NUMBER OF COMPANIES WITHIN MANNESMANN AG. WITH 17 WORKS IN GERMANY AND 14 ABROAD IT IS ONE OF THE LARGEST INTERNATIONAL MECHANICAL ENGINEERING CONCERNS. THE NETWORK OF SALES AND PRODUCTION FACILITIES IS CONTROLLED FROM THE COMPANY HEADQUARTERS IN DUISBURG. AT AN INTERNATIONAL LEVEL THE FIRM DESIGNS AND BUILDS MACHINERY, PLANTS AND SYSTEMS, AND ALSO PRODUCES AND CONSTRUCTS LARGE-SCALE PROJECTS, - MOSTLY TURNKEY. OVERSEAS PROJECTS INCLUDE THE CONSTRUCTION OF ELECTRIC STEEL-MAKING PLANTS IN DENMARK, A ROLLING-MILL COMPLEX IN VENEZUELA, AND A COMPUTER-CONTROLLED HIGH-BAY WAREHOUSE IN POLAND. THE FIRM HAS SUPPLIED HEAVY MACHINERY FOR PROJECTS IN NORWAY, IRAN, AUSTRALIA, US AND GREAT BRITAIN INCLUDING TWO MODERN TUNNEL HEADING MACHINES FOR USE IN BORING A 29 KILOMETER LONG TUNNEL FOR THE NORTHUMBRIAN WATER AUTHORITY.

MANNESMANN DEMAG AG HAS SUBSIDIARIES IN 13 COUNTRIES IN EUROPE AND AROUND THE WORLD INCLUDING AUSTRALIA, CANADA, SOUTH AFRICA AND THE UNITED STATES AND OWNS TWO PLANTS IN BANBURY AND GERRARDS CROSS IN THE UK. THEY OWN ALSO FIELDING PLANT DESIGN LTD, BOURNEMOUTH DEMAG INDUSTRIAL EQUIPMENT LTD, BRENTFORD AND DEMAG PLASTICS PROCESSING MACHINERY LTD, PORTADOWN.

RECENT DEVELOPMENTS IN THE UK ECONOMY

Assessment. UK economic activity held up well in 1982, with the effects of lower activity elsewhere in the world being offset to a considerable extent in the UK by a good export performance and by a rise in final domestic demand, led by consumer spending. UK gross domestic product grew by 1% in 1982 and there are already encouraging signs of further growth in 1983. Domestic demand has remained buoyant in the early months of 1983 and there are signs that destocking may be coming to an end, leading to improved prospects for manufacturing output. Productivity is also improving and this, together with the recent falls in sterling's exchange rate against other currencies, is leading to improved UK cost competitiveness in both home and export markets.

Demand. Consumers' expenditure rose by 2½% in the second half of 1982, largely because of a 16% increase in spending on cars and durable goods. At the time there were worries that this increased spending was fuelling increased imports into the UK, but this worry proved to be unfounded. Nevertheless domestic output benefitted to only a limited extent from the rise in expenditure because of renewed destocking in the second half of the year.

Output. Domestic output reached its lowest level during the current recession in Spring 1981. Since then there has been a gradual improvement and in 1982 Q4 output was 2% above its 1981 trough. Reflecting the severity of the recession, output is still 3½% below that in the peak year of 1979. Manufacturing output fell by 1% in 1982 Q4 to a level 1% lower than its 1981 trough and 17% below its 1979 level. However provisional statistics suggest that manufacturing output in January 1983 was about 3% higher than the monthly average for 1982 Q4 and recent CBI surveys indicate that further increases are anticipated over the coming months.

Labour. Between the 1979 peak in economic activity and the end of 1982 Q3 the UK employed labour force fell by 2 million, or 8%. The trend in unemployment is still upwards with UK unemployment reaching 3.0 million (13.0% of all employees) in March 1983. The rise in unemployment in 1983 Q1 was 76,800 compared with an average of 80,000 a quarter in 1982 and 153,600 a quarter in 1981.

Productivity. The large decline in employment since 1979 has led to a marked rise in productivity. In 1982 Q3 output per head in the whole economy was 3½% above the average for 1979 - a peak year in the UK economic and productivity cycle. More recent figures show that in the three months to January 1983 output per head in manufacturing industry was 4½% higher than a year earlier and 7½% above the average level in 1979. After making allowances for hours worked, output per person hour in manufacturing industry was 4% higher than a year earlier and was 10½% above the average level in 1979.

Earnings. After discounting temporary distortions, the underlying year-on-year increase in average earnings has fallen continuously since August 1980 and reached 7¾% in January 1983. Within this, the year-on-year increase in earnings in manufacturing industry has fallen to 8½%. The decline in average earnings growth and the rise in productivity have helped to keep down industry's costs. In the three months to January 1983 unit wage and salary costs in manufacturingindustry were only 4½% higher than a year earlier.

Competitiveness. Between 1979 Q1 and 1981 Q1 UK cost competitiveness deteriorated by around 50%. Since 1981 Q1 about three quarters of this lost competitiveness has been regained. This reflects movements in sterling's exchange rate as well as slower growth in unit wage and salary costs compared to our competitors.

Prices. The news on price inflation continues to be encouraging. Retail price inflation is currently running at an annual rate of about 5% and may fall as low as 4% in May 1983. Wholesale price inflation is also below 10%. Manufacturers' raw material and fuel prices in 1983 Q1 were 8.5% higher than a year earlier, whilst their output prices had risen by only 7.3% since 1982 Q1.

Exchange rates and interest rates. The downward pressure on sterling during Autumn 1981, which threatened the Government's counter-inflation policy, forced UK interest rates up to levels generally above world rates. The raising of interest rates in late 1981 arrested the decline in sterling's exchange rate. Between October 1981 and October 1982 UK interest rates were steadily stepped down whilst sterling remainec relatively stable. Since early November 1982 movements in interest rates and uncertai ties over oil prices have contributed to a fall in sterling's exchange rate. In March 1983 sterling's trade-weighted exchange rate index averaged 79.1 (1975=100), 14½% lower than in October 1982. Whilst the inflationary aspect is unwelcome, the fall in sterling should provide worthwhile benefits for the UK's trading position, output and company finances. The UK banks' base lending rate currently stands at 10½%, compared to 9% between 4 and 26 November 1982 and 16% in early October 1981.

Money supply. The growth of the three key measures of money stock (M1, £M3 and PSL2) remains within the current 8-12% per annum target growth range which began in Februar 1982.

Fixed investment. Expenditure on fixed assets continues to hold up fairly well. During 1982 the volume of fixed investment was 3½% higher than in 1981 and a further rise of 3½% is predicted for 1983. Within the 1982 total, fixed investment by manufacturing industry (including leased assets) fell by 8½%.

Company profits. Company profits have benefitted from the upturn in the economy and the recent low increases in materials and fuel prices and in unit labour costs. In 1982 industrial and commercial companies' gross trading profits (net of stock appreciation) rose by 15% compared to 1981. However their real rate of return on capital employed remains historically low.

Balance of payments. The surplus on the current account of the balance of payments remained substantial at £4 billion, in 1982, though it was a good deal smaller than the record surplus of £6 billion in 1981. The volume of UK exports of goods and services in 1982 was 1% higher than in 1981. On the other side of the account, the volume of imports of goods and services rose by 5%. In the first two months of 1983 there has been a small deficit (£0.3 billion) on the current acoount, largel because of a sharp deterioration in the non-oil trade deficit.

Outlook. The Treasury's March 1983 pre-Budget forecast indicates that UK output is expected to increase by 2% in 1983, alongside a smaller (1½%) increase in manufac uring output. Imports are expected to rise by 5%; exports are expected to increase by 1% in 1983 as a whole rising in 1984 to a level 5% higher than in 1983 H1. Retail price inflation is forecast to remain at around 5% in the early months of 1983, rising to 6% in the fourth quarter of the year. Consumers' expenditure is expected to rise by about 2½% in 1983 and unemployment to remain at about its curren level. The recent devaluation in sterling and the March 1983 Budget measures are expected to raise company profitability in 1983.

Economics Division 2A
Departments of Industry and Trade

7 April 1983

GOVERNMENT'S INDUSTRIAL STRATEGY

The Government's strategy is to create the right climate for sustainable growth in output and employment; to remove obstacles to the efficient use of resources and to promote innovation and new technology.

BACKGROUND

The Government were elected to fight a trend of rising inflation caused by relaxation of monetary disciplines; the steady erosion of price and non-price competitiveness and poor incentives and attitudes. The recession has been very deep but this reflected the adjustment necessary to correct for years of relative decline.

The Government have never promised a quick and easy solution to economic ills. Time is needed to change attitudes, increase efficiency, stimulate new industrial activity and create new and secure job opportunities. The Government have made it clear that it will take more than the life of one parliament to reap the full benefit of their policies.

Many problems remain and there is further work to be done but there are encouraging indications that the Government's policy is taking effect. There are signs of gradual improvement in many areas - lower inflation, increased productivity, improved cost competitiveness and lower business costs and good grounds for hope that a widespread change of attitudes is taking place in industry. It will take time for the full effects of lower inflation and interest rates to be felt in industry.

OUTLOOK

Achievement of sustainable recovery requires continued growth of productivity coupled with rigorous cost control and moderate wage settlements.

The outlook is for continued gradual recovery which is the best basis for stable economic growth. In his Budget speech the Chancellor said that UK output is expected to rise by 2% in 1983 with a smaller increase ($1\frac{1}{2}\%$) in manufacturing output.

Future policy is unchanged, there will be no U-turn, the defeat of inflation must continue to have priority because: it erodes our price competitiveness; it creates uncertainty and saps management ability tomake accurate business decisions; it distorts the market signals on which businessmen rely in deciding a suitable response; it diverts attention from real wealth creation so that people become preoccupied with the short-term money advantage; it is uncair in its effects on distribution of income and wealth and erodes incentives.

The objectives of the Government's industrial policy in the next few years will be:

i to foster further improvements in the economic climate in order that industry can become more profitable in turn stimulating new investment and new and secure job opportunities;

ii to promote a greater awareness and capacity to respond to the possibilities offered to UK industry (users and suppliers) by Information Technology;

iii to support industry's own efforts to become better equipped and therefore more efficient and competitive by giving financial support to aid R&D and the development and application of micro-electronics, advanced office systems, robotics and opto-electronics etc;

iv to encourage training in the use of technology roducts, for example by increasing the numbers of IT Centres;

v to give further help to new and existing small firms many of which will form the basis of future economic growth;

vi to further reduce burdens on industry wherever possible;

vii to continue to return nationalised industries, or particular parts of them, to the private sector;

viii to continue to encourage inward investment;

ix to continue to enusre that regional assistance is structured more closely to areas of greatest need (1982 saw the implementation of the final stage of the change in Assisted Areas announced in July 1979);

x to continue to seek new ways in which Government and industry can work together to create a sound industrial base and a pattern of stable economic growth.

The stage for economic recovery is set. The way forward is by building on recen t productivity growth, rigorous cost control including continued moderation in wage claims and maintenance of widely reported improvements in working practices. This will lead ot sustainable growth and the creation of new and secure jobs.

IMPACT OF 1983 BUDGET ON INDUSTRY

The Budget measures will help businesses by £¾ billion in a full year. Combined with the NIS/NIC changes announced in the Autumn, businesses will benefit by about £1¼ billion in a full year.

National Insurance Surcharge: When the further ½ percentage cut announced in the Budget takes effect, the Government will have reduced the NIS by 2½ percentage points. This is worth some £2 billion to the private sector in a full year.

Personal Tax Concessions: Increased personal tax allowances and rate bands can give incentives and encourage moderate wage settlements. They will lead to higher expenditure and demand. Concern in the past has been that competitors benefit more than British industry from higher expenditure, but, with improvements in costs, efficiency, quality, reliability and delivery, British industry is now in a stronger position.

Business Expansion Scheme: The Business Start-Up Scheme has been simplified, made more generous and greatly extended in scope. The main change is the extension of the Scheme to established unquoted companies. The limit of 50% of share capital in any one company which can qualify has been removed completely. The annual limit which can qualify for relief under the Scheme has been doubled from £20,000 to £40,000.

Small Companies' Corporation Tax: The small companies' rate is to be reduced from 40 to 38% and the marginal rate limits increased from £90,000 (lower) and £225,000 (upper) to £100,000 (lower) and £500,000 (upper). This significant broadening of the marginal field has a very useful effect of reducing the effective tax rate on each extra £ in this region from 60% to 55½%.

Profit Sharing and Share Option Schemes: There are three major changes here. First, the 1978 Finance Act profit sharing scheme is made considerably more attractive by a rise in the limit qualifying for special tax treatment from £1250 to 10% of salary subject to a maximum of £5,000. Secondly, the SAYE-linked Share Option Scheme (1980 Finance Act) sees its limit raised from £50 per month to £75 per month. Both these changes apply to schemes which must be of fairly general application within the company. Thirdly, executive-type option schemes are improved by an extension in the period over which tax may be paid on exercise of the option from three to five years. These changes will further increase the incentives for both employees and top executives to secure a real interest in their companies.

Interest Relief for Management Buy-Outs: Interest relief on loans taken out by employees for the purchase of shares in an employee-controlled company following a management buy-out is to be granted in future. This adds to the existing categories of relief for interest on loans taken out for the purchase of shares in a partnership, and for the purchase of shares in a close company by persons having a material interest (more than 5% of the ordinary share capital) or devoting the greater part of their time to the management or control of the business.

Capital Gains Tax: The exempt amounts for individuals and trustees are to be increased in line with inflation. Retirement relief is to be doubled from a maximum of £50,000 to £100,000. This will further encourage entrepreneurs to keep money in their businesses where it can work to best effect.

Capital Transfer Tax: Thresholds and rate bands are to be increased broadly in line with inflation. Thus thresholds will rise from £55,000 to £60,000. Relief for minority shareholders in unquoted companies and for let agricultural land is to be increased from 20% to 30%. This will encourage minority investment in unquoted trading companies and improve supply of farmland for letting.

Industrial Buildings Allowance: Increase in Office Space: Previously non-qualifying space (generally offices) in an otherwise qualifying building was only ignored if its proportion, in terms of construction costs, was less than 10% of the whole. This percentage is increased from Budget day to 25% and will be of particular assistance to advanced technology companies where considerable office space is often required immediately adjacent to the industrial/processing premises.

Capital Allowances for Teletext TV Sets: 100% first year allowances for expenditure by the trade on teletext TV sets intended for renting out to consumers are to be extended for one-third of the year to June 1984. The 100% allowance has already been extended once (to June this year) and this further concession will now bring teletext sets fully in line with viewdata ones. The phased reduction in allowances will now be June 1984 (reduction to 75%); June 1985 (reduction to 50%); June 1986 (reduction to 25%). This further concession will be of help to the UK electronics industry and encourage the wider dissemination of this technology in which the UK has a lead. It is part of the general assistance to encourage innovation and information technology.

INNOVATION PACKAGE

£185 million is being added to the DOI Support for Innovation programme over the next three years. In addition, from existing resources, assistance under Support for Innovation will be maintained at 33 1/3% for a further year beyond May 1983 and £5 million will be allocated to a new Telecoms Products Scheme.

The £185 million will be allocated as follows:-

(i) Small Engineering Firms Investment Scheme 2: £100 million is to be allocated to SEFIS 2.

(ii) Innovation-Linked Investment Scheme: The Support for Innovation programme is to be extended by an innovation-linked investment scheme to which £40 million will be allocated.

(iii) Software Product Scheme: An additional allocation of £15 million over the next three years is being committed to maintain the momentum of the Scheme.

(iv) CAD/CAM Awareness Programme: An additional £10 million will be committed to this programme to promote more strongly the area of computer-aided production.

(v) Advisory Services: A further £20 million will be allocated to advisory services such as the Manufacturing Advisory Service, the Design Advisory Scheme and a new Marketing Consultancy Service.

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March 1983

BRIEFING FOR GERMAN HIGH LEVEL MISSION

INDUSTRIAL RELATIONS IN THE UK

General

Industrial relations in the UK have had a long, uninterrupted history of development. Traditionally, employers and trade unions have been relatively free from legal constraints in the conduct of collective bargaining. The process has also developed at different levels - national, company, and plant - in different industries, and the importance of local bargaining is probably greater in the UK than in many other European countries. Collective agreements between employers and trade unions are not normally enforceable at law unless the parties so choose, which in practice they don't.

The main body of existing labour legislation was enacted by the last Government in the Trade Union and Labour Relations Acts 1974 and 1976 and the Employment Protection Acts 1975 and 1978.

The 1974 and 1976 Acts incorporated industrial relations provisions which have developed over the present century; covering, for example, the status of trade unions and employers' associations, the legal immunities enjoyed by them and by individuals acting in contemplation or furtherance of a trade dispute, and also the legal immunity given to those engaged in peaceful picketing. The Acts also widened the legal immunities.

The Employment Protection Act 1975 sought to encourage the extension and, where necessary, the reform of collective bargaining. It established the independent Advisory, Conciliation and Arbitration Service on a statutory basis for this purpose. It also introduced, or extended, various collective and individual rights. The 1978 Employment Protection Act consolidated previous legislation.

The present Government believes that the legislation passed in the 1970's has tilted the balance of bargaining away from responsible management and towards trade unions. In order to redress this balance the Employment Acts 1980 and 1982 were passed. These provide, amongst other things, for restrictions on the right to picket; repeal of the provisions of the 1975 Act on recognition of trade unions; restriction of the immunities for a person who organises, threatens or takes part in secondary industrial action; increased compensation for individuals dismissed for not being trade union members in a closed shop; trade unions being liable to pay damages if they organise unlawful industrial action, and encouragement to employers to develop arrangements for consulting and involving their employees.

The Government recently published a Green Paper "Democracy in Trade Unions" (HMSO Cmnd 8778) designed to stimulate debate on reform in three areas: the election by secret ballot of trade union leaders; pre-strike ballots; and union political activities including contacting in or out of the political levy. Views from individuals and organisations have been invited by April 1983.

Industrial disputes

In 1980, 1981, and 1982 the number of strikes recorded as beginning was lower than in the previous thirty or forty years. The number of man days lost through industrial action in 1981 was, with one exception (1976), the lowest for 14 years. The higher figure for days lost in 1982 reflects, to a large extent, a protracted pay dispute in the National Health Service.

Table 1

Number of stoppages and total working days lost: 1971 - 82

Year	Stoppages	Working Days Lost ('000)
1971	2,228	13,551
1972	2,497	23,909
1973	2,873	7,197
1974	2,922	14,750
1975	2,282	6,012
1976	2,016	3,284
1977	2,703	10,142
1978	2,471	9,405
1979	2,080	29,474
1980	1,330	11,964
1981	1,338	4,266
1982*	1,454	7,916

*Provisional

International Comparison of Industrial Disputes

Table 2, annexed, compares the level of strike activity in 18 countries (and the European Community) over the last ten years, showing the incidence rates of working days lost per thousand employees in civilian employment. The table has been compiled by the Department of Employment from a number of sources.

In 1981 the UK once again occupied a middle ranking position in terms of industrial disputes compared with other industrial countries. However there is considerable variation in the overall level of industrial stoppages from year to year, and for this reason five or ten year comparisons are more appropriate than annual comparisons between countries.

In the five years 1977-81 the UK experienced a higher than average incidence of industrial stoppages, losing the equivalent of a little over a half of one working day per employee per year (571 days per thousand employees). This compared with an average of 411 days per thousand employees in the European Community as a whole (9 countries). The UK figure was dominated by a particularly high level in 1979 when a few large stoppages brought the total number of working days lost up to 1,276 per thousand employees compared with an average of 420 in the four other years.

Over the ten year period 1972-81 the countries suffering the highest overall incidence rates of industrial stoppages were the Irish Republic, Italy, Spain, Australia and Canada. Among the countries least troubled by disputes were Germany, the Netherlands, Japan, Norway, Sweden and Switzerland.

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15 April 1983

Table 1 Industrial stoppages: working days lost per thousand employees in all industries and services: 1972–81

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981‡	Average† 1972–76	Average† 1977–81‡	Average† 1972–81‡
United Kingdom	1,081	318	647	265	146	448	413	1,276	523	197	491	571	531
Australia	433	550	1,274	715	771	335	424	783	643	814	749	600	674
Belgium	116	281	183	195	290	215	325	197	69	..	213	(202)	(208)
Canada	1,041	732	1,121	1,303	1,367	381	828	837	934	899	1,113	776	944
Denmark	11	2,007	96	53	107	116	63	83	93	317	455	134	295
Finland	285	1,436	226	155	725	1,313	74	133	848	330	565	540	552
France	229	233	198	228	292	211	126	209	95	86	236	145	191
Germany	3	26	49	3	2	1	119	19	4	3	17	29	23
Irish Republic	285	280	732	390	1,032	571	763	1,757	483	..	544	(894)	(699)
Italy	1,315	1,549	1,251	1,722	1,588	1,017	625	1,600*	919	588	1,485	950	1,217
Japan	149	127	266	220	88	40	36	24	26	14	170	28	99
Netherlands	3	14	2	—	2	57	1	73	13	6	4	30	19
New Zealand	112	210	137	158	355	431	378	353	349	238	194	350	272
Norway	9	8	228	9	90	16	39	4	63	17	69	28	48
Portugal	..	..	..	..	..	128	..	198	204	286'	..	(204*)	..
Spain	70	125	199	205	1,438	1,907	1,361	2,288	..	..	407	(1,852)	(949)
Sweden	3	3	16	96	7	32	11	7	1,148	54	26	250	138
United States	367	364	613	406	479	435	429	423	388	370	446	409	428
European Community (9 Countries)	..	..	..	..	..	351	289	679	323	..	..	(411)	..

* Includes only 85 per cent of strikes in 1981
† Annual average for those years within each period for which data are available, not weighted for employment. Brackets indicate incomplete data.
‡ Provisional

BRIEFING FOR HIGH LEVEL GERMAN MISSION

Productivity

Productivity in manufacturing industry in the three months to January 1983, measured as output per head increased by 14% since the end of 1980, in the fourth quarter of 1982 largely as a result of falling employment. After allowance has been made for the change in the number of hours worked both by manuals and non-manuals, productivity as measured by output per person hour rose by 10% over the same period. Since 1979 the UK's relative position in terms of output per person hour in manufacturing has improved significantly. Compared with the average for 1979, the latest figures show productivity growth ahead of France and West Germany, on a par with the USA, but still behind Japan.

It is essential that industry should be able to make good use of its existing resources and that levels of profitability are achieved which provide the incentive to maintain the level of investment necessary to increase productivity. In addition to the Government's economic policies designed to reduce inflation and create an improved climate in which industry can flourish, there are specific schemes to encourage the introduction of new technology in order to assist UK industry to achieve further improvements in productivity. The areas covered include micro-electronics, robotics, computer-aided design and manufacture in the engineering sector, computer-aided design, manufacture and test in the electronics industry, flexible manufacturing systems, software products, fibre-optics and opto-electronic and biotechnology. These schemes are available both to indigenous companies and overseas companies investing in the UK.

IC(A)1

April 1983

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS

OIL PRICES

Points to make

1. The Government believes a moderate reduction in the oil price will help the world economy but would not wish to see an exaggerated fall which in all probability would rebound later. Perhaps the best outcome would be stability in nominal dollar terms, which would be consistent with some gradual erosion of the real price.

2. The OPEC reduction coupled with the agreement to stabilise prices of the new level is welcome.

3. The recent new price reduction proposed by BNOC reflects the market following the OPEC reduction agreed on 14 March; it does not undercut any OPEC Country's prices but contributes to the attempts to restore stability to the world oil market.

4. The Government have been encouraged by the positive response to the new BNOC proposal from other producers, in particular those within OPEC.

5. Although the Government does not control UKCS oil prices, which are a matter for commercial negotiation, with the British National Oil Corporation playing a leading role, it believes that the industry as a whole has an interest in stability.

Background

1. OPEC Ministers agreed in London on 14 March a $29/b marker price overall production ceiling of 17.5 mbd. This is a $5/b reduction and the exception of Nigeria, all OPEC crudes are reduced by the same amount hence preserving the structure of differentials. The Nigerian price of $30 for Bonny Light - set unilaterally following BNOC's proposal to reduce UKCS prices by $3 to $30.50/b on 18 February - was allowed to stand. However, Nigeria threatened to follow any cut which reduced the Forties price below $30/b.

2. Following the OPEC agreement, BNOC made new proposals to its customers on 30 March. These proposals were as follows:-

(i) The price for the whole of February will be $30.50/b for Brent and Forties with differentials for other fields as in its proposal made on 18 February.

(ii) A further reduction for March of 20 cents/barrel for Brent Blend and 75 cents/barrel for all other grades.

(iii) The March price will apply until further notice but with provision for a review in the light of market circumstances.

BNOC also indicated that they would not negotiate further on prices for February and March.

3. One aspect of the new proposals was to shift the marker crude from Forties to Brent. Brent is the most widely traded North Sea Crude and accounts for over 30% of UKCS production. The proposed reduction in the Brent price was in line with the $30/b charged by Nigeria for its principal grade, Bonny Light, even though Brent is less valuable than Nigerian crude particularly in the US.

4. Response to the new proposals has been generally favourable. Despite Nigeria's earlier threat, the Nigerian Government decided to leave its oil prices unchanged, although they expressed reservations about the change in the marker crude and the lack of any indication that North Sea production might be controlled. Venezuela considered the proposals "very positive"; Libya saw the move as "good and reasonable". Iran also thought the proposed reductions reasonable and in line with market conditions, as did the UAE and Qatar. Outside of OPEC, the US Administration considered BNOC's move to be positive and a further step towards stabilising the oil price.

5. In the spot market prices have firmed although the market remains weak.

OIL 5b
13 April 1983

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS

GERMAN ECONOMY

Last year real GDP fell sharply by 1 per cent as the decline in domestic demand combined with faltering exports which led to a fall in the external sector's contribution to growth. Industrial production fell throughout 1982 and by the final quarter was 4½ per cent lower than a year earlier. It may now be recovering if rather unevenly.

2. There have recently been signs of a marked turn-around in German prospects after last year's poor performance. Business confidence has improved noticeably. Domestic orders and construction output have picked up markedly. Inflation has continued to fall and interest rates have been reduced.

3. Germany's traditional export led growth leaves the economy vulnerable to sharp changes in world activity. With only a slow pick-up in world trade German exports may not recover fully in 1983. Domestic demand is expected to remain weak again and with little boost from the external side, real GDP may remain flat in 1983. Renewed confidence has led private forecasters to suggest growth of 1-2 per cent this year. Although the government expects some progressive improvement throughout the year it has not so far revised its forecast for no real growth in 1983 on average.

4. Against this improving picture unemployment has continued to rise and now stands at around 7 per cent (seasonally adjusted) slightly below the European average of 9½ per cent. It has more than doubled since 1980. Despite the pick-up in activity unemployment, now at 2.3 million (seasonally adjusted), is expected to rise further this year.

5. Consumer price inflation has fallen from 6 per cent in 1981 to around 3½ per cent over the past year to February. The declining growth in unit labour costs and depressed import prices have contributed to this good performance. Low pay settlements are continuing.

6. Short term interest rates have fallen steadily to around 5½ per cent now from their peak of almost 14 per cent in 1981. Recently official rates have been reduced further (Lombard and discount rates now stand at 5 per cent and 4 per cent respectively) despite some firming in US rates. Although interest rates have eased they remain high for this stage of the cycle.

7. Germany's much stronger economy and lower inflation, especially compared to France its major trading partner and other Community countries led to a further EMS realignment. The DM was revalued by 8 per cent against the franc and has since remained at the bottom of the EMS. Although its effective rate has remained broadly unchanged, the dollar rate has weakened. It could appreciate further in future and the EMS realignment may have provided only temporary respite.

8. After three years of deficit the German current account achieved a small surplus of $3½ bn last year which reflected a virtual doubling in the trade surplus. Recession helped to keep imports down. After falling sharply in the latter half of 1982 exports are expected to recover slightly this year. Latest forecasts, pre-EMS change, point to a $6bn surplus in 1983. Although the DM revaluation may reduce competitiveness the effects on trade are thought to be slight.

9. Last year monetary growth (CBM) at 6 per cent remained within the 4-7 per cent target. The improving external situation allowed the authorities to ease monetary policy and reduce interest rates. This also helped alleviate some of the EMS pressures. The same target has been maintained for 1983 despite lower inflation. In January and February the money supply has grown at 11 per cent pa well above target. The Bundesbank has taken no offsetting action as the overshoot may be the result of temporary factors.

10. Political uncertainties since last summer have interrupted the flow of fiscal policy. The new Kohl government is committed to curbing budget deficits and to continuing the policy of switching expenditure away from consumption to investment. In presenting its 1983 budget the government was critical of its precedessor's unrealistic economic assumptions and claimed to have reduced substantially the prospective borrowing requirement for 1983 (from 3 per cent of GDP to 2½ per cent) even though it will still be slightly higher this year than in 1982.

11. The principal measures of the 1983 budget presented in January 1983, included savings in unemployment benefits, a 1 per cent increase in VAT (from July 1983) higher hospital charges, postponed pension increases, lower child allowances and a 2 per cent limit on civil service pay. These savings are to finance extra tax concessions for investment and industry generally. The proposal for a three year interest free temporary loan on higher income earners has proved to be controversial. It was introduced to balance the social expenditure cuts. After suggesting the loan would be turned into a straight tax the coalition parterns have now agreed it will be repaid.

12. For the 1984 budget the Kohl government is planning to keep the Federal borrowing requirement to DM 40bn, compared to an estimated DM 41bn this year, and to continue the policy of altering the budget composition to favour investment at the expense of the personal sector. Chancellor Kohl is expected to present a sketch of future budgetary policy shortly.

H M Treasury
15 April 1983

GERMAN HIGH LEVEL MISSION:

EC INDUSTRIAL POLICY:

Points to Make

1 Community policies alone cannot revitalise Europe's industries: Member States must pursue economic and financial policies which will stimulate competitiveness.

2 UK shares German Government's view that strengthening of the internal market is an important element in establishing a climate of confidence for Europe's industries. Important that internal market, and the whole range of Community policies, bear more effectively on industrial needs.

3 HMG is anxious to see European solutions promoted through co-operative ventures between, for example, UK and German companies. Hope Mission members would agree that in promoting European co-operation and coherence of the market the Community does not deprive itself of the benefits of innovative investment, from whatever source.

4 Commission has rightly stressed need to develop Europe's high technologies, eg telecommunications, information technology, biotechnology. Commission must now come forward with specific practical proposals which take account of member states interests.

DEPARTMENT OF INDUSTRY

ICA4A

14 April 1983

Background

5 Spasmodic discussions over the past 18 months - including successive European and ECQ/FIN Councils and 4 May Industry Council - around the themes of investment stimulation and industrial policy have seen little progress. The Community remains divided between those who would see Europe develop within an open international trading system and those who would prefer a more dirigist approach, with Community benefits for Community industry.

6 In its latest communication - "Community Industrial Strategy" - to the 21/22 March European Council the Commission stressed the increasing uncompetitiveness of Community industry and contrasted the role of the Community in the orderly contraction of declining industrial sectors with the absence of a Community role in the stimulation of growth industries. It was suggested that there should be a specific Community policy aimed at expanding productive capacity. The strategy to achieve this end would need to go beyond existing EC policies (eg internal market, research and development, innovation and technology). The policy would have as an objective the discouragement of industrial measures not integrated into a main economic framework and the securing of measures necessary for sectoral development.

7 The Commission suggest that the principles against which the Community action should be judged are:

a priority for fields where Government is already involved

b scope for stimulating expansion

c interaction of other Community policies (such as the CAP) on industry

d increased efficiency in use of resources.

The following sectors have been selected for further work to elucidate these ideas:

Information Technology	See Annex
Telecommunications	
Biotechnology	

The Council agreed that proposals should be brought forward in these sectors.

8 The underlying theme is that industrial issues have for too long remained an afterthought of Community life and that it is no longer sufficient for the Community to act together in the crisis sectors alone eg steel and shipbuilding. Senior Commission officials are at present touring capitals to discuss ideas for taking the strategy forward but as yet no positive proposals have emerged. Recent statements by Commissioner Davignon suggest that he at least would favour wider Community developments (eg

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strengthening of the internal market) benefitting Community industry rather than third countries. Detailed developments of these ideas, not necessarily shared by others in the Commission, could have unfortunate repercussions for UK inward investment policy.

10 We agree that the Community should focus on the more innovative aspects of its industrial capacity, as well as the more traditional industries. We see merit in measures to complete the internal market as a means to encourage the climate of industrial confidence among the Community's industrial enterprises in which collaboration can occur naturally. However, we do not think that Europe's interests are best served by a restrictive or protectionist approach, particularly insofar as inward investment and co-operative ventures with non-EC partners are concerned. The route of positive discrimination in favour of European industry could be potentially damaging to UK inward investment and risks isolating Europe from the best available technology. Development of Europe within an essentially open international trading system, where Europe works to ensure acceptance of its harmonisation measures as world standards, will receive German support.

11 Despite these underlying concerns we agree that the Commission further develops existing measures and proposals in the information technology area. We would also view favourably realistic proposals aimed at opening up the Community telecommunications market to allow our industry opportunities reciprocal to those arising for mainland European industry under our liberalisation programme. But failure to adopt present very modest Telecommunication Recommendations does not augur well for the future.

Department of Industry
IC(A)4A

14 April 1983

Information Technology

ESPRIT

The European Strategic Programme for Research in Information Technology (ESPRIT) is potentially the most important EC initiative in this field; it is designed to support collaborative R&D with the aim of making the European industry competitive with the US and Japanese by 1990. A "round table" of twelve leading European IT companies (including GEC, ICL and Plessey) identified five priority areas, which were subsequently examined by panels of experts:

Advanced microelectronics
Advanced Information Processing
Software technology
Office automation
Computer integrated manufacturing.

In addition, the programme will need an information exchange network, to assist co-ordination between firms in different Member States.

A twelve month pilot phase, with Community funds of 11.5m ECU and a 50% grant level has been approved, and applications are now being examined: decisions on these are expected to be announced soon. Each proposal must involve bodies in at least two Member States, at least one of which must be an industrial firm.

One question which the UK and some other countries will have to resolve is how ESPRIT fits in with national IT programmes (Alvey, in the case of the UK). Another is how ESPRIT is to be managed: the Commission favour a project office with considerable powers, supervised by representatives of national government and industry.

Other Initiatives

The Multi-Annual Data Processing programme was the first EC programme for IT: the Commission is now seeking an extension, with a concentration on ADA and cross-frontier information systems. This is currently being examined at official level; one of the questions being whether there is an overlap with ESPRIT.

The Microelectronics Regulation, agreed during the UK Presidency, provide up to 50% funding for collaborative projects involving users as well as manufacturers, on various aspects of microelectronics.

EC BIOTECHNOLOGY

There are currently 3 main EC biotechnology activities:

a) Biomolecular Engineering Research & Training. This is a 2 year programme (1982-84) of basic/strategic applied research focussed on agri-food objectives. A proposal for a further 2 year phase (1984-86) will go to the Council shortly. As long as this is of similar size to the current programme (8 MECU) and covers similar topics this should get UK support.

b) Biotechnology Information Task Force. A modest programme is being developed with the aim of strengthening the information base of biotechnology in Europe. UK involvement includes a pilot European Biotechnology Information Service and a study of information on European culture collections.

c) FAST Biosociety programme. FAST have now reported and propose a continuing FAST activity which includes biotechnology. Detailed proposals have yet to be considered. In most European countries, national biotechnology programmes are being developed, including the UK. There may be scope for a greater EC effort in biotechnology but arguments that Europe needs a massive new programme to match the US and Japan are not self evident. We would need to look at new EC proposals.

THE TELECOMMUNICATIONS RECOMMENDATIONS

These are aimed at harmonising standards, encouraging a freer market in telematic termicals and opening up PTT calls for tenders. Agreement was reached on all aspects during the UK Presidency save the question of whether calls for tenders should be opened to "manufacturers" or "suppliers" in the Community. France and Germany are still unable to agree on this issue. We attach considerable importance to these measures, which are a small but vital step towards a free European market in telecommunications products, in line with our own domestic liberalisation programme. The Commission appears to have given up hope of securing agreement and is now considering a much wider initiative.

GERMAN HIGH LEVEL MISSION

EC BUDGET

It is unlikely that missioners will want to discuss community financing in detail, but they can be expected to view the budget dispute as a threat to the long term well being of the Community and may express concern as industrialists about its damaging effect on industrialists' confidence in the Community. If so, Ministers could say the UK shares their concern, which is among the reasons why we are so determined that the issue should be settled so that the effort it absorbs can be focussed elsewhere.

For further detail on specific aspects, see the 'Line to Take' attached.

IBB

EC BUDGET

Line to take

1. (CAP expenditure). Very concerned at current rising trends of expenditure and growing agricultural surpluses. We believe that rate of growth of CAP expenditure should be markedly lower than that of Community revenue. We are in favour of minimal price increases during the current price-fixing negotiations, coupled with measures to reduce Community support when production exceeds certain levels. Unless firm measures taken now, expenditure likely to get out of hand, and risk of trade row with US.

2. (Own resources - ie Community revenue). We believe that the present resources of the Community are adequate to its needs. The essential requirement is not to increase Community revenue sources, but to make the most effective use of the revenue already available. That means firm control of the rate of growth of CAP expenditure.

3. (Net contributions). We in Britain face a serious problem over our net contribution because agricultural support takes up two-thirds of the budget and our agricultural industry is relatively small. The financial burdens and benefits are not shared fairly between the Member States. (You in GErmany may share this view, since your net contribution is larger than ours). So we are seeking a lasting solution to this problem, which will be more equitable than the present arrangements. Until that is achieved, we shall continue to need some correction of our budget position. We were much encouraged by the outcome of the European Council last month, which set a clear timetable for these negotiations, and we welcome the approach of the German Presidency to getting things moving. We hope for decisive progress by June.

CONFIDENTIAL

EC/JAPAN

1. Japanese Government does seem to be responding to Community and US pressures and has taken some specific steps to open up its market by reducing tariffs and removing certain non tariff barriers, including recent review of standards.

2. These should help some exporters though the overall EC/Japan trade imbalance seems unlikely to decline significantly. German views of increasing exports to Japan? What are the real problems (distribution system; long time to gain market access)?

3. Japan/EC agreement on export restraint important demonstration of Community unity. How confident is German industry that it can compete with Japanese (eg in sectors such as industrial machinery and telecommunications)?

EC/JAPAN

BACKGROUND

1 In trade relations with Japan, FRG have stressed the need to press Japan to open its domestic market rather than restrain exports. Nevertheless some sectors of German industry are reported to be less in favour of their Government's free market approach - eg. in consumer electronics and machine tools sectors which face fierce Japanese competition. In June 1981, following pressure from car manufacturers, Count Lambsdorff requested some moderation in Japanese car exports to FRG. The Japanese Government responded with a "firm forecast" limiting export growth (not reached in the event) and promised that 1982 exports would be reasonable. More recently, the French claimed (privately) that alleged Japanese purchases of 7000 BMWs for their stockpile of industrial goods was a covert continuation of this bilateral arrangement. We cannot confirm this. Japanese penetration of the German cars market was 9.8% last year.

2 The EC/Japan agreement covers 10 sensitive sectors. In most sectors (eg cars, colour television sets) the Japanese offered for 1983 no more than general assurances that exports to the Community would be moderate. But they accepted quantitative restraint on large sized colour television tubes and a 4.55 million unit ceiling on video tape recorders (VTRs) whether assembled or in kit form. In addition, for VTRS, they agreed both to leave room for the European-produced format (V2000 manufactured by Grundig and Philips) to sell 1.2 million units, and to bring prices of assembled Japanese formats closer to the V2000 level by means of an export floor price system. This operates on Japanese export prices FOB and not retail shop prices. In return, the Japanese made clear that the Grundig/Philips anti-dumping case, which prompted the price undertaking, should be withdrawn (now done) and the Poitiers restrictions lifted. Although the French, who are concerned at the effects of releasing a sizeable accumulation of Japanese VTRs on to their market, have not yet complied, MITI introduced the VTR export floor price system on 18 March.

3 The UK endorsed the agreement, having stressed the importance of securing adequate supplies of unassembled Japanese VTR kits - which are included within the restraint ceiling - to meet the needs of announced and possible future Japanese investment in this country. This is a point on which we might expect support from FRG who have received substantial VTR investment from Japanese.

4 The Commission has taken the next step in the Community's long-standing trade complaint of inadequate /access to the Japanese market by submitting EC's request for a working party to investigate its complaint for GATT Council discussion on 20 April. The Japanese have reacted badly to this development citing the co-operative response of the Nakasone Government to EC trade pressure. The generally helpful outcome of the Japanese review of standards procedures at the end of March followed from the tariff and non-tariff liberalisation measures announced by Japan in January.

The recent appreciation of the Yen should also be a helpful development.

5 According to Japanese figures, FRG deficit on visible trade with Japan last year was $2.7 billion (UK $2.9 billion) a fall of some 20% on the 1981 figure.

OT2
15 April 1983

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GERMAN HIGH LEVEL MISSION 25/26 APRIL 1983

UK COMMITMENT TO EC (WITHDRAWAL)

Points to Make

1 HMG and the Liberal/Social Democratic Alliance recognise the benefits of Community membership. Although the Labour Party is at present proposing to include in its election manifesto a commitment to withdraw, many leading figures in the party (including the Shadow Foreign Secretary) do not share this commitment.

2 Even in its advocacy of withdrawal, the Labour Party recognises that it is in the interest of all parties to negotiate an amicable and viable outcome to any withdrawal negotiations; it accepts that the UK's obligations under the GATT will continue in force. (This must have implications for the future status of our tariffs).

3 The Labour Party envisage withdrawal would take place within the lifetime of a Parliament. It is likely to be at least as complicated as accession. The effect of a long drawn out process of disentanglement is likely to give pause to any government facing a heavy programme of manifesto commitments.

BO'C

BRIEF

1 The Labour Party is at present committed to include withdrawal from the EC in its next election manifesto. This policy is set out in their campaign document "New Hope for Britain". It is described as a policy extricating the UK from the Treaty of Rome rather than withdrawal from Europe. However, unlike in previous documents EC policy is not given prominent billing in the present one. It comes almost last in the whole document, after such things as sport, recreation and animal protection.

2 Withdrawal negotiations on the basis that the Labour Party apparently envisage would take into account the need for a viable and amicable settlement. Such negotiations would be long and complicated (since they would involve the agreement of all member states and would quite possibly take place against the background of the enlargement negotiations already underway). A viable outcome would almost by definition have to reflect the substantial trade between the UK and our Community partners (at present more than 40% of total UK trade). It also has serious implications for some of the other small member states who are heavily dependent on the UK market.

3 There are some signs that elements of the Labour Party may be changing their stance on EC membership. Earlier last year the British Labour Group in Brussels published a document which included a statement that: "in our judgement the process of withdrawal would be longer, more complex and more prejudicial to the position of Britain in the world than the Labour Party at home seems to believe ... we firmly reject that substantial benefit would accrue to Britain from leaving the Community".

4 Given the rapid changes in the economic situation of the Western world and the likely alterations that will occur as a result of the enlargement of the Community, it seems difficult to imagine that the present Labour Party policy, on its current underlying assumptions, could be seriously sustainable over a five-year time span.

IC(A)4

April 1983

BACKGROUND BRIEF ON INWARD INVESTMENT

The Government's Attitude to Inward Investment

It has been the policy of successive Governments to welcome inward investment where it helps to develop and modernise the country's industrial and commercial base by providing job opportunities, introducing new products and processes, and bringing in new technical and managerial skills. UK law and practice treat overseas-owned companies in exactly the same way as British owned companies, and they are eligible for the same incentives and benefits.

The present Government has reaffirmed this welcoming attitude, recognising that there is intense competition from other countries for inward investment, and making it clear that it is prepared to continue to make financial incentives available to attract internationally mobile projects.

The Invest in Britain Bureau, a unit within the Department of Industry exists to positively promote the UK as a location for investment and to encourage overseas companies to set up here by providing information and advice and arranging promotional events. The Bureau's activities cover all leading industrialised countries but high priority is given to work in the USA, Japan and countries of Western Europe. British Embassies, High Commissions and Consulates-General undertake much of the commercial visiting on the Bureau's behalf.

A brief summary of the main incentives currently available to industry is given below:-

TAXATION

Britain's corporate tax system aims to encourage investment and promote industrial growth. Many companies starting up in Britain qualify for capital allowances, stock relief and group relief; as a result new and expanding companies pay little or no corporation tax for a number of years.

There are special personal taxation privileges for foreign nationals working for the UK subsidiaries of overseas concerns. In addition, the UK has an extensive network of double taxation agreements, and there is no restriction on the repatriation of profits.

REGIONAL INVESTMENT INCENTIVES

The areas known as Areas for Expansion where new projects are particularly welcomed and where the incentives are the highest and most freely available are the whole of Northern Ireland and, in Britain, Special Development Areas, Development Areas and Intermediate Areas.

Although there has recently been some reduction in the size of the Areas for Expansion in Britain the Special Development Areas, where the incentives are highest, are little affected. Northern Ireland is in a category of its own, with a scheme of assistance generally more generous than anywhere else in the United Kingdom, with incentives at least equal to those available any where in Europe.

Regional Development Grants

These grants are automatically available in the Special Development Areas and Development Areas for capital expenditure on buildings, plant and machinery for manufacturing industry and related scientific research. They are non-taxable and do not reduce the costs of the assets concerned when calculating depreciation for UK tax purposes. Grants may be paid to the purchaser of the asset (including a hire purchase) or, in the case of hired assets, to the owner. They are claimed as the expenditure is made. The rates are 22% in Special Development Areas and 15% in Development Areas (Regional Development Grants are not available in the Intermediate Areas).

Regional Selective Assistance

Further selective grants may be available where necessary to encourage projects to go ahead in the Special Development, Development and Intermediate Areas which strengthen the regional and national economy by increasing net output, providing more productive and secure jobs or introducing new technology. Internationally mobile projects in particular are likely to benefit from the scheme. There are no set rates of assistance. The package will be tailored individually according to the nature of each project.

This assistance can supplement the Regional Development Grants available in the Special Development and Development Areas.

Government Factories

In the Areas for Expansion, Government factories may be available either on an industrial estate or on a single site. New or previously occupied factories may be available. New factories are built in advance of demand so that some are normally readily available. Advance factories can be either for rent or sale but factories with unusual features are built for sale only. Rents for government factories will be determined according to local market conditions as will availability of rent free periods. Where factories are available for purchase repayment of capital and interest can usually be spread over a period of up to 15 years at a fixed rate of interest.

Office and Service Industries Scheme

Service projects, including administrative offices and research and development laboratories, may qualify for a grant if they move into an Area for Expansion in order to serve the United Kingdom as a whole. The amount of grant depends upon the type and number of jobs created and the area in which the project is located.

Maximum grants are £8000 per job created in a Special Development Area, £5000 in a Development Area and £2500 in an Intermediate Area. In addition a grant may be available to assist companies wishing to employ consultants to carry out a study into the feasibility of locating a project in an Assisted Area. In approved cases, up to 25% of the costs of the study will be reimbursed up to a maximum of £10,000.

Northern Ireland

The highest levels of financial assistance are available in Northern Ireland where the range of incentives available differs in certain respects from those available in the remainder of the United Kingdom. The principal features are grants of up to 50%, according to location, for approved projects and Government factories with rent-free periods. Other incentives include up to

100% of removal costs, free training at Government training centres or grants of up to £30 a week per adult for training on employers premises. Removal and settling-in-grants are also available for key workers from outside Northern Ireland.

NATIONAL INCENTIVES

National Selective Assistance

The Government will provide assistance to ensure that particularly worthwhile projects or those producing substantial improvements in performance or introducing new products, go ahead anywhere in the United Kingdom. It will have to be demonstrated that projects receiving support will produce a substantial net contribution to UK output or introduce a significant innovation.

The Government offers generous support for industrial research and development work in all technologies. The Support for Innovation scheme provides special support for the development and application of new technology. Under this scheme, grants are provided to help companies across the whole range of industrial research and design, including designing, developing and launching new products in the micro electronics sector and new products and processes involving microprocessors, optical fibres, opto-electronics or optical sensors. Support is also available for developing and marketing software products and packages, for new investment in flexible manufacturing systems including the industrial application and development of robots and assosciated equipment and the development of computer-aided design, manufacture and test products and processes.

INVESTMENT AIDS : UK AND GERMANY

1. In 1980/81 W German expenditure on direct aids to investment in industry amounted to 3041 DMm (£692m) compared to £678m in the UK. About 70% of total expenditure in Germany and an even larger proportion in the UK (over 90%) was on aids to investment in problem areas (Table 1). Table 1 also shows a greater weighting towards non-discretionary aids in the UK (80% of expenditure on problem areas) than in Germany (40%).

2. Problem areas' support to investment

The UK offers two forms of non-discretionary aid to investment and Germany three. Both the German Investment Allowance and the UK Regional Development Grant are capital grants, the former being project-related and the latter item-related. Eligible costs include new building, plant and machinery: in the UK there is a low minimum cost threshold (£5,000 for buildings and £1,000 for machinery). Eligible firms are those in manufacturing and selected service sectors.
Rates of grant are higher in the UK (15% compared to 9%).

3. Both countries offer additional support to investment in 'special' problem areas. At 10% the general rate of grant is only slightly higher for Germany's Zonal Border but a Special Depreciation Allowance which applies to 40-50% of project-related investment is also available, together with Freight Subsidies (worth between 10% and 30% of transport costs). The UK rate of grant increases more markedly to 22% for Special Development Areas as a whole and 30% for Northern Ireland (Northern Ireland Capital Grant).

4. The German Investment Grant and UK Selective Financial Assistance are discretionary aids and can be used to offer additional incentives to particular projects in problem areas (10-25 per cent of costs in Germany and a variable percentage in the UK). In the UK the emphasis is on creating or safeguarding employment and in Germany these funds, which are administered by the Länder, are directed towards encouraging rationalisation as well as safeguarding employment.

5. Other discretionary expenditures in the UK are limited to incentives to manufacturing and mobile service sector projects to set up in Northern Ireland (Industrial Development Assistance in Northern Ireland). In Germany, however, the ERP Regional Loan programme offers 10 yr and 15 yr loans at 9% for expenditure on plant and machinery and buildings by small local firms, and there are a variety of Land Aids variously targetted at small firms, and areas and projects neglected at Federal level. These are seen as 'filling in' gaps left by Federal policies.

6. Small firm development

There is more emphasis in Germany on investment aids to small firms. The ERP loan for the formation of New Companies and the ERP Location Programme offer 'personal' loans to start-up companies and re-locating companies covering up to ⅔ of maximum investment costs of DM 200,000.

The role of the Länder is very important in the promotion of small firms. Aids are mainly loans for new company formation. The Northern Ireland scheme is more limited in size and offers a package of grants, loans and loan guarantees to small manufacturing and service sector companies which will provide additional employment.

7. Sectoral Development and Energy Saving

Aid for sectoral development is limited to the UK's Rail Freight Facilities Grant (50% of a company's costs of improving rail freight facilities). Energy savings schemes make up about 10% of German support to investment but a negligible proportion of UK support. The German Investment Allowance gives grants worth about 8% of eligible expenditure and the Special Depreciation Allowance is open to both industrial and domestic tax payers. The rate of depreciation is up to 10% for 10 years on a straight line basis.

8. This brief does not include aid for R&D which for Germany is more important than aid for investment (1.2 times the total in Table 1) and for the UK is much less important (one-eight of the total in Table 1).

TABLE 1

W GERMANY	Grant equivalent expenditure 1980/81 DMm (£m in brackets)		UK	Grant equivalent expenditure 1980/81 (£m)
			PROBLEM AREA DEVELOPMENT	
Non-discretionary aids				
Investment Allowance	520	(118)	Regional Development Grant	491
Special Depreciation Allowance	209	(47)	Northern Ireland: Capital Grant	35
Freight Subsidies	65	(15)		
Discretionary aids				
Investment Grant	365	(83)	Selective Financial Assistance	48
ERP Regional Loans	280	(64)	Northern Ireland: Industrial Development Assistance	65
Land Aids (8 schemes)	659	(150)		
			SMALL FIRM DEVELOPMENT	
ERP Loan for the Formation of New Companies	140	(32)	Northern Ireland: LEDU	
ERP Location Programme	47	(11)	Selective Assistance for Small Firms	5
Land Aids (8 schemes)	500	(114)		
			SECTORAL DEVELOPMENT	
			Rail Freight Facilities Grant	32
			ENERGY SAVING	
Special Depreciation Allowance for Energy-saving Investment	171	(39)	2 minor schemes	2
Investment Allowance for Energy-saving Investment	85	(19)		
TOTAL	3041	(692)		678

SOURCE: Allen K and Yuill D 'Industrial Aids in the European Community'. Centre for the Study of Public Policy, University of Strathclyde.

BALANCE OF UNITED KINGDOM/WEST GERMAN DIRECT INVESTMENT

1. Book Value of Direct Investment

(This relates to the cumulative value of all direct investment to date).

At the end of 1978 the UK had £25 billion at book value, excluding insurance, direct investment overseas. Of this, £1.9 billion (7½ per cent) was in West Germany, and West Germany was the third largest country for UK direct investment, behind the USA and Australia. These figures include for the first time oil and banking. Exactly comparable figures for earlier years are not available but in 1974 and 1971 West Germany was probably our fifth largest country.

Overseas direct investment in the UK at the end of 1978 was nearly £18 billion at book value, excluding insurance. Of this, £4 billion (23 per cent) was from EC, but similar figures for West Germany are not available. Excluding oil, banking and insurance, West Germany was the ninth largest direct investor in the UK, a drop of one place since 1974. They were the fourth largest in EC, behind the Netherlands, France and Belgium and Luxembourg at the end of both 1978 and 1974 and behind the Netherlands, France and Italy in 1971.

There is clearly a large imbalance in direct investment between the UK and West Germany.

	£ million, book value at end year							
	Including oil and banking excluding insurance		Excluding oil, banking and insurance					
	1978		1978		1974		1971	
UK direct investment overseas								
in West Germany	1865		1438		669		306	
EC	6109	(6148)	4544	(4565)	2282	(2290)	1192	(119
World	24914		19215		10436		6667	
Overseas direct investment in UK								
From West Germany	N/A		252		168		60	
EC	4165	(4165)	2032	(2032)	1108	(1108)	498	(49
World	17754		10949		6567		3817	

Note: The book value of UK outward direct investment attributable to UK companies was, for the first time, in 1978, collected on a statutory basis and the estimates were greatly improved. The inquiry into book value of inward direct investment in the UK has remained voluntary because the questions are outside the scope of the Statistics of Trade Act. The results are therefore not as good as for outward investment.

2. Annual Flows of Direct Investment, Excluding Oil

(These figures are of the additional direct investment made each year and include insurance and banking, but exclude oil).

During the three years 1978 to 1980 UK companies invested £9.0 billion in their related concerns overseas, 73 per cent more than in the previous three years. UK direct investment in the rest of EC over the three years to 1980 at £1.1 billion was 4 per cent higher than in the previous three years but 3½ per cent below the three years 1972-74. Of this £511 million was in West Germany, an increase of 33 per cent over the previous three years when West Germany accounted for around a third of UK investment in the EC (as it did in the years 1972-74). The main areas of UK investment in West Germany are in chemical and allied industries on the manufacturing side and other activities including banking and insurance on the non-manufacturing.

Overseas direct investment in the UK during the three years 1978 to 1980 was £5.7 billion, more than double that in the previous three years. Direct investment in the UK from the rest of EC over the three years to 1980 (£0.7 billion) was a third higher than in the previous three years and three times greater than in the years 1972-74. Of this £170 million was from West Germany, an increase of over 100 per cent compared with the previous three years and three times greater than in the years 1972-74. The main areas of West German investment in the UK are in engineering on the manufacturing side and the distributive trades on the non-manufacturing.

£ million, excluding oil

	1972	1973	1974	1975	1976	1977	1978	1979	1980
UK direct investment overseas									
in West Germany	64	149	108	53	176	154	113	22	376
EC	244	519	364	166	497	382	579	28	482
	(244)	(523)	(364)	(168)	(497)	(385)	(584)	(34)	(483)
World	737	1621	1575	1171	2145	1885	2740	2788	3492
Overseas direct investment in UK									
From West Germany	5	17	34	11	34	38	69	67	34
EC	44	112	76	96	177	267	310	267	153
	(44)	(112)	(76)	(98)	(176)	(268)	(311)	(270)	(157)
World	408	734	854	615	799	1326	1292	1818	2576

Note: Annual direct investment is difficult to monitor with complete accuracy on a bilateral basis, and in addition, because the Direct Investment Inquiry is voluntary not all companies respond. Estimates are made for non-responders but the figures must be subject to wide margins of error.

Direct investment is investment by a company in its branches, subsidiaries and associates in another country.

Figures in brackets for EC include Greece

Figures of Annual Flows of direct investment for 1981 are expected to be published in British Business during May while those for the Book Value of direct investment at the end of 1981 will not be available until later in the year.

April 1983

BACKGROUND

JAPANESE INVESTMENT IN BRITAIN

1. It is only in the last ten years that there has been any significant Japanese interest in investing in manufacturing in Europe, and the amount of actual investment is still very small. Although the UK has more of this investment than any other EC country, there are only 25 manufacturing subsidiaries here employing between them around 5,000 people (expected to rise to 6,000 when Yuasa Battery, NEC Semiconductors and Sanyo become fully operational). As a comparison, there are about 1,500 American and over 200 German companies in manufacturing industry in Britain. This is largely the result of Japanese companies continuing preference for domestic manufacture wherever possible, and the historical and trading influence on Japan to develop Asia first, then the United States, following the removal of restrictions on overseas investment in 1972. A list of major Japanese companies in the UK is attached at Annex A.

2. When it comes to considering investment in Europe, Japanese companies are normally aiming to expand their existing market share and to get in behind the tariff and non-tariff barriers put up by the EC in particular. The incentive to invest can, therefore, increase as protectionist pressures mount. Efforts to attract Japanese investment are receiving support from the Japanese Government in its attempts to get more companies to 'internationalise'.

3. Japanese companies in the UK have a generally successful track record and achieve on average high percentages of local sourcing. Most contribute to British exports by seeking markets throughout Europe, and sometimes beyond. Sony were awarded the Queen's Award for Export Achievement in 1980. The main significance of such investment lies in the introduction of modern efficient production units which inject a competitive element into sectors which have been vulnerable to imports. An emphasis on the quality of the finished product has provided a stimulus to component suppliers. Willingness to communicate has led to successful relationships with the workforce and trade unions.

4. Several Japanese companies have indicated that they are seriously contemplating investing in Europe and have selected the UK for consideration. FRG usually offers the closest competition to the UK as a base for manufacture in Europe. The recent decision by Hitachi Maxell to locate in Telford New Town was a UK success against

an alternative option in Dusseldorf. Sanyo and Mitsubishi are also expanding in Britain. However companies such as Toshiba have in the recent past decided to manufacture semi-conductors and Sony and Matsushita to assemble VTR's in Germany. All three of these companies have existing plants in Britain which may indicate a desire to broaden their expansion plans in Europe. The difference between the two countries as attractive locations for investment may be marginal but Japanese people feel they have more of a cultural affinity with Great Britain whilst English is usually their second language.

IBB APRIL 1983

LIST OF JAPANESE MANUFACTURERS IN BRITAIN (INCLUDING JOINT VENTURES)

YKK FASTENERS (UK) LTD
340 Whitehouse Industrial Estate
Runcorn
Cheshire

Telphone: 0928 713737
Established: 1970 - main factory formally opened April 1972
Known Capital Invested: £6,000,000
Owned By: 100% Toshida Kogyo KK
Employees: 300 (including 5+ Japanese)
Single Union Agreement: TGWU
Product: Zip Fasteners

Chairman, Managing Director : Mr Y Watanabe

NITTAN (UK) LTD
Hipley Street
Old Woking
Surrey

Telephone: 04862 69555
Established: June 1972
Known Capital Invested: £150,000
Owned By: 69.99% Nittan Co Ltd, 30% Okura Co Ltd
0.01% Michael Smith Engineering Ltd
Employees: 55 (including 2 Japanese)
No Union Agreement
Product: Automatic Fire Alarm Equipment

Managing Director : Mr A Kasamaki

RIKADENKI MITSUI ELECTRONICS (UK) LTD
Oakcroft Road
Chessington
Surrey

Telephone: 01 397 5111
Established: November 1973
Known Capital Invested: £60,000
Owned By: 50% Rikadenki Kogyo Co Ltd 50% Mitsui and Co
Employees: 16 (including 4 Japanese)
No Union Agreement
Product: Chart Recorder Instruments

General Manager : Mr T Iwakawa

N.B. There is a distribution depot and a small workshop at above address. Workshop is not used for volume production but for specialist modifications for customers plus around 1% manufacturing. (99% of manufacturing is carried out in Japan).

TAKIRON (UK) LTD
Pantglas Industrial Estate
Newport Road
Nedwas
Newport
Gwent

Telephone: 0222 885801
Established: November 1973
Known Capital Invested: £1,900,000
Owned By: 95.2% Takiron Co Ltd 4.8% John James Group
Employees: 60 (including 1 Japanese)
Single Union Agreement: TGWU
Product: PVC Rigid Corrugated Sheeting and Rainware

Managing Director: D K Jones

SONY (UK) LTD
Kingsway Industrial Estate
Bridgend
Mid Glamorgan

Telephone: 0656 55441
Established: June 1974
Known Capital Invested: £20,000,000 (including Trinitron Tube Plant Extension)
Owned By: 100% Sony Overseas SA (Switzerland)
Employees: 950 (including 38 Japanese)
Single Union Agreement: AUEW
Product: Colour Television Sets and Components

Managing Director: Mr T Tokita OBE

MERLIN AERIALS
22 Hambridge Road
Newbury
Berks

Telephone: 0635 46656
Established: March 1975
Known Capital Invested: £30,000
Owned By: 49% Nippon Antenna Co Ltd, 51% UTC Corporation (Switzerland)
Employees: 18 (including 1 Japanese)
No Union Agreement
Product: Car Radio Aerials

Managing Director:

MATSUSHITA ELECTRIC (UK) LTD
Pentwyn Industrial Estate
Wyncliffe Road
Cardiff
South Glamorgan

Telephone: 0222 731761
Established: March 1976
Known Capital Invested: £2,000,000
Owned By: 100% Matsushita Electric Industrial Co Ltd
Employees: 450 (including 16 Japanese)
Single Union Agreement: GMWU
Product: Colour TV Sets and Stereo Tuners

Managing Director: Mr S Matsuoka

NSK BEARINGS (EUROPE) LTD
South West Industrial Estate
Peterlee
County Durham

Telephone: 0783 866111
Established: April 1976
Known Capital Invested: £11,000,000
Owned By: 100% Nippon Seiko KK
Employees: 222 (including 9 Japanese)
Single Union Agreement: AUEW
Product: Ball Bearings

Managing Director : Mr T Kawasaki (Edgware Office, Middlesex, tel: 01-951 0011)

Plant Director: Mr Nagata (Peterlee)

POLYCHROME (BERWICK) LTD
Tweedside Trading Estate
Berwick
Northumberland

Telephone: 0289 7970
Established: December 1977
Capital Invested: £800,000
Owned By: Polychrome Corporation of USA (which is wholly owned by D.I.C. Americas Inc - the US Subsidiary of Dai Nippon Ink and Chemicals).
Employees: 68 (no Japanese)
Union: 50% employees belong to TGWU but negotiations between management/ workers generally takes place through a "workers liaison Committee".
Product: Printing Plates

Managing Director: Mr Herborn

N.B. Polychrome (Berwick) do not consider themselves to be a 'Japanese' company and have refused to divulge details about their operation to NERO. Above details were provided by the Embassy who approached Dai Nippon Ink.

PADDOX FINE WORSTED
Paddock Field Mills
Crossland Moor
Huddersfield

Telephone: 0484 45544
Established: January 1978
Known Capital Invested: (Daido loan of £229,000)
Owned By: Daido Keori Co Ltd 75% OMC Group 25%
Employees: 75½ (no Japanese)
Single Union Agreement: TGWU
Product: Fine Worsted

Managing Director: Mr M Rowe

DAIWA SPORTS LTD
Netherton Industrial Estate
Wishaw
Scotland

Telephone: 06983 61313
Established: January 1978
Known Capital Invested: £500,000
Owned By: Daiwa Group 100%
Employees: 80 (including 2 Japanese)
Single Union Agreement: TGWU
Product: Fishing Tackle

Chief Executive: Mr H Yamamoto

TERASAKI EUROPE LTD (NO FUSE CIRCUIT BREAKERS)
32 Finlas Street
Cowlairs Industrial Estate
Glasgow

Telephone: 041 5582861
Established: January 1978
Capital Invested: Not known
Owned By: 100% Terasaki (Japan)
Employees: 45 (no Japanese)
No Union Agreement
Product: Switchgear

Managing Director: Mr G Wiseman

SEKISUI (UK) LTD
Merthyr Tydfil Industrial Estate
Cardiff Road
Merthyr Tydfil
Mid Glamorgan

Telephone: 0443 690940
Established: September 1978
Known Capital Invested: £460,000
Owned By: 100% Sekisui Chemical Co Ltd (Swiss Holding Co)
Employees: 50 (including 1 Japanese)
Single Union Agreement: AUEW
Product: Polyethelene Foam

Managing Director: Mr H Tsubota (Windsor Office,
Tel: Windsor 69611)

GEC-HITACHI TELEVISION LTD
Hirwaun Industrial Estate
Aberdare
Mid Glamoran

Telephone: 0685 811451
Established: January 1979
Known Capital Invested: £5,100,000
Owned By: 50% GEC 50% Hitachi Ltd
Employees: 1593 (including 5 Japanese)
Unions: AUEW, EETPU, UCAIT, APEX, ASTMS, TASS.
Product: Colour Television Sets

Managing Director: Mr G Williams
Deputy Managing Director: Mr S Okuma

SANSETSU (UK) LTD
4 Denbigh Hall
Bletchley
Milton Keynes

Telephone: 0908 77868
Established: January 1979
Known Capital Invested: £40,000
Owned by: 100% Sansetsu (individual managers have invested in UK company).
Employees: 11 (including 4 Japanese)
No Union Agreement
Product: Bubble Plastic Packaging

Director: Mr M Hayakawa

GEORGE ELLISON LTD
PO Box 280
Perry Barr
Birmingham
B42 2TD

Telephone: 021 356 4562
Established: 1915. Mitsubishi acquired shares in September 1979
Capital Invested: Not Known
Owned By: Mitsubishi Electric 23.33% remainder George Ellison Ltd
Employees: 387
No Union Agreement
Product: Switchgear

Managing Director:

MITSUBISHI ELECTRIC (UK) LTD
Gateside
Haddington
East Lothian

Telephone: 062082 4151
Established: October 1979
Known Capital Invested: £1,000,000
Owned By: 100% Mitsubishi Electric Group
Employees: 230 (including 6 Japanese)
No Union Agreement
Product: Colour Television Sets (decision to manufacture VTRs announced January 1983)

Joint Managing Directors: Mr Y Noguchi (Scottish Office)
Mr Y Tominaga (Watford Office - Tel: 92-40566)

AIWA (UK) LTD
Industrial Estate
Pen-Y-Fan
Croespenmaen
Crumlin
Newport
Gwent

Telephone: 0495 246 462
Established: September 1980
Known Capital Invested: £250,000
Owned By: 100% Aiwa Co Ltd
Employees: 115 (including 6 Japanese)
Union GMWU
Product: Mini Audio Hi-Fi Equipment. Tuners.

Factory Director: Mr T Hoshino
Factory General Manager Mr D Hunt

HOYA LENS (UK) LTD
10 Ash Road
Wrexham Industrial Estate
Wrexham
Clwyd

Telephone: 0978 61161
Established: September 1980
Known Capital Invested: £500,000
Owned By: 100% Hoya Corporation
Employees: 60 (including 4 Japanese)
No Union Agreement
Product: Opthalmic Lenses

Managing Director: Mr H Itoh

TAMURA KAKEN (UK) LTD
Unit 3
Wellingbourgh
Sywell Airport
Sywell
Northampton

Telephone: 0604 46683
Established: November 1980
Known Capital Invested: £60,000
Owned By: 100% Tamura Seisakusho Co Ltd
Employees: 2 Japanese
No Union Agreement
Product: Curved Screen Printing Inks for Electronics Industry

General Manager: Mr T Shimmura

TOSHIBA CONSUMER PRODUCTS (UK) LTD
Ernsettle
Plymouth
Devon

Telephone: 0752 364343
Established: April 1981
Known Capital Invested: £10,000,000
Owned By: 100% Toshiba
Employees: 275 (including 7 Japanese)
Single Union Agreement: EETPU
Product: Colour Television Sets

Chairman: Mr K Komada

YUASA BATTERY (UK) LTD
Unit 22
Rassau Industrial Estate
Ebbw Vale
Gwent

Telephone: 0495 306121
Established: end 1981 (Production commenced October 1982)
Known Capital Invested: £57,400,000
Owned By: 100% Yuasa Battery Co
Employees: 270 (withing 1st 3 years) 68 at Jan '83 (including 6 Japanese)
Product: Sealed Lead Acid Batteries (for electronics industry)
Single Union Agreement: Not yet selected

Managing Director: Mr T Takii

NEC SEMICONDUCTORS (UK) LTD
West Deans Industrial Estate
Livingston New Town
West Lothian
Scotland

Telephone: 0506 410000
Established: Early 1982 (Production commenced October 1982)
Known Capital Invested: £40,000,000
Owned By: 100% Nippon Electric Co Ltd
No Union Agreement
Employees: 70 (including 8 Japanese) rising to 650 by 1986
Product: Semiconductors

Managing Director : Mr M Shiraishi

SANYO INDUSTRIES (UK) LTD
Oulton Works
School Road
Lowestoft
Suffolk

Telephone: 0502 87366
Established: Early 1982 (Production of CTVs commenced in September 1982)
Owned By: 40% Sanyo Electric Co, 40% Sanyo Electric Trading Co, 10% Sanyo Marubeni (UK) Ltd, 10% Marubeni Corporation
Known Capital Invested: £3,800,000
Employees: 100 in January 1983 (including 5 Japanese) rising to 200 by end of '83 and up to 500-600 when reach full production of CTVs and VTRs
Single Union Agreement: EETPU
Product: Colour TV Sets (and Video Recorders by end of 1983)

Managing Director: Mr M Sada

To Start Production in 1983

HITACHI MAXELL
Telford New Town
Shropshire

Telephone:
Established: Due to commence production November 1983
Known Capital Invested: £21.5 million
Owned By: 100% Hitachi Maxell Ltd
Employees: (Expected about 200 at full capacity)
Union Agreement: Not decided
Product: VHS Video Tapes

Managing Director: Mr H Yamaguchi (Harrow Middlesex office; tel: 01-423 0688)

SUMMARY

- Number of manufacturing companies: 25

- Current number of employees: around 5,300

  [expected to rise to 6,800 (on current forecasts) when all latest investors reach full production]

February 1983
IBB Japan Desk

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS

ANGLO-JAPANESE INDUSTRIAL CO-COPERATION

Background

1 Industrial co-operation between British and Japanese companies is welcomed by both the British and Japanese Governments as making a worthwhile impact on Anglo-Japanese relations. To be successful co-operation agreements between companies should lead to local manufacture thereby making a valuable contribution to reducing imports and to stem protectionist pressures. While the decision to reach a co-operation agreement must be the commercial decision of the companies concerned it was felt by both Governments that scope existed to help companies identify potential partners and to monitor subsequent progress. This lead to the conclusion of the DOI/MITI agreement on industrial co-operation in April 1981.

DOI/MITI Agreement

2 Following the agreement by Mr Baker, Minister for Industry and Mr Tanaka, then MITI Minister, three meetings have been held at official level between DOI/MITI. At the last meeting in Tokyo in November 1982, some 50 projects under active consideration were identified. The November talks were the most successful so far in that the Japanese were more responsive both to our proposals for collaboration and to our view that they should be taking a more active role in promoting deals. The next round of talks is due to be held in London in July 1983.

Existing Ventures

3 So far there have been only a few deals directly resulting from the DOI/MITI dialogue:-

(a) 600 Group/Fanuc

This deal, concluded in December 1981, originally for the marketing of Fanuc robots in UK and Europe, was extended in December 1982 to cover the manufacture of Fanuc robots by a joint venture company, 600 Fanuc Robots in the UK.

(b) Evershed Robotics

Evershed Robotics (part of the Radamec Group) announced in January 1983 an agreement with Toshiba to market the Toshiba range of robots in the UK and West Germany providing peripheral equipment, applications engineering and servicing facilities initially, moving to local manufacture in the UK in due course.

(c) Video Tape Recorders

Sanyo and Mitsubishi both announced setting-up of manufacturing facilities in the UK of VTRs during the Secretary of State for Industry's visit to Japan in January 1983. Hitachi-Maxell also announced the setting up of a plant to manufacture VTR cassettes at the same time.

(d) Visiting Engineers Scheme

This scheme provides for up to six engineering secondments to Japan from UK industrial companies, research associations and Government laboratories, but not from universities, part funded by DOI each year. Hosts in Japan would include similar organisations. The first exchange has already been agreed - an engineer from BT is visiting NTT.

4 Other notable ventures, not directly arising from the DOI/MITI talks but which might be said to have been assisted by the interest in collaboration include:-

GEC (FAST)/Hitachi (Robotics)

BL and Honda (Triumph Acclaim and replacement for the Rover code named XX)

ICL and Fujitsu (microelectronics and computers).

EC/Japan

5 Part of the arrangements negotiated between the EC and Japan announced on 12/13 February 1983 included a reference to setting up a standing committee of officials and businessmen to consider areas for industrial co-operation. Although this was endorsed by the Foreign Affairs Council on 22 February 1983 it is not yet clear precisely what is in mind but we are sceptical about such arrangements at the EC level which seem essentially for Member States.

ICA3c
April 1983

VEHICLES

a THE UK AND WEST GERMAN MOTOR VEHICLE INDUSTRIES

b COLLABORATION BETWEEN JAGUAR AND BMW

c NISSAN

d TRADE WITH JAPAN IN MOTOR VEHICLES

The UK and West German Motor Vehicle Industries

Background Note

1. Details of UK and West German sales and production of cars and commercial vehicles are tabulated on the attached annex.

UK Production

2. In the UK, both car and commercial vehicle (CV) production in 1981 were at historically low levels. Car output was down further last year as a result of reduced exports. CV production was up 17% following an increase in UK sales.

UK Sales

3. The car market showed a slight (5%) improvement in 1982, helped by lower interest rates and the abolition of hire purchase controls in July; moreover, sales in the first 3 months this year are the highest ever for that period and 21% above those a year ago. The limited (6%) increase in commercial vehicle orders in 1982 left the market still well below 1980; the substantial (21%) increase in CV sales for the first 3 months this year is concentrated at the light end of the CV market; truck sales are up only 3.5%.

Import penetration in the car market reached almost 58% last year, overwhelmingly of cars from other EC countries (39%), and Japan (11%). So-called "tied exports" by Ford, GM and Talbot from their Continental plants account for some 21% of the UK market. Import penetration in the commercial vehicle market is lower, at 30% for trucks and 31% for vans, but this is a substantial increase over levels a few years ago. In the commercial sector, Japanese competition has so far been confined to light commercial vehicles.

5. West Germany is the most successful exporter of vehicles to the UK, taking some 17% of the car market (VW/Audi 6%, Ford 6.5% Vauxhall/Opel 2% BMW 1.5%, Mercedes-Benz 0.8%) and 8% of the CV market (principally VAG in the medium/heavy van sector and Mercedes in the truck sector).

W Germany

6. Although the West German domestic car market declined for the fourth successive year (by 7%) last year, German manufacturers were able to maintain a growing momentum in export markets. As a result, production rose 5%.

7. The going was harder for German CV manufacturers. A slight increase in exports could not fully compensate for a drastic (17%) decline in domestic demand, leaving output 6% down on 1981.

UK/West German trade in vehicles

8. Details of UK/W German trade in products of the motor industry are also annexed.

V2b

ANNEX

UK AND WEST GERMAN MOTOR INDUSTRIES

1. PRODUCTION (thousands of units)

	Cars		Commercial Vehicles		Total Vehicles	
	UK	W Germany	UK	W Germany	UK	W Germany
1978	1223	3890	385	296	1607	4186
1979	1070	3933	408	317	1479	4250
1980	924	3521	389	358	1313	3879
1981	955	3578	230	319	1185	3897
1982	888	3761	269	301	1156	4062

2. MAJOR MANUFACTURERS' PRODUCTION ('000 units) 1982

UK	Cars	CVs
BL	405	89
Ford	307	116
Vauxhall/ Bedford	113	52
Talbot/ Karrier	56	6
Total	888	269

W Germany	Cars	CVs
Audi	305	-
BMW	363	-
Daimler Benz	466	175
Ford	518	-
Magirus Deutz	-	18
Man	-	20
Opel	951	10
Porsche	36	-
Volkswagen	1122	75
Total	3761	301

3. NEW REGISTRATIONS ('000 units)

	Cars		CVs	
	UK	W Germany	UK	W Germany
1978	1592	2664	262	156
1979	1716	2623	306	170
1980	1514	2426	272	176
1981	1485	2330	218	149
1982	1555	2156	231	124

4. UK/W GERMAN TRADE IN PRODUCTS OF THE MOTOR INDUSTRY

	(i) UK EXPORTS TO W GERMANY			(ii) UK IMPORTS FROM W GERMANY			(iii) Balance of Trade (all products)
	Cars ('000s)	CVs ('000s)	Components (£m)	Cars ('000s)	CVs ('000s)	Components (£m)	(£m)
1978	18	5	234	210	13	318	- 780
1979	12	4	282	299	20	428	- 1162
1980	17	5	284	246	24	322	- 715
1981	11	4	162 *	267	10	376	N/A
1982	7	3	351	292	17	527	N/A

* 6 months only

V2

April 1983

COLLABORATION BETWEEN JAGUAR AND BMW

Background

Talks about some form of collaboration between BL and BMW, primarily about Jaguar, have been going on since 1979. Initially, BMW showed an interest in the outright purchase of a minority stake in Jaguar, but this was ruled out by BMW in late 1982. Talks about other forms of collaboration, covering specific areas of operations, are continuing.

Line to take (defensive)

The Government share BL's aim of introducing private sector equity into the company's mainstream business as the first step towards an eventual return of BL to private enterprise. However, the manner and negotiation of such developments are matters which are for the commercial judgement of the interested parties, and it would not be appropriate for me to comment on these.

V2
15 April 1983

NISSAN

Line to take

Nissan have not yet come to a final decision but are continuing their serious study of the project. HMG continues to share the Federal Government's support for increased collaboration between European and Japanese companies and for Japanese investment in Europe. Provided it is on the right terms, such investment would be a valuable demonstration of Japan's commitment to improve the imbalance in our economic relations.

Background

Nissan's proposal, first announced in January 1981, is for a major car plant in the UK, providing some 4000-5000 direct jobs at the plant and substantial employment in the components industry. Local (EC) content will be 80% after a short build-up from no less than 60%.

2. Nissan senior management told the Secretary of State for Industry, during his visit to Japan in January, that they were not yet in a position to make a final decision whether to proceed but were continuing their serious study of the project. A small team from the company were in London in March as part of the continuing agreement that the two sides would meet at least quarterly to review progress.

V2b

13 April 1983

TRADE WITH JAPAN IN MOTOR VEHICLES

Background

1. Japanese vehicle exports to the UK are regulated by the SMMT/JAMA voluntary restraint agreement which the Government fully supports. Since 1975, this has helped keep the Japanese share of the car market at around 11%. (7.9% for the first 3 months of 1983). Japanese companies also exercise "prudent marketing" of light commercial vehicles (LCVs) and have agreed not to export trucks directly to the UK. (Japanese LCV sales have taken 11.6% of the market up to March this year).

2. West Germany no longer has any restriction on Japanese vehicle imports. After Japanese cars took 10% of the German market in 1980, Japan agreed to limit any increase in her exports the following year to 10%. In the event, Japanese competition spurred domestic manufacturers to improve even further their competitiveness; as a result, Japanese penetration in recent years has remained at 10.0% (1981), 9.8% (1982) and 9.2% (2 months 1983).

3. The Germans are not believed to favour any common EC action against Japanese cars other than "moderation" without specified numbers. They are firm supporters of collaboration between European and Japanese manufacturers (VW/Nissan; BL/Honda) and welcome Japanese investment in Europe.

V2b

13 April 1983

AEROSPACE

a MESSERSCHMITT-BOLKOW-BLOHM(MBB) AND AIRBUS

b TORNADO

c AGILE COMBAT AIRCRAFT

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS: 25-26 APRIL 1983

Messerschmitt-Bolkow-Blohm GmbH (MBB), and Airbus

Messerschmitt-Bolkow-Blohm GmbH (MBB), the Federal Republic's leading aerospace and armaments concern, was enlarged in 1981 by the acquisition of Vereinig te F l ug technische Werke (VFW). Since this rationalisation the company has had to acknowledge the ncesssity for a reduction in its combined workforce, of approximately 10% by the end of 1983, brought about by a slump in aircraft sales.

Organisation of the newly enlarged company is divided into 6 areas of operation: the Dynamics division, Helicopter and Transport Systems division, Military Aircraft division, Transport Aircraft division, Space division and Marine and Special Products division. MBB currently produces in collaboration with international partners, Airbus (the aircraft marketed by Airbus Industrie, the European consortium in which British Aerospace has a 20% partnership share), Tornado, Spacelab and Ariane, communications and scientific research satellites and on its own account, helicopters, trains, wind and solar energy plants and medical lasers.

In common with other aircraft manufacturers, MBB has been affected by the stagnation in the world civil aviation market and by West German Defence spending. One of the original partners, in Airbus industrie, it has a 37.9% stake in Airbus and now supplies to AI the forward fuselage sections between the cockpit and the wings, the upper shells for the fuselage centre section and the complete fuselage rear section behind the wing including the vertical tail surfaces (fin, rudder and tailcone), for the A300. The MBB factory at Hamburg is responsible for internal furnishings, to customer specifications.

MBB also has a similar major share in the development and production of the latest addition to the Airbus family, the A310, of which the first deliveries were recently made to Lufthansa and Swissair. On the A310 and also on the A300-600, (the advanced model of the A300) MBB are using carbon fibre composites for certain components, leading to weight savings of up to 25%.

MBB is looking to the A300 and A310 market share being consolidated, by a further expansion of the Airbus family for which it will be seeking a workshare of approximately 35%. Airbus Industrie recognises that if it is to sustain sales momentum it must move forward, and has for some time been considering a programme for the next generation of aircraft to enter service from the late 1980s. The A320, an advanced technology, narrow-bodied, 150 seat aircraft has emerged as the front-runner. No positive launch commitment has yet been made by Airbus Industrie or by the partners' Governments - though the French Government has announced its willingness, in principle, to give financial support. We understand that the German position on launch aid for the A320 remains that this should be dependent on good prospects of commercial viability. This is still the UK position. Both Governments are united in their opposition to launching the A320 as a 'political' aircraft .

Air Division

April 1983

Commercial-in-Confidence

BRIEFING ON TORNADO [illegible]

1. Tornado is being built for the Air Forces of UK, IT and GE, and the GE Navy. The programme is managed by a tri-national NATO organisation NAMMO, working through an agency NAMMA set up in Munich. Contracts for airframe development and the bulk of series production work have been plated by NAMMA with a tri-national industrial consortium PANAVIA. MBB is a partner company in PAN, along with British Aerospace and Aeritalia. Development and production work of the aircraft was allocated between the Nations as far as was possible on the basis of their aircraft requirements. Under these arrangements MBB have been responsible for the design and manufacture of Tornado centre fuselages. All 3 nations undertake their own final assembly and MBB therefore also carry out final assembly for all GE Tornados.

2. Production contracts have now been placed for all but 155 of the 809 aircraft covered by the present joint programme. Tri-national authorisation was given in late 1982 for the purchase of long lead items for the 6th and final batch of aircraft, and the MOU and contracts for this batch are scheduled for signing in late 1983. Series production on the programme is expected to continue into 1989, and expenditure on spares and support for considerably longer.

3. Panavia with the support of the 3 Nations has been actively pursuing sales prospects for Tornado or Tornado derivatives. The major effort in recent months has been a projected sale to Greece in fulfilment of part of the requirement for a new combat aircraft for the Hellenic Airforce, a decision by Greece is expected later this year.

Agile Combat Aircraft

Line to Take

The UK government welcomes the initiatives and the private venture capital that the British Aerospace Industry has put into their P110 and ACA studies. The announcement at Farnborough, by the Secretary of State for Defence, of government support for an Experimental Aircraft Programme indicates the UK government s support of industry in developing the technology for a new genreation of fighter aircraft.

It is hoped that the current round of Air Staff talks between the RAF. the German, French and Italian air forces will lead to a common requirement for a new fighter to build upon the Experimental programme. The Anglo-German-Italian partnership which produced the successful Tornado obviously provides a sound basis and the UK would hope that Germany would look first to Britain as an international collaborative partner in such a venture.

Background

The Agile Combat Aircraft (ACA) arose out of a UK industry funded study for a fighter to meet the requirements of the RAF and the export market during the 1990s. Talks during 1982 between the Tornado partners British Aerospace, MBB and Aerialia led to an industrial agreement to co-operate internationally and the ACA, derived from the P110 and German TKF (Taktisches Kampt Fleugzeug) studies.

The timescale called for by industry, required to meet export market demands and employment considerations, was somewhat earlier than that suggested by Air Force requirements and funding constraints. Nevertheless MOD concluded that there was a strong case for building a technology demonstrator, to test some of the critical technologies, and the Secretary of State announced the agreement to support the Experimental Aircraft Programme (EAP) at the Farnborough Air Show in September 1982. This will consist of 2 aircraft, one to be built in the UK and one in Germany, to fly in 1986, the UK portion to be jointly funded by Government and industry and the German contribution probably to be financed by MBB.

Following the EAP announcement the French Minister of Defence announced a similar French demonstrator programme, the ACX, and invited other European partners to join in. Air staff discussions during 1983 have indicated there is a strong chance of achieving a joint requirement including the French.

Within the FRG government there are certain political pressures to increase collaboration with France and even some supporters of the licence build of a US aircraft. MBB has maintained their desire to continue to work with their Tornado partners but will require government support to continue their share of development of the EAP. If the FRG government is prepared to support a collaboration with France but less prepared to fund a collaboration with the UK MBB will be obliged to move away from BAe towards Dassault.

Although this appears academic if all 4 partners end up collaborating UK industry is likely to gain a more advantageous share of the programme if the French join an existing Anglo-German-Italian partnership than if the UK has to join a programme built up around a Franco-German agreement. There is some evidence that French officials have been working in this direction.

Prof Madelung, Deputy Chairman of MBB, was Managing Director of Panavia, the international management company controlling the Tornado programme, during the development of the Tornado, and has close links with BAe, and is believed to favour continuing co-operation with the UK.

STEEL

UK STEEL INDUSTRY

The UK steel industry is the fourth largest in EC (after W. Germany, Italy and France) and about tenth in world rankings. Steel making capacity is about 25.0m tonnes and recent crude steel outputs have been:-

1980	11.3* m	tonnes
1981	15.6 m	"
1982	13.7 m	"

* output affected by strike in Q1.

Steel exports are fairly modest at about 4.0m product tonnes in 1981, 3.5m produced in 1982. About 1/3m produced go to W.Germany.

The industry is dominated by BSC responsible for about 85% of crude steel production.

Manpower in the industry has nearly halved in the last 4 years, job losses have exceeded those in the rest of EC together.

Steel production in the private sector is on a smaller scale; many firms act as re-rollers only, taking semi-finished steel from BSC or from imports. One fairly recent development in the rationalisation of the industry is the creation of joint Companies Act concerns, such as Allied Steel and Wire (BSC/GKN) and Sheffield Forgemasters (BSC/Johnson Firth Brown).

W. GERMAN STEEL INDUSTRY

The W.German steel industry is the largest in EC and fourth largest in the world, after USSR, USA and Japan. Steel making capacity is about 66.0m tonnes

cont'd

and recent crude steel outputs have been:

1980	43.8m tonnes
1981	41.6m "
1982	35.9m "

W.Germany is a very large exporter of steel, total exports in 1981 were 19.2m product tonnes, of which just under 1.0m.t. came to UK.

There is one large group (Thyssen) with some half dozen other major producers; output of leading firms in 1981 was:-

Thyssen	11.6m tonnes
Krupp	4.9m "
Hoesch	4.7m "
Mannesmann	4.5m "
Blockner-Werke	4.5m "
Peine-Salzgitter	4.1m "

Geographically, the industry is concentrated in the Rhine-Ruhr area (Dusseldorf, Duisburg, Dortmund) but Klockner are in Bremen and other towns of North Germany, Peine-Salzgitter are in the East, near Hannover. There are also firms in the Saar region (eg Rochling-Burbach).

Mannesmann is the largest tube and pipe producer in the world and has a large export trade particularly to USSR and USA.

All the firms mentioned above, with the exception of Peine-Salzgitter are in the private sector. Traditionally the German Government has given relatively little aid to its steel industry (apart from the state owned company Peine-Salzgitter). The collapse of the steel market in mid-1981 has changed this. A recent report proposed the creation of two very large steel making groups embracing most of the major German manufacturers; Krupp and Thyssen would forma Rhine Group while Hoesch, Peine-Salzgitter and Kloeckner would merge to form a Ruhr Group. This restructuring was to accompanied by some 2-3 billion DM in aid from Federal and Land Governments. We understand this

cont'd

could result in 7-8 million tonnes being cut. Press reports suggest, however, that the German Government faces opposition from some of the companies involved in he Ruhr group. The Government has also become deeply involved in the affairs of the near bankrupt Saarstahl company, where regional policy considerations are a major concern. So far it has not identified the 500,000 tonnes of cuts promised in return for aid.

ECSC IRON AND STEEL POLICY

Over the last couple of years, the Germans have had a broadly similar approach as the UK on Community steel policy - support for the rigorous application of the anti-crisis measures (production quotas and price rules) and commitment to strict application of the disciplines of the State Aids Decision. In recent months, the German commitment, notably on the State Aids front (ie that aid given should be commensurate capacity cuts),has shown signs of wavering.

MM2

April 1983

PHARMACEUTICALS

UK PHARMACEUTICAL INDUSTRY

1. Size

About 300 companies ranging from these selling bought in products to those with basic research and development, manufacture at all stages and a big home and export market. Products cover the whole range of human pharmaceuticals as well as veterinary medicines and pharmaceutical chemicals. Most of the largest companies have other interests especially cosmetics, foods and chemicals.

2. Employment

About 67,000 with some 10,000 employed in research.

3. Trade

Sales 1981:	£2,483 m
Exports 1982:	£ 992 m
Imports 1982:	£ 377 m

UK represents 4.2% of world consumption of pharmaceuticals.

4. Principal Companies (by country of ownership)

UK	German	US
Glaxo	Boehringer	MSD
Beechams	Hoechst	SKF
ICI	Schering Chemicals	Sterling Winthrop
Wellcome	E Merck	Eli Lilly
Boots	Bayer	Pfizer

5. Government Controls

DHSS controls safety, efficacy, manufacture and sale of medicine products through a licensing system. It also controls prices of prescription medicines sold to the NHS through the Pharmaceutical Price Regulation Scheme (PPRS). Prices of medicines sold direct to the general public and all medicine sold privately or exported are not controlled.

6. Problems

Pharmaceutical industry has had a bad press in recent months and has been attacked by MPs in and out of Parliament. There have been accusations that the industry receive too high a return on its sales to the NHS, and criticism of extravagant sales promotion activities. A campaign has been mounted to promote the prescribing of medicines by chemical name rather than the more expensive brand name of medicines out of patent. The industry sees this as resulting in reduced profits and leaving less money to spend on research. The PPRS is to be reviewed this year.

All this has left the industry, although prosperous compared with the rest of manufacturing industry, in a mood of gloom and it has become very defensive in its attitude. But the UK climate is not so different from that of most developed countries and better than many. All over the world countries are trying to reduce the cost of drugs and none more so than our European partners. West Germany is the only free market for medicines left in Europe, with no price control. But even there measures have been taken which the Government hopes will reduce public expenditure on medicines eg from 1 April the cost of remedies against coughs and colds, laxatives and anti-emetic preparations cannot be reimbursed by the social security system.

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS 25-26 APRIL 1983

CHEMICALS AND PETROCHEMICALS INDUSTRIES

Points to make

1 We agree with Commissioner Davignon that the European petrochemicals industry must take action itself to reduce the overcapacity by closing plants. What is the German view?

2 The UK companies have already carried restructuring to the point where excess capacity has, effectively, been removed. It appears that progress on the Continent has been slower.

3 Ask how restructuring is progressing in Germany.

4 Governments and the Commission should not interfere in such a way as to distort the market mechanism and slow down the rate of plant closures. The Commission's role should be to facilitate restructuring and eliminate unfair competition.

5 The UK companies are looking for an upturn during the next two years provided uneconomic plants are closed throughout Western Europe. What is the German view of prospects?

6 In what product and geographical areas is investment most likely to be made in future?

CTP4A
April 1983

HIGH LEVEL MEETING OF GERMAN INDUSTRIALISTS

West German Chemical Industry - Background

1 The German chemical industry is the largest in Europe and the third largest in the world after the USA and Japan. There are about 2,000 chemical companies in the FRG though the three largest of them - Hoechst, BASF and Bayer account for some 80% of sales. A comparison of the relative size of the UK and German industries is shown below.

	Turnover	($m)	Balance of trade ($m)	
	1980	1981	1980	1981
Germany	59.194	51.548	11.447	10.536
United Kingdom	41.314	37.607	4.787	4.328

The UK chemical industry is the fourth largest in the world and as in Germany a few large companies dominate the industry; ICI, BP, Albright & Wilson, BOC, Shell and Esso. ICI is by far the largest UK company with sales in 1982 of £7,358m (DM 27bn) compared with BASF Dm 32.56bn and Hoechst Dm 35 billion.

2 The difficulties which the German chemical industry has been facing are no different from those in other countries. They are essentially over-capacity and lack of demand in a generally depressed market worldwide. They have also been affected by currency fluctuations. 1982 was a bad year although it began to improve with an upturn in exports towards the end. Clearer signs of an economic upturn both in the FRG and in the United States are providing some cheer but the latest revaluation of the D Mark has caused nervousness in the industry. Capacity utilisation in the industry in 1982 was 75%. In recent years there has been heavy investment in capacity overseas (DM 13.8 billion total investment in 1978), the United States being a main target. The industry has also been endeavouring to restructure through plant closures and productivity has shown a steady improvement.

CTP4A

April 1983

HIGH LEVEL MISSION OF GERMAN INDUSTRIALISTS 25-26 APRIL 1983

UK CHEMICALS AND PETROCHEMICALS INDUSTRIES

Background

The West European petrochemicals industry has been losing money over the last three years at the rate of $2 billion to $3 billion a year on ethylene and the five bulk plastics materials, high density polyethylene, low density polyethylene, polypropylene, polystyrene and polyvinyl chloride. The reason for this situation is overcapacity, and the worldwide recession which has depressed demand and caused producers to attempt to improve the economics of production by improving their market share. But the companies have also been caught in a cost-price squeeze in which margins cannot be recovered by price increases. The only solution now seen is for the companies concerned to improve plant loadings by an orderly reduction of capacity within boundary conditions set by the European Commission.

The UK producers are in a strong market position in those products in which they have chosen to stay, both in the UK and in Europe as a whole. They are competitive with Continental producers in terms of technology and production costs but their financial position is made worse rleative to the Continental competition by a combination of factors, including serious erosion of the customer base, the more severe recession in the UK and until recently the disadvantageous effects of exchange rate movements, ie raw materials priced in dollars and exports in deutschemarks. They have done more than their Continental competitors to rationalise and reduce capacity but are concerned that Government subsidies in, for example, France and Italy will put the UK companies at a grave commercial disadvantage, delay the essential industry restructuring in those countries and bring about a further, undesirable, contraction of the UK industry. There is a fear that more UK capacity will be lost than would be justified by the demand/supply position, particularly if decisions are taken for short term reasons. Such closures could weaken the competitiveness of the remaining plants and push the industry into self-accelerating decline.

IN CONFIDENCE

A senior official of the German Ministry of Economic affairs told DoI in February 1983 that the German Industry shared UK problems. He foresaw capacity cuts and these would come quite quickly (possibly in the next year). On ethylene capacity, he said that from an industrial policy view point there was a continued need to reduce capacity to prevent further losses.

CTP4A

April 1983

GERMAN HIGH LEVEL MISSION

THE TELECOMMUNICATION INDUSTRY

Background

The UK telecommunications equipment industry is one of the principal sectors of the information technology (IT) industries. Output is growing at about 15% per year but employment has fallen to 65,000 due to changing technology. The industry largely serves the needs of British Telecom (BT), with both imports and exports of marginal importance. GEC, Plessey and STC account for over 90% of output, but there are a growing number of smaller companies which have their own niches particularly in the market for subscriber attachments. The principal foreign owned companies manufacturing in the UK are Mitel, Siemens, Philips and Ericsson. These companies along with GEC, Plessey and STC form the principal membership of the Telecommunications Engineering and Manufacturing Association (TEMA) the main trade association. The opportunities provided by liberalisation have also led to a number of joint ventures such as those between Ferranti and GTE and Ansafone and NEL.

The UK industry is in a period of transition due mainly to:

a) technology advances. The emergence of new digital technologies and the convergence of telecomms and computers reduce technical trade barriers and enable more companies from the computer, office automation and electronic fields to enter the newly competitive environment of telecommunications.

b) liberalisation. BT's monopoly is being reduced enabling suppliers to sell equipment directly to the subscriber. This competitive pressure is also being applied to suppliers by BT whose procurement decisions are being made on increasingly commercial grounds. Although the home market is opening for importers the increased competition should result in a more competitive home industry which can compete more effectively in world markets than it has done in the last decade.

Siemens

Siemens are active in the UK mainly as a sales organisation for the German parent. They do have manufacturing facilities at Congleton, Cheshire where they have been producing a teleprinter for MOD - this order however is coming to an end.

Siemens representatives have recently met Mr Butcher to discuss their concern over telecommunications liberalisation and their wish to see more of their products approved for connection to the network. They are particularly concerned with Teletex where they are one of the few European companies with teletex systems up and running in their own company. They were not, however, invited to participate in this Department's teletex promotion because of the lack of UK manufacturing plans for their teletex products.

Discussions between Siemens UK and DoI officials concerning manufacturing plans for their range of products are continuing.

Possible ICL/Siemens/CII-Honeywell Bull collaboration

ICL are promoting the idea of a collaboration on software development between themselves, Siemens and CII-HB. The aim would be to establish a centre to carry out a programme of longer-term research, on a fairly modest scale, on projects of mutual interest in the software area. The companies would save on development costs, share ideas and their exploitation, and help create the basis for more collaboration in the European IT industry.

A measure of understanding between the companies has been achieved on the desirability of the venture, but major uncertainties remain regarding the timing for setting up the centre and its location (either the South of France or West Berlin). The working language would be English: the director would be a national of whichever state was rejected as the host for the centre. ICL hope that the boards of the companies concerned will be able to take a decision in June, so that the centre could be operational early in 1984. One key issue still unresolved is the extent to which financial support from the Governments concerned will be needed to establish the centre, and whether it will be forthcoming. We have informally indicated to ICL that HMG will probably be prepared to assist.

Cellular Radio

Before making our decision on a cellular system for the UK, we engaged in exhaustive discussions at all levels - Government, industry and BT - with Germany, France, and the Nordic Group. We have a high regard for Siemens' conceptual approach but the C900 - Siemens system - remains very much a concept at present.

2 UK telecommunication policy is very much aimed at meeting customer needs as rapidly as technology allows at the lowest cost possible. We made our final judgement on the basis of criteria spelled out at a December meeting of interested CEPT parnters - namely

1) Minimum time before introduction of commercial service.

2) Minimum cost to consumer.

3) Minimum interface problems with BT network.

4) Maximum portability.

5) Maximum exportability from UK.

3 On these criteria, there was general agreement between BT and the industry to adopt the TACS system, which was endorsed by the Government.

LINE TO TAKE

4 The UK is in a rush to meet the multiple needs of customers as rapidly as technology permits.

(ii) Customers cannot be made to wait for high cost high engineered solutions.

(iii) The task of changing from a 450MHz solution to a 900 MHz solution is huge. New software and new processors are required. We were not confident that Siemens could meet

a) our target date of 1 January 1985,

b) our requirement for distributed switching, given the fact that we were introducing an entirely new network separate from the BT network,

c) low cost entry for the consumer.

(iv) Despite this, we remain keen to cooperate with Siemens on developing a 900 MHz soltuion, provided they can be as flexible as we were in incorporating new technology from overseas.

UK GOVERNMENT R&D POLICY

BACKGROUND BRIEF

1 The UK differs from many other industrialised countries including the Federal Republic of Germany in having no specific ministry for Science and Technology. Most major UK Government Departments undertake research in pursuit of their own objectives. Technical advice is provided by a departmental Chief Scientist, and the work is contracted out either to departmental laboratories or to outside contractors.

2 Current Government spend on R&D is around £3,400 M (1982/83) just over half of which is spent on defence. Some 10% is spent by DoI, with the remainder going to other Government Departments, principally DES. Some 60% of Government R&D spend goes directly to private industry.

3 The R&D spend by the UK Government represented around 1.2% of GDP in 1979 (the latest published figures) compared with 1.1% for the Federal Republic of Germany and 1.3% for the USA. The current level in the UK is unlikely to be significantly different.

4 Most Government Departments support research which assists them in carrying out their functions. They are the customers for the work which they fund, the R&D being done by contractors either within or outside Government. This Customer/Contractor principle was enunciated by Lord Rothschild in 1971 and has formed the basis for R&D

support ever since. It is seen as a means of ensuring that research is relevant to the needs of those who pay for it. The DoI, although adhering to this principle, acts as a proxy customer, supporting R&D on behalf of the industries which it sponsors.

5 Fundamental research in universities is funded via the Department of Education and Science through the University Grants Committee and the five Research Councils. Some work in universities is also funded by other Government Departments, using the universities as contractors on specific projects.

6 The Government recognises that not all R&D relevant to our needs can be carried out in the UK. Accordingly considerable international collaboration is encouraged ranging from formal Government to Government bilateral and multilateral Agreements to informal exchanges of data and personnel between institutions in the UK and abroad. There are a number of bilateral activities between the UK and the Federal Republic of Germany, as well as multilateral contacts involving the UK, FRG and others. Examples include close collaboration between the National Physical Laboratory and its German equivalent the PTB on standards, work on uranium enrichment between the nuclear authorities in both countries, and exchanges of information on biotechnology between the BMFT and DoI. Most of this work is undertaken on an informal basis, without the need for a formal framework. The Government will continue to foster such activity as a means of sharing expertise, facilities and results to mutual advantage.

7 The DoI has recently published its Strategic Aims for the support of industry. The central aim is a profitable, competitive and adaptive productive sector in the UK, which in turn reflects the Government's objectives for a healthy UK economy. This is to be achieved by

a) a climate in the UK conducive to enterprise

b) industrial efficiency,

c) opportunities for innovation.

This latter aim is intended to ensure that the UK has the necessary technology applied on the necessary scale to ensure UK competitiveness. Support for R&D is included in this category.

RTP Division
April 1983

DEPARTMENT OF INDUSTRY MEETING WITH GERMAN INDUSTRIALISTS
25-26 APRIL: FIXED CHANNEL LINK

BACKGROUND NOTE

1. Interest in a fixed Channel link was revived in 1979 by the publication by British Rail and SNCF jointly of a scheme for a rail tunnel designed to carry only conventional rail traffic. Other groups have also submitted schemes, and there are four main categories of proposed fixed Channel link:-

a) bored rail tunnels, including both single and twin tunnels

b) immersed tube tunnels

c) bridges (road traffic only)

d) a composite scheme, both rail and road on viaducts and tunnels.

2. The European Channel Tunnel Group (in which Herr Becker has an interest) initially proposed a single track 7m bored tunnel scheme, but they are ready to undertake any of the bored tunnel schemes. The British members of ECTG have recently decided to work together with the two other tunnel promoting groups, Channel Tunnel Developments and the Anglo-Channel Tunnel Group, to the extent of agreeing a single capital budget and programme for a twin (simultaneou tunnel. Herr Becker may be aware of this but his attitude is unknown.

3. A joint Anglo-French Study Group consisting of representatives of the UK and French Transport Ministries examined the case for a fixed link and the options available. Their report, published in June 1982, concluded that a fixed link would probably offer cost savings and other economic advantages sufficient to outweigh the capital investment involved. It was agreed that further work should be done, concentrating on the financial aspects, and a group of British and French banks are examining the 'financeability' of the different opinions, whether private capital can be raised, and the legal implications of a fixed link. The group are now discussing with the European Community the possibility of extending the Study to cover particular EC interests in return for a grant from the

Community. Confirmation of formal agreement of the terms of the study is awaited; it is unlikely that the report will be completed before the summer, and it is too early to indicate conclusions.

THE GOVERNMENT'S POSITION

4. All the options for a fixed link are under consideration. The UK and French Governments cannot take a decision before they have seen the Banks' report, and they will need to consider both the Banks' findings and the wider issues.

BRIEF 26

EAST-WEST ECONOMIC RELATIONS

LINE TO TAKE

1 After last year's pipeline dispute, West agreed we must make a concerted effort to create a new framework in the difficult area of East-West economic relations. We attach importance to this. Past divisions in the West have only given comfort to the Soviet Union.

2 Work in hand in various international organisations on specific aspects of East/West economic relations.

BACKGROUND

On 29 December 1981, in response to the imposition of martial law in Poland, the US administration announced selected economic measures towards the USSR including wider export controls on US origin oil and gas equipment and technology. On 18 June 1982 these were extended to cover exports by overseas licensees and subsidiaries of US companies. The main project immediately affected was the West Siberian pipeline for which firms, including US subsidiaries, in the UK, West Germany, Italy and France had been awarded contracts. The unilateral, retroactive (affecting existing contracts) and extra-territorial nature of the action taken by the US administration caused concern to the UK and other W European countries.

2 Following the US action, the British & European governments took steps to ensure that their companies could comply with legally binding contractual obligations. Section 1 of the Protection of Trading Interests Act provides HMG with such powers and the Secretary of State for Trade gave directions under Section 1(3) of the Act to specific companies concerned not to comply with the US measures. The US administration reacted by announcing Temporary Denial Orders prohobiting the export of US oil and gas equipment to a number of the European companies involved, including John Brown Engineering.

3 Urgent discussions aimed at the resolution of the problem took place in Washington last autumn between the Western countries involved. The US decided to lift sanctions, and the June 1982 and December 1981 measures were rescinded in their entirety with effect from 13 November 1982. In parallel Western countries agreed on the need to formulate a common approach to East West economic relations and to a number of studies in this field. Work is now underway in various international fora (COCOM, OECD, NATO, EC); the studies are looking at a number of aspects of East/West trade relations including trade in strategic goods and energy requirements. Heads of State and Government will take stock of this work at Williamsburg.

OT4/1C

UK MINISTERS' MEETINGS WITH GERMAN HIGH-LEVEL MISSION, 25-26 APRIL 1983

EXTRATERRITORIALITY (ETT)

INTRODUCTION

1 We know that the Mission are particularly interested in this subject and will want to talk about it. (Mannesmann was one of the German companies affected by last year's Siberian pipeline dispute). The brief has been kept to as reasonable a length as possible, although the subject is complex and difficult to compress. The brief on East-West Economic Relations is also highly relevant.

POINTS TO MAKE

2 Britain and America's other allies have fundamental objections, both of law and policy, to the way in which US export controls are applied to companies, and to goods and technology, in our countries.

3 Legally, we see this as an assertion of extraterritorial jurisdiction which is contrary to generally accepted principles of international law. Politically, Governments and public opinion in America's allies see it as an attempt to impose US laws and US policies within our territory. This is a quite basic infringement of our sovereignty.

4 The pipeline dispute last year was by far the most spectacular example of the political damage which extraterritorial export controls can do to the Alliance. But it is by no means the only case; nor has such legislation been confined to the present Administration.

5 Economically, such legislation interrupts the free flow of trade and investment, and destroys the stability and predictability so necessary to international business. It generates suspicion of US investment, and a reluctance among our companies to become involved with US firms as suppliers, licensees or partners in collaborative projects.

6 The Export Administration Act is the main US statute under which export controls, with extraterritorial reach have been imposed. Its renewal this year gives the Administration and Congress the opportunity to remove one of the most important sources of friction, political as well as commercial, between the United States and her allies.

7 We are however, concerned that the US Administration's recent proposals for the renewal of the Export Administration Act largely ignore the concerns of foreign governments and the business community. The ETT provisions are unchanged and there is a proposal to ban imports by foreign companies which violate US trade sanctions. We must all redouble our lobbying efforts to persuade US Administration not to urge economic war on its friends. The next few weeks will be critical in Congress.

Background

8 The problem of the extraterritorial application of US commercial laws and regulations has a long history and is a major irritant in UK/US commercial relations. The most recent and blatant example was the US oil and gas embargo on the USSR (the Siberian pipeline dispute). The problem arises in three broad areas:

9 (i) US antitrust law

UK companies have been proceeded against in respect of dealings carried out outside the US but which are preceived to affect US interstate or foreign commerce under the "effects doctrine". These suits have included the Westinghouse uranium case (settled out of court in 1981) which involved RTZ, and the official US antitrust proceedings brought in 1979 by the Department of Justice against European shipping interests operating in the North Atlantic conferences, which culminated in heavy fines imposed on certain UK companies and individuals. It was followed by an action initiated by the aggrieved shippers in the US which resulted in an out of court settlement paid in part by British lines.

10 Recently the US Department of Justice have indicated that they intend to begin a criminal Grand Jury investigation into North Atlantic air fares, even though these are regulated, as far as the UK and the US is concerned, by a bilateral Air Services Agreement. British Airways, BCAL and Lufthansa are implicated. Talks have been going on to try to settle the problem of other means than unilateral law enforcement. [NOT FOR USE - The Prime Minister even sent a message to this effect to President Reagan, but without success]. Subpoenas have now been issued to British Airways and BCAL, demanding the provision of documents and commercial information in the US only at this stage. HMG is considering how best to respond. Lufthansa have not yet received a subpoena; we understand the German Government may agree to the voluntary production of some documents.

11 (ii) US claims to jurisdiction on the basis of nationality

This means that foreign subsidiaries of US companies and foreign companies in which there is a US shareholding (sometimes as low as 25%) are regarded legally by the US as US persons and therefore as subject to US law. An example of this is the US Foreign Boycott Regulations which aim to prevent US companies and companies which are "controlled in fact" by US interests and thus regarded as "US persons" from co-operating with the Arab Boycott of Israel. Other laws enforce the US embargo on trade with Cuba, Vietnam, North Korea and Kampuchea. In addition the US applies controls on the export and re-export of US origin goods and technology, claiming to extend these controls to the re-export of goods and technology from one foreign country to another. The regulations of December 1981, and June 1982, banning the export of oil and gas equipment and technology to the USSR, were the most recent and most spectacular examples of US export controls with these objectionable features. They led to the Secretary of State for Trade making an order under Section 1(1) of the Protection of Trading Interests Act 1980 (PTIA) declaring that the US measures were damaging to the trading interests of the United Kingdom. Subsequently, seven Directions under Section 1(3) of the PTIA were given to individual companies in the UK (most of which were US subsidiaries) prohibiting compliance with the US regulations. Several leading German companies were also affected by the US measures, including MANNESMANN (whose Cairman-designate is a member of the Mission).

12 (iii) An excessive application by the US of a legitimate jurisdiction

This occurs in cases where US regulatory agencies such as the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) attempt to extend their undoubted jurisdiction over activities in the US by demanding information about the non-US activities of foreign companies, and information located abroad, in ways in which HMG believe go beyond the proper execution of their functions. One such case involved a UK commodity dealer trading on the New York Exchange. The CFTC issued a demand for information about his contracts that was extensive and sought details about customers and transactions outside the US. Diplomatic representations failed to move the CFTC and a Direction was therefore issued to the company in March 1981, under Section 2 of the Protection of Trading Interests Act 1980, not to produce the information requested.

The way ahead

13 This year the US Export Administration Act (EAA), on which many of the objectionable US export controls are based, including those on oil and gas equipment, must be re-authorised by Congress. We have submitted a Diplomatic Note (No 3 of 12 January) setting out our concerns and suggesting amendments to the Act that in part at least would meet these concerns. Bilateral talks at senior official level took place in Washington from 19-21 January and the Minister for Trade, Mr Peter Rees, visited Washington from 23-25 March to meet a wide cross section of the participants in the renewal process in the US Administration, Congress and leading industrialists, to ensured that HMG's concerns were well publicised. We have briefed our European partners, as well as other like-minded governments, about the talks and the prospects for the renewal of the EAA. We have persuaded the Community that it is vital that foreign governments' concerns should be brought to the attention of the US Administration and Congress and an aide memoire has been presented to the State Department on behalf of the Community and its Member States on 23 March 1983. As part of our own representations we have been in touch with business interests on both sides of the Atlantic and on 8 March 1983 we submitted a further note (No 28)

to the State Department, for transmission to Congress, setting out our objections to the way in which successive US Administrations have sought to extend US export controls to companies and individuals doing business in the UK.

14 HMG's objections to the current EAA and its enforcement are under two main headings:-

I An objection to the purported extension of the EAA and to subsidiaries and affiliates of US companies, incorporated and doing business in the UK, by virtue of the existence of a US shareholding in them.

II An objection to the use of the Act and its regulations to control exports and re-exports of US origin goods and technology to all destinations. The US authorities have issued regulations purporting to forbid the export from one third country to another of goods and technology already located outside the US; and in some cases, including the controls on exports of oil and gas equipment, they have done so without providing an exemption for contracts already lawfully entered into.

15 Hearings have already begun in Congress and a sharp division has emerged between the "hawks" who are seeking to strengthen the EAA's powers, and those who acknowledge the harm the use of the Act has done to US business, overseas investment prospects and the Alliance in general. The debate promises to be intense, as the competing interest groups have already begun to apply pressure on Congress. Those who favour tightening the export controls are pressing their case by saying (quite wrongly) that the amicable settlement of the pipeline dispute demonstrates that the allies are not particularly concerned about US extraterritorial powers as such.

16 The Administration finally presented its Bill for renewing the EAA on 5 April. It contained few surprises; it is very much an update of the existing Act, paying only the most perfunctory lip service to the representations of HMG, other foreign governments and the business community. In particular the extraterritorial elements are unchanged, a provision for contract sanctity (270 days from the imposition of an export control and subject to Presidential veto) is of little value, and a new penalty of import controls on companies or countries that violate US national security controls appears to be within the total discretion of the President, and must surely conflict with the GATT.

17 We understand that while the issue remains open, there will be scope for further representations by Allies, and that this can be achieved most effectively by clear indications of political concern in Allied capitals, duly reported in the US press. HMG is considering further bilateral representations and the Commission will be presenting another demarche shortly. It is very important that concerted pressure by governments, the Commission and business interests be maintained on all interested parties in the US through all possible fora, and particularly over the next 4-5 weeks before the Administration's Bill becomes too firmly entrenched in the Congressional machinery. It will be particularly important to reach key members of Congress and the US media.

The German position

18 The Germans generally share our views on this problem, particularly on export controls and nationality of companies. (On antitrust their position is not quite the same as their own antitrust law is based on that of the US). We understand that the German Government have made some bilateral representations, and we know that they have solidly supported the Community's efforts. However the Germans are not disposed so far to push themselves forward, mainly we think for political reasons, ie their relationship with the US and its relevance in turn to Germany's position in East-West relations.

OT2/1B
Department of Trade

April 1983

High Level Mission of German Industrialsits

VEBA

Line to take

1 We would welcome UK investment by VEBA in commercially sound enterprises.

2 In the case of chemicals, opportunities are most likely to be found in the higher value products.

3 Defensive (if the question of oil barter for inward investment is raised.) It is not possible to determine in advance what view the Government might take of special assistance to companies wishing to make major investments in the UK. However, contributions to the UK economy are taken into account when judging applications for licenses, and an offer could be made to explore further long term security of supply if this were raised.

CTP4a

April 1983

High Level Mission of German Industrialists

VEBA - Background

1 Veba, West Germany's largest industrial concern, is involved in energy, chemicals, trading, and transport: it is the parent company of Veba Oil (100% ownership) and Chemische Werke Huls (50% ownership). The West German Government holds some 40% of Veba stock. Veba Oil is responsible for the group's oil exploration, production and refining activities, which are mainly in the hands of Deminex (54% ownership): it also produces olefins and aromatics. Chemische Werke Huls produces a range of organic and inorganic chemicals, plastics material, synthetic rubbers, paints and fertilisers. Group turnover in the first nine months of 1982 was DM 36.2 billion (DM 49.4 billion for the whole of 1981).

2 Mr R von Bennigsen - Foerder Chairman of Veba has been concerned with his company's efforts to gain access to North Sea oil for several years. In 1979 and again in 1981 UK officials were told by Bennigsen - Foerder that Veba were interested in increasing their investment in the UK in return for increased supplies of North Sea crude oil. However, Veba have never liked the UK crude landing requirement, and Deminex were exceptionally given an understanding that they would be free to export more than was normally agreed at the time.

3 Bennigsen - Foerder was told by officials that if Veba were to consider a major investment in the UK the terms and conditions would be a matter for negotiations, in which it would be open to Veba to raise the question of access to North Sea oil. He responded that such an investment would have to be in partnership with a British company and in any case he was thinking a long way ahead. He related his continued interest to a statement by the Prime Minister, at a lunch in Bonn in Autumn 1980, of the benefits German investors in the UK could draw from Britian's oil and gas supplies.

4 HMG has no oil directly in its gift. If Veba were looking for purely commercial advantages they would have to negotiate with the companies. Only if Veba were looking for understandings in the operation of Government policy would we have something to offer in direct exchange for investment. If Veba were seeking licences any proposed investment could be taken into account as contributions to the UK economy are already among the licensing criteria.

CTP4a

April 1983

GERMAN HIGH LEVEL MISSION: 25 AND 26 APRIL

INDUSTRIAL POLICY AND COMPETITION POLICY

UK competition legislation provides powers to act against monopoly, anti-competitive practices, and restrictive trade practices. In addition, structural change may be controlled through the merger control legislation in the Fair Trading Act 1973; and it is in the field of merger policy that the problem of balancing competition issues against other issues such as regional policy, employment, efficiency and balance of payments is met in its most acute form.

UK mergers policy is discretionary in that it allows the Secretary of State to refer "qualifying merger situations" to the Monopolies and Mergers Commission (MMC) for investigation. The Secretary of State has power to prevent a merger if the MMC find in their report that it would operate against the public interest.

The concept of"the public interest" is thus central to UK mergers policy. The concept is not explicitly defined in the legislation; rather, the MMC are obliged to take into account, in assessing whether a merger might operate against the public interest, ~~or~~ all matters which appear to them in the circumstances to be relevant; though the Act gives an indicative list of factors which should be amongst those to which the Commission have regard. This list contains 5 factors, 3 of which relate to the maintenance and promotion of effective competition; the fourth refers to the balanced distribution of industry and employment in the United Kingdom; and the fifth to international competitiveness.

Against this background, each case must be judged on its merits. There is no presumption that mergers, or any particular class of merger, are bad in themselves. The aim of the machinery set up under the legislation is to enable those mergers which raise genuine doubts about their likely impact on the public interest to receive detailed independent investigation so as to enable the Government to make an informed decision whether or not they should be allowed to proceed.

Thus, although in general competition issues will be the determining factor in most cases, there may be cases where other factors, such as employment or efficiency considerations are judged to be so important as to be the deciding factor for or against a merger. In the same way the legislation does not discriminate against bidders on the grounds of nationality; but in exceptional circumstances this could be regarded as a significant factor. (eg the bid by Enserch of the United States for the Davy Corporation was stopped on grounds which included the detriments foreseen for exports and employment arising from the loss of Davy's national character as a British bidder in overseas markets for process plant contracts).

Sectors in which mergers have been allowed in the last few years, inspite of their leading to a reduction of competition, because of their advantages in terms of industrial structure, efficiency and employment, are steel and petro-chemicals. But these cases are the exceptions rather than the rule; in general, the long term advantages of competition for the ~~dinosium~~ dynamism of the economy are recognised in the implementation of the mergers control legislation.

PART II OF THE INDUSTRY ACT 1975

This gives the Secretary of State powers to prevent or undo an undesirable foreign takeover when it appears to him that there is a serious and immediate probability of a change in control, or where such a change has already taken place, of an important manufacturing undertaking, and that the change of control would be contrary to the interests of the UK or a substantial part of it.

2. Section 13 of the Act provides that the Secretary of State may take two courses of action. These are:-

(a) he may make a "prohibition order" prohibiting the change of control or actions which would lead to such a change ;

(b) he may vest the securities of the body carrying on the undertaking or the assets of the undertaking itself in himself or in the National Enterprise Board, or in nominees for either.

3. The power of compulsory acquisition through a vesting order is a reserve power to be used only when other powers cannot be used or are not appropriate. Such circumstances could be:-

(a) where a prohibition order would be ineffective eg because the parties concerned are outside UK jurisdiction

(b) where a prohibition order has been made within the previous three months and been found to be ineffective.

Both orders have to be approved by resolution of each House of Parliament. A vesting order requires the approval of the Treasury. It cannot be made until a "compensation order" has also been laid before Parliament, and has to be made within three months of learni of a change of control.

4. The powers under Part II have not been used and there are no established criteria for deciding what would be contrary to nationa interest. During the passage of the legislation the previous Administration made it clear that Part II powers would be used only when there was no other way of protecting the national interes It was also stated that action would only be taken with regard to an undertaking in a key sector of manufacturing industry; and that in such a sector the issues by which its importance would be measured were the contribution to defence, exports, technology, investment and employment.

5. What constitutes "change of control" is set out in some detail in Section 12 of the Act. In essence, the Secretary of State may act where a person or body corporate not resident in the UK (nor EEC nationals resident in the Community), acting singly or in concert, gains or appear to be about to gain control of either 30%, 40% or 50% of the voting equity. These different qualifying percentages allow the Secretary of State to act where, for example, 50% of the voting equity is acquired even though no order was made when either 30% or 40% of the equity came under foreign control.