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PRIME MINISTER

The Japanese press reported on 12 June that the IHI-led consortium has decided not to place any sub-contract work for the second Bosphorus bridge with Cleveland Bridge. IHI have confirmed this to our Tokyo Embassy.

2 The press reports attribute reasons for the decision to:

- (i) unfavourable reaction of the Japanese companies to British pressure;
- (ii) fear of setting a precedent which would encourage similar pressure in other third country business;
- (iii) possible delays to the project resulting from sub-contracting work to British companies.

3 Following on from Mr Nakasone's unyielding letter of 1 June, this outcome, though extremely disappointing, is not altogether unexpected.

4 But the manner in which the decision has been made public is particularly aggravating. In his latest letter to you on 1 June, Mr Nakasone stated that Cleveland Bridge's participation was 'a matter to be settled among the private companies concerned', implying that talks would get under way. In fact the only response to an approach made three weeks ago by Trafalgar House to IHI at main board level has

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cc Ser.P.C. ①

Prime Minister
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Yes no



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been a short holding telex. Trafalgar House have not, even now, been informed of the reported decision.

5 There are arguments we could mount to challenge the reported IHI justification for its decision. There are certainly grounds for complaint at the way the matter has been handled by the Japanese companies. However, IHI's attitude comes as no surprise; their prime objective after all was, in all too familiar fashion, to capture another industrial sector. Given that and the tone of Mr Nakasone's response, neither we, the Foreign Office nor the company see any effective way of persuading IHI to change its position. In addition, Cleveland Bridge apart, there are some limited opportunities for other UK sub-contract work, including possibly bridge cables and some steel supply. These could be jeopardised if we continue to press Cleveland's case. Despite these new developments, therefore, I think your inclination to discontinue the correspondence with Mr Nakasone, while pursuing the wider issues in OECD, remains the right course.

6 The question then remains of how your exchanges should be terminated. It has been suggested that I might call in the Japanese Ambassador to make our position clear, concentrating on our concern for UK-Japan trade relations: this episode has vividly highlighted the problem. However, it is not clear that very much would be gained from this - the arguments for and against such an interview are finely balanced. Given agreement that the correspondence with Mr Nakasone should be brought to a close, I suggest that my department should consider with the FCO how best to do so in a way that leaves the Japanese Government in no doubt of our views in respect of both our bilateral trade relations in

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general, and the kind of 'aid dumping' employed on the bridge bid in particular. Nigel Lawson's forthcoming GIO meeting in Tokyo might possibly provide an opportunity for doing this.

7 I am copying this to Geoffrey Howe and Nigel Lawson.

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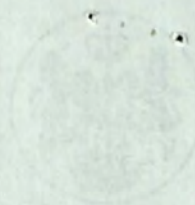
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17 June 1985

Department of Trade and Industry

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Trade: Non Tariff
Barriers
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10 DOWNING STREET

From the Private Secretary

18 June 1985

BOSPHORUS BRIDGE

The Prime Minister has considered your Secretary of State's minute about the decision of IHI not to place any sub-contract work for the second Bosphorus Bridge with Cleveland Bridge. She agrees that we should find a way to terminate exchanges with the Japanese Government on this which leaves them in no doubt of our strong feelings. She agrees that action by the Chancellor during his forthcoming visit to Tokyo, if he agrees, would be a most effective way to do this.

I am copying this letter to Rachel Lomax (H.M. Treasury) and Peter Ricketts (Foreign and Commonwealth Office).

(Charles Powell)

John Mogg, Esq.,
Department of Trade and Industry.

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