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RTA

SECRET
COMMERCIAL IN CONFIDENCE

Prin Smith



Mr Hodgson

MW

To note at this stage: but some promising initiatives from the Japanese.

PRIME MINISTER

POSSIBLE JAPANESE INVESTMENT IN THE MOTOR INDUSTRY

You will wish to be aware of two approaches which have been made suggesting possible interest on the part of Japanese car manufacturers in establishing assembly operations in this country. The first has come direct from Nissan - who make Datsun cars - and the second involves Toyota indirectly and has been made by Aston Martin Ltd.

2 Nissan's Vice President in charge of International Affairs called to see Tom Trenchard on 31 July to explore our attitude to a green field site assembly operation for 60,000 to 120,000 Datsun cars. He explained very frankly his company's fears about protectionism and sought guidance on how Nissan would be expected to operate to gain acceptance here and within the EEC. Tom made it clear that in principle the Government welcomes inward investment which benefits the UK economy; he also provided answers to a number of detailed questions. Nissan have gone away to think things over and expect to come back to us towards the end of October. I believe that they have a serious interest and that this country is the front runner in any investment with Spain as a poor alternative.

3 The Aston Martin-Toyota case is more complicated. The approach has been made by the British company on the basis that a new company would be formed with Toyota in control to acquire BL's MG facility at Abingdon as the first stage of a larger operation

/which ...

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which could also include an assembly facility in existing premises at Kilmarnock. Aston Martin have made earlier approaches to BL about Abingdon and this latest interest, which also involves the trading company Mitsui, may simply be a new attempt to obtain the funds needed to achieve Aston Martin's purpose. The company sought an unqualified British welcome before visiting Japan and contacts between our Embassy in Tokyo and Mitsui and Toyota give the impression that, whilst Toyota is interested in anything Aston Martin proposes, the initiative comes from the British company.

4 The line to both Nissan and Aston Martin has been that the Government is prepared to look at any specific proposition on its merits. It has been made clear in the case of a vehicle assembly plant that the extent of local purchasing will have a significant bearing on the acceptability of Japanese investment both in this country and in Europe. In the case of Aston Martin, we have said that we would do nothing to interfere with a commercial deal with BL about Abingdon but would want to consider very carefully anything which went beyond that. I need hardly say that our Community partners - who regard us as having let in a Trojan horse in the BL/Honda deal - are likely to react quite violently to Japanese investment in the UK vehicle industry.

5 An important consideration in all this, apart from Community reaction, must be BL. Nissan are likely to be seeking further guidance at about the same time as I receive the 1981 Corporate

/ Plan ...



Plan. BL's future in the middle range volume car business will be a key element. At its simplest, if this looks unpromising, the idea of Japanese investment on the right terms will be attractive. Equally, if there are real prospects that BL will have fully competitive models by 1983, when Japanese assembly could be expected to commence, there should be ample scope both to push back imports and to sell into Europe. The actual effects, however, will depend on the Plan and our reaction to it. BL itself can be expected to regard Japanese investment as extremely unwelcome.

6 The impact on our component industry, currently suffering from the low level of home production and facing difficulty in export markets, is also a matter of great importance. It would obviously welcome an increase in UK production which provided new sales opportunities but would look askance at simple assembly of largely imported components, particularly if there were to be a further reduction in demand from BL at the same time.

7 Whilst major Japanese investment here in motor vehicle manufacture is likely to be a particularly sensitive issue, and there could be particular problems with our European partners, nevertheless I believe it is right to follow the same pragmatic policy here as with other inward investment proposals, namely that if, overall, they contribute positively to our economy, we welcome them. The extent of UK component content and added value, the proportions of output which would respectively be
/exported ...



exported and displace imports, and the implications vis a vis BL are all factors which will have to be taken into full account in evaluating the overall effect on the economy of any major Japanese investment in motor vehicle manufacture here.

8 I have asked for studies of the possibilities to be set in hand, as far as this is practicable without any specific detailed proposals. We shall continue exploratory discussions with the Japanese. I will of course come to colleagues before there is any question of commitment.

9 I am copying this minute to Peter Carrington and John Nott but not to other colleagues at this stage in view of the need to confine knowledge of these discussions to the minimum number of people; Nissan strongly emphasized to us the need for extreme secrecy, and if there were to be a leak, there would be a real risk that they would withdraw. Scottish Office Ministers have been alerted to the Aston Martin proposal and we are keeping them informed separately about that case. Robert Adley is also involved in this latter case and there must be a real danger that this will lead to unwelcome publicity about Aston Martin and Toyota, but this should not apply to the Nissan interest.

KJ

K J

6 August 1980

Department of Industry
Ashdown House
123 Victoria Street

100-100000-100000
16 AUG 1980

100-100000-100000

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Japan
COPY NO. 5 OF 4
6 COPIES.



b.c. J. Hoskyns

10 DOWNING STREET

From the Private Secretary

26 August 1980

POSSIBLE JAPANESE INVESTMENT
IN THE MOTOR INDUSTRY

The Prime Minister has seen your Secretary of State's minute of 13 August. She has commented that she agrees very strongly about the need to use an agreed proportion of British components in any assembly operation in this country.

I am copying this letter to Paul Lever (Foreign and Commonwealth Office) and Ian Ellison (Department of Industry).

ARB

Stuart Hampson, Esq.,
Department of Trade.

SECRET



PRIME MINISTER

cc Mr Hoskyns
 Agree very shortly about the need PRIME MINISTER
 to use our components. MB.
 To see
 MS
 13/8

POSSIBLE JAPANESE INVESTMENT IN THE MOTOR INDUSTRY

I was extremely interested to see Keith Joseph's minute to you about the approaches his Department had received from Japanese car manufacturers who are considering establishing assembly operations in this country. 6.8.80

Whilst recognising that this is a sensitive issue and that some account must be taken of the effects on BL of increased Japanese involvement in the United Kingdom industry, I hope that every encouragement can be given to both Nissan and Toyota to invest in this country. Such investment is likely to provide a welcome stimulus to component manufacture which despite its present difficulties is, in my view, likely to be far more important to our economy in the long-term than the assembly of cars.

In my view we should try to negotiate from the outset an agreement with the Japanese that Government grants etc could only be available on the basis that an agreed proportion of components were sourced from British industry.

We still have to deal with the problem to which the Price Commission drew attention in their report on car parts: motor manufacturers impose conditions on their franchised dealers requiring the exclusive use of their own components for replacements, and now that the majority of cars are imported these conditions exclude our components industry from a growing part of the replacement market. After further study the Director General of Fair Trading has decided to refer this practice to the Monopolies and Mergers Commission for a short inquiry which, if they reach



an adverse conclusion on it, will give me the power to prohibit or regulate the practice.

I look forward to hearing further details from Keith about the Japanese approaches.

I am copying this minute to Peter Carrington and Keith Joseph.

Department of Trade
13 August 1980

N. McInnes

pp J. N.
(approved by Mr Nott and
signed in his absence by
his Private Secretary)



SECRET

COMMERCIAL - IN CONFIDENCE

Japan ²

Qa 05104

To: MR LANKESTER

MBAM

R

From: J R IBBS

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Possible Japanese Investment in the Motor Industry

1. I have seen the minute dated 6 August from the Secretary of State for Industry to the Prime Minister. I support the line he is taking in responding to the Japanese, being sensitive to the potential Community reaction, and in doing further studies on such information as is available. He rightly points out the importance, when thinking of a possible Japanese assembly plant, of aiming to ensure that British manufactured components would be used. A key part even of preliminary thinking needs to be examination of ways in which such a plant could be used to minimise damage arising from the disappearance of the weakest parts of BL's range. I do not expect the 1981 plan to remove my doubts about the long term viability of their volume car business.

2. Toyota is the largest Japanese producer of cars with Nissan the next largest. As an indication of scale, I understand the output figures for May were 295,000 cars for Toyota and 223,000 for Nissan. The other Japanese manufacturers have substantially smaller output. I naturally wonder whether Toyota have also been planning a European assembly plant, quite apart from the perhaps fortuitous move by Aston Martin to involve them or has at this stage European assembly been allocated to Nissan?

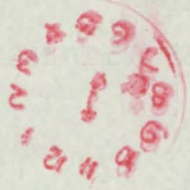
3. I am sending a copy of this minute to Sir Robert Armstrong.

JR

8 August 1980

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- 8 AUG 1980

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10 DOWNING STREET

From the Private Secretary

8 August 1980

The Prime Minister has read your letter of 6 August about MG Abingdon, and agrees that - in the light of Mr. Butler's letter to Robert Adley - there is no need for Sir Keith Joseph to write as well.

J. P. LANKESTER

Mrs. Catherine Bell,
Department of Industry.

B



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ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
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PS/ Secretary of State for Industry

6 August 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Ann Butler

*I think Mr Butler's
letter to Robert Adley
(attached) is good
enough. Amn?*

Dear Tim

mb

MG ABINGDON

The Prime Minister mentioned to my Secretary of State earlier today that Robert Adley had spoken to her about the fate of Abingdon and had urged that the Government should welcome the Japanese interest.

*12
9/8*

2 I understand that the Prime Minister asked that the Secretary of State should write to Mr Adley, saying that the Government welcomed Japanese interest. Coincidentally, however, Adam Butler here wrote today to Mr Adley along these lines. I enclose a copy of Mr Butler's letter.
...

3 In view of Adam Butler's letter the Secretary of State does not consider it necessary for him also to write to Mr Adley. Perhaps you would be kind enough to confirm that the Prime Minister is content.

*Yours sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary

SOS to sue



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
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From the
 Minister of State

The Hon Adam Butler MP

Robert Adley Esq MP
 House of Commons
 London
 SW1A 0AA

6 August 1980

Copies to:

PS/All Ministers
 Mr Binning
 Mr Mountfield O/B
 Mr Bowder
 Mr Cunnell (on file)

Dear Robert,

Thank you for your letter of 1 August.

There is clearly still a considerable measure of misunderstanding between us as to the Government's position on MG at Abingdon and our policy towards inward investment from Japan. As I am sure you must appreciate, we are bound to look at any proposed inward investment in the vehicle industry in the context of the industry as a whole; having said that, our attitude is broadly to welcome investments which are in the national interest and to deal with each case on its own merits. David Mitchell's answer to your PQ was a straightforward statement of our approach.

As I have explained to you and to Mr Curtis, we would not wish to interfere in any deal between Aston Martin and their associates and BL involving the future of Abingdon and it would be quite wrong for you to interpret our position as opposition to the combined bid; it is not. To do so publicly could be extremely damaging to your cause, and to government policy.

I should tell you in confidence of one further development. Our Ambassador in Tokyo has made helpful contact with the two parties concerned, and following representations from Mr Curtis we are preparing the ground for "diplomatic" contacts in London.

Yours
 Adam

ADAM BUTLER

Japan 2

R 930

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FM TOKYO 170750Z MAY 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 178 OF 17 MAY, 1979

INFO SAVING TO EEC POSTS, WASHINGTON AND OTTAWA

*Prime Minister**But
17/5*

COMMERCIAL AND ECONOMIC RELATIONS WITH JAPAN

1. THE KEEN INTEREST SHOWN BY SENIOR JAPANESE MINISTERS IN CALLING ON MINISTERS IN LONDON IS ENCOURAGING AND COMPLIMENTARY. THE JAPANESE ARE ANXIOUS AT THE FORTHCOMING SUMMIT TO AVOID CRITICISM OF THEIR OWN POLICIES AND PRACTICES, IN BOTH TRADE AND ECONOMICS. THEY BELIEVE THAT WE HAVE BEEN ONE OF THEIR KEENEST CRITICS IN EUROPE. BUT THEY RESPECT OUR EXPERIENCE AND JUDGEMENT IN INTERNATIONAL AFFAIRS, AND MANY OF THEM CLING TO THE BELIEF THAT WE MAKE GOOD NATURAL PARTNERS FOR THEM.

2. THEY FEEL THAT THEY ARE GETTING INTO A MUCH MORE DEFENSIBLE POSITION FROM WHICH TO COUNTER FOREIGN CRITICISM. THEIR SEASONALLY ADJUSTED SURPLUS ON THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS FOR THE FIRST QUARTER OF THIS CALENDAR YEAR GAVE AN ANNUAL RATE OF LESS THAN US DOLLARS 1.5 BILLION, AS COMPARED WITH A RATE OF US DOLLARS 22 BILLION FROM THE FIRST QUARTER OF 1978. THEIR CAPITAL EXPORTS LOOK LIKE CONTINUING TO RUN AT ABOUT US DOLLARS 1 BILLION PER MONTH. THEIR SURPLUS WITH THE US IS SHRINKING, BUT WITH THE EEC OBSTINATELY PERSISTS. THERE ARE MANY UNCERTAINTIES ABOUT THIS YEAR'S OUTTURN, BUT CONFIDENCE IN THE JAPANESE ECONOMY IS NOW STRONG AND DEMAND IS STANDING UP WELL. INFLATION REMAINS A POTENTIAL DANGER, WITH RISING OIL AND COMMODITY PRICES, BUT THERE IS A DETERMINATION TO CONTROL IT. THE JAPANESE AUTHORITIES HAVE RESISTED THE RECENT TENDENCY OF THE YEN TO WEAKEN.

3. THEY CAN ALSO CLAIM THAT THEY HAVE MADE A MAJOR EFFORT TO CONCENTRATE IN THEIR ECONOMIC POLICIES ON THE STIMULATION OF DOMESTIC DEMAND, AND THAT THE GROWTH RATE FOR THE CURRENT FINANCIAL YEAR, WHICH WAS SET IN THE BUDGET AT 6.3% OF GNP IN REAL TERMS, IS ATTAINABLE SEMICOLON THERE ARE INDEED SIGNS THAT FOR FISCAL '78 IT WILL BE CLOSE TO 6%. LAST YEAR'S SHARP INCREASE IN IMPORTS OF MANUFACTURED GOODS AS A PROPORTION OF TOTAL IMPORTS WAS ALSO /TO B

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TO BE WELCOMED AND IS LIKELY TO BE SUSTAINED, IF AT A SLOWER RATE. AT THE SAME TIME, THEY REMAIN WILLING TO EXERCISE CONTINUED RESTRAINT OF EXPORTS IN SENSITIVE SECTORS. THEIR AID DISBURSEMENTS IMPROVED SUBSTANTIALLY IN 1978.

4. THEY HAVE MADE SOME IMPRESSION ON THE PSYCHOLOGICAL RESISTANCE TO IMPORTS WHICH HAS CHARACTERISED THE JAPANESE ECONOMY IN THE PAST, AS WELL AS REMOVING OF REDUCING SOME PRACTICAL BARRIERS. THE FEDERATION OF ECONOMIC ORGANISATIONS (KEIDANREN) WHICH REPRESENTS JAPANESE INDUSTRY POWERFULLY IN THE FORMULATION OF JAPANESE POLICIES, SUPPORTS THE GOVERNMENT ON THESE MATTERS AND HAS INDEED IF ANYTHING BEEN PUSHING THEM FORWARD, CERTAINLY NOT HOLDING THEM BACK. THIS IS A FACTOR WHOSE SIGNIFICANCE HAS NOT BEEN FULLY RECOGNISED BY JAPAN'S TRADING PARTNERS. IT DOES NOT REMOVE RESISTANCE TO IMPORTS IN SPECIFIC CASES, BUT IT MEANS THAT JAPANESE INDUSTRY IS FORMALLY COMMITTED TO AN OPEN MARKET POLICY AND THAT KEIDANREN OFFICIALS WILL HELP TO OVERCOME OBSTACLES. ADVANCE TARIFF CUTS FOLLOWING THE CONCLUSION OF THE MTNS WILL WORK IN THE SAME DIRECTION.

5. THERE IS A TENDENCY NOW, EVEN AMONG RESPONSIBLE JAPANESE, TO FEEL THAT THEY HAVE DONE MOST OF WHAT THEY WERE ASKED TO DO BY THEIR INDUSTRIALISED TRADING PARTNERS. THEY WOULD LIKE TO SEE MORE ABUNDANT EVIDENCE OF A DETERMINATION ON THE PART OF WESTERN INDUSTRIALISTS TO MAKE THE MOST OF THE OPPORTUNITIES WHICH NOW EXIST IN THIS LARGE MARKET, WITH ITS CONTINUING GOOD GROWTH PROSPECTS. WHILE IT WOULD BE RIGHT TO SUSTAIN PRESSURE ON THE JAPANESE, IT REMAINS MY VIEW THAT PRESSURE IS MOST EFFECTIVE WHEN IT IS DIRECTED AT SPECIFIC POINTS IN PRIVATE NEGOTIATIONS. I BELIEVE THAT SOME PUBLIC ACKNOWLEDGEMENT ON OUR PART THAT THE JAPANESE GOVERNMENT ARE MOVING IN THE RIGHT DIRECTION, IN ENCOURAGING IMPORTS OF MANUFACTURED GOODS FROM THEIR INDUSTRIALISED TRADING PARTNERS, WILL ASSIST THEM TO GO FURTHER RATHER THAN LEAD THEM TO CONCLUDE THAT THE PRESSURE IS OFF.

/6. IT

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MS.

6. IT ALSO REMAINS MY VIEW THAT WHATEVER FURTHER MEASURES THEY MAY BE INDUCED TO TAKE, JAPAN WILL NEVERTHELESS REMAIN THE MOST DIFFICULT AND COMPLEX OF OUR INDUSTRIALISED MARKETS AND THAT IN WHICH THE GREATEST EFFORT IS REQUIRED FOR A RETURN WHICH THOUGH ULTIMATELY VERY RESPECTABLE IS LIKELY TO BE SLOW IN COMING. CONDITIONS FOR OUR EXPORTERS TO JAPAN ARE HOWEVER NOW MORE FAVOURABLE THAN THEY HAVE EVER BEEN, AND I HOPE THAT MR ESAKI'S VISIT CAN BE USED TO DEVELOP RECOGNITION OF THIS IN BRITAIN. WHEN I SAW HIM ON 16 MAY, I SUGGESTED THAT HE SHOULD ENCOURAGE BRITISH INDUSTRIALISTS TO MAKE THEIR OWN SERIOUS ASSESSMENTS OF THE MARKET POTENTIAL HERE AND OF POSSIBILITIES OF INDUSTRIAL COLLABORATION, SUCH AS THAT ON AEROENGINES OF WHICH SIR K KEITH HAD SPOKEN TO HIM EARLIER THIS WEEK. IF IT COULD BE ARRANGED FOR HIM TO MEET SOME LEADERS OF THE CBI WHILE HE IS IN LONDON, I BELIEVE (PROVIDED THAT THE OCCASION WAS APPROACHED IN A CONFIDENT AND CONSTRUCTIVE SPIRIT) THAT THIS COULD BE MOST HELPFUL. THERE IS A DANGER, WHICH I HAVE NOTED BEFORE, THAT TOO GREAT A CONCENTRATION ON MACRO-ECONOMIC PROBLEMS, ON THE DEFENSIVE ASPECT OF OUR RELATIONS WITH JAPAN, ANZATCTTHE ADMITTED DIFFICULTIES OF THIS MARKET, MAY LEAD BRITISH INDUSTRY TO HOLD BACK WHEN IT SHOULD BE PRESSING FORWARD.
FCO PAS S ALL SAVING ADDRESSEES
WILFORD

[REPEATED AS REQUESTED]

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