



10 DOWNING STREET

From the Private Secretary

19 October 1982

Dear John.

IMPORTS OF JAPANESE CARS: DISCUSSION WITH THE SMMT

The Prime Minister, together with your Secretary of State, met at 1930 hours yesterday evening Mr. George Turnbull and Mr. Anthony Fraser, the President and Chairman of the Society of Motor Manufacturers and Traders (SMMT). The Secretary of State for Industry was present for some of the time. Mr. Robin Gray (Department of Trade) was also present.

The Prime Minister said that the Government viewed the growing imbalance of our trade with Japan with increasing concern. She had herself raised this matter forcibly with the Japanese Prime Minister in the course of her recent visit. Only two years ago our visible trade deficit with Japan had been £1 billion; last year it was £1½ billion and this year it could be £2 billion. We could not go on like this.

Mr. Turnbull said that they had finished their discussions with the Japanese Automobile Manufacturers Association (JAMA) several hours ago. The inter-industry agreement, which stretched back to 1975, had been successful in controlling Japanese penetration of the car market to something under 11%. The Prime Minister commented that this was a very high figure, higher than that for many other EEC countries. Mr. Turnbull said that the SMMT objective in the talks had been to bring about a standstill in the number of Japanese cars imported at 164,000, and they had agreed a form of words with JAMA which led them to believe that the agreed ceiling of 10.8 % of the UK market would reduce to around 10.4 %. They hoped also to reach parallel agreement on light commercial vehicles (LCVs), although it would be in less precise terms. The Japanese had argued that it was unreasonable for their car industry to suffer because Japanese exports of video machines, parts from Honda for the Triumph Acclaim, etc. had increased the trade imbalance with the UK. The SMMT was not negotiating from a position of strength, since if JAMA walked out of the talks there would be no inter-industry agreement, and therefore no ceiling of any kind on the number of Japanese cars to be imported. The only way in which they could succeed in achieving a much tougher objective in the talks would be if they were authorised to tell JAMA that if agreement was not reached the UK would impose a quota.

/ The Prime Minister

The Prime Minister said that she would be very surprised if the Japanese abandoned the inter-industry agreement. They would very much dislike the prospect of such a development. The SMMT should approach these negotiations from a much tougher stance, seeking a much lower figure than 10.8 %; they should argue, perhaps, for reciprocity with the numbers of UK car exports to Japan, or for a level comparable with that of Japanese exports to France, Germany or Italy. The Prime Minister enquired whether it would strengthen the SMMT's hand if, in answer to a Parliamentary Question, she said that she had told the Japanese that a penetration of 10.8 % was too high, but that the Japanese subsequent refusal to reduce their car exports was obliging the Government to consider other action.

Mr. Turnbull said that such a move would destroy the SMMT/JAMA talks, and would throw the matter into the Government's hands. They believed that there would be a response to the points that they had been putting to JAMA. They would watch the position closely and be ready to call another meeting with JAMA very soon if necessary - perhaps within the next two or three months. Mr. Turnbull went on to argue that any conceivable reduction in the number of cars imported from Japan would do little to help the UK-based motor industry. What was needed was a considerable expansion of the market for cars in the UK, up to 2 million per year. To achieve this Government help was needed, in the shape of the removal of the car tax which unfairly discriminated against the motor industry. With a larger domestic market UK manufacturers would be able to spread their costs over larger production runs, and the UK manufacturing base would be preserved.

The Prime Minister said she did not accept this argument. A reduction in the car tax would benefit foreign as much as domestic manufacturers. The result would be a flood of imported cars, and the transfer of this tax burden from foreign car manufacturers to other shoulders within the UK.

After Messrs. Turnbull and Fraser had left, the Prime Minister had a word with your Secretary of State about the general trade policy matters raised in the penultimate paragraph of his minute to her of 15 October. The Prime Minister said that she too was greatly worried by the developments your Secretary of State had referred to, in particular the import of bogus British cars from Spain and the threatened export of Mitsubishi cars from Australia. She would be grateful if he would bring forward the paper he had promised with all haste so that the Government would be in a position to take effective action to deal with these problems.

I am sending copies of this letter to Brian Fall (FCO), John Kerr (HM Treasury), Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,
Department of Trade.