

PREM 19/2285

PART 7

Confidential Filing

Anglo - Japanese Relations.  
Effects of Japanese Imports on the  
European Car Industry.  
Nissan.  
Honda.

JAPAN

Part 1: May 1979

Part 7: May 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>8.5.87</del>		5.2.88					
<del>11.5.87</del>		<del>12.2.88</del>					
12.5.87		<del>19.2.88</del>					
<del>13.5.87</del>		<del>24.2.88</del>					
<del>15.5.87</del>		<del>1.3.88</del>					
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<del>8.6.87</del>		<del>11.3.88</del>					
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<del>16.8.87</del>		<del>15.4.88</del>					
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PREM 19/2285

Part  
closed

PART 7 ends:-

PPS/Hamilton Estiquet to PG

30.6.88

PART 8 begins:-

PG-6 PM

1.7.88

*celc*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

*PG*

30 June 1988

Paul Gray, Esq  
No.10 Downing Street  
London SW1

*I disagree  
profoundly with*

*Charles*

*The British  
Japanese thrive on the business of  
but on a letter*

*How does this seem to  
you?*

*its all right*

*Recd  
7/5*

Dear Paul,

*en*

**TOKYO STOCK EXCHANGE AND GEMMs**

You told me that the Prime Minister had agreed that Nomura (and afterwards Daiwa) should now be told they will be allowed to open for business as gilt edge market makers. You said the Prime Minister would want to write to Mr Takeshita at the time the announcement was made.

... I attach a first shot at a draft letter. I should be grateful for any comments you and Charles Powell have.

*Yours  
Alex*

A C S ALLAN  
Principal Private  
Secretary

~~CONFIDENTIAL~~

## DRAFT LETTER FROM THE PRIME MINISTER TO MR TAKESHITA

When you visited London in May, I explained to you the difficulties we faced in justifying the way in which London financial markets are so open and ready to admit overseas firms - including Japanese firms - whereas there are considerable obstacles in the way of British firms <sup>setting up</sup> setting up business in Tokyo. *Ya told us ya were taking a close interest in this matter*

2. ~~(Nevertheless)~~ <sup>now</sup> you will now have seen that the Bank of England has recently given approval to Nomura Securities to start up in London as a Gilt Edge Market Maker <sup>from</sup> [from 1 August], <sup>this</sup> thus further demonstrating the <sup>open</sup> generousness of our market arrangements for foreign firms. I hope that, <sup>I can now rely on you to</sup> following this, you will ensure that early progress is made on the question of further securities licenses for British firms on the Tokyo Stock Exchange, ~~(a matter which you told me you were taking a close interest in.)~~



the MJZCLI  
cpc

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

24 June 1988

Dear Bob,

MR KAJIYAMA

Thank you for your letter of 23 June about the request by the Japanese Prime Minister for Home Affairs, Mr Kajiyama, to call on the Prime Minister on 29 June. I am afraid this simply is not possible for the Prime Minister. I should be grateful if you could explain to Mr Kajiyama that 29 June is the day after her return from the European Council and she is already heavily committed throughout the day. You might say that she has asked another Minister to receive Mr Kajiyama on her behalf. You might also convey to him the Prime Minister's personal good wishes.

Yours sincerely,

Charles Powell

R.N. Peirce, Esq.,  
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

23 June 1988

*Dear Charles*

Mr Kajiyama: Request for a Call on the Prime Minister

The Japanese Embassy has approached us to ask if the Japanese Minister for Home Affairs, Mr Kajiyama, could call on the Prime Minister during the afternoon of 29 June. Mr Kajiyama, whose portfolio is principally concerned with local government but also covers some Home Office subjects, is calling on Mr Michael Howard and on the Home Secretary.

Mr Kajiyama seeks a short courtesy call on the Prime Minister. He is a close political associate of Mr Takeshita for whom he helped organise the palace revolt that eventually brought him to office. We are told that he will be bringing a personal letter from Mr Takeshita to the Prime Minister.

There is no good reason why the Prime Minister should see Mr Kajiyama and we do not recommend that she should do so.

*Yours ever*

*R N Peirce*

(R N Peirce)  
Private Secretary

C D Powell Esq  
10 Downing Street



file  
copy PC  
LOSANS

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 June 1988

VISIT TO THE UNITED KINGDOM BY MR. TAMURA

Thank you for your letter of 3 June about the forthcoming visit by Mr. Tamura. The Prime Minister has been very generous in giving time to Mr. Tamura but I do not think that we can put him in the diary every time he comes. The most pressing issue in our commercial relations with Japan has now been taken a stage further forward so there is no urgent business reason for the Prime Minister to see him and 11 July is in fact not very convenient. I hope, therefore, that we can explain to Mr. Tamura that the Prime Minister is unfortunately unable to see him on this occasion.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office).

CHARLES POWELL

Jeremy Godfrey, Esq.,  
Department of Trade and Industry.

8/1



dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref DW5AFJ  
Your ref  
Date 3 June 1988

*Dear Charles*

VISIT TO THE UK BY MR TAMURA, JAPANESE MINISTER FOR TRADE &  
INDUSTRY : 8-12 JULY 1988

I am writing about the possibility of a call on the Prime  
Minister by Mr Tamura, Japanese Minister for Trade and  
Industry.

Mr Tamura is visiting the UK from 8-12 July at the invitation  
of my Secretary of State. The visit will centre on a weekend  
of informal discussions at St Andrews in Scotland, when both  
Ministers will be accompanied by senior businessmen.  
Mr Tamura will spend Monday 11 July in London and has asked  
whether the Prime Minister would receive him, and the  
businessmen for a brief courtesy call.

If the Prime Minister is free on 11 July, our view is that a  
call would be desirable although we do not consider that it  
would be appropriate to include businessmen. Mr Tamura met  
the Prime Minister in 1986 and paid a call on her during his  
visit to the UK in January.

I am copying this letter to Robert Culshaw (FCO).

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary

the  
Enterprise  
Initiative

# dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Robert Culshaw Esq  
Private Secretary to the  
Secretary of State for Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
LONDON  
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Department of  
Trade and Industry

19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref DW5AFI  
Your ref  
Date 3 June 1988

*Dear Robert*

VISIT TO THE UK BY MR TAMURA, JAPANESE MINISTER FOR TRADE &  
INDUSTRY : 8-12 JULY 1988

I am writing about the possibility of a call on your Secretary of State by Mr Tamura, Japanese Minister for Trade and Industry.

Mr Tamura is visiting the UK from 8-12 July at the invitation of my Secretary of State. The visit will centre on a weekend of informal discussions at St Andrews in Scotland, when both Ministers will be accompanied by senior businessmen. Mr Tamura will spend Monday 11 July in London and has asked whether Sir Geoffrey Howe would receive him for a brief courtesy call.

If Sir Geoffrey is free on 11 July, we consider that a call would be desirable : Mr Tamura met Sir Geoffrey during his visit to the UK in January.

I am copying this letter to Charles Powell at No 10.

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary

the  
Enterprise  
Initiative

RESTRICTED

*File to 73  
bc PC*



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

3 June, 1988.

EC/JAPAN LIQUOR TAX

Mr. Sezaki of the Japanese Embassy telephoned this morning to say that Mr. Takeshita was very grateful for the Prime Minister's letter in response to his own about reform of the Japanese liquor tax system. He very much appreciated the spirit of her response, and would be sending her a further short message in the course of the day. Mr. Sezaki added that he had been told that he could assure us that the various transitional tax concessions that the Japanese would be granting would not apply to whisky or brandy.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office) and Alex Allen (HM Treasury).

(C.D. Powell)

Stephen Ratcliffe, Esq.,  
Department of Trade and Industry.

RESTRICTED

*ho*

Rie Amitsi (4)  
a R3/6

EMBASSY OF JAPAN  
LONDON

2nd June 1988

Dear Prime Minister,

I am asked to forward to you a signed photograph of Prime Minister Noboru Takeshita, to mark his visit to London from 3rd to 5th May 1988.

I have much pleasure in sending this photograph herewith.

Yours sincerely,

Kazuo Chiba  
Ambassador

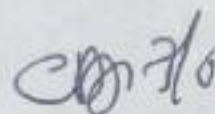
The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.

JAPAN INFORMATION CENTRE

(EMBASSY OF JAPAN)

9, GROSVENOR SQUARE,  
LONDON, W1X 9LB

443 4030



June 2nd 1988

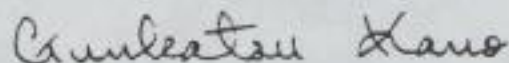
Dear Sir,

I have pleasure in sending you a copy of the text of speech by Mr Noboru Takeshita, Prime Minister of Japan, delivered in New York at the third Special Session of the United Nations General Assembly on Disarmament on 1st June 1988.

As you will know, the Prime Minister outlined the three pillars of Japan's international cooperation initiative in his speech at The Mansion House on 4th May 1988: the strengthening of cooperation for peace, the development of international cultural exchange, and the further improvement in Japan's Official Development Assistance (ODA). The Prime Minister's speech at the United Nations elaborates on the strengthening of cooperation for peace.

I hope this will be of some interest to you.

Yours sincerely,



Gunkatsu Kano  
Director, Japan Information Centre  
Counsellor, Embassy of Japan

*Press Release*

STATEMENT BY HIS EXCELLENCY MR. NOBORU TAKESHITA,

PRIME MINISTER OF JAPAN,

AT THE FIFTEENTH SPECIAL SESSION

OF THE GENERAL ASSEMBLY

(THIRD SPECIAL SESSION DEVOTED TO DISARMAMENT)

UNITED NATIONS, NEW YORK

WEDNESDAY, 1 JUNE 1988

Mr. President,

On behalf of the Government and people of Japan, I wish to express to you my sincere congratulations on your assumption of the Presidency of the Third Special Session of the General Assembly devoted to Disarmament. I am confident that, under your impartial guidance and with the benefit of your abundant knowledge and experience at the United Nations, this Special Session will be particularly fruitful.

Mr. President,

The President of the United States of America and the General Secretary of the Communist Party of the Union of Soviet Socialist Republics are about to conclude their meeting in Moscow. These two great countries have tremendous influence over world peace and stability, and I welcome wholeheartedly their earnest efforts to stabilize East-West relations and the steady progress being made in this regard.

In various parts of the world, however, wars continue to rage, although in Afghanistan progress is being made toward a comprehensive settlement. Under these circumstances, our meeting in this Third Special Session devoted to Disarmament to discuss issues of peace and disarmament is particularly significant. Japan, for its part, will exert its utmost efforts to see that

this Special Session produce appropriate guidelines for effectively proceeding with our arms control and disarmament efforts and establish significant landmarks toward the strengthening of world peace and stability.

Mr. President,

First, I would like to address the main topic before us, namely, arms control and disarmament.

Japan experienced unspeakable horrors as a result of the atomic bombs that were dropped on the cities of Hiroshima and Nagasaki. The Japanese people solemnly pray that nuclear weapons will ultimately be eliminated so that a nuclear holocaust can never be repeated. Every August, services are held in Hiroshima and Nagasaki to mourn those who lost their precious lives in the explosions and to renew our pledge to work for peace. This year will be the first time that I shall attend these services as Prime Minister.

The fact that nuclear weapons are stockpiled in such enormous quantities as to be capable of annihilating the human race many times over is a source of profound concern, not only to the people of Japan but to peoples around the world. Japan and other non-nuclear-weapon States acceded to the Treaty on the Non-Proliferation of Nuclear Weapons, in the fervent hope that the nuclear-weapon States will in good faith conduct negotiations



toward nuclear disarmament in accordance with the relevant provision of that treaty. Thus Japan firmly appeals to the nuclear-weapon States to strive for the realization of nuclear disarmament.

The treaty between the United States and the Soviet Union on the global elimination of intermediate- and shorter-range nuclear missiles has just come into force with the exchange of the instruments of ratification which took place earlier today, launching for the first time the process of an actual negotiated reduction of existing nuclear weapons. I value this highly as a significant first step toward nuclear disarmament. The United States and the Soviet Union are now actively engaged in negotiations to reduce substantially their strategic nuclear weapons, and I was heartened to learn that they gave added impetus to these negotiations at the Summit that is now under way in Moscow.

It is truly epoch-making that the two superpowers have reached the stage where they are not simply capping, but are actually reducing their nuclear arsenals. I sincerely welcome this course of events, and earnestly hope that the two sides will continue to make progress in their negotiations.

Mr. President,

In addition to achieving nuclear disarmament, it is vitally important to prevent an increase in the number of nuclear-weapon States. I welcome warmly the recent accession of Spain to the Non-Proliferation Treaty and Saudi Arabia's recent decision to do so as well. The treaty constitutes the basis for the non-proliferation of nuclear weapons, and I would like to urge those States which have not yet done so to accede to it at the earliest possible date.

Mr. President,

Japan has been working strenuously to realize a nuclear test ban, in keeping with the profound desire of its people. In 1984, for example, we proposed at the Conference on Disarmament a "step-by-step approach" to decrease gradually the scale of nuclear test explosions as verification capabilities are improved.

I appreciate the intensive negotiations now under way between the United States and the Soviet Union on nuclear testing. Japan strongly hopes that these two countries will further step up their negotiations and ratify the Peaceful Nuclear Explosions Treaty of 1976 and the Threshold Test Ban Treaty of 1974 at the earliest practicable date, so that they can proceed to the next phase of limiting nuclear tests.

I believe that these bilateral efforts between the United States and the Soviet Union should be closely coordinated with multilateral efforts for disarmament and arms control. The momentum of the positive developments between the United States and the Soviet Union should be fully taken advantage of to promote multilateral efforts toward a nuclear test ban.

Possessing advanced techniques in seismology, Japan has been contributing to the development of measures to verify nuclear testing through seismological means. We devised a project to exchange seismological wave-form data, and have been conducting experiments with a number of countries concerned since 1986. I am happy to announce on this occasion that we plan to convene in Japan, jointly with the United Nations, an international conference to share the fruits of these experiments with interested countries, and to invite further participation in the project. I hope that this will serve as a useful step toward the establishment of a global system for the verification of nuclear testing.

Mr. President,

Over the course of thousands of years, even before nuclear weapons came into being, mankind has waged war repeatedly. And since the Second World War, every armed conflict has been fought with non-nuclear weapons. Thus it is clear that arms control and disarmament in non-nuclear weapons are also important endeavours.

Chemical weapons, in particular, are weapons of mass destruction which kill and injure people with their potent toxicity. They are also extremely dangerous because they are easy to produce and use. It is profoundly regrettable that these heinous weapons have been actually used, for example, in the conflict between Iran and Iraq, despite the prohibition of their use in war under an international convention. Should their use spread, the peace and security of the world would be seriously jeopardized. In order to prevent totally the use of these weapons, it is essential that their stockpiling and production be prohibited and, indeed, that they be eliminated globally. I therefore believe that every effort should continue to be made at the Conference on Disarmament in Geneva to conclude the convention on a global ban of chemical weapons at the earliest possible date. Japan, for its part, is determined to continue its utmost efforts for the early conclusion of the convention and the establishment of an international organization to implement the elimination of these weapons.

Mr. President,

Consultations are under way in Europe among the parties concerned toward the launching of negotiations on conventional arms control. I hope that these efforts by the parties concerned will lead to an early start of the negotiations, and that

tangible progress will be made toward the objective of redressing imbalances in conventional weapons in Europe.

Mr. President,

In my view, it is essential to consider the following four points in the process of arms control and disarmament.

First, deterrence and balance.

Arms control and disarmament should contribute to the enhancement of the security of the parties concerned and thus to the peace and stability of the world. This should be done by lowering the level of armament in a balanced manner, while maintaining deterrence and taking into account the overall balance among all weapon systems.

Second, regional characteristics.

In proceeding with arms control and disarmament measures in a specific region, the geopolitical conditions prevailing in the region, as well as the impact of such measures on other regions, should be fully taken into account.

Third, transparency of military information.

For the promotion of arms control and disarmament, it is important to increase the transparency of basic military data, such as those relating to military budgets. As information concerning the armaments possessed by adversaries becomes more transparent, there can be greater mutual confidence in promoting

arms control and disarmament negotiations, which in turn will make possible more objective and appropriate responses.

Fourth, effective verification.

Effective verification systems must be agreed upon to ensure that arms control and disarmament agreements are strictly observed. Of course, the methods and arrangements for verification will vary, according to the particular arms control and disarmament agreements. The most appropriate verification system for each agreement should be sought in the light of the specific objective that it is intended to serve.

Mr. President,

Thus far, I have expressed my views on arms control and disarmament. I should like next to state my basic ideas concerning issues of peace.

Peace, together with freedom and prosperity, is the supreme aspiration of mankind. The United Nations was founded forty-three years ago to respond to this ardent desire of peoples throughout the world. Since then, however, even though there has been no world war, confrontations and tensions between the East and the West have persisted, and the world has never been free from conflict. Neither freedom nor prosperity prevails throughout the world. I am deeply pained as I think of the many precious lives that are being lost even at this very moment in

the conflicts and confrontations taking place in various parts of the world.

In Asia, where Japan is located, it is important to solve the Northern Territories issue between Japan and the Soviet Union. Continuous efforts are also called for on the part of the parties concerned toward the easing of tensions in the Korean Peninsula and the settlement of the Kampuchean problem.

Furthermore, Japan strongly hopes that this year the Olympic Games in Seoul will be carried out peacefully and successfully, so that they may truly be a festival of peace. We shall spare no effort to this end.

I believe that, together with the promotion of arms control and disarmament, these efforts to ease political tensions among States and to foster mutual trust are indispensable for the peace and stability of the world.

Mr. President,

After the Second World War, Japan adopted a constitution which enshrines the lofty ideals of peace and freedom, and firmly committed itself to the cause of peace, resolving not to become a military power again. Charting this course while ensuring the economic well-being of its people is a new but worthy experiment in the history of mankind, and Japan is steadfastly committed to it. We continue to maintain, as a matter of national policy

declared at home and abroad, the three non-nuclear principles of not possessing nuclear weapons, not producing them and not permitting their introduction into Japan.

As the Japanese people struggled to recover from the war and reconstruct their nation, they resolved to make positive contributions toward the peace and prosperity of the world. As part of this resolve, Japan is extending economic assistance to developing countries. I believe that our efforts in this regard have contributed not only to the economic and social development of these countries but also to the stability of the regions concerned.

Mr. President,

I am fully aware that the increase in Japan's national strength in recent years has brought with it ever-increasing responsibilities in the promotion of world peace and prosperity and the enrichment of culture for people everywhere.

Based on this perception, since assuming the office of Prime Minister I have upheld the building of a "Japan contributing to the world" as a primary goal of my cabinet, and am endeavouring to ensure that our international responsibilities are fulfilled more effectively than ever before.

In the last seven months since I came into office I have visited a number of countries and have exchanged views with their



leaders. On those occasions I enunciated the basic thrust of our foreign policy which is dedicated to the building of a "Japan contributing to the world." During my recent visit to the United Kingdom, I announced the new idea of an "International Cooperation Initiative," which reflects my thoughts on how to implement this basic policy.

The initiative comprises three pillars, namely, the strengthening of cooperation to achieve peace, the promotion of international cultural exchange and the expansion of Japan's Official Development Assistance (ODA).

On the occasion of this Special Session devoted to Disarmament, which is a forum for the discussion of peace, I should like to elaborate on the first of the three pillars I have just mentioned.

Since the end of the Second World War, the cooperation with a number of countries and the untiring efforts of the Japanese people themselves have made it possible for Japan to enjoy peace as well as to rebuild the nation and improve the life of its people. We realize, however, that not all States have been able to enjoy peace. Given its fundamental commitment to peace, Japan should make every possible effort to contribute to the realization of a peaceful world, which is the ardent desire of all mankind. Indeed, I am convinced that this is the mission Japan is entrusted with today.

Mr. President,

I intend to promote actively "cooperation to achieve peace" in the following five areas.

The first is diplomatic efforts to establish a firm foundation for peace.

In order to maintain international peace and stability, it is essential to establish international relations in which confrontations or conflicts of interest between States can be resolved in a just and lasting manner without undermining the peace of the region or of the world. Japan will actively pursue its diplomatic efforts, such as those aimed at strengthening political dialogue and cooperation through international conferences, so as to foster the basic conditions for the restoration of mutual trust and harmony among States.

With regard to the conflict between Iran and Iraq, Japan has on its own made continuous efforts over the past five years to foster an environment conducive to peace by engaging in political dialogue with the two sides. Moreover, Japan continues to give its full support to the mediation efforts of Secretary-General Javier Perez de Cuellar for the early implementation of Security Council Resolution 598. I strongly hope the Secretary-General's mediation efforts will bear fruit at the earliest date with the cooperation of the countries concerned.

As for the issues of peace in the Middle East, my Minister for Foreign Affairs, Mr. Sousuke Uno, is preparing to visit the region in order to explore, through a frank exchange of views with the leaders of the States concerned, how Japan can best contribute to the promotion of the peace process.

On Kampuchea, I intend to support, to the best of my ability, the peace efforts for national reconciliation of His Royal Highness Prince Norodom Sihanouk. I should like on this occasion to appeal to other countries to likewise support those efforts in order to ensure that they are fruitful.

The second dimension of "cooperation to achieve peace" comprises international efforts to prevent conflicts.

It is the task of the international community as a whole to prevent threats to world peace and stability, including conflicts among States. Japan, for its part, will cooperate even more actively with international efforts to address this problem.

The United Nations has a particularly significant role to play in preventing conflicts, as is reflected in the declaration on the prevention of conflicts which will be adopted by the General Assembly next autumn. Japan will step up its assistance to the activities of the United Nations in this field.

The third dimension is participation in international efforts for the peaceful settlement of disputes.

When peace is shattered and an armed conflict occurs, Japan will take an active part in United Nations and other

international efforts toward achieving an early cease-fire and a peaceful settlement of the conflict. Indeed, once a cease-fire has been achieved through such international efforts, and peace-keeping activities under United Nations and other auspices are under way, it has been Japan's practice to actively extend financial cooperation to these activities.

Cooperation with these peace-keeping activities is also envisaged in Japan's recent special contribution of US\$20 million to the United Nations, of which a sum of US\$5 million is specifically allotted to United Nations activities on the Afghanistan issue. With a view to furthering "cooperation to achieve peace", I intend also to consider dispatching personnel in fields which are appropriate to Japan, such as the supervision of elections, transportation, communication and medical services.

Moreover, I believe that, for the purpose of preventing conflicts or achieving their peaceful settlement, it is essential to establish a communications network so that information can be transmitted between the Secretary-General and the countries concerned without delay.

The strengthening of assistance to refugees is the fourth area of cooperation for peace.

Resulting directly or indirectly from conflicts in various parts of the world, the problem of refugees continues to be a source of concern. Assistance to refugees is necessary not only for humanitarian reasons but also for the purpose of bringing

about the genuine settlement of conflicts. Japan will further increase its assistance bilaterally as well as multilaterally through international organizations such as the United Nations. I would like to add that Japan is ready to contribute, for example, through substantial financial assistance, to international efforts toward the voluntary repatriation of Afghan refugees.

Positive contributions for reconstruction represent the fifth area of cooperation.

Japan is ready to contribute vigorously to international cooperation efforts toward reconstruction once a conflict is peacefully resolved. For this purpose, Japan intends to make available the experience and enthusiasm of its people, in terms of personnel as well as financial resources.

Mr. President,

As science and technology have progressed, mankind has extended his activities from land to sea, to air, and recently to outer space. Viewing the earth from outer space, it becomes dramatically clear that the earth is the common and irreplaceable home of all mankind. We owe it to posterity to preserve this planet earth as a truly safe and comfortable homeland for all peoples. We must save the earth from annihilation by weapons of mass destruction and free it from incessant armed conflict and political confrontation.

No progress can be made through discord and confrontation; rather, it is only through trust and cooperation that the future of mankind can be ensured.

Now, it behooves us more than ever before to reaffirm peace as the common aspiration of mankind. Upholding our lofty ideals, we must continue to work toward the elimination of nuclear weapons and general and complete disarmament, which are mankind's ultimate objectives. I believe we should rededicate ourselves to the realization of these ideals by striving to settle conflicts peacefully, by avoiding confrontation and by steadily implementing arms control and disarmament measures.

It is the duty of our generation to do our utmost to foster progress and the well-being of all mankind.

Let us strive to surmount every obstacle so that we may cooperate with one another to build a truly prosperous, peaceful, and harmonious world, free from conflict, starvation and disease.

It is with this earnest appeal, Mr. President, that I conclude my remarks today.

Thank you.

CDP  
3/6

EMBASSY OF JAPAN  
LONDON

2nd June 1988

*Dear Prime Minister,*

I would like to refer to my letter  
of 25th May 1988, and to send you, herewith  
... enclosed, the original letter with the official  
translation, dated 25th May 1988, from Prime  
Minister Noboru Takeshita.

*Yours sincerely,*

*Kazuo Chiba*

Kazuo Chiba  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.



file DEALY  
bc = PC

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

2 June 1988

*Dear Jeremy,*

JAPAN: TAXATION OF ALCOHOLIC DRINKS

Thank you for your letter of 1 June enclosing a draft response from the Prime Minister to Mr Takeshita's recent letter containing improved proposals for reform of the Japanese liquor tax system. The Prime Minister has approved the draft with very minor changes. I enclose a copy and am sending the signed version to the Foreign Office for delivery as soon as possible. The original might be given to the Japanese Embassy here so that it reaches Mr Takeshita at the earliest possible moment, with copies being delivered in Tokyo.

I am copying this letter and enclosure to Tony Galsworthy (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

*Yours sincerely,  
C. D. Powell*

C. D. POWELL

Jeremy Godfrey, Esq.  
Department of Trade and Industry

*DB*



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T85/88



10 DOWNING STREET  
LONDON SW1A 2AA

SUBJECT *a HASTOR  
OPS.*

*file LPO*  
cc FCO  
HMT  
DTI  
CO  
PC

THE PRIME MINISTER

2 June 1988

*Dear Prime Minister,*

Thank you for your letter of 25 May 1988, providing further details of the proposed reform of the system of liquor tax in Japan.

The proposals in your letter were most welcome. I believe that this new initiative, together with those aspects of tax reform which we discussed during your recent visit, amount to a very positive response by your Government to this long-standing problem.

Our understanding is that the Japanese authorities now intend to introduce arrangements which will mean that the present grading system for whiskies will be abolished and replaced by a single rate of tax for all whiskies at 1,150 yen per litre. The ad valorem taxes currently applied to some whiskies would also be abolished and the tax rates on shochu types A and B would be increased by 75 per cent. The tax rate on other spirits would remain unchanged.

I am sure you will understand that my welcome for your proposals is against the background that the necessary changes are to be implemented from 1 April 1989. I know that you will do your utmost to ensure that this is achieved.

We also note that you propose to introduce transitional measures, including fiscal measures, to assist small distillers of Group B shochu which go out of business or cease production following the introduction of these changes. The need for such transitional measures is understandable in

*CRS*

the context of small shochu producers. However, I believe that there would be great concern if tax differentials were reintroduced to help small whisky distillers maintain production, when our objective, as you yourself have said, is that there should be one uniform rate of tax for whisky.

As you acknowledge in your letter, the proposed changes, while they meet our major concerns, do not in our view constitute full implementation of the GATT Panel's recommendations. A degree of discrimination in the tax rates applying to competing spirits will remain a part of the system, with the possibility of consequent distortions of trade in future years. For this reason it will be important to institute a mechanism for ensuring that the effects of the remaining tax differentials - between whisky and shochu and between whisky and other spirits - are reviewed from time to time. Your proposals are now actively under discussion within the European Community; and I am sure that the Community will look for the co-operation of the Japanese trade and taxation authorities in putting in hand such review procedures, as part of the existing constructive dialogue between the Community and Japan on trade matters. The bilateral contacts between our two countries will also offer opportunities to review the subject.

I would welcome your reassurance that the points I have made in relation to the introduction of a single rate of tax for whisky and a review mechanism cause no difficulty for you.

May I thank you once again for your personal role in bringing forward these proposals.

With best wishes,

Yours sincerely  
Margaret Thatcher

His Excellency Mr. Noboru Takeshita.

dti

the department for Enterprise

cc/c

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

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Direct line 215 5422  
Our ref DW2AGQ  
Your ref  
Date 1 June 1988

Dear Charles

JAPAN: TAXATION OF ALCOHOLIC DRINKS

ATRAP  
My Secretary of State has approved the attached draft letter for the Prime Minister to send to Mr Takeshita, responding to his letter of 25 May containing improved proposals for reform of the Japanese liquor tax system.

The draft takes a very positive line in welcoming the new proposals, while preserving our position of principle on the GATT Panel recommendations and stressing the importance both of prompt implementation and of a mechanism of reviewing the situation in future years.

Although it is likely that the Community will take the same view of the acceptability of the Japanese proposals, the issue is still under consideration in Brussels and the draft therefore avoids any definite commitment on the EC's position. A final Community view is likely to emerge during the course of this week and next, but we have assumed that the Prime Minister would prefer to respond positively to Mr Takeshita now, and before the latter's meeting with M. Delors on 7 June which is the earliest point at which a Community view is likely to emerge.

I am copying this letter to Tony Galsworthy (FCO) Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours

Jeremy Godfrey  
JEREMY GODFREY  
Private Secretary

the  
Enterprise  
Initiative



de v  
cpc

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

26 May 1988

EC/Japan: Alcoholic Drinks

BF // The Prime Minister has seen Mr. Takeshita's message together with a covering letter from the Japanese Ambassador of which I sent you copies yesterday. Her view is that the outcome is better than we thought possible and that we ought to welcome it. She would want to write to thank Mr. Takeshita. You will no doubt be letting me have advice and a draft reply shortly.

I am copying this letter to Tony Galsworthy (FCO), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

Stephen Ratcliffe, Esq.,  
Department of Trade and Industry.

PRIME MINISTER

EC/JAPAN: ALCOHOLIC DRINKS

I attach a message to you from Mr Takeshita, received from the Japanese Ambassador today on the question of taxation of whisky and discrimination between whisky and shochu. It apparently represents the Japanese Government's definitive response to your representations to Mr Takeshita.

At first sight, it is not as helpful as we would like. The discrimination has reduced in financial terms from 40:1 to 13:1 (or 7.5:1 in terms of alcoholic content, which is actually a perfectly reasonable way to measure it). You were pressing for 10:1 in financial terms and he was offering 10:1 measured by alcoholic content. But taken with the low single rate of tax on whisky which has been set, the Department of Trade and Industry's first impression is that it is a good overall outcome. They are consulting the trade tomorrow and expect them to approve. Subject to that, they will recommend that we accept Mr Takeshita's offer with good grace, while making clear that we shall in due course return and argue for complete implementation of the GATT recommendation on removal of all discrimination.

They will let you have formal advice before the weekend: but I think we shall be able to present this as successful pressure on Japan to make concessions of significant value in our industry.

CDP

I think it is better  
than we thought possible,  
not

C. D. POWELL  
25 May 1988

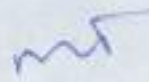
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DTI FOR COOKE

MIPT: EC/JAPAN ALCOHOLIC BEVERAGES:COMMENT 

1. THE PACKAGE IS NOT YET COMPLETE. DETAILS OF TAX RATES ON OTHER BEVERAGES AND SUPPORT MEASURES ARE NOT FINALISED, AND MAY NOT BE UNTIL IMMEDIATELY BEFORE THE SUMMIT. THIS MAY BE A REASON FOR TAKING OUR TIME ABOUT REACTING PUBLICLY AT LEAST. BUT THERE ARE UNLIKELY TO BE MAJOR SURPRISES HERE.

2. I SUGGEST THAT WE NEED TO LOOK CAREFULLY AT THIS OUTCOME IN THE LIGHT OF

- A) ORIGINAL BRITISH NEGOTIATING OBJECTIVES
- B) THE PRINCIPLES OF INTEGRITY OF THE GATT:AND
- C) WIDER EC AND UK OBJECTIVES VIS A VIS JAPAN.

WE AND OUR INDUSTRY ALSO NEED TO CONSIDER THE LONG-TERM AS WELL AS SHORT-TERM VALUE OF THIS SET OF MEASURES. AS I SEE THEM, THE MAIN CONSIDERATIONS ARE THE FOLLOWING:

3. A) WE HAVE ACHIEVED OUR INITIAL AND MAJOR OBJECTIVE OF A NONDISCRIMINARY REGIME FOR SCOTCH VIS A VIS JAPANESE WHISKY PRODUCTS WHICH OPENS THE ENTIRE WHISKY MARKET TO IMPORTS.

B) IN RESPECT OF COMPETITIVE AND SUBSTITUTABLE PRODUCTS WE HAVE SUCCEEDED IN GETTING A MAJOR REDUCTION IN THE TAX DIFFERENTIAL BETWEEN WHISKY AND SHOCHU FROM 40:1 TO 13:1. THIS GOES BEYOND OUR ORIGINAL EXPECTATION AND WAS THE HARDEST PART FOR THE JAPANESE TO ACCEPT. BUT THIS FALLS WELL SHORT OF MEETING THE GATT PANEL'S CRITERION OF A DEMINIMIS DIFFERENTIAL.

C) THE JAPANESE HAVE RESISTED THE EC'S CALL FOR EQUALISATION OF TAX BETWEEN WHISKY AND OTHER SPIRITS (GIN, VODKA ETC) ON THE GROUNDS THAT THEIR SYSTEM IS NOT DISCRIMINARY AND THE LATTER DO NOT PRESENT A CURRENT THREAT TO WHISKY/BRANDY: WHEREAS OUR CASE FOR IMPLEMENTATION OF THIS PART OF THE PANEL REPORT WAS FOUNDED

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ON LONGER TERM MARKET CONSIDERATIONS.

D) THE JAPANESE ARE CLEARLY ANXIOUS TO GET THIS ISSUE OUT OF THE WAY BY IMPLEMENTING THE PACKAGE QUICKLY BUT ARE NOT PREPARED TO GIVE US A FIRM ASSURANCE THAT THE LIQUOR TAX WILL BE DISENTANGLED IF NECESSARY.

E) THE JAPANESE ARE CLEARLY ON NOTICE OF THE SIGNIFICANCE FOR US OF SOME UNDERTAKING ON FURTHER MEASURES OR A REVIEW MECHANISM. I PRESSED SATO VERY HARD ON THIS SAYING THAT IT WAS IN MY OPINION THE MOST IMPORTANT ELEMENT IN TAKING THE POLITICAL HEAT OFF THIS ISSUE BUT HE FLATLY DECLINED TO CONTEMPLATE IT AT THIS STAGE.

4. THE MEASURES ON WHISKY ALONE ARE A MAJOR ADVANCE AND I BELIEVE WE SHOULD POCKET THEM WITH A CERTAIN AMOUNT OF GRATITUDE. THERE WILL BE ADVANTAGES FOR OUR INDUSTRY IN THE STABILITY THAT A NEW REGIME WILL BRING, AND, FROM OUR CONTACTS WITH UDG IN PARTICULAR. IT SEEMS THAT THE RELATIONSHIP ACHIEVED BETWEEN THE WHISKY AND SHOCHU TAXES WILL BE ACCEPTABLE TO A MAJOR PART OF THE INDUSTRY. TO A LARGE MEASURE THE KEY NOW WILL BE THE WILLINGNESS AND EFFORT OF OUR OWN INDUSTRY TO TAKE THE OPPORTUNITY CREATED, WITHOUT WHICH THIS WHOLE EXERCISE MAY TURN OUT TO BE A PYRRHIC VICTORY. THIS IS ULTIMATELY A COMMERCIAL AND MARKETING DECISION FOR THE COMPANIES, BUT I BELIEVE THAT STRATEGIES BASED ON MAXIMISING REVENUE FROM PREMIUM PRODUCTS WHILE IGNORING THE LESS BRAND CONSCIOUS CONSUMERS OF CURRENT SECOND GRADE WHISKIES WILL PROVE SHORT SIGHTED.

5. HOWEVER AS A PACKAGE OF MEASURES FOR THE INDEFINITE FUTURE THESE DECISIONS FALL SHORT OF FULLY MEETING THE GATT PANEL'S RECOMMENDATIONS, AND CONTAIN ELEMENTS (PRIMARILY THE TREATMENT OF OTHER SPIRITS) WHICH COULD POTENTIALLY BE EXPLOITED TO THE DETRIMENT OF SCOTCH WHISKY. HOW MUCH POLITICAL EFFORT WE SHOULD INVEST IN OBTAINING FURTHER IMPROVEMENTS DEPENDS GREATLY UPON THE INDUSTRY'S VIEW OF THE LATTER THREAT AS WELL OF COURSE AS ON THE VIEWS OF OUR COMMUNITY PARTNERS. THE MOST SATISFACTORY ANSWER TO THIS WOULD BE A MECHANISM WHEREBY WE CAN REVERT AT INTERVALS TO EXAMINE DEVELOPMENTS AND PRESS FOR FURTHER PROGRESS. OUR MAIN LEVERAGE IN OBTAINING THIS IS THE REFUSAL TO RELINQUISH OUR GATT RIGHTS. THE COMMUNITY SHOULD NOT IN ANY EVENT DO SO I SUGGEST UNTIL THE REFORM IS ON THE STATUTE BOOKS.

6. IN SUM, AS SEEN FROM HERE, THERE IS A GOOD CASE IN THE

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INTERESTS OF SUBSTANTIALLY DEALING WITH THIS ISSUE OR AT LEAST RELEGATING IT FROM A POLITICAL TO A RESIDUAL TECHNICAL PROBLEM FOR ACCEPTING THIS JAPANESE PROPOSAL

A) PROVIDED THAT THEY AGREE TO ESTABLISH AN EFFECTIVE MONITORING MECHANISM WHICH MIGHT BE ACTIVATED, SAY, ONCE A YEAR AND  
B) ONCE IT IS CLEAR THAT THE IMPLEMENTATION DATE REALLY WILL BE NO LATER THAN 1 APRIL 1989.

PRESS LINE

7. WE PROPOSE ONLY TO CONFIRM IF NECESSARY THAT PROPOSALS HAVE BEEN FORWARDED TO LONDON, WHERE THEY WILL BE CAREFULLY STUDIED. WE WILL HAVE NO COMMENT ON THEIR SUBSTANCE OR LIKELY REACTIONS IN LONDON OR THE EC. GRATEFUL WE KNOW YOUR PRESS LINE AS SOON AS POSSIBLE.

DTI PSE ADVANCE TO PS LORD YOUNG AND ROBERTS.

WHITEHEAD

YYYY

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DTI FOR COOKE

EC/ JAPAN ALCOHOLIC BEVERAGES: JAPANESE PROPOSALS.

1. IN ADVANCE OF AMBASSADOR CHIBA'S CALL ON LORD YOUNG LATER TODAY SATO, MFA, CALLED ME ON MR UNO'S INSTRUCTIONS TO CONVEY THE DECISION WHICH PRIME MINISTER TAKESHITA HAD TAKEN IN CONSULTATION WITH LDP LEADERS ON KEY POINTS OF UK INTEREST IN THE LIQUOR TAX REFORM. THESE WOULD BE CONVEYED IN A LETTER TO THE PRIME MINISTER SHORTLY.

2. SATO MADE THE FOLLOWING POINTS:

A) THE RATE FOR WHISKY WOULD BE YEN 1150 PER LITRE, A 45 PER CENT REDUCTION FROM THE CURRENT YEN 2098. TAX ON BOTH TYPES OF SHOCHU WOULD BE RAISED BY 75 PERCENT (TO YEN 137 FOR TYPE A AND YEN 89 FOR TYPE B) BRINGING THE SPECIAL GRADE/SOCHU B RATIO DOWN FROM OVER 40:1 TO 13:1, OR 7.5:1 IF DIFFERENCE IN ALCOHOL CONTENT WAS TAKEN INTO ACCOUNT.

B) THIS WOULD CREATE CONSIDERABLE HARDSHIP FOR THE SHOCHU PRODUCERS: THE GOVERNMENT HAD THEREFORE TO TAKE THE INITIATIVE IN ASSISTING THEM TO CONVERT TO OTHER BUSINESS.

C) THIS WAS A HARD POLITICAL DECISION TAKEN AGAINST MUCH OPPOSITION BY MR TAKESHITA HIMSELF WHICH WOULD IN THE JAPANESE GOVERNMENT'S VIEW RESULT IN A MARKED INCREASE IN THE COMPETITIVENESS OF WHISKY, ESPECIALLY IMPORTED PRODUCTS, IN THE JAPANESE MARKET. MR TAKESHITA HOPED THE PRIME MINISTER WOULD ACCEPT THIS. MR UNO, IN URGING ME TO COMMEND THIS OUTCOME TO MY AUTHORITIES HOPED WE WOULD UNDERSTAND MR TAKESHITA'S EFFORTS AND THAT THE UK AND JAPAN COULD BOTH BENEFIT FROM THE RESULTS OF THIS DECISION.

4. I SAID I RECOGNISED THAT THIS REPRESENTED A MAJOR CHANGE FROM THE CURRENT REGIME AND A WELCOME ADVANCE ON WHAT MR TAKESHITA HAD DISCUSSED WITH MY PRIME MINISTER. I THOUGHT IT WOULD BE SEEN AS CREDITED AS A SIGNIFICANT STEP FORWARD. AT THE SAME TIME IT WAS A CONSIDERABLE DEROGATION FROM THE FULL IMPLEMENTATION

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OF THE GATT PANEL REPORT. IN MY VIEW THE KEY TO OVERCOMING THIS AREA OF POTENTIAL DIFFICULTY WOULD BE FOR THE JAPANESE AUTHORITIES EITHER TO UNDERTAKE A TIMETABLE FOR FURTHER STEPS TO BRING THEIR REGIME MORE IN LINE WITH THE GATT PANEL REPORT OR TO ESTABLISH A REVIEW MECHANISM WHEREBY WE COULD REVERT TO THE ISSUE AT REGULAR INTERVALS TO ENSURE THAT THE INTENTIONS OF THE PANEL WERE NOT BEING CIRCUMVENTED. SATO REPLIED THAT THEY WERE CONFIDENT THAT THEIR DECISION WOULD BE COMPATIBLE WITH THE GATT RECOMMENDATIONS WHICH WERE NOT DEFINITIVE. OUR DESIRE FOR A MECHANISM WAS UNDERSTANDABLE BUT NOT POSSIBLE AT THIS STAGE. THEY HAD GONE TO THE LIMIT OF WHAT WAS POLITICALLY FEASIBLE. IT WOULD OF COURSE BE OPEN TO US TO EXPRESS A VIEW ON THE EFFECT OF THE MEASURES IF THE EXPECTED RESULTS DID NOT MATERIALISE, BUT HE THOUGHT IT WOULD BE WISER FOR BOTH OF US TO PUT THE ISSUE BEHIND US.

5. IN REPLY TO MY QUESTION ABOUT THE DATE FOR IMPLEMENTATION OF THESE STEPS SATO SAID THAT THEY WERE WORKING TO PASSAGE OF THE COMPLETE BILL IN THE AUTUMN AND THAT ''COMMON SENSE'' SUGGESTED THAT IT SHOULD BE IMPLEMENTED FROM THE BEGINNING OF FY 1989. HOWEVER THERE HAD BEEN NO SPECIFIC DECISION ON THIS AND ULTIMATELY IT DEPENDED ON THE WILL OF THE LEGISLATURE. I SAID THAT 1 APRIL 1989 WAS THE LATEST DATE WHICH THE EC WISHED OR EXPECTED TO SEE FOR IMPLEMENTATION OF THE LIQUOR TAX PACKAGE. COULD HE GIVE AN ASSURANCE THAT THIS WOULD BE DONE REGARDLESS OF THE FATE OF THE REST OF THE BILL. SATO SIMPLY REPLIED THAT IT WAS THE GOVERNMENT'S DECISION TO IMPLEMENT THESE CHANGES AS SOON AS POSSIBLE.

6. SATO SAID THEY WOULD BE TAKING IMMEDIATE STEPS TO INFORM M. DELORS. THEY HAD CONFIRMED PRESS ACCOUNTS OF THE DECISION ON SHOCHU BUT HAD NOT YET DECIDED TO REVEAL THEIR PROPOSALS ON WHISKY.

7. FOR COMMENT SEE MIFT.

DTI PSE ADVANCE TO PS LORD YOUNG AND ROBERTS.

WHITEHEAD

YYYY

PAGE 2  
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File SA  
CCP

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

25 May 1988

**EC JAPAN: ALCOHOLIC DRINKS**

BK 11  
I enclose a copy of a letter which I have received from the Japanese Ambassador covering a message from Mr. Takeshita to the Prime Minister about the whisky tax and the differential between whisky and Shochu. At first glance it does not look particularly satisfactory but I know the Prime Minister would welcome the extra assessment as soon as possible.

I am copying this letter to Neil Thornton (Department of Trade and Industry), Alex Allan (H M Treasury) and Trevor Woolley (Cabinet Office).

**C D POWELL**

A. C. Galsworthy, Esq., C.M.G.,  
Foreign and Commonwealth Office

EMBASSY OF JAPAN

46 GROSVENOR STREET

LONDON W1X 0BA

PERSONAL

25th May 1988

*Dear Mr. Powell,*

Following our telephone conversation this morning, I have pleasure in sending you, herewith  
 ... attached, a copy of a letter from Mr. Noboru Takeshita, Prime Minister of Japan, to Prime Minister Margaret Thatcher. This is 'à titre personnel', as I mentioned over the 'phone.

Likewise, I wish to convey the following message, which would be in conjunction with the delivery of the said letter on the instruction of Prime Minister Takeshita :

"Distillers of Group B Shochu, numbering about 600 nationally, (excluding non-operational concerns) have half their number concentrated in Southern Kyushu or in Okinawa. Their bulk is comprised of small-scale enterprises, and it is believed that a number will be obliged to go out of business, or cease the production of this item, in the wake of the envisaged large-scale increases in taxation. Therefore, understanding is sought on the Japanese Government's intention to introduce measures concerning Group B distillers, including fiscal measures, with regard to those going out of business or ceasing production of this item."

[It has been explained at the meeting between the two Prime Ministers about the political significance, domestically, of the Shochu-producing areas.]

*Yours sincerely,**Kazuo Chiba*

Kazuo Chiba

Ambassador

C.D. Powell, Esq.,  
 Private Secretary (Overseas)  
 to The Prime Minister,  
 10, Downing Street,  
 London, SW1A 2AA

*Original back to CDP  
25/5*

(Translation)

May 25, 1988

Dear Prime Minister,

Thank you for your letter of 12 May, 1988, "following-up" the very meaningful discussions we had on the matter of changes in Japan's liquor tax when I was in London earlier this month. Since returning home, I have taken the closest personal attention to studying the development of the matter, and, indeed, with your views and GATT consistency in mind, have done everything possible to facilitate the attainment of further improvement to the changes in the proposal explained to your country late in April.

I am pleased to be able to say that the result is a new detailed proposal for reducing the tax rate differential between whisky and shochu agreed by those involved in tax reform. I felt I ought to let you know without delay just what the proposal here is.

There would be one uniform tax rate for whisky, ¥1,150 per litre, 45% less than the present rate for special grade whisky. The tax on Group B shochu would be increased by 75% to ¥89 per litre. This would reduce the

Her Excellency  
Mrs. Margaret Thatcher  
Prime Minister of the United Kingdom  
London

the differential between whisky and shochu to 13:1 (in terms of alcohol content, 7.5:1), which we feel is a very significant improvement on the earlier proposal.

The changes proposed, though they must inevitably mean very considerable hardship for Japan's shochu makers, would, especially in combination with the abolition of the grading system already proposed, clearly result in a very marked improvement in the competitiveness of whisky, especially foreign whisky, in Japan. While the newly proposed changes are perhaps not all that you had hoped would be possible, I trust that you will appreciate that they are the very most that proved to be possible, the ~~product of our utmost efforts~~ in an area in which any change involves all-but-insurmountable domestic difficulties I myself explained to you in London.

I very much look forward to seeing you again soon.

Yours sincerely,

Noboru Takeshita  
Prime Minister of Japan

OFFICE OF THE PRIME MINISTER  
TOKYO



(Translation)

May 25, 1988

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I very much look forward to seeing you again soon.

Yours sincerely,

Noboru Takeshita  
Prime Minister of Japan



昭和六十三年五月二十五日

日本国内閣総理大臣

竹下登

連合王国首相  
マーガレット・サッチャー  
殿

り、先般貴国政府に説明申し上げた案から大幅な改善をはかりました。

本案は、我が国において焼酎を製造している人々に大変な苦勞を強いるものであり、また、既に決定済みの級別制度の廃止と併せ考えれば、ウイスキー、とりわけ外国産ウイスキーの市場競争力を著しく改善するという結果をもたらすことがいざれ明らかになるものと思えます。私としては先般貴首相に直接御説明申し上げた国内的な困難にも拘らず最大限の努力を払い、今次の結果に至った次第であり、貴首相のご理解が得られるものと確信しております。

近く再びお目にかかれることを楽しみにしております。

敬具

拝啓

酒税改正問題につきましては、先般ロンドンにて貴首相と十分な意見交換を行ひ、その後、右を踏まえた五月十二日付貴首相の書簡を受領致しました。帰国後、本問題に対しては、貴首相の意向及びガット整合性の確保を念頭に、先に貴国に示した改正案を更に改善すべく私としては単に個人的関心を持つという以上に自ら真剣に対応してきたところであります。その結果、ウイスキーと焼酎の税率格差縮小に関する具体的改正内容につき今般関係者の了解をとりつけましたので、貴首相に早速次の通り御伝えする次第であります。

一本化されるウイスキーの税率につきましては現行特級より四五%削減し  
一リットル当り一、一五〇円とし、焼酎の税率については七五%引き上げ  
一リットル当り八九円（乙類）とします。これにより、ウイスキーと焼酎の単  
純税率格差は十三対一（アルコール度数一度当りの比較で七・五対一）とな

OFFICE OF THE PRIME MINISTER  
TOKYO

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T82/88

(Translation)

*SUBJECT "MASTER  
OPS"*

May 25, 1988

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I very much look forward to seeing you again soon.

Yours sincerely,

Noboru Takeshita  
Prime Minister of Japan

## EMBASSY OF JAPAN

46 GROSVENOR STREET

LONDON W1X 0BA

PERSONAL

25th May 1988

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*yours sincerely,*



Kazuo Chiba

Ambassador

C.D. Powell, Esq.,  
Private Secretary (Overseas)  
to The Prime Minister,  
10, Downing Street,  
London, SW1A 2AA



Foreign and Commonwealth Office

London SW1A 2AH

25 May 1988

CC:PC  
CDP  
25/5.

Dear Charles,

Japan: Taxation of Alcoholic Beverages

I understand that the Japanese Embassy have delivered to you today a translation of a letter dated 25 May to the Prime Minister from Prime Minister Takeshita (copy attached).

The Japanese Ambassador has also received instructions from Tokyo to convey the following message in conjunction with the delivery of the letter, on the instruction of Prime Minister Takeshita:

"Distillers of Group B Shochu, numbering about 600 nationally, (excluding non-operational concerns) have half their number concentrated in Southern Kyushu or in Okinawa. Their bulk is comprised of small-scale enterprises, and it is believed that a number will be obliged to go out of business, or cease the production of this item, in the wake of the envisaged large-scale increases in taxation. Therefore, understanding is sought on the Japanese Government's intention to introduce measures concerning Group B distillers, including fiscal measures, with regard to those going out of business or ceasing production of this item."

In delivering this message the Japanese Embassy have drawn attention to the explanation given at the meeting between the two Prime Ministers about the political significance, domestically, of the Shochu-producing areas. We understand from the Japanese Embassy that the 75% increase would apply to Group A Shochu, bringing the tax rate to this to Yen 138/litre.

I am copying this letter to the Private Secretary to the Secretary of State for Trade and Industry.

Yours ever,

(A C Galsworthy)  
Private Secretary

C D Powell Esq  
10 Downing Street

OFFICE OF THE PRIME MINISTER

TOKYO

(Translation)

May 25, 1988

Dear Prime Minister,

Thank you for your letter of 12 May, 1988, "following-up" the very meaningful discussions we had on the matter of changes in Japan's liquor tax when I was in London earlier this month. Since returning home, I have taken the closest personal attention to studying the development of the matter, and, indeed, with your views and GATT consistency in mind, have done everything possible to facilitate the attainment of further improvement to the changes in the proposal explained to your country late in April.

I am pleased to be able to say that the result is a new detailed proposal for reducing the tax rate differential between whisky and shochu agreed by those involved in tax reform. I felt I ought to let you know without delay just what the proposal here is.

There would be one uniform tax rate for whisky, ¥1,150 per litre, 45% less than the present rate for special grade whisky. The tax on Group B shochu would be increased by 75% to ¥89 per litre. This would reduce

the

Her Excellency  
Mrs. Margaret Thatcher  
Prime Minister of the United Kingdom  
London



the differential between whisky and shochu to 13:1 (in terms of alcohol content, 7.5:1), which we feel is a very significant improvement on the earlier proposal.

The changes proposed, though they must inevitably mean very considerable hardship for Japan's shochu makers, would, especially in combination with the abolition of the grading system already proposed, clearly result in a very marked improvement in the competitiveness of whisky, especially foreign whisky, in Japan. While the newly proposed changes are perhaps not all that you had hoped would be possible, I trust that you will appreciate that they are the very most that proved to be possible, the product of our utmost efforts in an area in which any change involves all-but-insurmountable domestic difficulties I myself explained to you in London.

I very much look forward to seeing you again soon.

Yours sincerely,

Noboru Takeshita  
Prime Minister of Japan

CONFIDENTIAL

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MDHOAN 5058

CONFIDENTIAL  
FM FCO  
TO IMMEDIATE TOKYO  
TELNO 374  
OF 292040Z APRIL 88  
INFO IMMEDIATE UKREP BRUSSELS  
INFO PRIORITY PARIS, BONN  
INFO ROUTINE WASHINGTON, UKMIS GENEVA

FRAME EXTERNAL

UKREP BRUSSELS TELNO 1354 (NOW REPEATED TO UKMIS GENEVA):  
EC/JAPAN: ALCOHOLIC DRINKS

SUMMARY

1. SECRETARY OF STATE FOR TRADE AND INDUSTRY'S MEETING WITH OZAKI WAS AS DISAPPOINTING AS OZAKI'S MEETINGS WITH THE COMMISSION. JAPANESE PROPOSALS FELL SHORT OF FULL IMPLEMENTATION OF GATT PANEL REPORT, AS LORD YOUNG MADE CLEAR.

DETAIL

2. OZAKI, TAKADO AND HAYASHI HAD A HALF HOUR MEETING WITH LORD YOUNG FOLLOWED BY A FURTHER MEETING OF ONE AND A HALF HOURS WITH COOKE, JONES (DTI) AND COOPER (FED). ON ALL THE MAIN POINTS, OZAKI'S PRESENTATION WAS IDENTICAL TO THAT IN PARAGRAPHS 3-10 OF TUR, EXCEPT THAT NO REFERENCE WAS MADE TO ALIGNING TAXES FOR LIQUORS, WINES AND SAKE (PARAGRAPH 8 OF TUR). THE PRESENTATION WAS BACKED BY TEXTS, TABLES AND GRAPHS (COPIES FOLLOW BY BAG).

3. OZAKI'S PRESENTATION WAS HEAVILY WEIGHTED TOWARDS EXPLANATION OF THE CHANGES AFFECTING WHISKY, WHICH WERE CLEARLY FELT TO BE OF PRIMARY INTEREST TO THE UK. AS REGARDS SHOCHU, OZAKI DWELT ON THE POLITICAL DIFFICULTIES IN INCREASING THE TAX ON SHOCHU, REFERRING TO THE REGIONAL PROBLEMS OF KYUSHU AND THE RISK OF BANKRUPTCIES.

4. IN RESPONSE, LORD YOUNG RECALLED THE COMMUNITY'S VIEW THAT BOTH SIDES HAD ACCEPTED THE GATT PANEL REPORT AND THAT IT SHOULD BE FULLY IMPLEMENTED. WHILE ACKNOWLEDGING THE STEPS PROPOSED ON WHISKY TAXATION, LORD YOUNG SAID THAT, EVEN WHEN TAKEN WITH THE PROPOSALS ON SHOCHU, THESE FELL SHORT OF FULL IMPLEMENTATION, AND COULD NOT BE REGARDED AS A LONG TERM SOLUTION TO A PROBLEM WHICH HAD EXISTED FOR TWO DECADES. IN ANSWER TO HIS QUESTION ABOUT FURTHER STEPS TOWARDS FULL

IMPLEMENTATION IN THE FUTURE, OZAKI FELT UNABLE TO GIVE ANY SUBSTANTIVE REPLY. LORD YOUNG SAID THAT HE WOULD REPORT THE DISCUSSION, AND HIS OWN REACTIONS, TO THE PRIME MINISTER OVER THE WEEKEND: HE VERY MUCH HOPED THAT OZAKI WOULD REFLECT ON THE POINTS MADE, AND THAT THE JAPANESE AUTHORITIES WOULD DEVELOP THEIR POSITION SIGNIFICANTLY FURTHER.

5. IN SUBSEQUENT DISCUSSION BETWEEN OFFICIALS, A NUMBER OF POINTS WERE EXAMINED IN GREATER DETAIL, BUT NO SUBSTANTIVE PROGRESS WAS MADE. TWO PRINCIPAL ISSUES EMERGED:

(A) THE INTERPRETATION OF DE MINIMIS: OZAKI STRESSED THAT THE QUESTION OF WHETHER A PARTICULAR TAX REGIME HAD A DISCRIMINATORY EFFECT WHICH WAS MORE THAN DE MINIMIS, WAS ESSENTIALLY A QUESTION OF FACTS (IE HOW TRADE WAS AFFECTED). IN HIS VIEW, THE PROPOSALS ON SHOCHU AND WHISKY TAKEN TOGETHER, REMOVED ANY SUCH DISCRIMINATORY EFFECT. COOKE AND COOPER REPLIED THAT THIS WAS ESSENTIALLY A MATTER OF CONFIDENCE: FOR ANY SOLUTION TO BE LASTING, BOTH SIDES WOULD HAVE TO AGREE ON THE INTERPRETATION OF THE FACTS.

(B) THE MEANING OF 'FULL IMPLEMENTATION': OZAKI ASKED WHAT WAS THE UK UNDERSTOOD BY FULL IMPLEMENTATION. COOKE REPLIED THAT THIS WAS DIFFICULT: IT WAS A QUESTION ON WHICH HE COULD NOT PROPERLY REPRESENT THE VIEWS OF THE COMMUNITY AS A WHOLE. SPEAKING PERSONALLY, HE SUGGESTED THAT FULL IMPLEMENTATION MUST IMPLY A LONG TERM INTENTION TO MOVE TOWARDS A FULLY NON-DISCRIMINATORY AND TRANSPARENT TAX REGIME UNDER WHICH ALL SPIRITS WERE TAXED ACCORDING TO AN OBJECTIVE YARDSTICK. ONE SUCH YARDSTICK - USED BY MANY COUNTRIES, BUT NOT PRESCRIBED IN THE PANEL REPORT - WAS THAT OF ALCOHOL CONTENT. BUT THERE WAS CHOICE IN SUCH MATTERS, AND IT WAS FOR JAPAN TO CONSIDER THE CHOICES.

6. AT THE END OF THE MEETING, OZAKI RECALLED THAT JAPAN, WHEN STATING HER ACCEPTANCE OF THE PANEL REPORT, HAD MADE CLEAR THAT THE JAPANESE GOVERNMENT DID NOT AGREE WITH ALL POINTS IN THE REPORT. HIS AUTHORITIES WERE NONETHELESS DOING THEIR BEST TO IMPLEMENT IT THROUGH DRASTIC CHANGES TO A LONG STANDING TAX REGIME. HE EMPHASISED ONCE AGAIN, THE POLITICAL DIFFICULTIES OVER SHOCHU.

HOWE



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

28 April 1988

Robert Culshaw, Esq MVO  
PS/Foreign Secretary  
Foreign and Commonwealth Office  
London SW1

COP 29/4

Dear Robert

#### **COURTESY CALL BY JAPANESE AMBASSADOR**

The Japanese Ambassador, Mr Chiba, paid a courtesy call on the Chancellor yesterday. Sir Geoffrey Littler was also present.

#### Membership of the Tokyo Stock Exchange

Mr Chiba said that Sir Geoffrey Littler's recent visit to Japan had been reported in "a certain way" in the newspapers. He had, however, had more optimistic reports from the Japanese Finance Ministry. The Chancellor said it was good to hear this. He had to say, however, that we had been disappointed by the outcome of Sir Geoffrey's visit.

Mr Chiba said that he imagined that the problems relating to BZW's application for a seat on the Tokyo Stock Exchange were very much in the Prime Minister's mind. He knew that Mr Takeshita was much looking forward to his forthcoming meeting with the Prime Minister. He hoped that it would be possible for the discussions to concentrate on "big" topics. The Chancellor said that the Prime Minister would certainly wish to discuss these "big" issues. But she also took a close interest in smaller, bilateral issues. These smaller questions were of political significance. The City was particularly important to the United Kingdom, and we wished to see our key players taking a significant role in Tokyo. This would be important for the City's future development, as well as for even closer Anglo-Japanese relations. Mr Chiba said that the Japanese Finance Ministry had said there were technical reasons why the Tokyo Stock Exchange could not be enlarged to provide a seat for BZW. The Chancellor said that these alleged technical difficulties could be readily overcome by electronic means - in which Japan was pre-eminent. We therefore found it difficult to understand why these were produced as reasons for blocking BZW's membership.

#### Scotch Whisky

The Chancellor expressed the hope that the continuing difficulties over whisky would soon be resolved.



### Toronto Summit

The Chancellor asked about Japanese expectations for the Toronto summit. Mr Chiba said that Mr Takeshita hoped that currency stabilisation would continue. On trade matters, he hoped that progress could be made against protectionism. The Chancellor agreed; he hoped that market forces could be brought to bear, in particular, on the problem of world agriculture. The United States, Europe and Japan all protected their agricultural industries; there must be agreement that all should move. Mr Chiba agreed, while noting the internal political difficulties in Japan of achieving this. The Chancellor said that he hoped that the LDP would have sufficient political strength to overcome resistance.

### UK Economy

Mr Chiba asked about the UK's domestic economic objectives. The Chancellor described recent economic developments. He assured Mr Chiba that the Government's aim was to reduce further the rate of inflation. This might take time - the last few percentage points were the hardest - but it remained a firm objective.

I am copying this letter to Charles Powell (No.10) and to Stephen Ratcliffe (DTI).

*Yours truly*

A handwritten signature in dark ink, appearing to read 'J M G Taylor'.

J M G TAYLOR  
Private Secretary

UNCLASSIFIED

146010  
MDLIAN 3787

UNCLASSIFIED  
FM TOKYO  
TO PRIORITY FCO  
TELNO 449  
280400Z APRIL 1988

(AMENDED DISTRIBUTION 29/4)

TELNO RETRACT 033: MRS THATCHER'S INTERVIEW WITH THE YOMIURI

1. MRS THATCHER'S INTERVIEW RECEIVED SATURATION COVERAGE IN THE YOMIURI (CIRCULATION 9.2MILLION) ON 27 APRIL. THE HIGHLIGHTS OF THE INTERVIEW WERE CARRIED WITH A PHOTOGRAPH AS THE LEAD STORY ON THE FRONT PAGE UNDER THE BANNER HEADLINE QUOTE BRITAIN HOPES FOR JAPANESE INVESTMENT UNQUOTE. A TRANSCRIPT OF THE INTERVIEW APPEARED ON THE SECOND PAGE. THE YOMIURI'S POLITICAL STAFF PROVIDED BACKGROUND ANALYSIS AND EDITORIAL COMMENT ON PAGE THREE. MRS THATCHER'S REMARKS ABOUT EAST/WEST RELATIONS AND THE NEED FOR FURTHER LIBERALISATION OF THE JAPANESE MARKET WERE TAKEN UP ON INSIDE PAGES.

2. THE YOMIURI NOTED THAT AT THE TOP OF MRS THATCHER'S AGENDA FOR HER TALKS WITH MR TAKESHITA WILL BE THE MANAGEMENT OF THE WORLD ECONOMY AND UNFINISHED BILATERAL BUSINESS VIZ THE REFORM OF THE LIQUOR TAX AND SEATS ON THE TOKYO STOCK EXCHANGE. MRS THATCHER'S CALL FOR BRITISH FIRMS AND FINANCIAL INSTITUTIONS TO HAVE OPEN ACCESS TO THE JAPANESE MARKET EQUIVALENT TO THAT ENJOYED BY THE JAPANESE IN THE UK WERE PROMINENTLY FEATURED.

WHITEHEAD

YYYY

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JAPAN POLITICAL AND ECONOMIC  
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MR BOYD  
MR KERR  
MR MAUD  
MR SLATER  
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MR FEARN  
MR MCLAREN  
MR GOULDEN

ADDITIONAL 46

JAPAN POLITICAL AND ECONOMIC  
MR WHEELER, PEP 1 DIV DTI

PS/NO.10  
(PREVCRN 141402)

NNNN

dti

the department for Enterprise

*CEPC*

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

R N Culshaw Esq  
Private Secretary to The Rt Hon  
Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street LONDON SW1A 2AH

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref DW5AAQ  
Your ref  
Date 25 April 1988

*Don Robert*

*John Flax*  
Thank you for copying to me your letter of 18 April to Charles Powell seeking a letter of support from the Secretary of State for the work of the UK-Japan 2000 Group.

The Secretary of State is happy to contribute such a letter, which is enclosed.

I am copying this letter and enclosure to Charles Powell.

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary

*CO2*

the  
Enterprise  
Initiative



# dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon the Lord Jenkin of Roding  
15 Old Bailey  
LONDON  
EC4M 7AP

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422

Our ref DW5AAR

Your ref

Date 25 April 1988

*Yes Patrick,*

UK-JAPAN 2000 GROUP

Since its inauguration in 1984 the UK/Japan 2000 Group has performed an invaluable task in promoting relations with Japan. Its efforts have contributed greatly to an expansion in contacts and exchanges at all levels. I particularly welcome the recent focus by the Group on the provision of Japanese language training for businessmen. This has my full support, as does the Group's continuing work in other areas. I very much hope that the Group will continue to receive the enthusiastic backing of UK industry.

*John Daw*

the  
**Enterprise**  
Initiative

JAPAN: Relations Pt 7





10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

19 April 1988

*Dear Patudi,*

Mr. Nakasone and I agreed in 1984 on the need for a body such as the UK-Japan 2000 Group. We believed that both countries would benefit from a concerted effort to increase exchanges between our two countries in all fields. So it has proved. It is particularly important that the impetus for these efforts should come from the private sector and should have the full backing of British industry. Since its first meeting in 1985, the 2000 Group has tackled this important task with energy and commitment. It has my full support and that of Mr. Takeshita.

*Yours  
Raymond*

---

The Right Honourable Lord Jenkin of Roding

*ECL*

R1814



Foreign and Commonwealth Office

London SW1A 2AH

18 April 1988

*Dear Charles*

UK-Japan 2000 Group

Lord Jenkin has written to the Secretary of State asking for short letters of commendation for the work of the UK-Japan 2000 Group from the Prime Minister, the Foreign Secretary and the Secretary of State for Trade and Industry. I enclose a copy of his letter, which we have discussed with Lord Jenkin. He is hoping for three signed paragraphs to place in front of a funding appeal letter he will write himself.

The 2000 Group does very good work for Anglo-Japanese relations. One of its main strengths has been that the impetus for its activities has come from the private sector. The 2000 Group has so far been successful in attracting private sector funds (although the FCO has also made a modest contribution). The Foreign Secretary believes that we should support Lord Jenkin's fund-raising drive and proposes to contribute a short letter himself. He hopes that the Prime Minister and Lord Young will feel able to do the same. I enclose a draft for the Prime Minister.

If the Prime Minister and Lord Young are willing to give Lord Jenkin support in this form, perhaps you and Alison Brimelow (to whom I copy this letter) could send their letters to me. We would arrange for the three letters to go together to Lord Jenkin.

*Yours truly*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street

DSP 1 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:  
Prime Minister

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

The Rt Hon The Lord Jenkin of Roding  
15 Old Bailey  
LONDON EC4M 7AP

SUBJECT: UK-JAPAN 2000 GROUP

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Mr Nakasone and I agreed in 1984 on the need for a body such as the UK-Japan 2000 Group. We believed that both countries would benefit from a concerted effort to increase exchanges between our two countries in all fields. So it has proved. It is particularly important that the impetus for these efforts should come from the private sector and should have the full backing of British industry. Since its first meeting in 1985, the 2000 Group has tackled this important task with energy and commitment. It has my full support and that of Mr Takeshita.

Enclosures flag(s) .....

# U.K. - JAPAN 2000 GROUP

*Mr Taylor*  
*M. Speake*  
*72313*

**Directors:**

The Rt Hon the Lord Jenkin of Roding (Chairman).  
Sir Kenneth Berrill KCB.  
Admiral Sir James Eberle GCB.  
Sir Trevor Holdsworth.  
Hon William McAlpine.  
The Rt Hon Bruce Millan MP.  
Sir Edwin Nixon CBE DL.  
The Rt Hon Sir Michael Palliser GCMG.  
Sir Peter Parker MVO.  
The Rt Hon Lord Prior PC.  
Sir Julian Ridsdale CBE MP.  
The Rt Hon John Smith QC MP.  
Sir Michael Wilford GCMG

From: THE RT. HON. THE LORD JENKIN OF RODING  
15 OLD BAILEY  
LONDON EC4M 7AP  
Tel. 01-329 4454 (Fax. No. 01-329 4402)

*① ACK.*  
*② FED*  
*for advice / a mt reply*  
*lets*  
*RS / Holdsworth*  
*Mr Gillman*  
*Mr McLaren*

21st March 1988

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,  
Secretary of State for Foreign and Commonwealth Affairs,  
Foreign and Commonwealth Office,  
Downing Street,  
LONDON SW1A 2AL.

*Rossell Dixon*

*APS 22/3*

*Dear Geoffrey*

You very kindly offered to meet members of this Group later in the year when our plans for next year's meeting are being drawn up. As of now, we are in a bit of a limbo, because we do not know who the new Japanese Group will be. Tad Kato has indicated to me that he will be tendering his resignation to Mr. Takeshita who will then have the job of finding a successor. While we hope that most of the rest of the Group will find themselves reappointed, we cannot be sure of this as Mr. Takeshita will certainly want to appoint some of his own nominees. For this reason, we cannot really embark on fruitful discussions with the Japanese about next year's conference, so that it may not be until June or July that the picture will be sufficiently clarified for a meeting with yourself to be worth while.

At the Elvetham meeting, it was suggested that the 1989 meeting in Japan might take place in Kyoto and that March would be a better month than January. If this is agreed, then, again, the timetable will be drawn up accordingly. I will, therefore, be in touch with your Private Secretary in two or three months' time with a view to finding a date when we could come and talk to you about our future programme.

We had a very good meeting with David Young shortly before his departure for Japan and, with his support, we are urgently examining the possibilities of expanding Japanese language teaching in crash courses for businessmen. We see this as complementary to, rather than in substitution for, the expansion of Japanese studies at British universities.

We believe the time is approaching when we shall need to relaunch our financial appeal in order to replenish our coffers. It would be of great help to us if, when we approach potential donors, we could include short letters

of commendation from the Prime Minister, David Young and yourself. Would you be able to ask your people to explore whether this would be possible?

You are

Katana

SUBJECT OF MASTER.



File DA  
cc: hi PC

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

15 April 1988

Dear Robert,

PRIME MINISTER'S MEETING WITH THE JAPANESE AMBASSADOR

The Prime Minister received the new Japanese Ambassador for a talk this morning.

The Prime Minister said that she was much looking forward to Mr. Takeshita's visit in May. She very much hoped that various outstanding problems in our relations could be dealt with before he came. Her experience was that she talked to every Japanese Prime Minister about problems like the tax on whisky and seats for British firms on the Tokyo stock exchange, they all told her that the problems would be dealt with and yet she found herself having to take them up with their successors. The best possible basis for getting relations between her and Mr. Takeshita off to a good start would be if the problems over whisky and the stock exchange could be settled in advance or, at the latest, at the time of his visit.

The Prime Minister welcomed the efforts being made by the Japanese Government to stimulate imports into Japan. Our own exports had risen substantially. She hoped this would continue. We also very much welcomed Japanese investment in the United Kingdom. Such investment had proved a great success for both countries. Japanese firms provided superb management and found that their British workforce responded well.

The Prime Minister said that she would hope to discuss some of the main themes for the forthcoming Economic Summit with Mr. Takeshita, in particular the need to make a success of the GATT round, which must deal with agriculture. She would also like to discuss some of the major international issues, particularly developments in the Gulf and in East/West relations. The Ambassador agreed that agriculture was bound to be a major issue at the Summit but warned that it was highly political in Japan. The Prime Minister said that Japan was not unique in that respect. But the problem simply had to be dealt with.

2/6



The Ambassador said that the Japanese government was most grateful for the arrangements being made for the younger son of the Crown Prince when he came to Oxford later this year. The Prime Minister said that we were very pleased to welcome him. She would hope in due course to entertain him at Chequers.

I am copying this letter to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

*Yours sincerely,  
C.D. Powell*

(C.D. POWELL)

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

PRIME MINISTER

## MEETING WITH THE JAPANESE AMBASSADOR

You are to see the new Japanese Ambassador, Mr. Chiba, tomorrow morning.

Mr. Chiba is rated very highly in the Japanese diplomatic service and has come from being their Ambassador to the International Organisations in Geneva, which includes GATT and is seen as an extremely important post. His appointment here is apparently regarded as an up-grading of Japanese representation in recognition of our striking economic success. I am told that he is also a trifle self-important and a bit of a bully.

Obviously the main subject for discussion will be the visit of Mr. Takeshita, now only three weeks away. It is very important that you make clear that we shall expect Mr. Takeshita to come here with a clear statement of Japanese intentions regarding the whisky tax and news on the question of access to the Tokyo Stock Exchange for qualified applicants. These two issues, which are long overdue for resolution, will have an important bearing on the overall success of the visit.

Having got that out of the way, you might say that you look forward to talking to Mr. Takeshita about the wider issues of the management of the world economy, East/West relations and the Gulf war. You will also like to discuss with him how Britain and Japan can work more closely together in various fields such as aid.

You will also want to say to the Ambassador how much you welcome Japanese investment in the United Kingdom and your hope that it will continue and increase.

You will find a note from the Foreign Office in the folder together with a biography of Mr. Chiba.

C.D.P.  
(C. D. POWELL)

14 April 1988

ccfe  
HUF

Foreign and Commonwealth Office

London SW1A 2AH

14 April 1988

*See Charles*Call by new Japanese Ambassador

In your letter of 30 March you requested briefing for the new Japanese Ambassador's call on the Prime Minister tomorrow.

When the Prime Minister receives Mr Chiba she will no doubt wish to refer to the forthcoming visit by the Japanese Prime Minister Mr Takeshita. He will be having talks with the Prime Minister on 4 May. His visit comes at an opportune moment following the efforts by the Foreign Secretary and by Lord Young to take advantage of the growing openness in the Japanese economy and Government. The Japanese Vice-Minister for Foreign Affairs, Murata, told the Foreign Secretary earlier this week that Mr Takeshita attaches great importance to his visit which he sees as a significant step in the development of Japan's relations with the UK and with Europe.

The Prime Minister will wish to set out how she sees our overall relationship with Japan. Our priority is to clear up unfinished business. Above all, we want Mr Takeshita to make a clear statement of Japan's intentions regarding the whisky tax. We also attach importance to access being given on the Tokyo Stock Exchange to all qualified applicants. We are currently pressing the Japanese to look at ways of allowing BZW to obtain a seat at an early date.

Getting these issues resolved will help us to concentrate on the increasing opportunities for cooperation between our governments and in the private sector. We need to work together on world economic management, and in the aid field. Japan has sought advice from us on the disbursement of her additional grant aid package for sub-Saharan Africa and has appointed the Crown Agents as procurement agents in some African countries. The Prime Minister might mention that we would welcome a Japanese contribution to the Limpopo project and the opportunity to work together with Japan on this.



In the private sector we look forward to an increase in the flow of trade and investment in both directions. In 1987 UK exports to Japan rose by 25%. This growth rate was maintained into the first quarter of 1988. Strong growth should continue for the foreseeable future. Imports from Japan were up 9% in 1987. Japanese investment in manufacturing now totals over £1.3 billion (over 80 firms).

/ I attach a personality note on Mr Chiba. I am copying this letter to Stephen Ratcliffe, Alex Allan and John Weston.

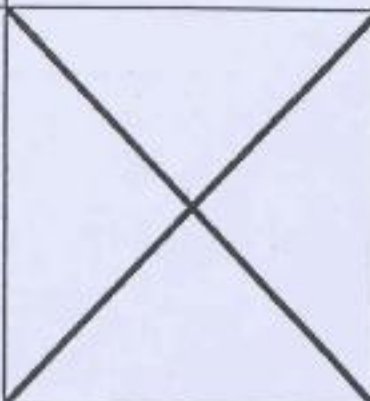
*Yours ever*

A handwritten signature in blue ink, appearing to read 'R N Culshaw'.

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

# A The National Archives

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

30 March 1988

NEW JAPANESE AMBASSADOR

The Prime Minister has agreed to see the new Japanese Ambassador at 1215 on Friday 15 April. I should be grateful for a brief to reach me the preceding day.

I am copying this letter to Stephen Ratcliffe (Department of Trade and Industry) and Alex Allan (HM Treasury).

Charles Powell

R.N. Culshaw, Esq., MVO.,  
Foreign and Commonwealth Office.

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↙



10 DOWNING STREET

Charles

~~Take up~~  
✓ OM

1215 on Friday

15th April.

Have put in draw

and rang the Ambassador's

Sec.

TG.

30/3



Andy Tessa

The PM will  
want to do  
this.

10 DOWNING STREET

AM

Charles,

The Secretary to the

Japanese Ambassador has  
been on the phone. The  
Ambassador would like to  
pay a courtesy call on  
the PM before the  
visit of the Japanese PM  
is early May. His secretary  
asked if we could phone her  
to arrange a date/time.  
Shall I show this to Tessa?

Tessa.

Will you please find  
a time.

Andy

Sue  
29.3.88

tel: 493-2103



dti

the department for Enterprise

CONFIDENTIAL

cc/c 2

Prime Minister

CDP  
2/13

PRIME MINISTER

VISIT TO JAPAN: 10-16 MARCH 1988

Accompanied by a nine-strong team of UK industrial leaders I visited Japan on 10-16 March. My visit, a counterpart to the Foreign Secretary's in January, took me to both Tokyo and Osaka. It combined meetings with Prime Minister Takeshita and his colleagues with further steps, in the context of the Opportunity Japan campaign, to identify the real potential that an improved relationship with Japan now holds for us.

2 I was greatly impressed by what I found. True, our economic relationship with Japan will continue to require plain-speaking and firmness as regards business that remains to be completed, notably the taxation of Scotch whisky and the admission of British applicants to the Tokyo Stock Exchange; and I left Prime Minister Takeshita and International Trade and Industry Minister Tamura in no doubt of the continuing importance we attached to an early settlement of these points. But it was clear that the Japanese market is one in which, overall, there is much greater readiness to contemplate an increased role for imports; and this is borne out by the steady increase in Japan's volume of imports (both globally and from the UK) over many months. What is more, I encountered concern among the Japanese Ministers to whom I spoke that such trends should continue.

3 It is now essential that we should encourage British business to take the opportunities offered by the Japanese market. My visit left me in no doubt that these opportunities exist, if we establish the right presence and maintain the necessary relationships in the market place. There is much potential for expanding co-operation and investment: this was

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clear from the start of my visit (when with Mr Graham Day and Professor Roland Smith I met representatives of Honda in connection with the privatisation of Rover Group) to its conclusion (when I noted Sanyo's and Nissan's proposals for further investment in the UK, and Guinness's plans to establish a sales subsidiary in Japan). There are corresponding opportunities in the field of direct exports (where I saw the range of British goods already available in Japanese stores) and in major projects (where an aerial inspection of the progress of reclamation for the new Kansai Airport at Osaka made a deep impression). In all these fields my Department will be working through the Opportunity Japan campaign to sensitize British industries to the opportunities that are available, and the skills - linguistic skills being a prime example - needed to exploit them.

4 At the Governmental level too I encountered a welcome for the improved relationship between the UK and Japan, and a concern that it should be broadened and deepened. Prime Minister Takeshita, with whom I had a cordial discussion, looked forward to meeting you during his visit to London on 3-5 May. Mr Tamura, whose Ministry made exceptional efforts to establish contact with the industrialists accompanying me, recalled warmly his discussions with you, the Foreign Secretary and myself in London earlier this year and undertook to lend his personal support to the solution of outstanding economic issues. He also welcomed the relaunch, on a broader basis, of the periodic consultations that have for some years taken place between his Department and mine.

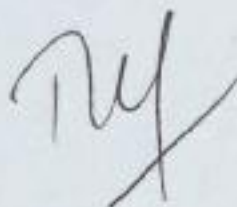


## CONFIDENTIAL

5 I also had an excellent meeting with Posts and Telecommunications Minister Nakayama with whom I was able to confirm an agreement in principle, negotiated by my Department with the MPT, on the liberalisation and value added services between the UK and Japan.

6 For Government, as for industry, the establishment of links with Japan and its market will be a process requiring long investment of time and effort. What is more, we must not lower our guard as regards the real improvements in commercial relations that still remain to be made. But I believe that successful visits of this kind, which I plan to repeat in future years, will be effective in establishing personal relationships with senior members of the Japanese Government and projecting - in both countries - a clearer image of the opportunities that exist, so that our industry can establish trading patterns with Japan commensurate with Japan's role as one of the strongest economies in the world.

7 I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Education and Science, the Secretary of State for Transport, the Minister of Agriculture, and the Secretaries of State for Scotland, Wales and Northern Ireland; and to Sir Robin Butler.



D Y

21 March 1988

DEPARTMENT OF TRADE &amp; INDUSTRY



NBAM

Peeb

17/3

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

16 March 1988

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

NISSAN

Thank you for your letter of 1 March.

As you know, John Major intends to press for the introduction of cash limiting of RSA in England, Scotland and Wales in 1989-90 in the context of the forthcoming survey. I have already indicated my willingness to give up the requirement for offsets on above-guideline offers once RSA is cash limited. Since I understand that on present expectations of expenditure the need for offsets in relation to Nissan will not arise before 1992-93, I hope that in practice no such need will arise. Until cash limiting is introduced, however, I am clear that the existing arrangements for offsets represent an essential element of value for money discipline and must stand. Therefore I am afraid I am not willing to waive the conditions attached to my earlier agreement to the very generous offer of further regional assistance to Nissan.

I am copying this letter to the Prime Minister.

NIGEL LAWSON



JAPAN: Nussai K7

CONFIDENTIAL  
FM TOKYO  
TO IMMEDIATE FCO  
TELNO 303  
OF 160757Z MARCH 88  
AND TO IMMEDIATE DTI

ADVANCE COPY

0855

LORD YOUNG'S MEETING WITH PRIME MINISTER TAKESHITA: 16 MARCH

SUMMARY

1. A CORDIAL MEETING, WHICH COVERED A NUMBER OF KEY UK/JAPAN ECONOMIC ISSUES.

DETAIL

2. IN WELCOMING LORD YOUNG, MR TAKESHITA RECALLED THAT HE HAD EMPHASISED TO COLLEAGUES THAT HE WAS A WELCOME GUEST. THE PRESENT ADMINISTRATION IN THE UK HAD FOSTERED GROWTH IN TRADE AND EMPLOYMENT, AND WAS NOW CONCERNED WITH THE OPPORTUNITIES IN JAPAN. ALL THESE TRENDS WERE WELCOME.

3. IN THANKING MR TAKESHITA FOR SEEING HIM AT A BUSY POINT IN THE DIET BUDGET PROCESS, LORD YOUNG EMPHASISED THE UK BUDGET AS A MILESTONE IN BRITISH ECONOMIC PROGRESS. IT WAS A BUDGET BASED ON A SURPLUS OF POUNDS 3 BILLION, WITH THE PROSPECT OF A SIMILAR SURPLUS NEXT YEAR. THE REDUCTION IN THE TOP TAX RATE REPRESENTED A MAJOR ADVANCE. BRITAIN AND JAPAN WERE FOSTERING WEALTH-CREATION THROUGH COMPARABLE ECONOMIC POLICIES. MR TAKESHITA SAID THAT THE SUCCESS OF UK ECONOMIC POLICY HAD BEEN WIDELY NOTED IN JAPAN, WITH ITS STRESS ON FREE COMPETITION, THE CREATION OF FRESH LINKS BETWEEN INDUSTRY AND CENTRES OF HIGH TECHNOLOGY, THE PROMOTION OF SMALL AND MEDIUM-SIZE ENTERPRISES, AND THE RE-VITALISATION OF THE REGIONS. ALL THESE HAD MADE A PROFOUND IMPRESSION IN JAPAN, AS WITNESSED IN AMBASSADOR YAMAZAKI'S 'OLYMPIC MEDAL' REFERENCE TO THE UK'S ECONOMIC ADVANCE.

4. PRIME MINISTER TAKESHITA WENT ON TO SAY THAT HE HAD BEEN GLAD TO WELCOME SIR G HOWE IN TOKYO AND LOOKED FORWARD TO HIS OWN VISIT TO LONDON IN EARLY MAY. LORD YOUNG REPLIED THAT HE HAD BEEN ASKED BY THE PRIME MINISTER TO STRESS THAT MR TAKESHITA WOULD BE WARMLY WELCOMED IN LONDON.

5. COMMENTING ON HIS OWN VISIT, LORD YOUNG SAID THAT HE, AND THE TOP-LEVEL BUSINESS TEAM WITH HIM, WERE OPTIMISTIC ABOUT THE PROSPECTS FOR INCREASED TRADE AND INVESTMENT BETWEEN THE UK AND JAPAN. OVER 75

JAPANESE COMPANIES HAD ALREADY INVESTED IN THE UNITED KINGDOM. THERE WAS ALSO SOLID EVIDENCE OF UK INVESTMENT IN JAPAN: GUINNESS, FOR INSTANCE, WERE MAKING AN ANNOUNCEMENT ON 16 MARCH OF THE ESTABLISHMENT OF A NEW JAPANESE SALES SUBSIDIARY.

6. TURNING TO HIS DISCUSSIONS WITH OTHER JAPANESE MINISTERS, LORD YOUNG SAID THAT HE HAD BEEN GRATEFUL FOR THE WELCOME HE HAD RECEIVED FROM HIS JAPANESE COUNTERPARTS. HE REGRETTED THAT NO MEETING WITH FINANCE MINISTER MIYAZAWA HAD PROVED POSSIBLE: HAD A MEETING BEEN FEASIBLE, HE WOULD HAVE WISHED TO MAKE A PARTICULAR POINT ABOUT THE TAXATION OF SCOTCH WHISKY, AND ON THE ADMISSION OF UK FIRMS TO THE TOKYO STOCK EXCHANGE, AS TWO IMPORTANT ISSUES OF UNFINISHED BUSINESS. MR TAKESHITA REPLIED THAT AS A PREVIOUS FINANCE MINISTER HE WAS FAMILIAR WITH THESE ISSUES: HE PROMISED TO MAKE CLEAR TO MIYAZAWA THE CONTINUING IMPORTANCE ATTACHED TO THEM IN THE UNITED KINGDOM.

7. IN CONCLUDING A WARM SERIES OF EXCHANGES, BOTH LORD YOUNG AND MR TAKESHITA NOTED THE FUTURE PROSPECTS FOR INCREASED COOPERATION BETWEEN JAPAN AND THE UK IN ALL COMMERCIAL FIELDS.

## ADVANCE COPIES:

NO 10: PS/ PRIME MINISTER

FCO: PS/SECRETARY OF STATE, COOPER MISS SPENCER

DTI: PS/SOS, PS, MFT, SIR B HAYES, C W ROBERTS, COOKE, OT2, HALL, OT2, JONES, OT2

WHITEHEAD

YYYY

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JAPAN POLITICAL AND ECONOMIC  
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HD/ECD(E)  
HD/TRED  
MR GILLMORE

MR MCLAREN  
MR D JONES OT2/DTI VIC ST  
PS NO 10 DOWNING ST  
PS/SECRETARY OF STATE  
DTI VIC ST

NNNN



PAGE 2  
CONFIDENTIAL

Prime Minister (2)  
C 00 1573  
EMBASSY OF JAPAN  
46 GROSVENOR STREET  
LONDON W1X 0BA

11th March 1988

Dear Prime Minister,

RIS  
ms

I should like to say how pleased and privileged I was to have a meeting with you this morning at the end of my mission as Japanese Ambassador to the United Kingdom.

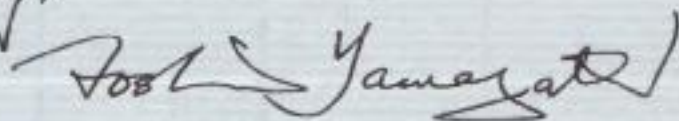
I found our exchange of views to be most fruitful and rewarding and I shall be reporting back to Prime Minister Takeshita as he prepares for his forthcoming visit to this country.

For myself, I leave London with a sense of satisfaction at the sound state of Anglo-Japanese relations. I am looking forward to maintaining my interest in the United Kingdom when I am back in Japan.

May I take this opportunity to thank you very much for the charming signed photograph of your goodself which was handed to me as I left No. 10, Downing Street.

With kind personal regards,

Yours sincerely,



Toshio Yamazaki  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.



File  
RESTRICTED

DA1 BST  
cepc

Meeting record  
Subject  
ce master



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

11 March 1988

#### FAREWELL CALL BY THE JAPANESE AMBASSADOR

I should record that the Japanese Ambassador paid a brief farewell call on the Prime Minister this morning.

The Prime Minister complimented Mr. Yamazaki on his very considerable achievements as Ambassador in London and thanked him for all the help which he had given us. She also expressed appreciation for the very vigorous part which Mrs. Yamazaki had played. The Prime Minister recalled that she was a great admirer of Mr. Nakasone and was much looking forward to meeting Mr. Takeshita in May. Referring to progress made during Mr. Yamazaki's time in London, the Prime Minister singled out Cable and Wireless, the seats which had been allocated to British firms on the Tokyo Stock Exchange and the considerable increase in Japanese investment in the United Kingdom. There was still much to be done to open Japan's market to foreign exports and we hoped in particular to see early action on the question of whisky. There was also the problem of agricultural subsidies to be dealt with in the GATT. But overall there had been important progress and Mr. Yamazaki could take great credit for it. The Prime Minister added that she was pleased by the way in which the United Kingdom/Japan 2000 Group had developed.

Mr. Yamazaki said that he had enjoyed his time in London. He hoped to be able to continue to work for the promotion of Anglo-Japanese relations after his retirement. He had noted very important changes in the United Kingdom's economy during the three years he had been Ambassador here and had tried to convey this impression in his recent speech. The Prime Minister commented that she had read the speech and much appreciated it. Mr. Yamazaki continued that the Japanese economy was changing rapidly, with domestic demand expanding fast. Japan was trying to play a responsible role. He was pleased to be able to say there appeared to be no political problems between the two Governments. Indeed consultation was very good.

The Prime Minister wished Mr. Yamazaki well in his retirement.

I am copying this letter to Alison Brimelow (Department of Trade and Industry), Alex Allan (HM Treasury) and to Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

R. N. Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.

CONFIDENTIAL

PRIME MINISTER

FAREWELL CALL BY THE JAPANESE AMBASSADOR

The Japanese Ambassador will pay a farewell call tomorrow morning.

You might thank him for the very considerable effort which he has put in to resolving our trade problems. You might also say a word about Mrs Yamazaki's active role here.

You should mention your high regard for Mr Nakasone and say how much you look forward to welcoming Mr Takeshita for talks and dinner on 4 May.

You could express appreciation for the steps which Japan has taken to allow the yen to strengthen and to expand domestic demand, and welcome the progress on some bilateral issues such as Cable & Wireless and seats on the Tokyo Stock Exchange. You are also pleased with the growth in Japanese investment here.

But much remains to be done to change Japanese attitudes towards imports. A satisfactory solution to the whisky problem is urgent. You hope he will report to Mr Takeshita your concern about this.

You might have a word about the Toronto Economic Summit.

Finally we are looking forward to Prince Aya coming to Oxford (St. John's) for two years in the autumn.

C.D.P.

Charles Powell

10 March 1988

MJ2CCV

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cc PC  
BU p



Foreign and Commonwealth Office

London SW1A 2AH

10 March 1988

*Don Clark*

Farewell Call by Japanese Ambassador

Mr Yamazaki pays a farewell call on the Prime Minister on Friday 11 March at 11.15. He leaves his post the following day and will be retiring from the Diplomatic Service.

Mr Yamazaki has worked tirelessly during his three years as Ambassador. He has put considerable personal effort into resolving longstanding trade problems; it would be suitable for the Prime Minister to thank him for his contribution. A word about Mrs Yamazaki's vigorous support would be well received.

As the Foreign Secretary has reported, Japan is changing: there is a growing awareness that financial power brings responsibilities. For the UK there are opportunities, for exports (which grew 25% last year), for investment and for scientific and technological collaboration. Some progress has been made on bilateral trade issues over the last year (notably Cable and Wireless and Tokyo Stock Exchange). The Prime Minister might like to remind Mr Yamazaki that, whilst we welcomed the four seats on the Tokyo Stock Exchange for British companies in 1987 we take the view that all qualified applicants should be given seats. Our current priority is a seat for BZW at an early date.

The Prime Minister could also repeat our concern that there should be a satisfactory solution to the whisky problem as soon as possible. During the Foreign Secretary's visit in January the Japanese undertook to provide detailed proposals on how they would respond to the GATT report in the EC's favour before the Toronto Summit. Mr Yamazaki has already indicated that he will report to his Prime Minister on British concerns about this on his return: it would be helpful if the Prime Minister could re-inforce the pressure already applied on this subject.

/Mr Takeshita

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Mr Takeshita visits the UK from 3-5 May. He will be having talks with the Prime Minister on 4 May. She may wish to say that she looks forward to the visit and to doing business with Mr Takeshita. The talks will probably cover the broader themes of the world economy and East/West relations as well as bilateral topics. The Japanese economy is currently performing well (as usual) and it is welcome that growth is now being generated entirely by domestic expansion.

Prince Aya (formally known as Prince Fumihito), second son of the Crown Prince of Japan, will spend two years studying for a post graduate degree at St John's College, Oxford, from this Autumn following in the footsteps of his brother, Prince Hiro, who was at Merton from 1983 to 1985. This has not been announced publicly. But the Prime Minister may wish to welcome the Prince's choice which reflects the Imperial family's long standing links with the UK and which will help maintain relations between the Imperial family and the Royal family (which has often proved an asset in promoting our relations, not least commercial).

I am enclosing a short note on Mr Yamazaki.

*Yours ever*

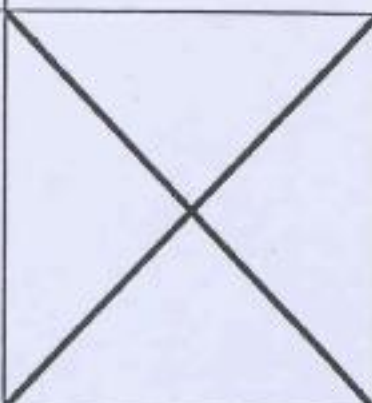
A handwritten signature in blue ink, appearing to read 'R N Culshaw'.

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street

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# **A** The National Archives

DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>2285</i> ..... (one piece/item number)	Date and sign
Extract details:  <i>Attachment to Culshaw to Powell dated 10 March 1988</i>	
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the department for Enterprise

*gpc*

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

*NBM*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*REC6  
10/3*

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422

Our ref PS1ALT

Your ref

Date 8 March 1988

*Nigel*

As you know, I shall be visiting Japan from 10-16 March, primarily to give impetus to our Opportunity Japan campaign. I will also be calling on the Minister of Finance, the Tokyo Stock Exchange and BZW to underline our support for the British candidates who applied for membership of the Tokyo Stock Exchange. Because you, Geoffrey Howe and Robin Leigh Pemberton all have direct interests in this matter, you should know the terms in which I shall raise it in Tokyo: these have been the subject of discussion between our officials and with the Bank of England.

I shall, of course, welcome the progress made so far in the liberalisation of Tokyo's financial markets. But I intend to emphasize the political sensitivity in Britain of restrictions placed in the way of British firms hoping to do business in Japan. Whilst acknowledging our satisfaction in seeing four British firms gain membership of the Tokyo Stock Exchange, I will express concern that two British candidates failed to qualify - subject to the nuance of James Capel's Hong Kong parent. I will repeat our objective that all British firms which qualify should be admitted to the Tokyo Stock Exchange. I shall make a point of telling the Tokyo Stock Exchange and the Minister of Finance that BZW would be qualified (in terms of the TSE's own requirements) within the next few months: I shall seek confirmation accordingly that the TSE would not delay BZW's membership if BZW were able to acquire an existing seat.


the  
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I shall also want to obtain Miyazawa's confirmation that his Ministry would endorse - and support - an arranged acquisition of BZW of an existing TSE seat at a reasonable price. I should point to the aspirations of Nomura and Daiwa to become market makers in the gilt-edged market in London, indicating that whilst they may satisfy the Bank's technical requirements, the timing of their admittance to gilt-edged market making is likely to depend on progress with BZW in Tokyo. Nomura and Daiwa are already well aware of this.

I shall look to Miyazawa to ensure that the negotiations which BZW will now seek to establish with Nomura and Daiwa have the support of his Ministry. I will put it to him that we wish to have, by the time of the planned Bilateral Financial Consultations between our two countries on 21 April, a commitment that BZW will be able to acquire membership on reasonable terms within the next 12 months. If there is failure to obtain by then a satisfactory commitment, Japanese membership of the gilts market is likely to be delayed. On the other hand, I hope to assure him that if satisfactory assurances are given and tangible progress is in prospect, the Bank's arrangements will go ahead as planned.

I shall, of course, be guided by Sir John Whitehead in Tokyo on the public presentation of our support for BZW, but I firmly intend that the substance of my discussions with the TSE and the Ministry shall remain private. In particular, I shall want the theme of my visit presented positively, with the emphasis on the collaborative spirit which should now characterise Anglo-Japanese relations.

I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs and to the Governor.







the department for Enterprise

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref PS1AJU  
Your ref  
Date 1 March 1988

N-BPM

REC 6

1/3

NISSAN

Thank you for your letter of 12 February.

There is nothing between us on the question of resources for the Nissan project. You recognise my right to make bids in the coming Survey for any of my programmes, including regional assistance. On that understanding, I can confirm that there would be no question of my making an explicit bid for support for the Nissan project, and that I would plan to meet the costs of this project from whatever level of provision John Major and I agree for RSA as a whole.

I am, however, concerned at your line on cash limited offsets. Given an effective commitment limiting system - which my correspondence with John Major shows that I am determined to achieve - full offsets against completely unrelated cash limited expenditure programmes cannot be justified even as a crude control mechanism. Expenditure beyond the RSA guidelines will not now generally lead to an equivalent call on the Reserve via the non-cash limited RSA provision. An



imposed saving on a cash-limited Vote would then lead to the bizarre consequence that Treasury endorsement of the merits of a particular element of public expenditure would lead to a net reduction in public expenditure totals.

The RSA control system is already going to be fully discussed in the coming Survey. If despite the above arguments you still feel some special regime for above guidelines cases is appropriate, the issue is best discussed in that forum, both in principle and in relation to Nissan, where there were additional factors in the decision.

I am sending a copy of this letter to the Prime Minister.

John  
Hain

JAPAN: Relations

Pg 7



CF?

from: Lord Chilver

Cayley Lodge  
Cranfield  
Bedford MK43 0SX

tel: (office) 0908 674444  
(home) 0234 750494

24 February 1988

Mrs Tessa Gaisman  
Private Secretary  
10 Downing Street  
London SW1A 2AA

Dear Mrs Gaisman

Thank you for your letter of February 19.

It is very good of you to arrange the meeting on March 23, and I look forward to seeing the Prime Minister at 11.30 that morning.

Yours sincerely

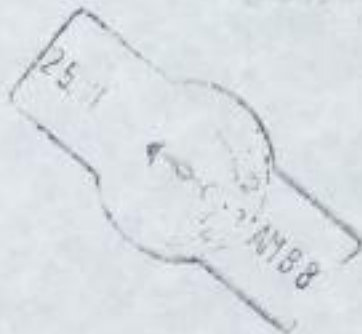
Henry Chilver

Lord Chilver

✓  
24 26/2

From the Japanese

From the Japanese  
From the Japanese



# UK - JAPAN 2000 GROUP

**Directors:**

The Rt Hon the Lord Jenkin of Roding (Chairman),  
Sir Kenneth Berrill KCB,  
Admiral Sir James Eberle GCB,  
Sir Trevor Holdsworth,  
Hon William McAulpine,  
The Rt Hon Bruce Millan MP,  
Sir Edwin Nixon CBE DL,  
The Rt Hon Sir Michael Palliser GCMG,  
Sir Peter Parker MVO,  
The Rt Hon Lord Prior PC,  
Sir Julian Ridsdale CBE MP,  
The Rt Hon John Smith QC MP,  
Sir Michael Wilford GCMG

From: THE RT. HON. THE LORD JENKIN OF RODING  
15 OLD BAILEY  
LONDON EC4M 7AP  
Tel. 01-329 4454 (Fax. No. 01-329 4402)

24th February 1988

CF  
R25/2 PPS

The Rt. Hon. Mrs. M.H. Thatcher, M.P., F.R.S.,  
Prime Minister,  
10 Downing Street,  
LONDON SW1A 2AA.

Dear Margaret,

Thank you for your letter of 19th February which I will circulate to those who attended the Elvetham Hall conference. It is most encouraging that we continue to have your keen support for our efforts and activities.

Your ever  
Patul

THE JAPAN 2000 GROUP



COMPILERS



*file 10*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

19 February 1988

Following my conversation with your office, this is just to confirm that the Prime Minister is looking forward to seeing you at 1130 on Wednesday 23 March here at Downing Street.

*Time changed to  
11.00 a.m.  
by telephone  
17/3*

*B/H*

MRS. TESSA GAISMAN

The Lord Chilver

*OK*





CFPPJ ✓  
also

10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

19 February 1988

Dear Patude,

Thank you for your letter of 22 January. I am very glad that the UK/Japan 2000 Group Conference was such a success and that the Group does not confine itself to discussion but also takes an interest in practical ways of improving contacts between the UK and Japan.

I agree that our undergraduates should have the opportunity to acquire proficiency in spoken Japanese. Following the Parker Report the number of students graduating in Japanese will rise from 50 to 70. At university level the proposals for a Universities Funding Council (UFC) have been designed to make the system more responsive to the needs of industry and commerce. I expect that the Council will want to carry through the work initiated by the Parker Report and consider carefully how the university system can best respond to changes in Britain's trade relations.

The high cost of travel between Tokyo and London is bound to be a disincentive to extending contacts. We must certainly renew our efforts to reduce air fares between Japan and the UK. I understand that you are already in touch with Paul Channon about this.

✓

Your report mentioned a number of other areas where you are promoting further UK/Japan exchanges, such as the environment. This is welcome: the more so if it leads to concrete results in terms of trade.

I shall continue to follow the work of the Group closely and wish you every success.

*Y  
Lorenson  
Ragwell*

The Right Honourable Lord Jenkin of Roding.

R19/2



Foreign and Commonwealth Office

London SW1A 2AH

18 February 1988

*Dear Charles*

UK/Japan 2000 Group

*at Har*

Thank you for your letter of 25 January enclosing a copy of a letter to the Prime Minister from Lord Jenkin about the recent meeting of the UK/Japan 2000 Group. I attach a draft reply incorporating contributions from the Department of Education and Science, the Department of Transport, and the Department of Environment.

I am copying this letter to the recipients of yours.

*Yours ever*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:  
Prime Minister

Reference

*TG 12/11*

DEPARTMENT:

TEL. NO:

DT8AAL

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TO:

Your Reference

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- Secret
- Confidential
- Restricted
- Unclassified

The Rt Hon Lord Jenkin of Roding  
Chairman UK/Japan 2000 Group

Copies to:

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SUBJECT:

.....In Confidence

Thank you for your letter of 25 January. I am <sup>very</sup> glad that the UK/Japan 2000 Group Conference was <sup>quite</sup> successful, <sup>and</sup> <sup>very</sup> <sup>useful</sup>.

CAVEAT.....

~~It is good to see that the 2000 Group does not confine itself to discussion but also takes an interest in practical ways of improving contacts between the UK and Japan. I share your view that the areas of immediate concern for the Group which you mention are important.~~

I agree that our undergraduates should have the opportunity to acquire proficiency in spoken Japanese. Following the Parker Report the number of students graduating in Japanese will rise from 50 to 70. At university level the proposals for a Universities Funding Council (UFC) have been designed to make the system more responsive to the needs of industry and commerce. I ~~expect to see the UFC giving serious consideration to the~~

Enclosures—flag(s).....

~~number of students of Japanese.~~ I expect that the Council will want to carry through the work initiated by the Parker Report and consider carefully how the university system can best respond to changes in Britain's trade relations.

The high cost of travel between Tokyo and London is ~~indeed~~ <sup>bound to be</sup> a major disincentive to extending ~~the~~ contacts between our two countries. We must certainly renew our efforts to reduce air fares between Japan and the UK. I understand that you are already in touch with Paul Channon about this.

Your report mentioned a number of other areas where you are promoting further UK/Japan exchanges, such as the environment. This is welcome : the more so if it leads to concrete results in terms, ~~for example,~~ of trade.

I shall continue to follow the work of the Group closely and wish you every success.

I am copying this letter to Geoffrey Howe, David Young, Paul Channon, Nicholas Ridley, William Waldegrave and Angela Rumbold.

CWA

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



*MBM*  
*REC*  
*10/2*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

12 February 1988

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

*John Major*

**NISSAN**

Thank you for your letter of 18 December, to which I have delayed responding until the outcome of your discussions with John Major on cash limiting of Regional Selective Assistance was clear.

I am unwilling to waive the conditions attached to my earlier agreement to the very generous offer of further regional assistance to Nissan. I must reiterate that this was on the basis that the offer would not generate a bid for additional resources, ie that you will plan to meet expenditure under it from within your existing provision. Whereas you are, of course, free to make bids for any of your programmes as part of the normal Survey process, I cannot accept decisions to support particular projects which leave open the source of the required funds.

Nor, unless you are able to give a cast iron guarantee that under commitment limiting you will never seek additional resources, can I accept that the introduction of this system for Regional Selective Assistance overturns the established arrangements under which support for projects above guideline levels must be matched by a corresponding reduction in a cash limited vote. In addition to providing a counter-balance to expenditure demands arising from such offers the arrangement provides a valuable financial discipline by bringing into sharp focus questions of priorities and value for money whenever such support is considered.

I am copying this letter to the Prime Minister.

*Nigel Lawson*  
NIGEL LAWSON



JAPAN: relations pt 7.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

My ref:  
Your ref: C/PSO/868/88

*cepc*

Robert Culshaw  
PS/Foreign Secretary  
FCO  
LONDON  
SW1

- 1. *cc Mr Power*
- 2. FED *advising please*  
*cc PS*  
*cc Mr Nicholas*  
*MAED*

*CDD*

- 5 FEB 1988

*Dear Robert*

*gh*

*cc 9/2*

UK-JAPAN 2000 GROUP

Charles Powell at No. 10 copied to us his letter of 25 January to you seeking advice on the letter the Prime Minister has received from The Rt Hon Lord Jenkin of Roding which touches upon the need for lower air fares between Japan and the UK.

Lord Jenkin has also written to my Secretary of State about air fares between UK and Japan, seeking a meeting. In these circumstances, I suggest that the Prime Minister need comment only briefly on the subject in her reply. You might include something along the following lines in the draft to No. 10:

"I agree that we should renew our efforts to reduce air fares between Japan and the UK. I understand that you are already in touch with Paul Channon who is looking into the matter."

I am copying this reply to the other recipients of Charles Powell's letter.

*Yours sincerely*

*Jenny McCusker*

JENNY MCCUSKER  
Private Secretary



JAPAN: Relations Pt 7.



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

5 February, 1988.

**THE JAPANESE AMBASSADOR**

76 // Thank you for your letter of 4 February about the departure of the Japanese Ambassador and the possibility of a farewell call on the Prime Minister. The Japanese Embassy had in fact already approached me direct about this, and we have proposed 1115 on Friday, 11 March. You will no doubt let me have briefing nearer the time.

(C.D. Powell)

R.N. Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

file  
to  
bc. pc.

h

1

cc Mrs. Gaisman

PRIME MINISTER

1115  
Friday  
11/15

fella  
Can you give me  
a time please  
CDP

JAPANESE AMBASSADOR

The Japanese Ambassador has asked whether he may call to take his leave of you before his departure on 12 March. He seeks only 15 minutes.

Agree that we should find a time?

CDP

Yes mt

(C. D. POWELL)

4 February 1988

CJPC



Foreign and Commonwealth Office /

London SW1A 2AH

4 February 1988

Dear Charles

The Japanese Ambassador

Mr Yamazaki, the Japanese Ambassador, leaves his post in London and returns to Tokyo on 13 March. We understand that he is likely to be in touch with you about the possibility of a farewell call on the Prime Minister.

Although the Prime Minister does not normally receive Ambassadors, there are two reasons for treating Mr Yamazaki's case differently. First, distance and difficulties of communication with the Japanese make it important that Sir John Whitehead should be able to maintain his good access in Tokyo. He has seen Mr Takeshita twice in recent months and was able to put across our views on whisky at a critical point in the Japanese decision-making process. For the Prime Minister to see Mr Yamazaki would help maintain our Ambassador's good access.

THIS IS A COPY. THE ORIGINAL IS  
RETAINED UNDER SECTION 3 (4)  
OF THE PUBLIC RECORDS ACT

Gans

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street

Lord JENKIN  
8/2



(13)

ech

1) 9/2

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

25 January 1988

**UK-JAPAN 2000 GROUP**

I enclose a copy of a letter to the Prime Minister from Lord Jenkin about the recent meeting of the UK-Japan 2000 Group. It covers a number of topics and has been circulated to DTI, DOT, DOE and DES as well as the FCO.

I should be grateful if you would coordinate a draft reply from the Prime Minister, picking up the various points as necessary.

I am copying this letter to Alison Brimelow (Department of Trade and Industry), Roy Griffins (Department of Transport), Roger Bright (Department of the Environment), Helen Ghosh (Mr. Waldegrave's office, Department of the Environment) and Jim Johnstone (Mrs. Rumbold's office, Department of Education and Science).

{Charles Powell}

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

PRIME MINISTER

df

The attached letter from Lord Chilver refers to his discussion with you in the margins of the UK Japan 2000 Group lunch. Would you like me to find out some more details of what he wants to discuss with you?

PA

P. A. Bearpark  
25 January 1988

Will see him  
me

11.30  
25 Jan 88

JAPAN: relations (PT)



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

25 January 1988

I am writing to thank you for your letter of 22 January to the Prime Minister. I shall of course show this to her. But I am sure she will want to assemble the comments of colleagues before sending a reply. So I hope you will bear with us for a while.

(Charles Powell)

The Rt. Hon. Lord Jenkin of Roding



# UK - JAPAN 2000 GROUP

Directors:

The Rt Hon the Lord Jenkin of Roding (Chairman),  
Sir Kenneth Berrill KCB,  
Admiral Sir James Eberle GCB,  
Sir Trevor Holdsworth,  
Hon William McAlpine,  
The Rt Hon Bruce Millan MP,  
Sir Edwin Nixon CBE DL,  
The Rt Hon Sir Michael Palliser GCMG,  
Sir Peter Parker MVO,  
The Rt Hon Lord Prior PC,  
Sir Julian Ridsdale CBE MP,  
The Rt Hon John Smith QC MP,  
Sir Michael Wilford GCMG

From: THE RT. HON. THE LORD JENKIN OF RODING  
15 OLD BAILEY  
LONDON EC4M 7AP  
Tel. 01-329 4454 (Fax. No. 01-329 4402)

223  
22nd January 1988

The Rt. Hon. Mrs. M.H. Thatcher, M.P., F.R.S.,  
Prime Minister,  
10 Downing Street,  
LONDON SW1A 2AA.

*Dear Prime Minister,*

Your kindness in entertaining the members of the UK-Japan 2000 Group to lunch on Monday was greatly appreciated and I have been asked to say by many of those present how much they applauded your words of welcome and encouragement. We were particularly impressed by the way you spoke of the role of our two countries in handling a range of international issues of common concern in the light of current difficulties in the United States. Your belief that we should act in partnership to help the United States to maintain its leading role in the free democratic world was very well received. We were also delighted that you indicated that if Mr. Takeshita were able to visit London before the Toronto Summit, he would be more than welcome. Following the very successful visits of Geoffrey Howe to Japan and Minister Tamura to London, this can only strengthen the co-operation we all wish to see between our two countries.

In my remarks I should have thanked you for your kind message to the conference in your letter of 4th January. We certainly had the "stimulating and productive" meeting which you hoped for.

In my brief remarks on Monday, I mentioned two or three of the immediate concerns which the Group have, notably the need to extend the teaching of each other's language in order to improve communications at many levels in society and the problem of high air fares between London and Tokyo. On the former, we are in discussion with Angela Rumbold and with the several university departments involved. Some progress has been made via a modest allocation from the "Parker monies" but, as I said, we are convinced that more needs to be done. It is clear from the response I am getting to my letter in The Times last week on this subject that there is a widespread wish to see more opportunities offered to students to acquire proficiency in spoken Japanese as a reinforcement for our commercial and financial attack on their markets.

On the question of air fares, I have to say that it really is a scandal that, as Geoffrey Howe pointed out in his splendid speech in Tokyo, it costs twice as much per passenger mile to fly from Tokyo to London as it does from Tokyo to New York. I have had many discussions with the Department of Transport and the airlines over the last two years, but it is clear that we shall have to return to the attack. The merger of British Airways and British Caledonian removes an element of competition which, it was hoped, would in time lead to lower fares. I will take this matter up with Paul Channon once again. There is no doubt whatever that the high cost of travel is a major disincentive to extending the contacts for which both Geoffrey Howe and the 2000 Group are aiming.

David Young has already offered us a further meeting with himself and others in his Department to follow up some of the matters we discussed at Elvetham Hall, prior to his visit to Japan with a group of businessmen. I will also seek an opportunity to discuss with Geoffrey Howe the broader international issues which formed an important part of our dialogue at our conference.

I mentioned on Monday that we had a very interesting discussion on the parallels and contrasts between our two countries in the field of urban and regional development and that we want to see a wide extension of contact and discussion at various levels in both countries. I shall be writing in due course to Nicholas Ridley and William Waldegrave and will also be approaching a number of professional bodies and institutes who may be interested in following this up. In the first instance there is a firm proposal that the current discussions going on between bodies in Tokyo and New York on a range of urban issues should be extended to bring London in too.

I know that we can count on your support for this follow-through to the Elvetham Hall meeting. It seems possible that the next meeting of the Group, due to take place in Japan in 1989, will be held in Kyoto and that in the following year we will try to arrange the meeting in Scotland. It is very important that we are not seen as simply based in the two capitals.

Thank you again for your kind hospitality and for your inspiring message. I am copying this letter to Geoffrey Howe, David Young, Paul Channon, Nicholas Ridley, William Waldegrave and Angela Rumbold.

With kind regards

Yours ever

P.  
Patrick



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PM/88/005

PRIME MINISTER

Japan

1. I promised you and colleagues a report on my visit to Japan. Apart from Mr Uno, the new Foreign Minister, I met the Prime Minister, Mr Tamura of MITI, Mr Miyazawa the Finance Minister, and Mr Nakasone, as well as leaders of the ruling Liberal Democratic Party, of the Keidanren (the Japanese CBI) and of Japanese business and academic groups.

2. This was a valuable opportunity to promote the British interests which my paper had identified. I concentrated especially on:

- Japan's macroeconomic responsibilities
- British exports, and Japanese inward investment
- Japan's increasing political role.

3. In each of these three areas I underlined, privately and publicly, the need for plain speaking. My interlocutors responded to this better than I expected. Not just the lively intellectuals, but those holding key Ministerial portfolios. It is much less of a dialogue with the deaf than when I first went 15 years ago. I

/stressed

② cc, pk

Prime Minister

COO  
22/11

ms.



CONFIDENTIAL

stressed that our continuing pressure on them was not inspired only by UK national interest but also by a belief that it is in Japan's own interest to make the necessary changes. This message got through.

4. Let me deal with the three areas in turn. First, economic policy. Nakasone, who remains influential, has had a real impact. More and more the Japanese recognise the need to adapt their own economy. It is encouraging that their growth last year was based on domestic expansion, not exports as hitherto. These are signs that they will follow the same pattern this year. Some of the senior figures in the LDP talked frankly about the need for structural reform in agriculture and other sectors of the economy (but we must judge them by their deeds).

5. This change of outlook has particularly affected their view of America. In the past they have been largely content to rely on American economic leadership: but they are deeply alarmed by the US Administration's failure to grapple with the Federal deficit (which they are largely financing), and increasingly aware that their own economic strength gives them a responsibility - and a power - in the world greater than they have hitherto sought or acknowledged. There is also a growing realisation that the world economy needs support from Japan if a recession is to be avoided: this point was made explicitly to me by their Prime Minister and Finance Minister.

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6. Our export opportunities should be judged against this background. The strikingly high calibre British business representatives whom I met were at pains to tell me that they are optimistic. Our exports have increased by 50% over the last two years, although from much too low a base. There are already encouraging success stories (ICI, Glaxo, United Biscuits, even Austin Rover). The formal barriers in the way of Japanese imports have much diminished. The Japanese market will continue to be difficult; the Japanese people are still not used to buying foreign goods; Japanese firms are intensely competitive in their own market and foreign firms are as anxious as our own to break into what is already an increasingly lucrative market. Our businessmen stressed to me that to succeed, British companies need to make a deliberate commitment to Japan extending over many years; but they were clear that the opportunity is now there if companies are willing to take it.

7. It will not be easy. We are struggling to overcome entrenched habits of thought. Japan, especially outside Tokyo, remains an intensely conservative society, and there are strong political pressures against change, for example in agriculture. I saw this for myself during a valuable 24 hours on Kyosho island.

8. That is why I pressed strongly both in private and to the media for further admissions to the Tokyo Stock Exchange and for the details of Japanese plans for tax reforms to meet our demands on whisky. (At the same time, I acknowledged that they had in the end responded



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over Cable and Wireless.) They accepted that Japan should in future tackle legitimate complaints of this kind much quicker. All these items, and the wider economic requirements, will be on David Young's agenda when he goes in March. I am sure that John Whitehead, who obviously enjoys excellent access himself, will set up an admirable programme and that the Embassy will give the same professional support as I received.

9. Finally, I discussed the key political issues where we are looking for sustained Japanese cooperation: particularly the Gulf, aid to sub-Saharan Africa, and the management of East/West relations. Here too I detected unease among the Japanese about what has up to now been the bedrock of their attitude to the outside world, their reliance on American leadership. At last they know that Pax Americana is not enough.

10. In all this, I am struck by the way in which Japanese leaders are now asking themselves new questions - about their role in the world, about the nature of their responsibilities and about the political consequences of their great economic power. They demonstrate a new found and refreshing readiness to talk frankly. They are looking to Europe, especially to Britain. By plain speaking we can exercise a key influence. By skilful and persistent pressure we can advance our commercial and political interests in Japan. It is well worth the effort. I shall be in close touch with David Young about all this as he prepares for his own visit.

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11. I am copying this minute to Cabinet colleagues and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
21 January 1988

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dti

the department for Enterprise

o/f

215/1  
②

RESTRICTED

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

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01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref DW5CNC  
Your ref  
Date 15 January 1988

set

Prime Minister

You may wish to  
mention this to  
Mr. Tamura tomorrow.

o/f

Dear Charles

JAPAN

You asked for advice on the article in the Daily Mail dated 4 January about discrimination against foreign cars at Japanese car parks.

The situation described in the Daily Mail reflects Japanese local authority practice which has been drawn to our attention and which has been taken up vigorously with the Japanese government. The target appears to be large, ostentatious, American cars associated with Japanese gangsters. We are tackling the discrimination against us through the EC discussions with Japan on problems identified by the car industry. As a result of this pressure the Japanese Government recently issued directions to prefectal authorities and there are already marked signs of improvement in Osaka and in Hokkaido. With the assistance of UK manufacturers represented in Japan, including Austin Rover, the Embassy in Tokyo is continuing to monitor the situation, and we will make further vigorous representations should this problem continue.



**dti**

the department for Enterprise

It is not clear how much of a real barrier to exports this discrimination is, but its removal is an important psychological point.

*Jan Vincer*

*Alison Brimelow*

ALISON BRIMELOW  
Private Secretary



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 Victoria Street  
London SW1H 0ET

Telephone (Direct dialling) 01-215 ) 5422  
GTN 215 )  
(Switchboard) 215 7877

TRR Powell

The attached should  
have been attached to

*With the Compliments of the*

Private Secretary to the  
Secretary of State for Trade  
and Industry

Alison Brimelow's  
letter of 15/1 re: Japan.

Ann Heath.

# US-Japan trade deal upsets Europeans

By Bailey Morris in Washington, David Watts in Tokyo and Andrew McEwen in London

President Reagan and Mr Noboru Takeshita, the Prime Minister of Japan, held their first meeting in Washington yesterday in an atmosphere eased by last-minute Japanese trade concessions.

But Tokyo's conciliatory moves towards the US set the stage for a new European-Japanese trade dispute. Sir Geoffrey Howe, the Foreign Secretary, said that the Japanese decision to apply the concessions only to America limited their impact and to some extent made them negative.

Just before the Reagan-Takeshita meeting, it was announced that Tokyo was offering special access for American firms to six public works projects in Japan. This appeared to be a response to the Congress, which voted to bar Japanese firms from bidding for US public works projects in retaliation for what Washington said was the impossibility of American enterprises winning contracts in Japan.

After their White House session, the two leaders issued statements in which they pledged commitment to economic co-ordination policies designed to dispel persistent trade and tensions between the dollar and the yen.

For Mr Takeshita, in office for less than three months, the visit was described by Japanese officials as "a baptism by fire". Officials said that the Prime Minister was under strong domestic pressure to duplicate the success of his predecessor, Mr Yasuhiro Nakasone, in forging close ties with the US Administration and other Western leaders.

European firms, also trying to win contracts in Japan for such projects as the new Kansai international airport, are likely to be annoyed at an arrangement which will give an advantage to US firms in such projects as the Tokyo Bay bridge.

Sir Geoffrey said at the end of his tour of Japan that Tokyo's con-

cessions to the Americans demonstrated the need for Japan to be fully open in its foreign trade relations. He added: "The decision to open the opportunity for tendering to United States contractors, while a welcome demonstration of a

Washington (Reuter) — President Reagan will undergo a routine biannual cancer check on Friday, the White House announced yesterday. Mr Marlin Fitzwater, the White House spokesman, said that the tests had been scheduled before Mr Reagan suffered an overnight stomach upset, which the President said was caused by something he ate.

disposition towards more open trading practices, is limited in its impact, and indeed to some extent negative in its impact, by reason of being confined to the United States."

Despite the words of mutual support and the Japanese concessions, trade tensions between

Washington and Tokyo remain high. The Americans did not lift high-technology sanctions aimed at opening Japanese markets, and officials said that further such measures could be imposed if Tokyo did not move quickly to lift barriers to Western goods and services. Anti-Japanese sentiment in Congress is still strong.

In Washington last night, Mr Takeshita acknowledged the criticism of his lack of foreign experience and of Japan's reluctance to take an international leadership role. The Prime Minister said he was determined to build on its "strengthened relations" with the West, "to make Japan a nation that contributes to the world". Mr Reagan, noting the importance of "good personal" relationships between the leaders of the US and Japan, said that they had established an "excellant rapport". But White House officials said that the two leaders were not yet on first-name terms.

The President made special mention of Mr Takeshita's efforts to increase the Japanese defence programme, which included a greater contribution to the maintenance of American forces in Japan.

In addition, he suggested that the Japanese proposal to remove barriers to US participation in public works projects had removed one of the thorniest issues of contention. The proposal was expected to lead to joint ventures with Japanese companies, which would allow US firms to participate, on a "preferential basis", in huge projects, including an \$11 billion (£6 billion) expansion of the port of Yokohama, the \$2.5 billion expansion of Narita Airport, and \$25 billion in other projects.

American officials said that the exchange rate provisions of the statement were "bilateral" in nature, and were meant to ensure that the US Treasury had sufficient resources to act against a "further decline of the dollar."

Monday January 4 1988

*Na Power*

*the evidence*

*Sum ?*

Daily Mail, Monday, January 4, 1988

Daily Mail

# No parking, no 7 sales, no wonder!

DAVID BLUME, head of Austin Rover in Japan, is furious. He has just discovered how the Japanese keep down imports of foreign cars.

It's simple ... Just ban them from municipal car parks. All over Japan foreign cars are banned from 'official' parks.

Japan, which claims to have no import barriers, keeps sales of imported cars strictly limited by this 'effectively hidden' ban, says Mr Blume.

Of the four million new cars expected to be sold in Japan this year, only three per cent. will be imports — and Britain will be lucky to sell

5,000. In contrast, Japan will sell around 211,000 cars in Britain.

'We are preparing a complaint about the wording of signs at parking areas in every town,' says Mr Blume. 'The warning is in parking areas on the outskirts of Tokyo and in virtually every district in Japan. It is discrimination.'

Austin Rover is linked in a manufacturing and sales deal with Honda — who now assemble Rover 800 models. Yet Japanese who buy them will immediately run into parking bans, he said.

MICHAEL KEMP  
LONDON CORRESPONDENT

# Fighting back — after 2 decade of decline

DRAMATIC growth in Britain's car components industry is forecast for this year, after a decade of decline.

Up to 5,000 jobs could be created as car sales continue to boom and more motorists buy British, Albert K. Sharp, a stockbroker in the motor and engineering sectors, forecasts.

He predicts that about two million cars will be sold in 1988 as savings go up and interest rates fall.

Manufacturers see Britain as an efficient, low-cost base for car assembly and components, Sharp reports.

He estimates that British car exports — including those from Nissan's Sunderland plant — will double to 400,000 by 1992.

## Value

Britain's small independent businesses are also enjoying the economic boom.

Commercial valuers Christie and Co today report they are worth an average 25 per cent more than a year ago.

A potential buyer would have to pay 40 per cent more on average for an independently-run hotel, while the value of small High Street stores has gone up by 38 per cent.

Meanwhile, research by Lloyds Bank shows that far from harming growth, the Stock Market crash could boost it.

Cheaper borrowing, following reduced interest rates, will heighten demand for goods, it says.

DAILY Mirror

## Up, Rover 7

RANGE Rover production soared by 44 per cent in 1987 compared with the previous year, it was announced yesterday.

3/2

Japan - Pals



RESTRICTED

*Df A108  
Remy  
median*

150324

MDHIAN 3649

*1st copy for us  
cc Bill/John*

RESTRICTED  
FM TOKYO  
TO DESKBY 150700Z FCO  
TELNO 75  
OF 150222Z JANUARY 88  
INFO DESKBY UKREP BRUSSELS  
INFO IMMEDIATE WASHINGTON

*mt*

YOUR TELNO 46: JAPAN-US AGREEMENT ON PUBLIC WORKS PROJECTS

1. AS WE UNDERSTAND IT AGREEMENT SO FAR IS STILL SUBJECT TO FURTHER NEGOTIATIONS AT WORKING LEVEL AND THEREFORE NOT FORMALLY COMPLETE. DETAILS ARE NOT AVAILABLE BUT OUTLINE IS THAT U S FIRMS WILL BE ALLOWED TO BID ON SIX SELECTED MAJOR PROJECTS UNDER JAPANESE DESIGNATED BIDDING PROCEDURES, SUBJECT TO REMOVAL OF U S BAN ON JAPANESE PARTICIPATION IN U S PUBLIC WORKS PROJECTS. REQUIREMENT OF PERFORMANCE RECORD IN JAPAN WILL BE WAIVED.

2. IN MARGINS OF SECRETARY OF STATE'S VISIT WE SOUGHT ASSURANCE FROM HAYASHI (DIRECTOR, 2ST INTERNATIONAL AFFAIRS DIVISION, MFA) THAT SPECIAL RIGHTS WOULD NOT BE GRANTED EXCLUSIVELY TO U S COMPANIES AND THE ALL FOREIGN COUNTRIES COULD BID ON EQUAL FOOTING. REPLY WAS THAT JAPANESE PROCEDURES WERE NON-DISCRIMINATORY. THE U K OPERATED A SYSTEM VERY SIMILAR TO THAT OF JAPAN, AND FOREIGN COMPANIES WOULD BE EXPECTED TO FOLLOW JAPANESE PROCEDURES. JAPAN WAS STUDYING WAYS OF EASING PATH FOR FOREIGN COMPANIES UNFAMILIAR WITH JAPANESE SYSTEM. KUNIHIRO, PRIME MINISTER'S OFFICE, TOLD THE EC DELEGATION THAT THE AGREEMENT WOULD BE APPLIED ERGA OMNES, BUT ONA RECIPROCAL BASIS.

3. THE ABOVE AND OTHER REPORTED COMMENTS FROM MINISTRY OF TRANSPORT SOURCES SUGGEST THAT JAPANESE INTEND TO MAKE RECIPROCITY A BASIC CONDITION FOR THE U S AND FOR OTHERS.

4. WE HAVE ALREADY SUGGESTED TO EC DELEGATION THAT THEY SHOULD REQUEST AN EARLY EC BRIEFING ON THIS AGREEMENT AS A WAY OF MARKING OUR CONCERN.

*That opens up possibilities for us with Japan - now it's been goods here earlier ones for in one*

5. THE SECRETARY OF STATE, IN REPLY TO A QUESTION AT HIS PRESS CONFERENCE ON 13 JANUARY GAVE A QUALIFIED WELCOME TO THE AGREEMENT AS A SIGN OF FURTHER MARKET OPENING BUT SAID IT COULD HAVE A NEGATIVE IMPACT THROUGH BEING CONFINED TO LIMITED COUNTRIES. IT SHOULD BE EXPANDED TO CREATE A COMPLETELY MULTILATERAL, OPEN POSTURE. VAN AGT, AT REGULAR PRESS CONFERENCE ON 14 JANUARY, SAID THE

COMMUNITY WAS NOT PERFECT IN THIS AREA BUT WAS WORKING TOWARDS A COMPLETELY OPEN INTERNAL MARKET IN 1992. A BILATERAL AGREEMENT COULD CREATE POLITICAL AND PSYCHOLOGICAL DAMAGE.

6. IN LIGHT OF THE ABOVE THERE MAY BE INSUFFICIENT INFORMATION AVAILABLE ON WHICH TO BASE A SUBSTANTIVE DISCUSSION IN 113 COMMITTEE. TODAY HOWEVER A PRELIMINARY DISCUSSION LEADING TO REQUEST TO THE COMMISSION TO SEE, FULL EXPLANATIONS FROM THE JAPANESE AND U S SIDES WOULD BE USEFUL. AS SEE FROM HERE HOWEVER WE NEED TO CLARIFY OUR OWN POSITION ON RECIPROCITY AND THE BASIS ON WHICH THE COMMUNITY IS GOING TO CHALLENGE THIS AGREEMENT. AS WE HAVE REQUESTED ALREADY, WE SHALL NEED MORE ADEQUATE GUIDANCE ON PRINCIPLES AND PROCEDURES IN THE U K IF WE ARE TO MAKE EFFECTIVE REPRESENTATIONS OURSELVES.

7. THE JAPANESE ARE IN FACT MUCH MORE CONCERNED ABOUT LOW COST COMPETITION FROM THE NICS, ESPECIALLY KOREA, THAN EVEN THE U S. MARTIN LAING, CHAIRMAN OF CBI CONSTRUCTION COMMITTEE MADE IT CLEAR TO US RECENTLY THAT U K CONSTRUCTION FIRMS WERE NOT CURRENTLY INTERESTED IN THIS MARKET. HOWEVER SOME BRITISH CONSULTANTS ARE INTERESTED AND ALREADY INVOLVED IN EG THE TOKYO BAY BRIDGE PROJECT. THOUGH WE HEAR STORIES THAT THEY ARE NOT GRANTED CONTRACTS UNLESS A RESPECTABLE SHARE HAS ALREADY BEEN FOUND FOR AMERICAN COMPANIES. EVEN THOUGH IT REQUIRES BUILDING LONG-TERM POSITIONS OFTEN IN PARTNERSHIP WITH JAPANESE COMPANIES, BECAUSE OF ITS ENORMOUS SIZE, WE BELIEVE THIS IS A MARKET IN WHICH THE COMMUNITY INDUSTRY OUGHT TO BE POTENTIALLY INTERESTED, AND WHERE THERE IS THEREFORE AN INTEREST IN PRESERVING THE PRINCIPLE OF ACCESS.

WHITEHEAD

YYYY

DISTRIBUTION

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MAIN 179

JAPAN POLITICAL AND ECONOMIC  
(BACKGROUND)  
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YOUR VISIT TO JAPAN

+③ copy for Mr Diamond

SUMMARY

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1. THIS WAS AN IMPORTANT AND SUCCESSFUL VISIT. OBJECTIVELY THE TIME WAS RIGHT FOR A RADICALLY CHANGED PERSPECTIVE IN ANGLO-JAPANESE RELATIONS: THE DECLINE IN AMERICAN ECONOMIC DOMINANCE A REVITALISED UNITED KINGDOM IN THE FOREFRONT OF A MORE CONFIDENT AND COHESIVE EUROPE, A JAPAN WHICH WAS PLAYING A LARGER AND MORE CONSTRUCTIVE ROLE IN THE MANAGEMENT OF THE WORLD ECONOMY AND IS MOVING TOWARDS GREATER INVOLVEMENT ON THE WORLD POLITICAL STAGE, COUPLED WITH THE RESOLUTION OR EASING OF MOST OF OUR PRINCIPAL BILATERAL TRADING PROBLEMS.

2. YOU CALLED FOR A DYNAMIC PLAIN-SPEAKING PARTNERSHIP BETWEEN THE UNITED KINGDOM AND JAPAN TO WHICH THE JAPANESE RESPONDED WITH ENTHUSIAM. BOTH SIDES RECOGNISED THAT THIS WOULD INVOLVE A TWIN TACK APPROACH: STRAIGHT SPEAKING ON BILATERAL PROBLEMS PLUS A MORE BROADLY-BASED, SERIOUS AND CONSTRUCTIVE DIALOGUE ON WIDER ECONOMIC AND POLITICAL ISSUES. IT WILL BE IMPORTANT TO BUILD ON THIS MAJOR INITIATIVE BY ENGENDERING A GREATER REFLEX OF CONSULTATION WITH THE JAPANESE AND LOOKING FOR ISSUES ON WHICH WE CAN COOPERATE IN A WIDE VARIETY OF FIELDS.

DETAIL

3. YOUR VISIT TO JAPAN FROM 9 - 13 JANUARY WAS IMPORTANT AND VERY SUCCESSFUL. FORMALLY, YOU CAME HERE FOR THE 17TH ROUND OF POST-WAR FOREIGN MINISTERIAL CONSULTATION. BUT THIS WAS A VISIT WITH A DIFFERENCE: CONTEXT, CONTENT AND BREADTH OF CONTACT ALL REPRESENTED A MAJOR AND SIGNIFICANT CHANGE FROM PREVIOUS OCCASIONS. AS YOU TOLD THE PRESS AT THE END OF YOU VISIT, IT MARKED THE BEGINNING OF A NEW, DYNAMIC, PLAIN-SPEAKING PARTNERSHIP INTENDED TO TAKE BRITAIN AND JAPAN WELL INTO THE NEXT CENTURY.

4. THE NEW CONTEXT STEMS FROM CHANGES IN JAPAN AS WELL AS IN THE WORLD AT LARGE. IN PAST YEARS IN THE MACRO-ECONOMIC AND POLITICAL FIELDS



JAPAN'S ACCEPTANCE OF HER INTERNATIONAL RESPONSIBILITIES AS A MAJOR ECONOMIC POWER, PRODUCING ROUGHLY ONE-EIGHTH OF ALL OF THE WORLD'S GOODS AND SERVICES,, HAS BEEN PAINFULLY SLOW. IN THE MICRO-ECONOMIC AND TRADING FIELDS CHANGES IN RESTRICTIVE MARKET PRACTICES HAVE ONLY BEEN MADE IN RESPONSE TO EXTERNAL PRESSURE. MORE RECENTLY FORMER PRIME MINISTER NAKASONE CHARTED A MORE RESPONSIBLE AND CONSTRUCTIVE COURSE TO BE FOLLOWED. ENCOURAGINGLY. PRIME MINISTER TAKESHITA SHOWED HIMSELF DETERMINED TO FOLLOW THROUGH EVEN AS HE TOLD YOU, AT DOMESTIC POLITICAL COST.

5. THE CHANGES IN THE WORLD AGAINST WHICH YOUR VISIT TOOK PLACE CENTRE ON THE WEAKENING OF THE PREDOMINANCE OF THE TWO SUPER-POWERS OUTSIDE THE MILITARY SPHERE. THE JAPANESE ARE INCREASINGLY CONSCIOUS OF THEIR ENHANCED ECONOMIC STATUS. YOU FOUND A COMMON MEASURE OF CONCERN BETWEEN THE UK AND JAPAN ABOUT AMERICAN ECONOMIC POLICY AND STRIKING AGREEMENT, PARTICULARLY FROM FINANCE MINISTER MIYAZAWA, THAT JAPAN SHOULD PLAY HER PART IN STEERING THE WORLD ECONOMY THROUGH A DIFFICULT PERIOD AHEAD. LIKE TAKESHITA HIS CHIEF MESSAGE WAS THAT AGREEMENT AMONG THE LEADING ECONOMIES ON WHAT WAS NECESSARY HAD TO BE FOLLOWED BY ACTION. EVEN AT POLITICAL COST. FACED WITH POTENTIAL UNCERTAINTIES IN THE ECONOMIC POLITICAL AND EVEN DEFENCE FIELDS, THE JAPANESE ARE KEEN TO DEVELOP A CLOSER RELATIONSHIP WITH EUROPE. FOREIGN MINISTER UNO READILY ACKNOWLEDGED THAT THE UK WAS WELL PLACED TO PLAY A KEY PART IN THIS PROCESS.

6.

THERE WERE ALSO SIGNIFICANT SHIFTS IN THE PERCEPTION BY BOTH SIDES OF OUR BILATERAL RELATIONS. THE JAPANESE RECOGNISED THE REVITALISED ECONOMY AND DYNAMIC POLICIES WHICH WERE BEING PURSUED CONSISTENTLY IN THE UNITED KINGDOM AND THE IMPORTANT ROLE THAT WE WERE THEREFORE PLAYING AS A LEADING MEMBER OF THE EUROPEAN COMMUNITY. YOU ACKNOWLEDGED THAT MANY OF THE PRINCIPAL IRRITANTS IN OUR BILATERAL RELATIONS IN 1987 HAD EITHER BEEN REMOVED (CABLE AND WIRELESS) OR WERE IN THE PROCESS OF RESOLUTION (REFORM OF THE LIQUOR TAX AND ACCESS TO THE TOKYO STOCK EXCHANGE). YOUR EXPLORATION WITH JAPANESE MINISTERS OF AREAS FOR BROADENED COOPERATION BETWEEN OUR TWO COUNTRIES WAS NOT THEREFORE OVERSHADOWED BY THE NEED TO SPEND A DISPROPORTIONATE AMOUNT OF TIME ON TACKLING IMMEDIATE TRADING ISSUES, ALTHOUGH YOU MADE IT CLEAR THAT WE WOULD BE NO LESS VIGOROUS IN PURSUING A RESOLUTION

OF GENUINE GRIEVANCES AS AND WHEN THEY AROSE.

7. AT BREAKFAST MEETING WITH A GROUP OF BRITISH BUSINESSMEN YOU TOLD THAT THE JAPANESE MARKET WAS MUCH MORE OPEN THAN IT USED TO BE AND THAT MANY BRITISH COMPANIES WERE DOING VERY WELL HERE. THEY CONSIDERED HOWEVER THAT MANY BRITISH COMPANIES WERE STILL VERY IGNORANT ABOUT THE SIGNIFICANCE OF THIS MARKET AND MUCH STILL NEEDED TO BE DONE TO GET THE MESSAGE ACROSS TO BRITISH INDUSTRY. IN THEIR VIEW TRADE BARRIERS WERE LARGELY A THING OF THE PAST, EVEN IF A FEW IRRITANTS REMAINED. IN YOUR TALKS WITH THE JAPANESE YOU EXPRESSED MEASURED APPRECIATION FOR WHAT JAPAN HAD DONE SO FAR TO OPEN HER MARKETS. BUT YOU INSISTED THAT A SUSTAINED AND MORE RADICAL EFFORT WAS REQUIRED TO RAISE IMPORTS, AND AGRICULTURE COULD NOT BE LEFT ASIDE. YOU PUT OUR OUTSTANDING BILATERAL PROBLEMS FIRMLY IN THE CONTEXT OF THE NEED TO KEEP UP MOMENTUM AND PREVENT PROTECTIONISM YOU LEFT THE CLEAR MESSAGE THAT WE REGARDED SCOTCH WHISKY AND THE TOKYO STOCK EXCHANGE AS UNFINISHED BUSINESS. UNO AND MITI MINISTER TAMURA BOTH EXPRESSED THEIR INTENTION TO MAKE THE JAPANESE MARKET AS OPEN AS POSSIBLE. HOWEVER, THE POLITICAL SENSITIVITY OF AGRICULTURE WAS STRESSED BY ALL.

8. IN YOUR POLITICAL CONSULTATIONS, FOREIGN MINISTER UNO AGREED BROADLY WITH YOUR ANALYSES, IN PARTICULAR OF EAST/WEST RELATIONS AND OF DEVELOPMENTS IN THE GULF. THE JAPANESE SHARE OUR BELIEF THAT THE WEST SHOULD BE OPEN-MINDED, BUT REALISTIC IN REACTING TO GORBACHEV'S INITIATIVES, ALTHOUGH THEY ARE IF ANYTHING MORE SCEPTICAL ABOUT THE EXTENT TO WHICH THEY WILL BRING BENEFITS TO JAPAN, WHOSE RELATIONS WITH THE SOVIET UNION ARE BURDENED BY THE LEGACY OF HISTORICAL ANTI-PATHY, THE WAR AND AN OUTSTANDING TERRITORIAL DISPUTE. MOST OF THOSE WHOM YOU QUESTIONED WERE CONFIDENT THAT A RUSSIAN CHARM OFFENSIVE DIRECTED AT JAPAN WOULD HAVE LITTLE EFFECT ON JAPANESE ATTITUDES AND POLICIES, PARTICULARLY IF THIS WAS UNACCOMPANIED BY A WILLINGNESS TO RETURN THE FOUR NORTHERN ISLANDS. ON THE GULF, DESPITE SOME HESITATION ON THE PART OF HIS OFFICIALS, UNO ACCEPTED THAT IRANIAN INTRANSIGENCE IN HOLDING OUT AGAINST ACCEPTANCE OF SCR 598 MADE CONSIDERATION OF ENFORCEMENT MEASURES INEVITABLE.

9. APART FROM YOUR OFFICIAL TALKS WITH FOREIGN MINISTER UNO AND YOUR CALL ON PRIME MINISTER TAKESHITA, YOU HAD TALKS WITH FINANCE MINISTER MIYAZAWA, MITI MINISTER TAMURA, FORMER PRIME MINISTER NAKASONE, LDP SECRETARY GENERAL ABE AND MICHIO

WATANABE, CHAIRMAN OF THE PARTY'S POLICY RESEARCH COUNCIL. YOU ALSO MET OTHER RISING JAPANESE POLITICIANS, ECONOMIC OPINION LEADERS, ACADEMICS AND JOURNALISTS AT SOCIAL OCCASIONS AND WORKING MEALS. YOU WERE THEREFORE ABLE TO REGISTER OUR EXPECTATIONS FOR ANGLO/JAPANESE RELATIONS, AS WELL AS OUR CONTINUED CONCERN IN CERTAIN AREAS, TO A WIDE AUDIENCE OF INFLUENTIAL AND ARTICULATE JAPANESE, MANY OF WHOM WILL BE IN POSITIONS OF LEADERSHIP IN JAPAN DURING THE REMAINING YEARS OF THIS CENTURY.

10. IN YOUR SPEECH AT THE JAPAN PRESS CLUB YOU SET OUT AN AGENDA FOR ANGLO/JAPANESE PARTNERSHIP. POLITICALLY THIS CALLED FOR EFFORTS TO IMPROVE EAST/WEST RELATIONS, COOPERATION OVER THE GULF, AND A FIRM STAND AGAINST TERRORISM. ON ECONOMIC ISSUES WE SHOULD PROMOTE STABILITY IN THE WORLD ECONOMY AND IN CURRENCY MARKETS MAINTAIN FREE TRADE AND OPEN OUR MARKETS MORE WIDELY, INCREASE INVESTMENT OVERSEAS AND FACILITATE CAPITAL FLOWS, OPEN UP STOCK EXCHANGES (NOTABLY THE JAPANESE, SO THAT ALL THOSE FIRMS WHICH WERE SUITABLY QUALIFIED SHOULD OBTAIN SEATS) AND CAPITAL MARKETS. YOU CALLED FOR AN ATTACK ON AGRICULTURAL PROTECTIONISM AND COOPERATION OVER AID PROGRAMMES. YOU AND FOREIGN MINISTER UNO AGREED THAT TO WORK TOWARDS THESE ENDS WOULD REQUIRE A SUBSTANTIAL INTENSIFICATION AND BROADENING OF CONTACTS AT ALL LEVELS MINISTERIAL, OFFICIAL AND BETWEEN THE PEOPLES OF THE UK AND JAPAN.

11. YOUR VISIT TO OITA PREFECTURE ON THE ISLAND OF KYUSHU, 600 MILES SOUTH OF TOKYO, AT THE OUTSET OF YOUR STAY IN JAPAN WAS ALSO EXTREMELY VALUABLE. IT ENABLED YOU TO SEE AT FIRST HAND HOW AT THE LOCAL LEVEL THE JAPANESE ECONOMY IS CARRYING THROUGH THE STRUCTURAL REFORMS ADVOCATED IN THE MAEKAWA REPORT IT PROVIDED NOT ONLY WHAT I HOPE WAS AN ENJOYABLE INTRODUCTION TO RURAL JAPAN BUT ALSO AN INSIGHT INTO PROVINCIAL ATTITUDES WHICH STILL CARRY A DISPROPORTIONATE WEIGHT IN JAPANESE POLITICS. YOUR VISIT TO A FAMILY FARM AT YUFUIN SHOWED YOU THE REALITY OF JAPANESE AGRICULTURE BEHIND ALL THE ABSTRACT ARGUMENTS. YOUR JAPANESE HOSTS WERE CLEARLY APPRECIATIVE THAT YOU HAD SPENT THE TIME TO LEAVE THE TRACK USUALLY BEATEN BY FOREIGN VISITORS TO JAPAN. THE VISIT TO OITA RECEIVED EXTENSIVE FAVOURABLE COMMENT IN THE JAPANESE PRESS.

12. ALTHOUGH YOUR VISIT TO JAPAN WAS IMPORTANT IN ITSELF, ITS REAL SIGNIFICANCE LAY IN PRODUCING THE FIRST MAJOR MOVE IN A PROCESS WHICH SHOULD LEAD TO A RADICALLY CHANGED PERSPECTIVE IN ANGLO-JAPANESE RELATIONS. THE JAPANESE AT ALL LEVELS WELCOMED

THIS INITIATIVE AND FOREIGN MINISTER UNE<sup>0</sup> HAS LET IT BE KNOWN WIDELY THAT HE WAS EXTREMELY PLEASED WITH THE TONE AND CONTENT OF THE DISCUSSIONS WITH YOU. AS SEEN FROM HERE WE MUST NOW MAINTAIN THE MOMENTUM THAT HAS BEEN GENERATED AS WELL AS KEEP THE JAPANESE UP TO THE MARK. JAPAN IS POTENTIALLY A COUNTRY OF MAJOR WORLDWIDE IMPORTANCE, POLITICALLY AS WELL AS ECONOMICALLY. AN IMPROVED RELATIONSHIP SHOULD PROVE TO BE OF CONSIDERABLE VALUE TO US BILATERALLY AS WELL AS CONTRIBUTING TO THE COHESION AND STRENGTH OF A WESTERN COMMUNITY INCLUDING JAPAN. LORD YOUNG'S VISIT IN MARCH WILL PROVIDE A GOOD OPPORTUNITY TO CONSOLIDATE THE OPENINGS FOR BRITISH EXPORTERS IN A JAPANESE MARKET THAT HAS SEEN A 50% INCREASE IN OUR EXPORTS OVER THE PAST TWO YEARS. THE REINFORCEMENT OF POLITICAL RELATIONS REQUIRES MORE REGULAR CONTACT AT MINISTERIAL LEVEL AND THE DEVELOPMENT ON BOTH SIDES OF A NEW REFLEX OF CONSULTATION.

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S CALL ON JAPANESE FINANCE MINISTER

SUMMARY

GENERAL DISCUSSION OF MANAGEMENT OF WORLD ECONOMY. MIYAZAWA WORRIED BY AMERICAN FAILURE TO APPRECIATE THE EXTENT OF THEIR PROBLEMS ACKNOWLEDGES NEED FOR JAPAN AND OTHERS TO TAKE UP ANY SLACK ENGENDERED BY RECESSION IN THE U.S. BUT LESS BULLISH IN AGRICULTURAL REFORM. MIYAZAWA SPOKE RATHER FRANKLY ABOUT THE AMERICANS AND HIS CONFIDENCE SHOULD BE RESPECTED.

2. THERE WAS A BRIEF DISCUSSION OF EAST-WEST RELATIONS. IT WAS AGREED THAT EVEN IF THE RUSSIANS WERE ABLE TO PASS TWO OF THE 'LITMUS TESTS': VERIFICATION, AND AFGHANISTAN, THE THIRD, HUMAN RIGHTS, WAS LIKELY TO REMAIN EXTREMELY DIFFICULT. MIYAZAWA WAS SCEPTICAL AS TO WHETHER MR GORBACHEV COULD IDEOLOGICALLY EVER TURN INTO A HUMANIST. HE ALSO BELIEVED THAT ONLY AN OPEN SOCIETY COULD BRING THE KIND OF OPEN ECONOMY WHICH MR GORBACHEV WANTED, AND THAT HE WAS THEREFORE NOT LIKELY TO ACHIEVE THE LATTER. THE SECRETARY OF STATE AGREED THAT IT WOULD BE A VERY DIFFICULT TASK: ON THE WHOLE WE BELIEVED IT WOULD BE BENEFICIAL IF HE MADE SOME PROGRESS IN THAT DIRECTION. IT WAS COMFORTING THAT THE WHOLE PROCESS TENDED TO CONFIRM THAT THE WESTERN SYSTEM WAS BASICALLY RIGHT. MIYAZAWA ASKED IF THERE WAS ANY PROSPECT OF CHINA OR THE SOVIET UNION ABANDONING MARXISM OR LENINISM IN THE END. THE SECRETARY OF STATE SAID THAT HE THOUGHT IT WENT DEEPER IN RUSSIA THAN CHINA. MIYAZAWA SAID THAT HE THOUGHT THERE WAS A CLEAR RISK OF EVENTUAL TURBULENCE IN THE SOVIET UNION.

3. ASKED ABOUT WORLD ECONOMY MIYAZAWA SAID THAT HE WISHED THE U S ELECTION COULD BE SOONER. WE DESPERATELY NEEDED A STRONG FIGURE IN CHARGE OF THE US ECONOMY. THE PSYCHOLOGICAL EFFECT OF WEAK LEADERSHIP WAS DISASTROUS ON WALL STREET AND THROUGH IT ON OTHER MARKETS. THE SECRETARY OF STATE SAID THAT HE HAD LONG ARGUED THAT

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THE AMERICANS MUST DO SOMETHING ABOUT THEIR TWIN DEFICITS. THE HUGE GROWTH OF THE U S OVERSEAS DEBT WOULD EVENTUALLY BRING A SERIOUS BURDEN OF INTEREST PAYMENT. THE AMERICANS HAD MOVED A LITTLE AT THE END OF THE YEAR, AND THAT WAS REALISTICALLY ALL THAT WAS LIKELY TO HAPPEN BEFORE THE ELECTION. JAPAN AND EUROPE HAD THE DIFFICULT TASK OF SUPPORTING THE WORLD ECONOMY IN THE MEANTIME. WE THEREFORE PLACED ENORMOUS IMPORTANCE ON JAPANESE DEMAND-LED EXPANSION. AT THE SAME TIME JAPAN SEEMED TO HAVE TO FINANCE THE U S DEFICIT.

4. MIYAZAWA SAID THAT THE ORDINARY US CITIZEN WAS ALMOST UNAWARE OF THE PROBLEM. THE AMERICAN ECONOMIC POSITION HAD BEEN SO STRONG THAT THEY SEEMED TO THINK THAT THEY COULD GO ON SOLVING THEIR PROBLEMS BY PRINTING PAPER INDEFINITELY. IT WAS VERY DIFFICULT TO GET ACROSS TO THEM THE DANGER THEY WERE RUNNING. THE SECRETARY OF STATE AGREED. IT WAS VITAL THAT THE NEW PRESIDENT SHOULD HAVE ROOM TO TAKE DECISIVE ACTION. MEANWHILE THE REST OF THE WORLD NEEDED TO SUSTAIN THE CONFIDENCE OF THE GLOBAL ECONOMY: THE JAPANESE BUDGETARY POSITION WOULD BE VITAL TO THIS. MIYAZAWA ACKNOWLEDGED THE NEED TO TAKE UP ANY SLACK ENGENDERED BY A US RECESSION: HE NOTED THAT JAPAN FORTUNATELY HAD SUCH A POOR INFRASTRUCTURE THAT THERE WAS SCOPE TO INJECT FINANCE INTO IT. HE RECOGNISED THAT IT WAS MORE DIFFICULT TO FIND WAYS OF DOING SO IN EUROPE. THE SECRETARY OF STATE SAID THAT HE WAS NOT SURE THAT THE BRITISH ELECTORATE WOULD ENTIRELY AGREE. BUT IT WAS TRUE THAT THE JAPANESE PER CAPITA GDP WAS NOT YET REFLECTED IN THE JAPANESE INFRASTRUCTURE.

5. THE SECRETARY OF STATE SAID THAT REFORM OF AGRICULTURAL PROTECTIONISM WAS VERY IMPORTANT. IT WOULD ENABLE JAPAN TO LIBERATE MORE LAND FOR BUILDING AND BRING LAND PRICES DOWN. WE WERE TACKLING SURPLUSES IN EUROPE: THIS WAS AS DIFFICULT FOR THE CONSERVATIVE PARTY AS IT WAS FOR THE LDP IN JAPAN. MIYAZAWA SAID THAT THERE WAS NO ENTHUSIASM IN THE FARMING COMMUNITY FOR CHANGING THE LAND USE PATTERN. THE SECRETARY OF STATE SAID THAT NEVERTHELESS THESE POLITICAL DIFFICULTIES NEEDED TO BE OVERCOME ALONG THE LINES OF THE TOKYO SUMMIT COMMITMENT. HE QUOTED THE EXAMPLE OF THE EFFECT ON THE PHILIPPINES OF JAPANESE PROTECTION OF SUGAR PRODUCERS. MIYAZAWA AGREED GENERALLY, BUT RICE PRODUCTION MIGHT HAVE TO BE THE EXCEPTION, JAPANESE FARMERS HAD BEEN TOLD TO SET ASIDE ONE THIRD OF THEIR PADDY FOR OTHER PRODUCE BUT IT WAS DIFFICULT TO FIND SUITABLE PRODUCTS. THE AMERICANS IN ANY CASE HAD NO CAUSE THEMSELVES TO COMPLAIN ABOUT JAPANESE RICE PRICES. THE SECRETARY OF STATE SAID THAT ALL SUCH PROBLEMS WERE RELATED. IF THE LDC'S WERE TO IMPROVE THEIR ECONOMICS THEY HAD NO EXPORT.

IT WAS A DIFFICULT PROBLEM TO EVERYBODY BUT WE HAD TO KEEP UP WITH THE AGENDA. IT WAS ONLY BY STANDING TOGETHER THAT WE COULD WORK OUT OUR PROBLEMS.

6. MIYAZAWA SAID THAT THERE WAS A FEELING IN JAPAN THAT AGRICULTURE WAS SOMEHOW SACRED AND SHOULD BE AN EXCEPTION TO THE NORMAL RULES. WAS THIS NOT SHARED IN THE UK? THE SECRETARY OF STATE SAID THAT IT WAS IN FARMING CIRCLES BUT THERE WAS GENERAL PUBLIC CONCERN ABOUT THE ENVIRONMENT AND WE WERE LOOKING FOR ALTERNATIVE USES OF THE COUNTRYSIDE: AN EXAMPLE MIGHT BE THE PROVISION OF EXTRA GOLF COURSES WHICH INCREASED EMPLOYMENT. MIYAZAWA SAID THAT THE LDP HAD SO FAR SIGNALLY FAILED TO FIND ALTERNATIVE USES. THE SECRETARY OF STATE SAID IT WAS BETTER TO PAY FOR THE PROTECTION OF THE ENVIRONMENT THAN FOR SURPLUSES. WE SHOULD ASK OURSELVES WHAT WOULD HAPPEN IF THE SOVIET UNION SOLVED HER AGRICULTURAL PROBLEMS.

7. THE SECRETARY OF STATE ASKED IF MIYAZAWA THOUGHT THE WORLD COULD GET BY WITHOUT A RECESSION. MIYAZAWA SAID THAT HE THOUGHT THAT WE WOULD PROBABLY MUDDLE THROUGH WITH DIFFICULTY BUT THERE WOULD BE PLENTY OF SHOCKS AHEAD. THE PLAZA AND LOUVRE AGREEMENTS WERE A STEP IN THE RIGHT DIRECTION. HE WONDERED HOW THE PROCESS OF COOPERATION IN ECONOMIC MANAGEMENT COULD BE TAKEN FORWARD. THE SECRETARY OF STATE THOUGHT THAT WE HAD TO CONTINUE TO GROPE FOR A CONCERTED APPROACH TO ECONOMIC STABILITY. THERE SHOULD BE A CONCERTED INSIGHT BY THE TOP LEADERS. IT WOULD HELP IF INDIVIDUAL COUNTRIES WERE THEMSELVES TAKING COURAGEOUS STEPS IN THE RIGHT DIRECTION: THE PROSPECTIVE JAPANESE MOVE TO A SALES TAX WAS IMPORTANT. AND WE NEED TO GET OVER TO THE AMERICANS THAT THEY COULD NOT WALK TALL FOR EVER ON BORROWED MONEY. MIYAZAWA SAID THAT HE DOUBTED INDEED WHETHER THE DEUTSCHMARK AND THE YEN COULD SUSTAIN THE DOLLAR INDEFINITELY.

8. MIYAZAWA SAID THAT HE WAS STRUCK BY OUR EVIDENT FEAR OF A GROWTH IN PROTECTIONISM. THE SECRETARY OF STATE SAID THE SOME JAPANESE ATTITUDES HAD AN IMPORTANT PSYCHOLOGICAL EFFECT. TAXATION ON LIQUOR WAS A GOOD EXAMPLE. HE WAS GLAD THAT JAPAN HAD ACCEPTED THE GATT REPORT AND HOPED THEY WOULD NOW MOVE QUICKLY. IT WAS IMPORTANT THAT JAPAN SHOULD CONSULT THE COMMISSION ABOUT MEASURES IT PROPOSED TO TAKE. MIYAZAWA ASKED HIS AIDE TO TAKE A NOTE OF THIS. THE SECRETARY OF STATE WENT ON TO COMMENT ON THE HUGE SCALE OF JAPANESE ACTIVITY IN THE LONDON FINANCIAL MARKETS. WE HOPED THAT THIS WOULD BE RECIPROCATED IN TOKYO: HE MENTIONED THE WISH OF BARCLAYS AND CAPEL TO



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PARTICIPATE IN THE TOKYO STOCK EXCHANGE. MIYAZAWA SAID THAT THE ONLY REASON FOR FAILURE TO LICENSE BARCLAYS HAD BEEN THE SHORT EXPERIENCE WHICH THEY HAD HAD IN OPERATIONS IN TOKYO. THE SECRETARY OF STATE SAID THAT THEY HAD HUNDREDS OF YEARS OF EXPERIENCE ELSEWHERE.

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S CALL ON THE JAPANESE PRIME MINISTER: 11  
JANUARY

SUMMARY

1. TAKESHITA HOPES TO VISIT THE UK BEFORE THE TORONTO SUMMIT. SECRETARY OF STATE URGES JAPAN TO PLAY HER PART IN MANAGEMENT OF WORLD ECONOMY AND TO DEAL QUICKLY WITH RESIDUAL BILATERAL PROBLEMS. TAKESHITA REPEATS NEED FOR JAPAN TO MAKE SACRIFICES IN SUPPORT OF LIBERAL MARKET SYSTEM. AGREEMENT ON NEED FOR REALISM IN EAST/WEST RELATIONS.

DETAIL

2. TAKESHITA BEGAN BY THANKING THE PRIME MINISTER FOR HER CONGRATULATORY NOTE AND HER INVITATION TO VISIT LONDON. HE WOULD LIKE TO DO SO AS SOON AS POSSIBLE, AND HOPED THAT PROBLEMS WITH THE DIET WOULD NOT PREVENT HIM. THE SECRETARY OF STATE SAID THAT HE HOPED THAT TAKESHITA WOULD BE ABLE TO TAKE UP ONE OF THE DATES WE HAD SUGGESTED.

3. TAKESHITA SAID THAT AS EX-FINANCE MINISTER HE STILL HAD CLOSELY IN MIND THE PROBLEMS WHICH HAD PREOCCUPIED HIM IN HIS EARLIER ROLE. HE WAS GLAD THAT THE PROBLEMS OF PARTICIPATION OF BRITISH FIRMS ON THE TOKYO STOCK EXCHANGE HAD BEEN RESOLVED. THE ISSUE OF ALCOHOL TAXES REMAINED: HE AND UNO BOTH CAME FROM FAMILIES WHO WERE PRODUCERS OF SAKE AND COULD WELL SYMPATHISE WITH THE FEELINGS OF SCOTCH WHISKY PRODUCERS.

4. THE SECRETARY OF STATE SAID THAT WE WERE VERY GLAD THAT THE JAPANESE HAD AGREED TO CERTAIN BRITISH FIRMS PARTICIPATING IN THE TOKYO STOCK EXCHANGE, BUT HE HOPED THAT THE TWO FURTHER UK COMPANIES WHO WISHED TO DO SO WOULD ALSO BE ADMITTED. ON THE LIQUOR TAXATION QUESTION, IT WAS VERY IMPORTANT TO MAKE PROGRESS

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QUICKLY SO THAT THIS COULD BE SEEN AS A SYMBOL OF A NEW DYNAMISM. IN GENERAL HE BELIEVED THAT OUR BILATERAL RELATIONSHIP WAS MOVING TOWARDS A MORE MATURE BASIS. HE AND MR UNO HAD AGREED ON THE NEED TO DEVELOP A NEW DYNAMIC, PLAIN-SPEAKING PARTNERSHIP. TAKESHITA SAID THAT ''DYNAMIC PARTNERSHIP'' WAS ALREADY BECOMING A CATCHPHRASE IN TOKYO AS A RESULT OF THE SECRETARY OF STATE'S PRESS CONFERENCES.

5. THE SECRETARY OF STATE SAID THAT TAKESHITA'S FORTHCOMING VISIT TO THE UNITED STATES WAS OF GREAT IMPORTANCE AND HE HAD OUR GOOD WISHES. THE GOOD MANAGEMENT OF THE TRIANGULAR RELATIONSHIP BETWEEN EUROPE, JAPAN AND THE UNITED STATES WAS CRUCIAL. TAKESHITA AGREED. THE PRESERVATION OF HARMONY BETWEEN THE THREE BLOCS WHICH TOGETHER MAKE UP 60% OF THE WORLD'S GNP WAS A VITAL OBJECTIVE.

6. HE ALSO INTENDED TO DISCUSS THE INF AGREEMENT AND EAST/WEST RELATIONS WITH PRESIDENT REAGAN. HE RECALLED THAT JAPAN HAD MADE IT CLEAR AT WILLIAMSBURG THAT THEY WOULD ACT IN CONCERT WITH THE WESTERN ALLIANCE: THAT WOULD BE HIS STARTING POINT FOR HIS DISCUSSION. THERE WAS SOME TENDENCY IN JAPANESE PUBLIC OPINION TO THINK THAT DETENTE HAD ARRIVED AGAIN, AND HE TOOK EVERY OPPORTUNITY TO URGE REALISM.

7. THE SECRETARY OF STATE SAID THAT THE INF AGREEMENT WAS AN IMPORTANT STEP, BUT IT WAS VERY IMPORTANT TO KEEP A LONG TERM PERSPECTIVE. THERE WOULD BE MANY UPS AND DOWNS AND WE NEEDED TO KEEP OUR COOL.

8. ON ECONOMIC QUESTIONS, THE UNITED STATES HAD MADE A START ON TACKLING THE FEDERAL BUDGET DEFICIT, BUT THE OTHER DEVELOPED COUNTRIES WOULD NEED TO MANAGE THEIR OWN ECONOMIES WELL IF WE WERE TO SUSTAIN US EFFORTS IN THIS DIRECTION. WE WOULD HAVE TO WORK HARD TO HEAD OFF PROTECTIONISM. JAPANESE MEASURES TO ACHIEVE DEMAND-LED EXPANSION WERE EXTREMELY IMPORTANT AND NEEDED TO BE KEPT UP. TAKESHITA OBSERVED THAT THE PRIVATISATION OF DOMESTIC COMMUNICATIONS HAD BEEN A GREAT HELP IN PROVIDING THE REVENUE FOR JAPANESE DEMAND STIMULUS. JAPAN WAS BEGINNING TO REAP THE BENEFIT OF THIS. THE SECRETARY OF STATE SAID THAT THE NEXT STAGES OF TAX REFORM IN JAPAN WERE EXTREMELY IMPORTANT. WE LOOKED FORWARD TO A MOVE TO A BROADLY BASED SALES TAX WHICH WOULD HELP EXPAND THE JAPANESE ECONOMY.

9. THE SECRETARY OF STATE STRESSED THE CHALLENGE OF DEALING WITH

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AGRICULTURAL PROTECTIONISM AND SURPLUSES, ESPECIALLY IN THE  
CONTEXT OF THE GATT ROUND. TAKESHITA SAID THAT HE HAD SPOKEN TO  
THOSE RESPONSIBLE FOR AGRICULTURE IN HIS OWN PARTY EARLIER THE  
SAME MORNING FOLLOWING A MASS MEETING OF INTERESTS OPPOSED TO  
AGRICULTURAL REFORM. HE HAD REPEATED THAT JAPAN, AS THE GREATEST  
BENEFICIARY OF THE FREE ECONOMIC SYSTEM, WOULD HAVE TO ENDURE  
A CERTAIN AMOUNT OF PAIN IN SUPPORT OF THAT SYSTEM, AND HE HAD  
ASKED HIS LDP SPOKESMAN TO PLAN SOME SPEECHES IN THAT SENSE.

WHITEHEAD

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NNNN



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Worth a glance, but  
rather bland.

22 December 1987

As an antidote you should look at  
the book which Alan Clark has sent you:  
"The Ken to Dominate". It makes us  
see Charles, Japanese look a good deal more  
dangerous. C.D.P. 22/12 MS

I am sending you under cover of this letter a paper  
on Policy towards Japan prepared by FCO officials.

Sir Geoffrey Howe thought that the Prime Minister might like  
to glance at this paper - not least some of the Annexes -  
during the Christmas break.

The Foreign Secretary strongly endorses the paper's  
theme that we need to make further efforts to develop a more  
serious and constructive relationship with Japan; some of  
the particular proposals will, of course, need further  
consideration. As you know, he will visit Japan from  
7 to 13 January. He looks forward to having a word with  
the Prime Minister about Japan after his return.

The Foreign Secretary has also shown copies of this  
paper to the Chancellor and to the Secretary of State for  
Trade and Industry, who will also be visiting Japan in March.

Yours ever,

(A C Galsworthy)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

## POLICY ON JAPAN

Summary

1. Japan's global interests are gradually leading her to take a more active role internationally. Our relations with Japan have hitherto been focussed largely on trade problems. We shall need to continue to fight our corner on trade and economic issues, both bilaterally and through the EC. But if we are to develop serious relations with an ally of increasing power we need to improve the range and quality of exchanges with Japan in every field.

Japan's Position in the World

2. The consistent success of her economy has made Japan a major economic power. Japan, which in 1960 accounted for 2% of the industrial world's GNP, now accounts for 15.3% (cf USA 45.5, FRG 7.2, UK 5.2). Japan's manufacturing sector is second only to the United States in size and is probably the most modern in the world.

3. Japan accounts for 10.6% of world exports and 6.1% of imports, making her the world's third largest exporter (after the FRG and US) and fourth largest importer (after the US, FRG and UK). Japan is the largest importer of coal and oil and is a leading purchaser of raw materials. She is the largest exporter of manufactured goods (having recently overtaken the FRG) and has the world's largest merchant fleet (flags of convenience apart).

4. Japan's economic dynamism will continue. The massive appreciation of the Yen (67.4% against the dollar, 39% against sterling in two years) means that exports of manufactured goods are, at least for the time being, no longer the main driving force behind Japan's growth. There will be increasing emphasis on technology, financial services and investments abroad. Industry funded R & D spending in Japan is growing at roughly twice the rate of other OECD

countries. Japanese technology will be increasingly important strategically.

5. Japan is probably the largest creditor nation in the world. The appreciation of the yen will accelerate the trend towards direct investment abroad. In 1975 Japanese direct investment abroad was worth \$2.8 bn; in 1986 \$22 bn. Indirect investment will add further to Japan's overseas interests. Seven of the ten largest banks in the world are now Japanese.

6. Japan is the second largest donor of official development aid, after the USA (roughly three times the UK level.) She is the largest donor to multilateral institutions. However Japanese aid is low as a proportion of GDP: 0.28% in 1986 compared with 0.33% for the UK and an OECD average of 0.36%.

7. The Japanese defence effort, though limited for constitutional reasons, is now substantial: in absolute terms Japanese defence spending is roughly equal to that of the FRG. She plays a discreet but important role in assisting the US 7th Fleet in the Pacific.

8. Japanese foreign policy activity is still hesitant but has increased in recent years. She is helpful to the West in a number of ways; in particular she aims to counter Soviet influence in Asia and the Pacific. The Japanese themselves are increasingly aware that the simplified picture of an American dominated world on which their foreign policy has been based no longer holds good; at the same time they are becoming more conscious of their own weight in international affairs.

. . . . .

9. These major developments lead to the important conclusion that Japan is likely to take more active political role in the world. Her global economic and financial interests will give her a stake in

peace and political stability; her resources will give her the muscle to contribute to it if she chooses.

Strategic Objectives

10. In the light of this it is important that:

10.1 Japan should continue to belong to, and should contribute more effectively to, the Western political and security system.

The Western system would be weaker if Japan were to play a semi-neutral role, was receptive to Soviet pressure or was closely linked to China. Whether or not Japan adopts a more positive defence policy, she will have much to contribute strategically in terms of technology and economic power.

10.2 Japan should play a full and responsible role in managing the world economy.

Problems with Japan stem from the fact that despite her economic weight her integration into the world economic system is incomplete. One aspect of this is her low propensity to import manufactured goods (2.7% of GDP in Japan; cf UK-15% and USA-5.2%). Neither Europe's, nor the United States' bilateral deficit with Japan need in itself be a problem; but persistent high surpluses (like persistent deficits) can be destabilizing. At the same time the combination of a persistent surplus with Japan's reputation as a closed market attracts a protectionist response. The frustrations often involved in trying to secure improvements add to this. The need to let imports compete more fairly with Japanese products is understood by some political and industrial leaders, but we need to get the message through to the bureaucracy and manufacturing industry, where a cultural preference for buying Japanese still prevails. Moreover, the



risk that continuing trade barriers (whether exaggerated or not) may inspire protectionism and thus damage the world economy as a whole is still insufficiently appreciated in influential Japanese circles.

The Japanese Government increasingly recognises its responsibilities in the world economy and is beginning to play a constructive role in G5 and G7: the appreciation of the yen and the tax changes recently enacted in Japan (though less than we or Nakasone wanted) are steps towards dealing with the structural causes of the surplus. More will be needed. It is in our interest that the Japanese economy should continue to be dynamic and creative but Japan's weight in the world economy needs to be matched by a more outward looking, orderly and constructive role in the world system.

10.3 Bilaterally, we should benefit from the development of the Japanese economy through increased exports, inward investment and industrial collaboration. And Japan will continue to be an important source of high quality products of interest to both British industry and consumers.

#### Implications for British Policy

11. These objectives require a long term approach. Influence needs to be exerted on Japan in a continuing, consistent and predictable manner: this has not always been so in the past. Where appropriate we should work with the United States and EC partners.

/Japan's

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Japan's role in the Western Political system

12. We and other European countries need to improve the quality and quantity of our dialogue with Japan on political and strategic questions. Steps towards this should include:

12.1 broadening contacts at Ministerial level: we should invite Sir J Whitehead to identify a dozen or so senior and influential figures - including senior industrialists (who are often more interesting and articulate than Japanese politicians) - who could be encouraged to call on Ministers (and even the Prime Minister) when passing through London.

12.2 more contact at official level: we should consider regular meetings of PUS's or Political Directors and should aim to establish systematic contacts on particular problems: aid to Africa, the Pacific etc. The DUS (Econ) now visits Tokyo annually : we should make a habit of inviting his opposite number back. His opposite numbers in the DTI and HMT also have regular contacts with Japanese opposite Numbers. Contact with domestic Ministries in Tokyo is important; all too often they reflect inward looking attitudes that cause problems.

12.3 consideration of whether we should try to develop multilateral political fora involving the Japanese. Decisions on international political affairs are increasingly taken in groups but Japan belongs to few of them. The current troika meetings between Japan and the twelve in the Political Cooperation framework are inadequate; Summit Seven meetings are infrequent and focus primarily on economic questions. But integrating Japan in the world political system is essentially a multilateral problem. One possibility would be to increase between-Summit activity, for example by holding meetings of Summit 7 Foreign Ministers at six monthly intervals between Summits to deal exclusively with political matters.

/Japan's

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Japan's role in the multilateral economic system

13. Japan is a member of all the important institutions : the Summit Seven, the Group of 5, the IMF and IBRD. Although the Japanese contribution is often constructive it is not commensurate with Japanese economic strength. We should

13.1 urge the Japanese to take a stronger role in the IMF It is absurd that their quota should be only the fifth largest and we should be prepared to seek a special increase in the Japanese quota at the next review. Japan could also contribute more to international institutions by putting forward good quality candidates for posts in these organisations.

13.2 press the Japanese to make a more positive contribution on North-South questions. They could and should contribute more in the aid field especially by untying more aid and increasing the proportion of grant aid and loans on soft terms. (There may be scope for Anglo-Japanese cooperation here).

13.3 press the Japanese for a more positive contribution to preserving and extending the free trade system (from which they benefit as much as any country). Through the EC, and in the GATT, if appropriate, we should seek the elimination of discriminatory trade practices in manufactured goods. We should be sure that we choose targets which are of genuine importance to the UK and where Japanese practices are unfair. We should encourage the Commission to take anti-dumping measures where these are appropriate. (There is no harm in being seen as leaders of the pack in Europe provided the Japanese also understand that our long term commitment is to free trade). The other side of this coin is that we should be prepared to give credit to Japan where barriers are eliminated or where they are illusory. But in the long term people will be convinced of the openness of the Japanese market only when

they see Japanese imports of manufactured goods at higher levels. We should ensure that the Japanese understand this.

13.4 Japanese agriculture is heavily protected and we should press Japan to liberalise as a way of relieving tensions with the United States and as a contribution to a general movement towards agricultural liberalisation.

#### Bilateral Relations

#### 14. Bilaterally we should launch an extended campaign in our relations with Japan:

14.1 An important element in this will be Ministerial visits. The Foreign Secretary visits Japan in January 1988. The Secretary of State for Trade and Industry plans a visit in March and the Minister of Agriculture in September. We should aim for a visit by the new Japanese Prime Minister before the Toronto Summit.

14.2 Increasing exports will depend on British companies having the marketing skills and commitment to take advantage of the more favourable exchange rate. British exports to Japan are already £1.2 bn, growing at 20% pa recently (nominal sterling terms 1985-6). Our invisibles surplus is roughly £1.5 bn. The DTI are planning to launch a campaign in industry to emphasise the opportunities in the Japanese market. Sir J Whitehead is in touch with the Institute of Directors about a major seminar on Japan for industrial leaders. Ministerial, and possibly Prime Ministerial, involvement in this campaign will be crucial.

14.3 E(CP) is reviewing all our Voluntary Restraint Arrangements including those with Japan. These were instituted mainly in the 1970s. VRAs are outside the GATT framework and are controversial internationally. They weaken our hand when we urge the Japanese to open their markets.

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14.4 The campaigns by the DTI and regional bodies to promote Japanese investment in the UK have been successful: £1bn and 21,000 jobs in manufacturing; 10,000 jobs in financial services. We are the main destination for Japanese investment in Europe and should aim to preserve that position.

14.5 Under the auspices of the Japan 2000 group the Royal Society, with assistance from the Cabinet Office scientific secretariat are making a study of scientific and technical collaboration with Japan. Preliminary findings will emerge in January 1988.

14.6 We shall be able to compete better with Japan if we can improve Japanese studies in this country. It will be increasingly important for industrial and academic workers in scientific and technological fields to be able to access Japanese research.

Parliament and the Public

15. Domestically we need a greater public and Parliamentary appreciation in the UK that the UK/Japan relationship goes wider than troublesome trade disputes, and that there is a UK interest in working with Japan on a range of political, financial and economic issues. This message would not only be worthwhile in its own right, but would assist the Government on the occasions when we will still need, whether directly or through the EC, to demand action on market opening questions that continue to trouble us. It would therefore be helpful if Ministers could find opportunities to refer, publicly and privately, to the wider reasons for strengthening our relationship with Japan; and, on the economic and commercial front, to talk when appropriate about the positive developments (eg increasing UK exports, positive movement on the Japanese surplus) as well as the areas on which we are still seeking action from Japan.

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15.1 There is an established programme of Parliamentary exchanges but there are still too few MPs who take Japan seriously. We should encourage visits of substance in both directions.

15.2 A useful element in broadening our contacts with Japan is the work of the 2000 Group. We should continue to give Lord Jenkin every support, including financial, and should be prepared to look at ways of developing this useful private sector forum further.

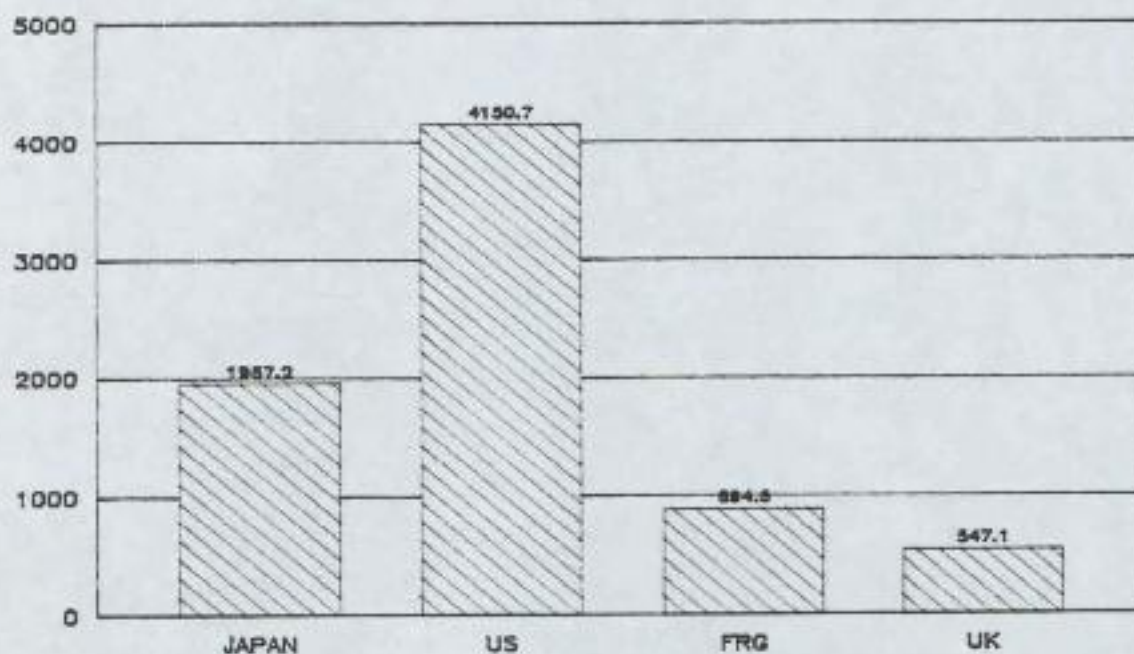
POLICY ON JAPAN: ANNEX

PART A: JAPAN: KEY STATISTICS

I. GDP

In 1986 Japan had the second largest GDP in the non-communist world, more than three times that of the UK.

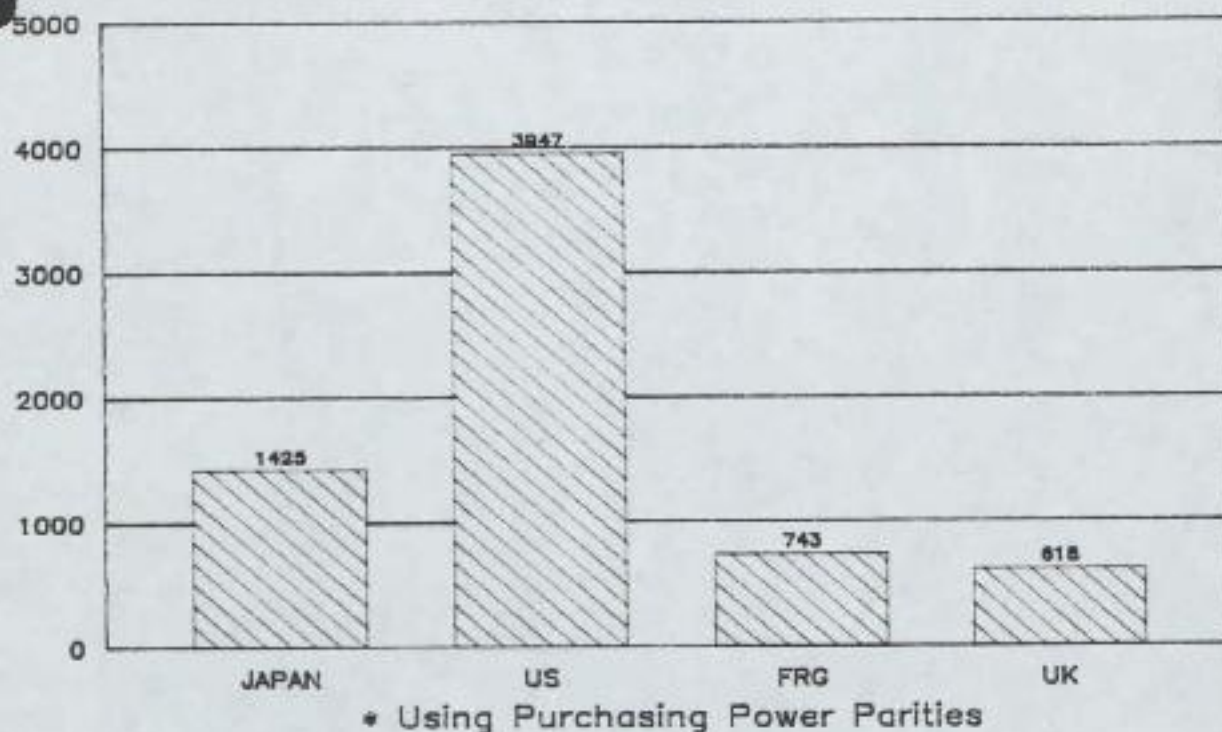
Table (1) GDP 1986  
(US\$ bn)



(Source: OECD main economic indicators)

The above comparison is in US \$ terms at 1986 exchange rates and reflects the strength of the yen. Purchasing power parity figures (which remove the distorting effects of widely fluctuating exchange rates) give the comparison shown overleaf:

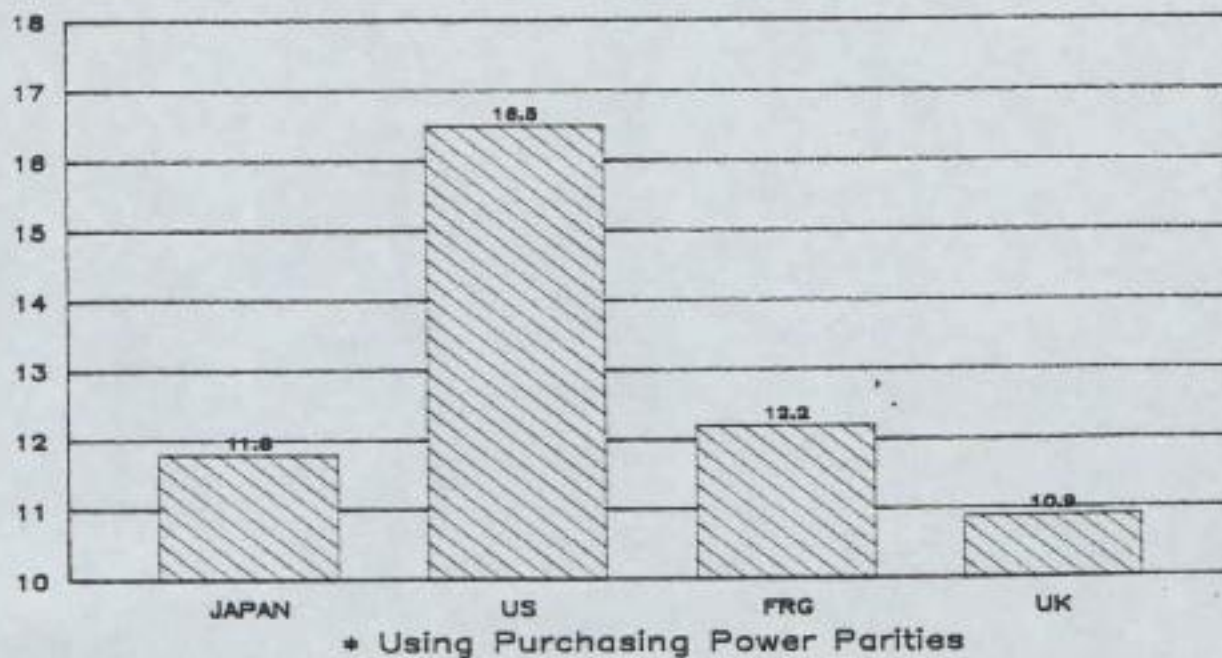
Table 2 GDP\*  
(1985 US\$ bn)



(Source: OECD National Accounts; 1985 are latest available figures)

These give the following per capita GDP figures:

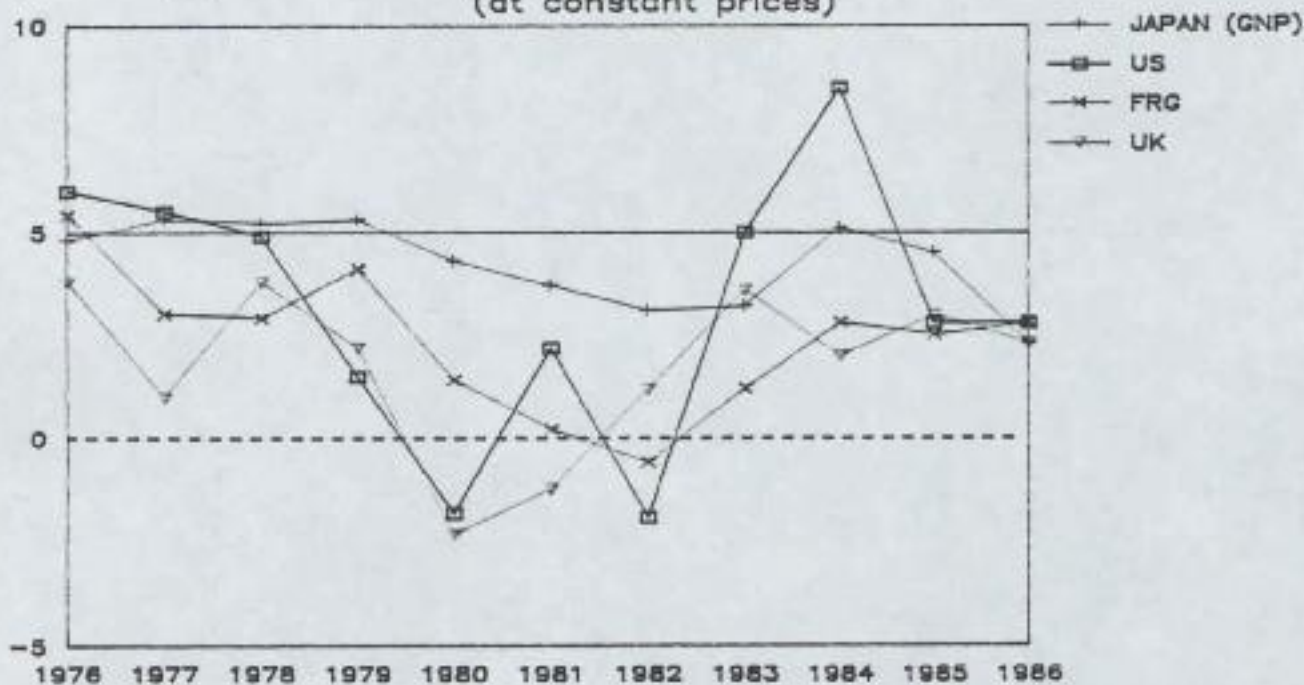
Table 3 GDP per head\*  
(1985 US\$ thousands)





Although the rate of growth of Japan's GDP has slowed from the high levels of the 1960s and early 1970s it averaged 4.4% between 1976 and 1985, higher than any other leading developed country (Source: Bank of Japan, comparative statistical analysis):

Table (4) GDP GROWTH RATE 1976-86 (% p.a.)  
(at constant prices)

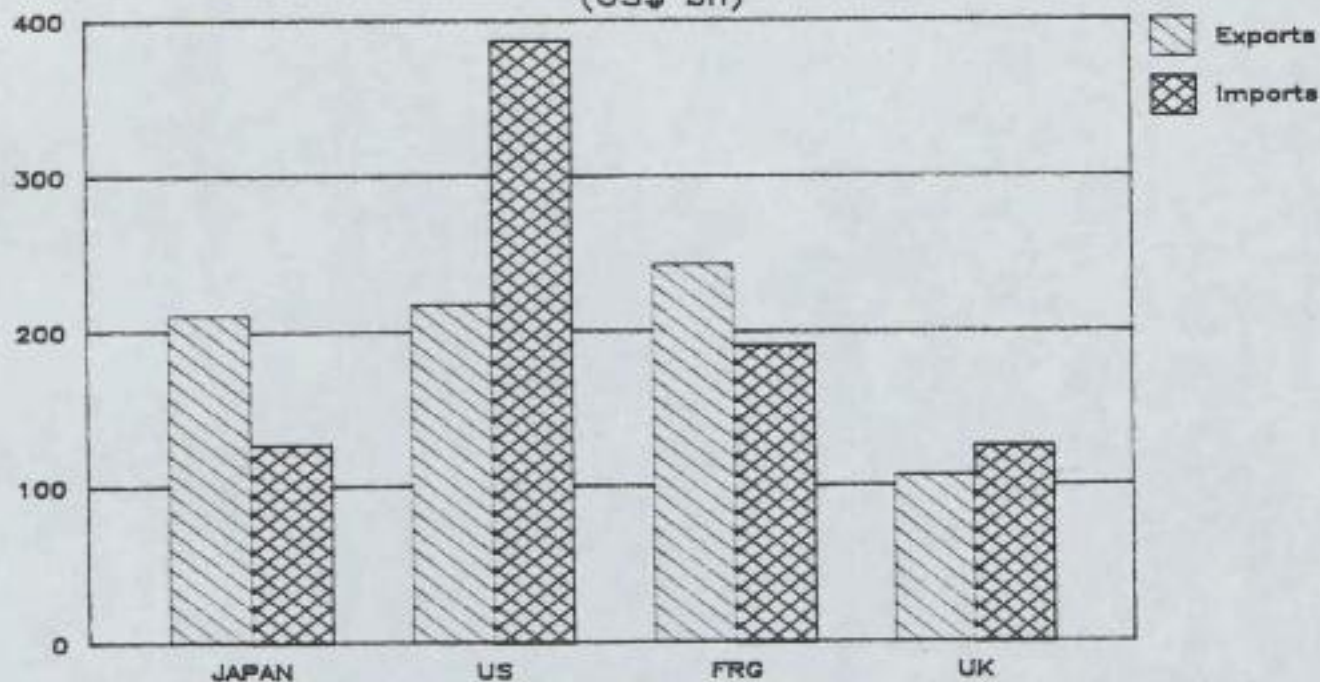


(Source: IMF-IPS 1986 yearbook)

## 2. TRADE

In 1986 Japan was the world's third largest exporter and fourth largest importer, accounting for 10.6% of total world exports and 6.1% of total world imports. As a percentage of GNP trade is lower in Japan than in the case of European countries, reflecting in part Japan's size:

Table (5) TRADE 1986  
(US\$ bn)

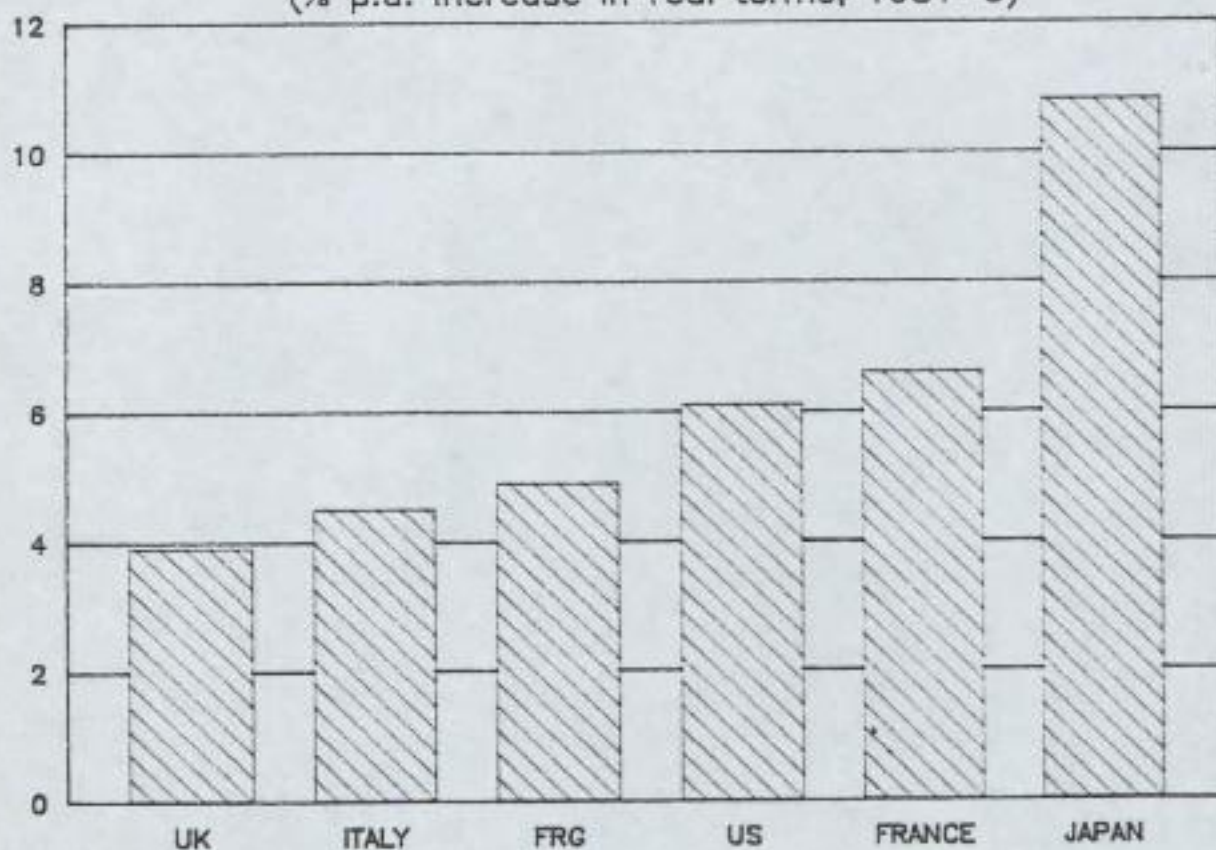


(Source: IMF/Directory of Trade Yearbook 1987)

### 3. RESEARCH AND DEVELOPMENT

Japan's economic dynamism is underpinned by a high level of investment in Research and Development (R & D). Expenditure on R & D in 1986 was second only to the US and represented almost 3% of GNP (80% of this was funded by private industry). Unlike most of Japan's competitors almost all R & D is in the civilian sector. The rate of growth of Japan's industry-funded R & D expenditure is almost double that of her leading competitors:

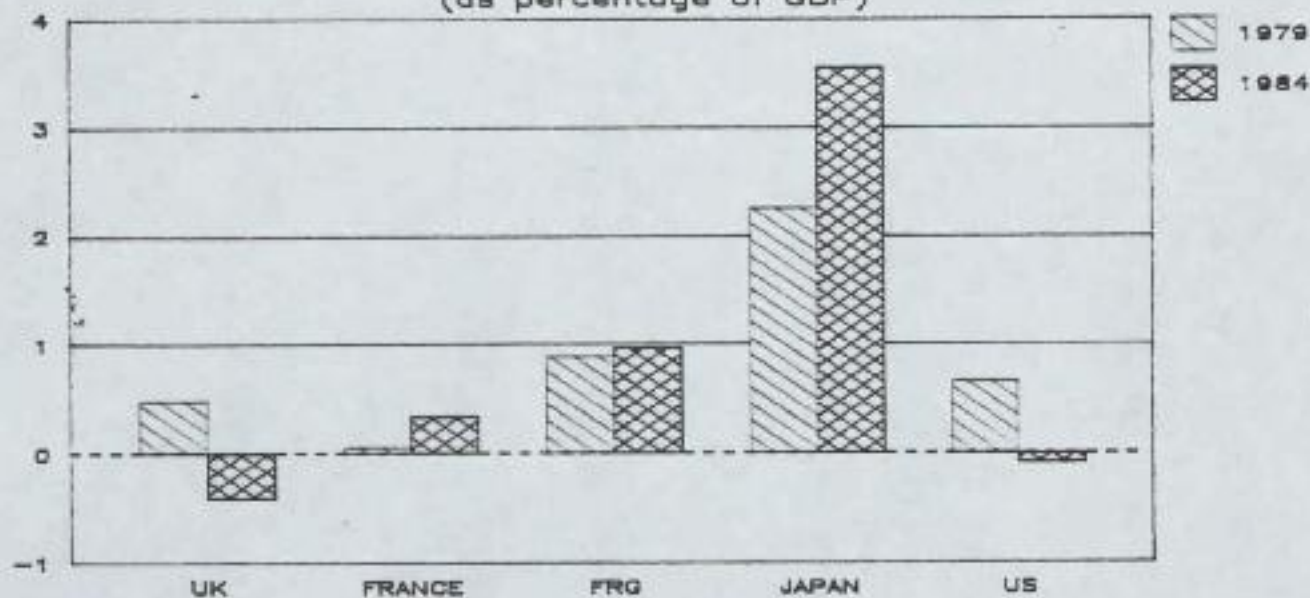
Table (6) INDUSTRY-FUNDED R&D  
(% p.a. increase in real terms, 1981-5)



(Source: OECD)

High investment in R & D has given Japan a leading position in the field of high technology:

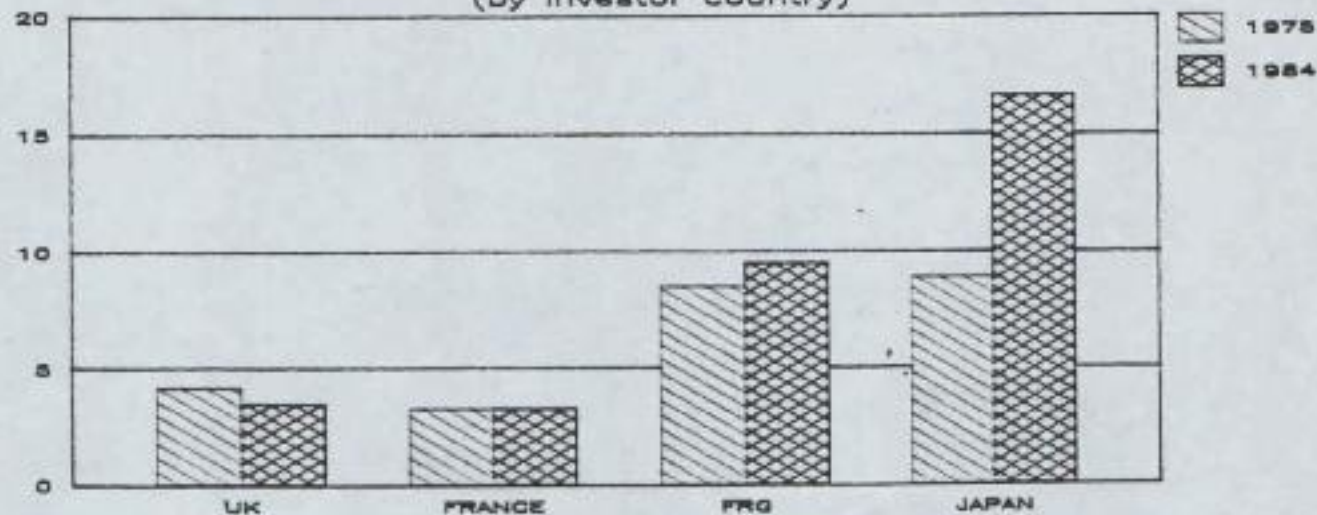
Table (7) HIGH TECH TRADE BALANCE  
(as percentage of GDP)



(Source: OECD)

and has led to Japan taking the lead in the registration of new technology:

Table (8) PERCENT OF US PATENTS  
(by Investor country)

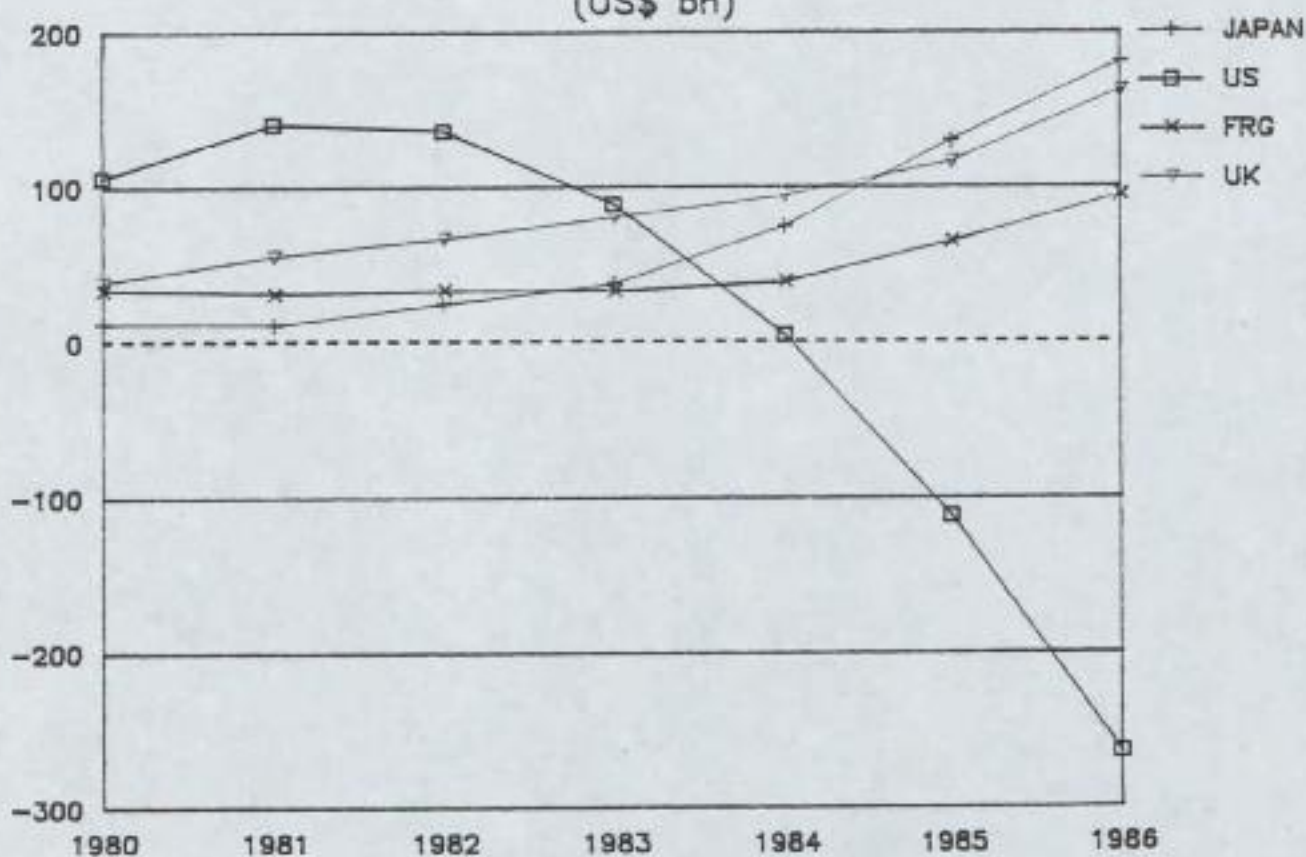


(Source: DTI)

#### 4. FINANCIAL ROLE

Japan's growing current account surpluses have increased her influence in the World Financial System. Japan is now the largest creditor nation in the world (although it should be borne in mind that the figures are uncertain):

Table (9) NET OVERSEAS ASSETS  
(US\$ bn)



(Source: HM Treasury)

7 of the 10 largest banks in the world are Japanese:

<u>Leading World Banks</u>	<u>Assets (US \$ Billion)</u>
1. Dai-ichi Kangyo (Japan)	241
2. Fuji (Japan)	213
3. Sumitomo (Japan)	206
4. Mitsubishi (Japan)	205
5. Sanwa (Japan)	193
6. Citicorp (US)	191
7. Norin Chukin (Japan)	162
8. Industrial Bank of Japan (Japan)	162
9. Credit Agricole (France)	154
10. Banque Nationale de Paris (France)	142

(Source: BIEC)

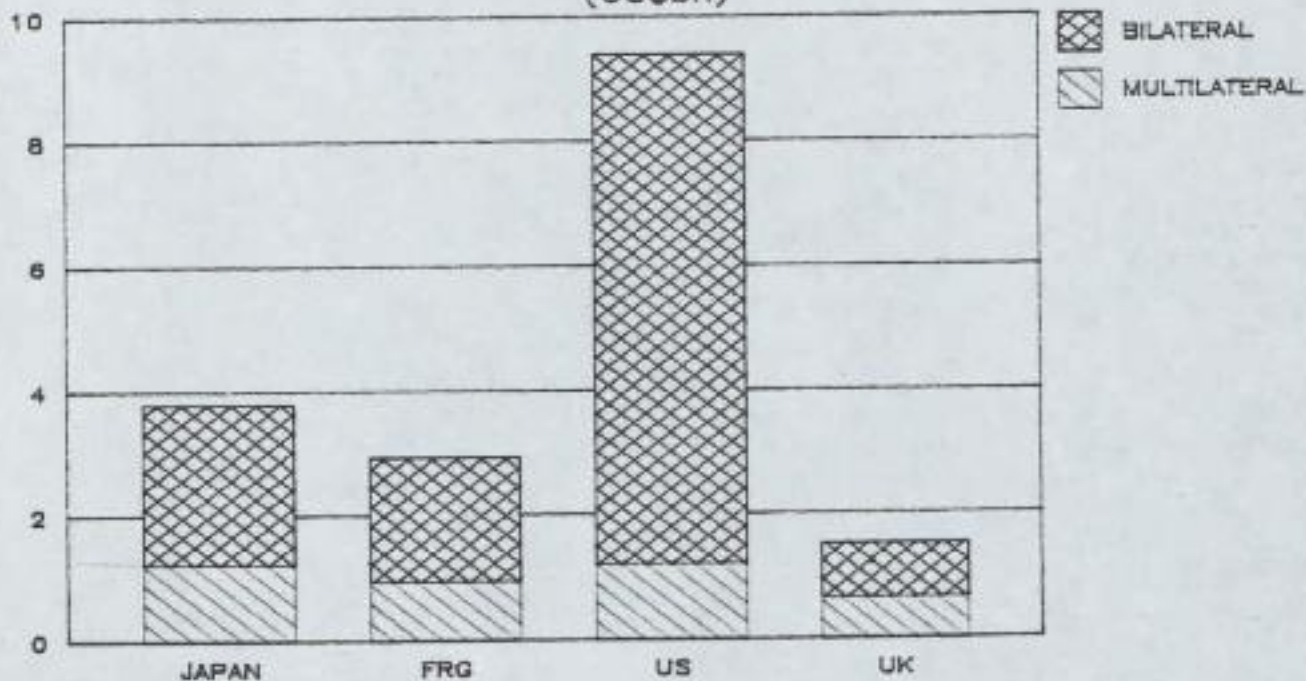
In 1986 Japanese Banks accounted for almost one third (32.8%) of all cross-border lending in (23% In 1984). The use of the yen as an international reserve currency has increased sharply (although it remains in third place, well behind the US dollar and the Deutschmark). Between 1977 and 1986 the share of countries' foreign exchange reserves held in yen grew from 2.5% to 7%.

(Source: IMF)

## 5. ODA

In 1985, Japan's official development assistance (ODA) was only 0.28% of GNP. But her ODA budget is already the second largest in the world after the US and she has pledged to double spending on ODA from 1985 levels (in nominal US dollar terms) by 1990. In practice, the rise in the value of the yen since 1985 and the prospect of steady growth in nominal GNP mean that this target could be achieved without an increase in the GNP percentage. In 1985 Japan overtook the US as the largest donor to multilateral institutions with donations of US \$1240. Japan pays the second highest contribution to the UN.

Table (10) BREAKDOWN OF AID 1985  
(US\$bn)



(Source: OECD)

6. DEFENCE

The Japanese interpret their constitution as allowing them only defensive forces. Japan's defence policy is based on a Security Treaty with the US, under the terms of which the US have important bases in Japan. The main commitment of the Japanese Self Defence Forces (JSDF) is, in the event of war, to defend three strategic straits in the Sea of Japan, thus blocking the Soviet Pacific fleet's exit to the Pacific Ocean. Since 1976, Japanese Governments had imposed an arbitrary ceiling of 1% of GNP on defence spending but the FY 1987 budget set expenditure at 1.004% of forecast GNP, an important symbolic breakthrough. By 1984 Japan's defence budget was already the ninth largest in the world.



PART B: JAPAN/UK RELATIONS

TRADE

1. UK exports to Japan grew by more than 18% in nominal sterling terms in 1986 to reach £1.2 billion. The rate of growth in the first nine months of 1987 has been even faster, with exports showing an increase of 25% over the same period in 1986. Imports from Japan are also rising, but at a slower rate and the ratio of imports to exports is falling (now 3.6:1). The UK had a deficit of £3.7 billion out of total visible trade in 1986 of £6.1 billion. But the UK enjoyed a significant surplus on invisibles, probably of around £1½ billion.

2. Principle British exports are chemicals, pharmaceuticals, industrial equipment (including medical equipment, scientific and measuring equipment, software and a range of high-technology products), whisky and woollen textiles (for which Japan is Britain's largest overseas market). In addition to the well-known export successes such as Unilever and Wedgwood, other notable achievements including Chance Pilkington, which has 70% of the Japanese photochromic lens market.

3. Export promotion is coordinated by the Exports to Japan Unit (EJU) of the DTI. Japan accounts for over 10% of the BOTB budget for outward missions and trade fair joint ventures and for 45% of the BOTB store promotion budget. Following an independent study which confirmed the need for an information campaign to correct negative and confused images of Japan and to encourage British industry to adopt a committed, strategic approach to the market, the BOTB's Japan Trade Advisory Group (JTAG) is considering launching such a campaign in the Spring of 1988.

4. VRAs. There are currently seven inter-industry VRAs with Japan, covering:

- Colour TVs
- Industrial Trucks
- Pottery
- Stainless Steel Cutlery
- Machine Tools
- Special Steels
- Vehicles

The government plans to withdraw support from the VRAs on colour TVs at the end of 1987, and on industrial trucks, at the end of 1988. The remaining VRAs are under review.

#### JAPANESE INVESTMENT

5. Manufacturing. It is only 15 years since the first Japanese manufacturing company set up a plant in the UK. But there are now 60 Japanese companies manufacturing, or committed to do so in the UK. Japanese investment in the UK now totals around 1 billion pounds (representing about one third of all Japanese investment in Europe). About 21,000 jobs have been created.

6. Presence in the City. Japanese Banks are the largest single foreign sector in the UK banking market. Their assets have grown from under 10% of all the banking business by banks in the UK in 1975 to 26% now. They account for 5% of all sterling loans and advances compared with 0.5% ten years ago, and for nearly 40% of total foreign currency business in the UK compared with some 14% in 1977. (Foreign currency business represents nearly 90% of total Japanese assets in London). Japanese companies in the non-manufacturing sector in the UK (mainly in the City) now employ between 10,000 and 15,000 local staff.

#### CULTURAL RELATIONS

7. The British Council has an annual budget for Japan of almost 5 million pounds. It runs two libraries in Toyko and in Kyoto and has an extensive English language

teaching programme. The Council's activities include the promotion of exchanges of academics and other specialists. The Council has also provided support for a programme of scientific projects between the Japanese Ministry of Education, Science and Culture, the Royal Society, the Science and Engineering Research Council and other British scientific bodies.

8. There are now 4 universities with Japanese degree courses and a further 4 which offer Japanese studies as part of a course. The 2000 Group has commissioned a study of the situation regarding Japanese studies in higher education in the UK. Only a handful of schools in the UK offer Japanese Studies.

9. Japanese sponsorship of the Arts in the UK is substantial. The Keidanren is likely to make a major donation to the British Museum for a projected permanent Japanese gallery. The Toshiba gallery at the V & A opened on 17 December 1986. Nomura has just given the Tate £1.5 million for a new gallery.

10. The number of Japanese tourists visiting the UK has increased by 25% since 1981 and the British Tourist Authority expect a considerably faster rate of growth in coming years. In 1986 206,000 Japanese visited the UK (this includes businessmen), and spent an estimated £101 million. The number of British passport holders visiting Japan was 142,000, of whom approximately 60,000 were from the UK.

#### UK/JAPAN REGULAR CONTACTS

11. The frequency of ministerial and high-level official contact is considerably less than that with other major partners (in part reflecting geographical distance) but has been increasing. Regular bilateral talks include:

- Meetings between the Secretary of State and the Japanese Foreign Minister (in principle every year).
- Annual meetings of the UK/Japan 2000 Group

DTI/MITI talks (annual)  
Financial Services talks (six-monthly)  
Political/Military talks (in practice, approximately every 18 months)  
Planning Talks (in principle, every 2 years)  
Aid talks (occasional)

In addition to these bilateral contacts there are regular talks between the EC and Japan at Ministerial level and at political director level.

12. A large number of members of the Japanese Diet visit the UK each year. (1984: 206; 1985: 143; 1986: 91; and over 100 in the first six months of 1987). These Dietmen usually travel in groups as part of a European tour. Many British MPs travel to Japan each year, often on private visits. In addition there are normally one or two Parliamentary Select Committee visits to Japan each year. The IPU arrange visits in each direction approximately every 5 years. Six members of the British IPU Group will be visiting Japan in November 1987.

## PART C: UK/JAPAN TRADE RELATIONS: CURRENT ISSUES

### BILATERAL ISSUES

#### CABLE AND WIRELESS

1. Two consortia have now submitted applications for an international telecoms licence: ITJ, an all Japanese consortium, and IDC, the consortium in which C & W has a leading share with C Itoh. IDC's application - unlike ITJ's - envisages the laying of a new optical fibre cable linking Japan to the US. The licences will now be appraised by a Standing Committee of advisers who will make their recommendation to the MPT. It is difficult to assess the time table.

2. Following considerable pressure the Japanese government agreed in May to consider separate applications for licences. When merger talks between ITJ and IDC broke down in August Mr Nakasone wrote to the Prime Minister assuring her that the Japanese Government would assess the application from the consortium including C & W in a fair, transparent and prompt manner. Tension has eased for the present and C & W's prospects look good.

#### FINANCIAL SERVICES

3. The UK is content with progress made in respect of Securities Branch Licences and Investment Management Licences in the past two years. The main outstanding issue between the UK and Japan is membership of the Tokyo Stock Exchange (TSE) where the UK has 6 candidates for the new exchange, when expanded. The Japanese are well aware of the UK's insistence that all qualified candidates are admitted. The outcome in terms of numbers of seats is as yet uncertain.

## EC ISSUES

### THE SECTORAL INITIATIVE

4. The European Community has initiated a series of market opening negotiations with Japan, working at a detailed level in specific sectors. There have been two sets of discussions at which the Japanese have been presented with specific requests aimed at resolving particular problems facing exports of motor vehicles, medical equipment and cosmetics. To date progress has been unspectacular but some useful concessions have been obtained in all three areas. Another three sectors are likely to be selected shortly for another round of negotiations next year.

### WHISKY

5. The EC's case in the GATT against Japanese import restrictions on alcoholic drinks is making good progress. The GATT panel has found in favour of the EC on all the major (ie liquor tax) points. The Panel's report has yet to be adopted by the GATT Council, and the Japanese will no doubt attempt to whittle away at its conclusions. But the report itself is an excellent result and, once adopted by GATT, will put the pressure onto Japan to bring its laws into conformity with GATT obligations. We are now pressing for early consideration and adoption by the GATT Council (hopefully in November) and have informally told the Japanese that we expect prompt implementation thereafter. In practice that is most unlikely, and hard negotiation inevitable.

### SEMICONDUCTORS

6. In 1986, after finding the Japanese guilty of dumping semiconductors, the Americans pressed the Japanese Government into a bilateral semiconductor agreement (instead of a multilateral GATT solution), introducing minimum prices for semiconductors exported to the US and price-monitoring in some third markets (including the EC). The EC objected to the agreement, opposing its

bilateral nature and the implicit price setting in third markets, opened GATT proceedings against the Japanese. A Panel has been set up to consider the issue, but it is too soon to say when it might report.

ANTI DUMPING

7. Following pressure from European industry for action to be taken to prevent the circumvention of anti-dumping remedies by the establishment of "screwdriver" assembly operations, the Commission took appropriate powers this summer. They have recently begun investigations under this legislation against Japanese suppliers of typewriters and weighing scales, involving mainly UK-based Japanese firms in Europe. The UK agreed that the openings should take place on the grounds that there was prima facie evidence in favour of such a step, but we have some sympathy with the firms to be investigated and would be happy to discuss matters further with them.

DTI

OCTOBER 1987

DT2AAW



*cc Bly*

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

**CONFIDENTIAL**

18 December 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

*Nigel Lawson*

NISSAN

Thank you for your letter of 14 December.

I was grateful to you for your agreement to the proposed offer of regional assistance to Nissan, given at our meeting on 10 December. The offer was accordingly confirmed and accepted in time for the planned announcement on 14 December.

I do, however, have difficulty with the conditions proposed in your letter of 14 December. The past arrangements under which above guidelines support has been matched by a corresponding reduction in cash limited Votes preceded the agreement we reached in the past PES round on a commitment limiting system for RSA. That doctrine provided a crude counterbalance to the public expenditure demands of a wholly demand-led programme of regional support. The new commitment limiting system provides a more sophisticated method of managing RSA expenditure, and substantially invalidates the previous practice.

You also suggested that there could be no question of support for the Nissan project generating a bid for extra resources in the 1988 or subsequent surveys. Without implying that I expect to have to make such a bid, I must reserve my right to make bids in coming PES rounds in whatever areas I conclude necessary after scrutiny of my programmes. In considering the position of regional selective assistance, I should of course take full account not only of the Nissan case and the context in which your agreement was given last week by my post-bilateral correspondence with John Major.

I am sending a copy of this letter to the Prime Minister, and to John Major.

*Lord Young of Graffham*

LORD YOUNG OF GRAFFHAM

JG6AUI



JAPAN : Anglo  
Jap. Relations  
Pt 7





NISSAN

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

14 December 1987

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade & Industry

NISSAN

File WITH T4

Thank you for your letter of 9 December explaining the political importance you attach to securing the proposed Nissan project to produce the replacement Micra small car in Sunderland.

We discussed your proposed offer of regional assistance when we met on Thursday. As I indicated then, given the other understandings reached at that meeting, I am prepared to agree that you may offer total regional assistance up to £25m if you are satisfied that the proposed offer is the minimum necessary to secure the project and that it will yield sufficient net benefits to the UK.

My agreement is on the usual basis that the offer will not lead to an increase in public expenditure. There must be no question of support for this project generating a bid for extra resources in the 1988 or subsequent surveys. The offer will also be subject to the established arrangement, endorsed by the Prime Minister, requiring that any assistance over guideline limits is matched by a corresponding reduction in a cash limited vote. I know that you have recently been in correspondence with John Major on the possibility of incorporating your expenditure on regional selective assistance within a cash limited vote. If you wished to avoid the need for offsetting savings impacting on other DTI programmes by agreeing to this and bearing the full cost on your regional assistance budget this would be entirely acceptable to me.

I am copying this letter to the Prime Minister.

NIGEL LAWSON

JAPAN Global PT7





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

9 December 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*NBA ce BP*  
*then pa.*

*Nigel*

NISSAN: SECOND MODEL PROJECT

Our officials have been in contact on the proposal to offer Nissan financial assistance of £25 million for expansion of the Sunderland plant to produce a second model. I am writing personally to emphasise the importance I attach to securing this project and to underline the fact that it will not go ahead without the financial assistance we have negotiated.

The project involves the production at Sunderland of the Nissan Micra small car for launch in 1992. Output would be 100,000 units a year with 60 per cent being exported. Local content in the cars would be 60 per cent initially, rising to 80 per cent within eighteen months. The project would create some 1400 additional jobs on the Sunderland site and a substantial though at present unquantifiable number of indirect jobs with UK component suppliers. The capital investment programme would be some £216 million.

Nissan requested financial assistance for the project on the following grounds:

- (i) building the Micra at Sunderland would duplicate investment in a similar model in Japan, involving substantial additional capital expenditure at a time when Nissan are hard pressed financially;



- (ii) Nissan consider that the Sunderland project would not produce incremental sales for the company and would therefore at least in part replace Japanese production, leaving them with the problem of what to do with the spare Japanese capacity;
- (iii) Nissan's model replacement cycle means that, if the 1992 window of opportunity is missed, a second model could not be introduced at the Sunderland plant before the end of the 1990s and such a long deferral would make it uncertain whether the project was carried out at all;
- (iv) the returns on the project are marginal. Relatively small variations in Nissan's assumptions would put the profitability of the project in jeopardy but Government assistance would give Nissan confidence to carry these risks.

We are satisfied that this analysis of the position stands up. Nissan originally requested assistance of £30 million but through hard negotiation we have settled on an offer of £25 million (11.57 per cent of project costs), which we judge is the minimum necessary for the project to proceed. Nissan are not particularly happy with the outcome but are prepared to accept it. As part of the package, we have also managed to secure a commitment that they will locate design and development facilities in the UK.

The bulk of the £25 million expenditure falls outside the current PES period. We should clearly need to take account of the project in setting RSA expenditure levels and commitment profiles in the next PES round. The offer also entails going beyond the normal regional assistance guidelines. But I am in no doubt that the importance of the project to the UK (and the North East in particular) justifies this. It offers substantial benefits to the economy in terms of direct and indirect employment, exports, and expansion of the UK vehicle production base with all the opportunities this offers to the components sector. And Nissan's commitment to undertaking R & D in the UK is a very significant gain, both in itself and in rebutting charges that the Government are allowing activity of this sort to flow out of the country. The adaptation of Japanese design and development practices to UK conditions can be expected to have wider benefits across the whole UK motor industry.

I am due to see Mr Ishihara, the Chairman of Nissan, on Monday 14 December and both we and Nissan intend then to announce the decision to expand the Sunderland plant. Mr Ishihara has long been



a supporter of Nissan's UK operations - often against internal opposition - and his visit here has provided the impetus for their decision to expand UK production despite the concern of some of the Nissan board about the implications for their Japanese plants. However, despite Mr Ishihara's personal enthusiasm, I am clear that Nissan will not be prepared to commit themselves to proceeding with the project on this occasion unless the offer of £25 million is confirmed. And if we miss the window of opportunity created by his visit, the project could be at real risk. If the decision slips, worldwide developments affecting Nissan at the corporate level could lead to it being at best delayed and must considerably increase the uncertainty over whether it will be carried out at all.

I therefore hope that you can let me have your early agreement to the offer of £25 million financial assistance so that the project can be announced on 14 December.

I am sorry for the short notice but we only received Nissan's formal proposals on 20 November and Mr Ishihara's visit does provide the best opportunity of securing the project.

I am sending a copy of this letter to the Prime Minister.

*Lord*  
*Young*

LORD YOUNG OF GRAFFHAM

DW3DAU



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 December 1987

See R220.

I enclose a copy of a letter from the Prime Minister to the Japanese Prime Minister about an award of a licence to Cable & Wireless. I should be grateful if the text could be sent to Tokyo for delivery.

Yours on work.

Charles Powell

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

089



10 DOWNING STREET  
LONDON SW1A 2AA

cc: FCO  
DTI  
PC

T' VC

THE PRIME MINISTER

4 December 1987

Dear Prime Minister,

I was very pleased to hear earlier this week that the Ministry of Posts and Telecommunications has now awarded a Class 1 licence to the International Digital Communications Consortium, of which Cable and Wireless is a member.

You will know that I have followed this issue very closely over the past year, so the news of the award of this licence is particularly welcome.

The British Government shares your own Government's support for Anglo-Japanese co-operation in high technology fields and I look forward to further co-operation in the future.

With best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Noburu Takeshita

267





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 3877

PS/ Secretary of State for Trade and Industry

3 December 1987

Charles Powell Esq  
Private Secretary to  
Prime Minister  
10 Downing Street  
LONDON SW1

Dear Charles

As you will know, the Japanese Ministry of Posts and Telecommunications has now announced the award to Cable and Wireless of a licence to operate international telecommunications services in Japan.

Given the Prime Minister's personal involvement in this issue, we and FCO thought that she might wish to write a short letter to Mr Takeshita. The attached draft welcomes the decision by the MPT and expresses the hope that there will be further such examples of co-operation.

The text has been agreed with our Embassy in Tokyo and with FCO.

I am copying this letter to Lyn Parker in the FCO.

Yours

Jeremy Godfrey

JEREMY GODFREY  
Private Secretary

DW3CYI



K3AMW

DRAFT LETTER TO HIS EXCELLENCY MR NOBORU TAKESHITA

I was <sup>very</sup> most pleased to hear earlier this week that the Ministry of Posts and Telecommunications has now awarded a Class 1 licence to the International Digital Communications consortium, of which Cable and Wireless is a member.

You <sup>will</sup> ~~may~~ know that I have followed this issue very closely over the past year, so the news of the award of this licence is ~~therefore~~ particularly welcome.

<sup>The British</sup>  
~~This~~ Government shares your own Government's support for Anglo-Japanese co-operation in high technology fields and I look forward to further co-operation in the future.

With best wishes.

CH



PS/  
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

cc/jc  
②

cc/jt

Prime Minister

30 November 1987

cc/jt

1/xii

mt

C D Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London  
SW1

Dear Charles,

**UK/JAPAN TRADE RELATIONS**

Lord Young thinks that the Prime Minister might like to have, before the European Council, a progress report on the main current issues in our trade relations with Japan.

The appreciation of the yen (by 35 per cent against the pound since September 1985 and by 74 per cent against the US\$) is affecting Japan's balance of trade significantly. Since the start of 1986 Japan's export volumes have been lower than a year earlier in almost every month and import volumes higher in literally every month. UK exports to Japan are up 26 per cent in sterling terms this year (to the end of October) to £1.2bn, while our imports from Japan are up by 9 per cent to £4.4bn. Of course Japan still enjoys a large bilateral surplus with the UK, as with the Community as a whole : but we can take encouragement from the fact that trade volumes are now moving in the right direction.

On the main specific issues of interest to the UK, the position is as follows:

(a) There has been a satisfactory outcome on Cable Wireless. As I think you already know, the Japanese Minister of Posts and Telecommunications sent a message to Lord Young on 27 November to say that international telecommunications operating licences would be granted to both the consortia. Sir Eric Sharp has written to the Prime Minister expressing his appreciation of the Government's support.

(b) On financial services worthwhile progress has been made on the licensing of British companies. Membership of the Tokyo Stock Exchange is about to be expanded by 22 seats. The UK has six candidates for these. Although the present signs are that we will get some of these seats, we will probably not get them all.



We will need to press the Japanese hard to get satisfactory treatment, linked to their access to London financial markets.

(c) The EC campaign to get rid of unfair Japanese restrictions on imported alcoholic drinks, above all whisky, has gained strength with a forthright GATT decision calling on Japan to remove tax discrimination. The Japanese accept that action must be taken. But they appear to have decided to include liquor tax reform in a major tax reform package which would not be implemented before 1 April 1989. Nor is it clear that they will implement the GATT report in full. My Secretary of State is sending a message to the Japanese Finance Minister urging the full and early implementation of the GATT report. In this objective we expect to have the support of the Commission and other member states.

(d) In the GATT Article XXIV:6 negotiations, against some internal EC opposition, we were successful in forcing Japan to make a compensatory offer for the tariff reductions she received as a result of Spanish and Portuguese accession. We, France and the Commission argued that the Japanese offer was inadequate. We would have been prepared to hold out for a more substantial package but other EC members apart from the French were unwilling to risk a breakdown and a possible GATT challenge in which, as we ourselves recognised, the Japanese might have been successful. On the Commission's recommendation, therefore, the Japanese offer was accepted at the Foreign Affairs Council on 24 November.

(e) As to the Kansai Airport project, the key assurances about fair treatment for foreign equipment bids are in place. It is now for UK enterprises to make the running on those aspects of the project they consider attractive. We will then be able to judge whether the Japanese are living up to their promises. The continuing US complaints relate to the construction of the airport, in which no UK companies have shown interest.

Meanwhile, the EC is continuing the series of market opening negotiations with Japan, dealing in detail with particular problems hindering exports of motor vehicles, medical equipment and cosmetics, with other sectors to be introduced next year. In the GATT Round Japan is coming under increased pressure to open her market to agricultural imports.

In summary, although there are continuing problems, some useful progress has been made over the last six months towards achieving fairer access to the Japanese market. In parallel, the strengthening of the yen is now having a significant impact on trends in the Japanese trade surplus. But we need to keep



up the momentum of progress, and to maintain pressure to this end. Particular opportunities to do so will be provided by the Foreign Secretary's proposed visit to Japan in January and that of my Secretary of State in March. In line with these steps Lord Young is considering further ways of bringing home to UK exporters the increased opportunities now afforded by the Japanese market, and the long term commitment needed to tackle them.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Secretary of State for Foreign and Commonwealth Affairs, and to the Private Secretary to Sir Robert Armstrong.

*Yours ever*

*Stephen Ratcliffe*

STEPHEN RATCLIFFE  
Private Secretary

CONFIDENTIAL

file

DA



PC

TG

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

30 November 1987

RELATIONS WITH JAPAN

Thank you for your letter of 27 November, giving the Foreign Secretary's views on the proposal that we should invite Mr. Takeshita to return from America via London.

The Prime Minister has now written to Mr. Takeshita in this sense. I enclose her letter and should be grateful if the text could be telegraphed to Tokyo for delivery as soon as possible.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Jon Shortridge (Welsh Office).

(C.D. POWELL)

R.N. Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT  
CCOPS  
MASTER



PRIME MINISTER'S  
PERSONAL MESSAGE

10 DOWNING STREET  
LONDON SW1A 2AA

SERIAL No. T 223/07

THE PRIME MINISTER

30 November 1987

Dear Prime Minister,

When I wrote to congratulate you on your appointment, I expressed the hope that we would be able to meet before the Summit meeting in Toronto. If your programme permits, I should very much like to invite you to visit the United Kingdom for talks on the way back from your visit to America. An early meeting of this kind would contribute to the development of co-operative and constructive relations between our two countries.

If your programme does not permit you to come to London in January, I hope that we can find suitable dates for a visit as early as possible in the Spring of next year.

With best wishes,

Yours sincerely

Rangaraj Shetty

His Excellency Mr. Noboru Takeshita



10 DOWNING STREET

THE PRIME MINISTER

30 November 1987

file DAS  
cc for  
DTI  
Policy Unit  
Sir John Whitehead

Dear Sir Eric

I am delighted that the licence for IDC is to be issued on Monday. Your effort has been well-rewarded, and this marks another stage in the development of Cable and Wireless as one of the most important companies in world telecommunications.

I am glad to have been able to help and I shall pass on your generous thanks to Sir John Whitehead and to the departments you mention.

Kind regards,

Yours sincerely

Margaret Thatcher

Sir Eric Sharp, C.B.E.

Sho





10 DOWNING STREET

Prime Minister

This follows up  
Peter Walker's suggestion  
that you should  
encourage Mr. Takeshita  
to come sooner rather  
than later. The Foreign  
Secretary agrees. If  
he combines it with  
his visit to Washington,  
he would probably come  
here between 17-20 January.  
If you agree:  
"Dear Prime Minister."



R27/11.

## CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TEL 01-242 4433 · TELEX 23181 CANDW G · FAX 01-831 6921

Sir Eric Sharp, CBE  
*Chairman & Chief Executive*

27th November 1987.

The Rt. Hon. Margaret Thatcher, MP.,  
Prime Minister,  
10 Downing Street,  
London, SW1.

*Dear Prime Minister*

You will be pleased to know that the Ministry of Posts and Telecommunications in Japan will be issuing IDC (in which Cable and Wireless has 16.8% equity) a Licence at 5 p.m. on Monday, 30th November Tokyo time. This includes the laying of the North Pacific Cable - the first direct link between Japan and the United States - in which Cable and Wireless will hold 30% as a minority co-owner at the Japanese end.

The battle to enter a most sensitive part of the Japanese market was a long and arduous one. It was essentially a matter of conviction. We knew our plans and strategy were well founded but these plans included the necessary involvement of the political dimension. Here, your support from the earliest of times - April 1986 - was absolutely invaluable. It reinforced our convictions and gave us the courage to persist, irrespective of the views of the pundits in the City and elsewhere when the going got rough.

Indeed, I am very aware that Cable and Wireless owes two of its most important undertakings since privatisation to your own personal courage and decisiveness - Mercury and IDC, another Mercury in a far off land.

In this moment when industrial history is being made, I would like you to know of my personal and our corporate gratitude to you. I hope very much that this issue of the IDC licence will encourage other British companies to pioneer their own points of entry and participation in the ever expanding Japanese high tech market.

I intend to emphasise your encouragement and vital support in the TV and Press interviews shortly to be scheduled and to highlight this also in my Annual Report to our 200,000 shareholders. I would like to express my appreciation of the support given to Cable and Wireless in its struggle by our Ambassador in Tokyo, H.E. Sir John Whitehead, the Department of Trade & Industry, the Foreign Office and the Policy Unit in No.10.

*With all good wishes*

*Yours sincerely*

*Eric Sharp*

cc *pp*

Foreign and Commonwealth Office

London SW1A 2AH

27 November 1987

*Dear Charles*Relations with Japan

Your letter of 24 November asked for advice on a possible visit by Mr Takeshita.

The Foreign Secretary strongly supports Mr Walker's suggestion that the Prime Minister should follow up the open invitation in her message of congratulations with a specific suggestion for an early visit by Mr Takeshita. Such a visit would provide an excellent opportunity to reinforce the message which the Foreign Secretary intends to put across in Tokyo on his own visit in January: that Japan should give a higher priority to Europe and that within Europe we are a key interlocutor.

The arrangements for Mr Takeshita's visit to Washington and Ottawa have not been announced, but we understand that his talks in Washington start on 13 January. He will probably be in Washington for two days, and Ottawa for one. The next fixed point in his diary is a major policy speech in the Diet on 22 January. There would therefore in theory be time for him to return to Japan via the UK. On our side, the Foreign Secretary returns from Japan on 13 January. This would allow just enough time for him to brief the Prime Minister if Mr Takeshita were to accept an invitation.

Following his speech on 22 January Mr Takeshita will be entirely occupied with inescapable parliamentary business and would not be able to make a major visit abroad until March. It would not make sense to invite him for February.

The Foreign Secretary therefore recommends that the Prime Minister should invite Mr Takeshita to return from America via London. In practice Mr Takeshita may well have other engagements that will prevent him from accepting. (It is possible, for example, that his visit to Washington will be extended by a visit to the West Coast of the United States in compensation for the cancellation of the visit there by the Crown Prince and Princess.) However an early invitation of the kind suggested would be the best way of demonstrating

A way

/our



our wish to develop a serious and cooperative relationship with Japan and would also put us in a good position to secure a visit by Mr Takeshita as soon as his parliamentary commitments permit him to leave Japan.

Sir John Whitehead advises that this invitation should be in the form of a message from the Prime Minister. I enclose a draft.

*5 mins on*

*R N Culshaw*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

THE PRIME MINISTER  
DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Mr Takeshita

SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT .....

When I wrote to congratulate you on your appointment, I expressed the hope that we would be able to meet before the Summit meeting in Toronto. If your programme permits, I should very much like to invite you to visit the UK for talks on the way back from your visit to America. An early meeting of this kind would contribute to the development of cooperative and constructive relations between our two countries.

If your programme does not permit you to come to London in January, I hope that we can find suitable dates for a visit as early as possible in <sup>the</sup> Spring <sup>of</sup> next year.

*With best wishes.*

*edp*

Enclosures flag(s) .....

JAPAN Wakkan 17



ccpc

EMBASSY OF JAPAN  
LONDON

24th November 1987

ccpc  
20ki

Dear Prime Minister,

... I have the honour to refer to my letter,  
dated 12th November 1987, and to send you, herewith,  
the original letter from Mr. Noboru Takeshita, Prime  
Minister of Japan.

see letter dated  
12-11-87.

Yours sincerely,

Toshio Yamazaki

Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.

OFFICE OF THE PRIME MINISTER  
TOKYO



12th November 1987

My Dear Prime Minister,

Thank you very much for your kind message upon my assuming the post of Prime Minister of Japan. Let me, first of all, express to you how delighted I am to be privileged to work with you, in the spirit of cooperation, for the further enhancement of our bilateral relations as well as for the peace and stability of the world.

I am of the firm belief that, under the present international circumstances, it is essential and of utmost importance to secure Western solidarity, that is to say, the close cooperation and coordination among Europe, Japan, and the United States, which share the basic values of freedom, democracy, and a market economy. From this point of view, I intend not only to further strengthen the relationship between Europe and Japan, but also to continue my efforts to have Japan take a more active role in its political and economic responsibilities towards the world community.

Determined to further strive to deepen and widen our bilateral relations, I shall continue to support, among others, the activities of the Japan-UK 2000 Group, which has so far made useful and meaningful proposals.

I am looking forward to meeting you and discussing matters of mutual interest at the earliest possible opportunity.

Yours sincerely,

A handwritten signature in blue ink that reads "Noboru Takeshita".

Noboru Takeshita  
Prime Minister of Japan

The Right Honourable  
Mrs. Margaret Thatcher, MP  
Prime Minister of the United Kingdom  
of Great Britain and Northern Ireland



CONFIDENTIAL

LOB A01  
cefc



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

24 November 1987

RELATIONS WITH JAPAN

The Secretary of State for Wales had a word this morning with the Prime Minister about his recent visit to Japan. He had been much encouraged by attitudes to the United Kingdom and by the desire he had found to open a new chapter in relations with us. He suggested that we should build on this by urging Mr. Takeshita to pay an early visit to the United Kingdom. The Prime Minister recalled that she had already given Mr. Takeshita an open invitation to come here in the early part of next year. But she would be prepared to encourage him to come sooner rather than later. She saw advantage in getting him to visit the United Kingdom soon rather than let the Germans get in with an invitation first. One possibility might be to suggest that Mr. Takeshita should come here in connection with the visit which he would be paying to the United States in January.

I should be grateful for early advice on how best to follow this up. The Prime Minister could send a further message. Or we could instruct Sir John Whitehead in Tokyo to seek a meeting with Mr. Takeshita. In both cases we would suggest that he come in January or February. Before making a link with his visit to the United States, we would need to be sure that the talks do not conflict with the Prime Minister's own visit to Africa.

I am copying this letter to Alex Allan (H.M. Treasury), Alison Brimelow (Department of Trade and Industry) and to Jon Shortridge (Welsh Office).

CHARLES POWELL

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

(2)



10 DOWNING STREET

Prime Minister

Mr. Walker told  
our Ambassador in  
Tokyo that he  
might be to  
telephone you  
over the week-end,  
to brief you on  
his visit to  
Japan.

CDP.

201326Z

COMMENT

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VISIT BY SECRETARY OF STATE FOR WALES TO JAPAN

SUMMARY

1. A VERY VALUABLE VISIT, CONTINUING STRONG INTEREST IN UK AT INVESTMENT SEMINARS WHICH MR WALKER ADDRESSED. MR WALKER ALSO CONVEYED TO THE NEW JAPANESE GOVERNMENT A WARM MESSAGE ABOUT HMG'S DESIRE TO FURTHER STRENGTHEN OUR OFFICIAL RELATIONSHIP, AND THE IMPORTANCE OF JAPAN UK AND JAPAN/ EUROPEAN COOPERATION IN THE NEXT DECADE. THIS WAS NOTED WITH APPRECIATION BY THE FOREIGN MINISTER AND OTHERS.

DETAIL

2. THE RT HON PETER WALKER, SECRETARY OF STATE FOR WALES ACCOMPANIED BY HIS PRIVATE SECRETARY, DIRECTOR OF INFORMATION AND OFFICIALS OF WINVEST VISITED JAPAN FROM 15 TO 20 NOVEMBER ON 16 AND 17 NOVEMBER HE WAS THE PRINCIPAL SPEAKER AT PROMOTIONAL SEMINARS ORGANISED BY THE INVEST IN BRITAIN BUREAU OF THE DTI IN NAGOYA AND OSAKA. ON 18 AND 19 NOVEMBER HIS PROGRAMME IN TOKYO INCLUDED CALLS ON THE FOREIGN MINISTER THE PARLIAMENTARY VICE MINISTER AND VICE MINISTER FOR INTERNATIONAL AFFAIRS OF MITI AND THE COUNSELLOR FOR EXTERNAL AFFAIRS IN THE PRIME MINISTER'S OFFICE - OUR FIRST DIRECT MINISTERIAL CONTACT WITH THE NEW JAPANESE GOVERNMENT - AS WELL AS CALLS ON EXISTING AND POTENTIAL INVESTOR COMPANIES AND THE KEIDANREN.

3. THE NAGOYA SEMINAR WAS THE FIRST IBB EVENT IN THAT CITY BUT ACHIEVED A RESPECTABLE AUDIENCE OF 48. IN OSAKA THERE WAS A PARTICULARLY GOOD TURNOUT OF 106, MANY OF WHOM WERE MANUFACTURERS. REPRESENTATIVES OF INVESTORS IN THE UK (BROTHER, HITACHI MAXELL AND TERASKAI) SPOKE ON BOTH OCCASIONS ALONGSIDE MR WALKER, TO WHOM WE ARE GRATEFUL FOR THIS CONSIDERABLE BOOST TO OUR INWARD INVESTMENT PROMOTIONAL EFFORT. MR WALKER CALLED ON OR MET ALL MAJOR INVESTORS IN WALES (BROTHER, MATSUSHITA ELECTRIC, SHARP, MITSUBISHI CORPORATION, SONY AND HITACHI) AND ON TOSHIBA CERAMICS WHICH WAS A JOINT VENTURE IN WORCESTER.

4. MR WALKER WAS ABLE TO ANNOUNCE ON 17 NOVEMBER A NEW WIRE HARNESS MANUFACTURING JOINT VENTURE BETWEEN DNOMBA AND SUMITOMO ELECTRIC (BOTH OF OSAKA) IN WALES. AND ON 19 NOVEMBER MR WALKER AND THE PRESIDENT OF STAR MICRONICS GAVE A JOINT PRESS CONFERENCE IN TOKYO TO ANNOUNCE A PRINTER PROJECT IN WALES BY THAT COMPANY. THESE ARE THE 16TH AND 17TH JAPANESE MANUFACTURING INVESTMENTS IN WALES RESPECTIVELY.

5. JAPANESE CONCERN ABOUT THE IMPLEMENTATION OF THE EC'S NEW ANTIDUMPING REGULATION WAS RAISED THROUGHOUT THE VISIT, INCLUDING BY THE FOREIGN MINISTER. DEMURA, CHAIRMAN OF THE EC/JAPAN RELATIONS COMMITTEE OF THE KEIDANREN GAVE AN ACCOUNT OF JAPANESE MANUFACTURERS' CONCERN ABOUT THE MEASURE. MR WALKER EXPLAINED THE BACKGROUND TO THE ANTIDUMPING CASES UNDER INVESTIGATION AND REITERATED THAT THE ISSUE DID NOT AFFECT HMG'S WELCOME TO INWARD INVESTORS. HE UNDERTOOK THAT HMG WOULD GIVE FULL SUPPORT VIS A VIS THE COMMISSION TO COMPANIES WHO WERE MAKING GENUINE EFFORTS TO RAISE LOCAL CONTENT. (COMMENT). WE THINK THIS DISPLAY OF CONCERN MERITS A FURTHER EFFORT WITH COMMISSION OFFICIALS TO PERSUADE THEM OF THE NEED TO DISTINGUISH BETWEEN THOSE WHO ARE TRYING AND THOSE WHO ARE NOT. (MY TELNO DTYR 593) FAILURE TO DO SO CAN ONLY RESULT IN MORE WHOLESALE IMPORTATION OF COMPONENT MANUFACTURERS INTO EUROPE OR LOSS OF INVESTMENT IN EUROPE TO OTHER AREAS OF THE WORLD.

6. THE VISIT ATTRACTED GOOD PRESS COVERAGE. SEVERAL MAJOR NEWSPAPERS PUBLISHED INTERVIEWS AND ACCOUNTS OF SEMINARS AND PRESS CONFERENCE AT WHICH MR WALKER SPOKE ON INVESTMENT AND ON HIS CONTACTS WITH THE JAPANESE GOVERNMENT.

7. IN HIS OFFICIAL CONVERSATIONS WITH THE FOREIGN MINISTER AND OTHERS MR WALKER SPOKE WITH WARMTH OF THE HOPE OF YOURSELF, LORD YOUNG AND THE PRIME MINISTER FOR A CLOSE AND CONTINUOUS WORKING RELATIONSHIP WITH THE JAPANESE GOVERNMENT. HE PUT THIS IN THE CONTEXT OF UNCERTAINTY ABOUT THE CURRENT WORLD FINANCIAL AND ECONOMIC SYSTEM - OUR CENTRAL POSITION AS HAVING TWO OF THE THREE MAJOR WORLD FINANCIAL MARKETS, AND THE CHALLENGE FOR THE DEMOCRACIES OF SOLVING THE PROBLEMS OF THIRD WORLD DEBT AND DEALING WITH A MORE SOPHISTICATED SOVIET REGIME. WE HAD A COMMON INTEREST IN SEEING THE US OVERCOME ITS BUDGETARY PROBLEMS AND MAINTAIN STRONG ECONOMIC AND POLITICAL LEADERSHIP. BUT MR WALKER ALSO EMPHASIZED THE STABILITY, GROWTH AND MARKET SIZE OF EUROPE, AND THE POTENTIAL FOR MORE BILATERAL INDUSTRIAL COOPERATION AND INVESTMENT. I BELIEVE THIS MESSAGE WAS REGISTERED, APPRECIATED AND WILL BE REPORTED TO MR TAKESHITA. MR UNG INDICATED STRONG AGREEMENT ABOUT THE UNITED STATES, SAYING THAT, CONDITIONAL UPON BUDGET DEFICIT REDUCTION, JAPAN WOULD CONTINUE HER POLICIES OF LIBERALISATION AND DOMESTIC EXPANSION.

8. THIS WAS A VERY VALUABLE VISIT WHICH HAS SET THE SCENE IN THE BEST POSSIBLE WAY FOR YOUR VISIT IN JANUARY AND FOR FUTURE POLITICAL EXCHANGES.

WHITEHEAD

YYYY

ADVANCE	8	
JAPAN POLITICAL AND ECONOMIC		1
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AMENDED DISTRIBUTION 18/11

MESSAGE FROM THE PRIME MINISTER TO MR NAKASONE

1. PLEASE ARRANGE FOR IMMEDIATE DELIVERY OF THE FOLLOWING MESSAGE FOR THE PRIME MINISTER TO MR NAKASONE (DATED 16 NOVEMBER).

BEGINS:

DEAR MR NAKASONE

THANK YOU FOR THE KIND WORDS IN YOUR LETTER OF 6 NOVEMBER AT THE END OF YOUR TENURE OF THE POST OF PRIME MINISTER OF JAPAN. I HAVE VALUED OUR RELATIONSHIP HIGHLY. I HAVE PARTICULARLY APPRECIATED YOUR CONVICTION THAT JAPAN MUST PLAY A STRONGER INTERNATIONAL ROLE AND YOUR COMMITMENT TO IMPROVE WORLD SECURITY AND ECONOMIC CO-OPERATION.

I LOOK FORWARD TO WORKING WITH YOUR SUCCESSOR AS PRIME MINISTER, BOTH BILATERALLY AND AT THE FORTHCOMING ECONOMIC SUMMIT AT TORONTO.

I SHALL MAKE SURE THAT OUR JOINT INITIATIVE IN SETTING UP THE UK-JAPAN 2000 GROUP CONTINUES TO PROSPER. IT IS A MOST IMPORTANT DEVELOPMENT.

YOUR EXPERIENCE OF INTERNATIONAL AFFAIRS SHOULD NOT BE LOST. I SHOULD WELCOME THE OPPORTUNITY TO SEE YOU AGAIN IF YOU SHOULD HAVE THE CHANCE TO COME TO EUROPE.

WITH WARM PERSONAL REGARDS,

YOURS SINCERELY,

MARGARET THATCHER

ENDS.

2. SIGNED ORIGINAL FOLLOWS BY BAG.

PAGE 1  
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DISTRIBUTION 223

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JAPAN POLITICAL AND ECONOMIC  
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PS/MRS CHALKER  
PS/MR PATTEN  
PS/MR EGGAR  
PS/PUS  
SIR J FRETWELL  
MR BRAITHWAITE  
MR GILLMORE  
MR BOYD  
MR KERR  
MR MAUD  
MR SLATER  
MISS PESTELL  
MR FEARN  
MR MCLAREN  
MR FALL

ADDITIONAL 43

JAPAN POLITICAL AND ECONOMIC

NNNN



atno.

DG

10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

16 November 1987

Dear Mr. Nakasone,

Thank you for the kind words in your letter of 6 November at the end of your tenure of the post of Prime Minister of Japan. I have valued our relationship highly. I have particularly appreciated your conviction that Japan must play a stronger international role and your commitment to improve world security and economic co-operation.

I look forward to working with your successor as Prime Minister, both bilaterally and at the forthcoming Economic Summit at Toronto.

I shall make sure that our joint initiative in setting up the UK-Japan 2000 Group continues to prosper. It is a most important development.

Your experience of international affairs should not be lost. I should welcome the opportunity to see you again if you should have the chance to come to Europe.

With warm personal regards,

Yours sincerely

His Excellency Mr. Yasuhiro Nakasone

8/10

EMBASSY OF JAPAN  
LONDON

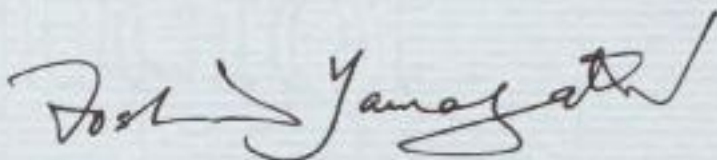
12th November, 1987

Dear Prime Minister,

I am asked by Prime Minister Noboru  
Takeshita to transmit a message to you.

... I have pleasure in attaching herewith the  
text of this message.

Yours sincerely,



Toshio Yamazaki  
Ambassador

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.



PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T208/87

SUBJECT cc MASTER  
OPS

(TEXT)

LCS-FCO, DTI, HMT ②  
Prime Minister

12th November, 1987

EDJ  
13/xi

My dear Prime Minister,

Thank you very much for your kind message upon my assuming the post of Prime Minister of Japan. Let me, first of all, express to you how delighted I am to be privileged to work with you, in the spirit of co-operation, for the further enhancement of our bilateral relations as well as for the peace and stability of the world.

I am of the firm belief that, under the present international circumstances, it is essential and of utmost importance to secure Western solidarity, that is to say, the close co-operation and co-ordination among Europe, Japan, and the United States, which share the basic values of freedom, democracy and a market economy. From this point of view, I intend not only to further strengthen the relationship between Europe and Japan, but also to continue my efforts to have Japan take a more active role in its political and economic responsibilities towards the world community.

Determined to further strive to deepen and widen our bilateral relations, I shall continue to support, among others, the activities of the Japan-U.K. 2000 Group, which has so far made useful and meaningful proposals.

I am looking forward to meeting you and discussing matters of mutual interest at the earliest possible opportunity.

Yours sincerely,

Noboru Takeshita  
Prime Minister of Japan

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.



Foreign and Commonwealth Office

London SW1A 2AH

12 November 1987

*Alan Charles*

Mr Yasuhiro Nakasone

In my letter of 6 November about the new Japanese Prime Minister I undertook to let you have advice on a message to Mr Nakasone when his letter to the Prime Minister had been received.

Ambassador Yamazaki has now transmitted Mr Nakasone's letter of 6 November to the Prime Minister.

It is clear from the formation of the new Japanese Cabinet that Mr Nakasone retains strong influence. Four members of his faction are in the Cabinet, including the Minister for Foreign Affairs and the Minister for Posts and Telecommunications (the latter important for Cable and Wireless). In any case we expect Mr Nakasone to remain a key adviser to both Government and Party for some time to come. It is not impossible that he could return to office. In the circumstances we recommend a short letter from the Prime Minister, of which I attach a draft.

*Yours ever*

*R N Culshaw*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teletype/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

PRIME MINISTER  
DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

## SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret

H E Mr Yasuhiro Nakasone

Secret

Confidential

Restricted

Unclassified

SUBJECT:

## PRIVACY MARKING

..... In Confidence

CAVEAT .....

[My dear Mr Nakasone]

Thank you for the kind words in your letter of 6 November at the end of your tenure of the post of Prime Minister of Japan. I have valued our relationship highly. I have particularly appreciated your conviction that Japan must play a stronger international role and your commitment to improve world security and economic co-operation.

I look forward to working with your successor as Prime Minister, both bilaterally and at the forthcoming Economic Summit at Toronto.

Enclosures flag(s) .....

I shall make sure that our joint initiative in setting up the UK-Japan 2000 Group continues to prosper. It is a most important development.

~~I hope that~~ <sup>Should</sup> your experience of international affairs  
~~will~~ not be lost. I should welcome the opportunity to  
see you again if you should have the chance to come to  
Europe.

With <sup>you</sup> my ~~best~~ personal regards,

~~[Yours sincerely]~~

(Margaret Thatcher)

cdc

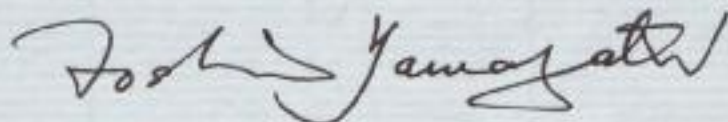
EMBASSY OF JAPAN  
LONDON

12th November, 1987

*Dear Prime Minister,*

I would like to refer to my letter of 6th November, 1987 and to send you, herewith enclosed, the original letter from Mr. Yasuhiro Nakasone, former Prime Minister of Japan.

*Yours sincerely,*



Toshio Yamazaki  
Ambassador

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.





sk  
rc  
10/11/87  
T

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

9 November 1987

I attach the signed original of a message from the Prime Minister to Mr. Takeshita on his election as Prime Minister of Japan. I should be grateful if this text of this could be telegraphed to Tokyo for immediate delivery.

(CHARLES POWELL)

R.N. Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.

SUBJECT CC MASTER  
OPS.

de BG  
CFO



PRIME MINISTER'S

PERSONAL MESSAGE

10 DOWNING STREET

SERIAL No. T202/87 LONDON SW1A 2AA

THE PRIME MINISTER

9 November 1987

Dear Prime Minister,

I send you my warm congratulations on your election as Prime Minister of Japan. I attach great importance to co-operation between our two Governments, and it is my strong hope that we shall be able to work very closely together.

If you are able to visit London before next year's Economic Summit in Toronto, you will be very welcome.

With best wishes,

Yours sincerely

Raymond Thatcher

His Excellency Mr. Noboru Takeshita



Foreign and Commonwealth Office

London SW1A 2AH

6 November 1987

*Alan Carter*

New Japanese Prime Minister

In my letter of 21 October I said we would provide further advice shortly on a formal message of congratulations to Mr Takeshita. I now enclose a draft message from the Prime Minister to Mr Takeshita. The extraordinary session of the Diet which will elect him Prime Minister is expected to begin on 6 November.

The Prime Minister will also wish to send a message to Mr Nakasone, who resigned on 31 October. Our Embassy in Tokyo have advised that it is likely that Mr Nakasone himself plans to write to Heads of Government of other Summit countries. We shall provide advice on a message to Mr Nakasone in the light of the content of his own message.

*Yours ever*

*Alan Carter*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street



DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:  
PRIME MINISTER  
DEPARTMENT:

TEL. NO:

Reference

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

HE Mr Noboru Takeshita  
Prime Minister of Japan  
TOKYO

Copies to:

*TO: Mr  
OBI*

SUBJECT:

*I send you*

*252 CJC*

Please accept my warm congratulations on

your election as Prime Minister of Japan. I attach great importance to cooperation between our two Governments, and it is my strong hope that we shall be able to work very closely together.

PRIVACY MARKING

..... In Confidence

CAVEAT .....

*If you are able to visit London before next year's G8 summit in Toronto, you will find a warm welcome. ~~At least~~*

~~Many people have made comparisons between recent events and the Wall Street crash of 1929. It is vital that we do not repeat the mistakes of the 1930s. In particular we must resist the pressure for protectionist action which did so much harm then. I hope that Japan will play a leading role in the new GATT round to create a more free, open and comprehensive international trading system.~~

I hope also that we shall be able to demonstrate in practical ways the benefits of trade and industrial collaboration between our two countries. There are already many splendid examples of Anglo-Japanese cooperation. We have been delighted by the success of Japanese investment in the United Kingdom, and I am very keen that more Japanese companies should set up here.

Enclosures (flag(s)) .....

*you with best wishes.*

Sir

JAPAN: INTERNAL - P-2

Sir Geoffrey Howe is hoping to visit Japan for consultations in January, and the Secretary of State for Trade and Industry plans a visit in the Spring. I hope you will encourage members of your Cabinet to visit the United Kingdom at an early date. They will all be welcome. If ~~you were able to find time to come to~~ London ~~yourself~~ before the Economic Summit in Toronto, I believe it would be most useful for both of us. If this is not possible, I shall look forward to seeing you and working with you at the Toronto Summit.



ce PC

EMBASSY OF JAPAN  
LONDON

6th November, 1987

Prime Minister  
You love churchy  
put him a  
message.  
CB 9/xi

Dear Prime Minister,

I am asked by Prime Minister Yasuhiro Nakasone to transmit a message to you.

... I have pleasure in attaching herewith the text of this message.

Yours sincerely,

Toshio Yamazaki  
Ambassador

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.

SUBJECT cc MASTER  
OPS

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T198A/87

LCS-FCO (2)

Prime Minister

CDP

12/11

OFFICE OF THE PRIME MINISTER  
TOKYO

November 6, 1987

My dear Prime Minister,

As I end my tenure of the post of Prime Minister of Japan, I should like to express to you my heartfelt thanks for the warm friendship and cooperation I have been privileged to enjoy over the past five years. I should also like you to know how grateful I am for the very warm hospitality you and the British people extended to me on the occasion of my visit to the United Kingdom in 1984.

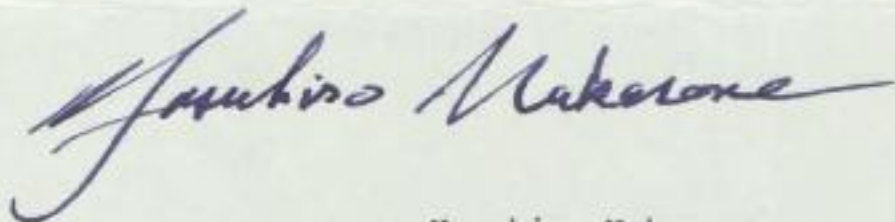
Working closely with you on our bilateral relations and in the very important Economic Summits, in which you worked with such energy and resolve to further strengthen Western solidarity, has always given me very great pleasure and satisfaction. Especially, in our bilateral relations, the importance of our agreement in 1984 to establish the Japan-U.K. 2000 Group cannot, I feel, be over-emphasized, as it has been contributing very significantly to deepening and expanding mutual understanding and cooperation between our two peoples.

I value very greatly the personal friendship and mutual trust our working together has nurtured, and see them as invaluable assets, assets that will be of the greatest help to me as I continue to work, in whatever capacity, to enhance further the fruitful relations between Japan and the United Kingdom. I know that you will give my successor, Mr. Takeshita, the kind counsel and cooperation that I have been privileged to enjoy.

I wish you good health and every success in the years to come.

With warmest personal regards,

Yours sincerely,



Yasuhiro Nakasone  
Prime Minister of Japan

The Right Honourable  
Mrs. Margaret Thatcher, MP  
Prime Minister of  
the United Kingdom of Great Britain  
and Northern Ireland

SUBJECT CC MASTER  
OPS.

PRIME MINISTER'S  
PERSONAL MESSAGE (TEXT)  
SERIAL No. T198A/87

November 6, 1987

My Dear Prime Minister,

As I end my tenure of the post of Prime Minister of Japan, I should like to express to you my heartfelt thanks for the warm friendship and co-operation I have been privileged to enjoy over the past five years. I should also like you to know how grateful I am for the very warm hospitality you and the British people extended to me on the occasion of my visit to the United Kingdom in 1984.

Working closely with you on our bilateral relations and in the very important Economic Summits, in which you worked with such energy and resolve to further strengthen Western solidarity, has always given me very great pleasure and satisfaction. Especially, in our bilateral relations, the importance of our agreement in 1984 to establish the Japan-U.K. 2000 Group cannot, I feel, be over-emphasized, as it has been contributing very significantly to deepening and expanding mutual understanding and co-operation between our two peoples.

I value very greatly the personal friendship and mutual trust our working together has nurtured, and see them as invaluable assets, assets that will be of the greatest help to me as I continue to work, in whatever capacity, to enhance further the fruitful relations between Japan and the United Kingdom. I know that you will give my successor, Mr. Takeshita, the kind counsel and co-operation that I have been privileged to enjoy.

/ I wish ...

( 2 )

I wish you good health and every success in the years to come.

With warmest personal regards.

Yours sincerely,

Yasuhiro Nakasone  
Prime Minister of Japan

The Right Honourable Mrs. Margaret Thatcher, MP,  
Prime Minister of the United Kingdom of Great Britain  
and Northern Ireland.



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

21 September 1987

*Dear Keith,*

Thank you for your letter of 10 September. I have considered carefully whether to write to Mr. Nakasone again on this issue, but I do not believe that such a letter is advisable at this stage.

I know that Sir John Whitehead and the Embassy staff will be offering their normal high level of support for C&W's efforts in Japan. I hope Sir Eric's visit is successful.

I am sending a copy of this letter to Eric Sharp.

*Louisa  
Payne*

The Rt. Hon. Sir Keith Joseph, Bt, CH

*JA*

*cc DTI  
FCO  
P.C.  
Sir E.S.*

*40*

IME MINISTER

"See Keith"

(3)

CABLE & WIRELESS

Keith Joseph has asked whether you would give Sir Eric Sharp a letter to Mr. Nakasone to take with him when he visits Japan later this month.

The DTI in their letter (attached) give a number of cogent reasons why it would be better not to write to Mr. Nakasone at this stage. There is nothing of substance to say: Mr. Nakasone is about to leave office: and he will not actually be in Japan at the time of Sir Eric's visit. Agree to sign the attached reply to Sir Keith?

C.D.P.

(C.D. POWELL)

17 September 1987





*CF* *R 17.9*  
DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

PS/  
Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

*17* September 1987

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Charles*

CABLE & WIRELESS/JAPAN *at Sharp*

Your letter of 11 September to Timothy Walker requested advice on whether the Prime Minister should write to Mr Nakasone at the time of Sir Eric Sharp's visit to Japan later this month.

Our advice, which FCO and Sir John Whitehead in Tokyo support, is that the Prime Minister should not write again at this stage for several reasons.

First, a letter at this stage could do little more than acknowledge Mr Nakasone's assurances and express the hope that these assurances will be applied to the application from C&W's consortium, IDC. This does not in itself give sufficient grounds for a Prime Minister intervention. We see it as important to maintain the impact of letters from the Prime Minister by keeping such interventions for specific difficulties.

Second, Mr Nakasone is now reaching the close of his term of office. Whilst a letter could thank him for his efforts to date, it is unlikely to create any significant shift in opinion in the long term.

Finally, I understand that Mr Nakasone will not be in Japan at the time of Sir Eric's visit - he is due to visit the United States at that time. It is therefore by no means certain that Sir Eric will be able to see Mr Nakasone in any case; moreover it would be most unusual for Sir Eric to deliver the letter himself.

DW3CNO



In the light of these factors, we therefore recommend against such a letter. A draft reply to Sir Keith is attached.

As regards the broader picture of C&W's efforts in Japan, as Gina Davis' letter of 3 September indicated, the IDC has been renegotiating its share structures to take account of the differing positions of the various IDC partners. As anticipated, a separate group will be established to construct the North Pacific Cable, in which C&W will have a 30 per cent stake and IDC as a whole 50 per cent. C&W's stake within IDC itself is likely to be 17 per cent. C&W are content with this development and we understand they have also agreed that Toyota will chair the IDC. IDC plan to submit their application next week.

I am copying this letter to Robert Culshaw (FCO).

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary

DW3CNO

JAZATH

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Sir Keith Joseph  
Liscartan House  
127 Sloane Street  
LONDON  
SW1X 9BA

Thank you for your letter of 10 September. I have considered carefully whether to write to Mr Nakasone again on this issue, but I am not convinced that such a letter is necessary at this stage.

I know that Sir John Whitehead the Embassy staff will be offering their normal high level of support for C&W's efforts in Japan. I hope Sir Eric's visit is successful.

I am sending a copy of this letter to ~~Sir~~ Eric Sharp.

DW3CNP

JAPAN - Relations PE 7.





AG2CEY

bc: PC

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

Ackd 11 September 1987

I enclose a copy of a letter to the Prime Minister from Sir Keith Joseph asking whether the Prime Minister would write a letter to Mr. Nakasone which Sir Eric Sharp could deliver when he visits Tokyo later this month. Sir Keith's letter has in fact been copied to Lord Young. I should be grateful for early advice, together with a draft letter if appropriate.

I am copying this letter and enclosure to Robert Culshaw (Foreign and Commonwealth Office).

Charles Powell

Tim Walker, Esq.,  
Department of Trade and Industry.

↙

FROM: The Rt Hon. Sir Keith Joseph Bt CH  
LISCARTAN HOUSE  
127 SLOANE STREET, LONDON SW1X 9BA  
TELEPHONE 01-730 0811

The Rt Hon. Mrs Margaret Thatcher MP  
The Prime Minister  
10 Downing Street  
SW1A 2AA

10th September 1987

PRIVATE AND CONFIDENTIAL

*Dear Margaret,*

I understand that Mr Nakasone sent you on <sup>Sharp</sup> 6th August a reasonably constructive reply to your letter to him.

Eric Sharp thinks that it would very much help if he were able to give Mr Nakasone, when he sees him on his visit to Tokyo later this month, a short letter from you acknowledging with appreciation Mr Nakasone's reply. This could then be presented as a message from you either directly by Eric or alongside the Ambassador.

Might it be possible please for you to consider giving Eric Sharp such a letter?

I am copying this to David Young at DTI, Brian Griffiths at your Policy Unit and of course Eric Sharp himself.

*Yours ever,*

*Keith*

JAPAN CELEMAN PTZ.





CCPC

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

3 September 1987

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

1) NBPM  
2) ~~DN~~ to see

CDP  
3/9

Dear Charles,

You wrote to Paul Steeples on 6 August, requesting advice on Mr Nakasone's letter to the Prime Minister about Cable & Wireless. Mr Nakasone wrote to assure the Prime Minister that the applications from the two consortia, C&W's group, IDC, and the rival ITJ, would be dealt with in a "fair transparent and prompt manner in accordance with the relevant laws and regulations".

My Secretary of State has received a similar letter from Mr Karasawa, Minister of Posts and Telecommunications which reiterates this assurance. Clearly it is helpful to have this assurance from the Japanese Government, and my Secretary of State is replying to Mr Karasawa, along the lines of the attached, noting the assurances he has given. We would, however, recommend that the Prime Minister does not reply to Mr Nakasone at this stage. We shall need to watch that the assurances given are matched by practice, and my Secretary of State does not think it would be helpful to give signals that HMG's concerns are fully laid to rest by the assurances given. Our Embassy in Tokyo also advises that the Prime Minister need not reply to Mr Nakasone's letter.

On current plans, IDC, C&W's consortium, aim to submit their separate application to the Ministry of Posts and Telecommunications later this month. At present the consortium is renegotiating the shareholding structure which could have the effect of increasing C&W's stake in the cable construction at the very slight expense of reducing the company's share in the

DW3CLF





operations within Japan. Our Embassy in Tokyo and officials here are continuing to keep a close eye on developments. C&W are content with the current position and have not requested any help.

I am copying this letter to Lyn Parker (FCO), Alex Allan (Treasury) and Trevor Woolley (Cabinet Office).

*Yours sincerely*

*Gina M. Davis*

GINA M DAVIS  
Private Secretary

DW3CLF



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

3 September 1987

Mr Shunjiro Karasawa  
Minister of Posts &  
Telecommunications  
Ministry of Posts and Telecommunications  
TOKYO  
Japan

*Mr Shunjiro Karasawa,*

Thank you for your letter of 6 August. This is a subject in which I have taken a close interest even before assuming my present responsibilities.

I appreciate your assurance that your Ministry will deal with the applications for licences in a fair, transparent and quick manner based on the relevant laws and regulations.

I and my colleagues will continue to follow closely and with deep interest the developments on this issue and I hope that a satisfactory outcome will be reached shortly.

*L. Young*

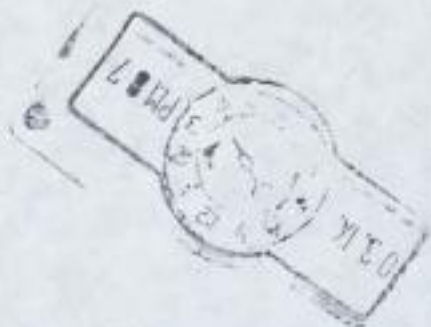
LORD YOUNG OF GRAFFHAM

DW3CLH

JAPAN

REUTONS

PT 7



016

P.P.S. P. C.C.P.P.



EMBASSY OF JAPAN  
LONDON

14th August 1987

Dear Prime Minister,

I would like to refer to my letter  
of 6th August 1987 and to send you, herewith  
enclosed, the original letter from Mr. Yasuhiro  
Nakasone, Prime Minister of Japan.

Yours sincerely,

Toshio Yamazaki  
Ambassador

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.

OFFICE OF THE PRIME MINISTER  
TOKYO

*Already T'd.*

August 6, 1987

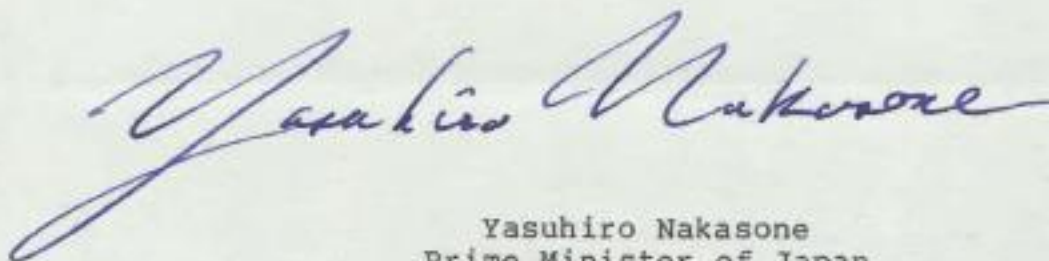
Dear Prime Minister Thatcher,

In April, I wrote to inform you that Mr. Fumio Watanabe, Chairman of the Information and Telecommunications Committee of Keidanren (Federation of Economic Organizations) made a proposal on the question of a new international telecommunications carrier with a view to merging the two consortia.

Since then, the eight core companies of the two consortia had discussed this issue several times, and I personally followed the talks closely. On August 4, the two consortia reached the final conclusion not to establish a unified new telecommunications carrier.

You may remember the short exchange of views we had on this issue in Venice. Given the new development, I would like to reiterate the position of the Government of Japan that it will deal with the applications by the two consortia, when they are submitted, in a fair, transparent and prompt manner in accordance with the relevant laws and regulations.

Sincerely,



Yasuhiro Nakasone  
Prime Minister of Japan

Her Excellency  
Mrs. Margaret Thatcher  
Prime Minister of the United Kingdom  
London

JAPAN: relations pt 7





10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 August 1987

BF ) I enclose a copy of a letter to the  
Prime Minister from Mr Nakasone about  
Cable and Wireless. I should be grateful  
for advice, in due course, whether any  
reply is appropriate at this stage.

I am copying this letter and enclosure  
to Lyn Parker (Foreign and Commonwealth  
Office), Alex Allan (HM Treasury) and  
Trevor Woolley (Cabinet Office).

Charles Powell

Paul Steeples Esq  
Department of Trade and Industry.

✓

UPC

EMBASSY OF JAPAN  
LONDON

6th August 1987

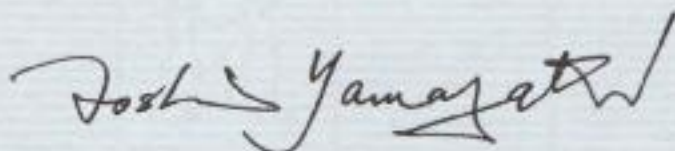
*Dear Prime Minister,*

I have been asked to transmit to you the text of a letter from Mr. Yasuhiro Nakasone, Prime Minister of Japan.

....

I have pleasure in enclosing this herewith and will forward the original letter as soon as it arrives in London.

*Yours sincerely,*



Toshio Yamazaki  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
London.



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. TISS/87.

SUBJECT  
CC MASTER  
OPS

(TEXT)

Prime Minister

COO  
G/P.

OFFICE OF THE PRIME MINISTER

TOKYO

6th August 1987

Dear Prime Minister Thatcher,

In April, I wrote to inform you that Mr. Fumio Watanabe, Chairman of the Information and Telecommunications Committee of Keidanren (Federation of Economic Organisations) made a proposal on the question of a new international telecommunications carrier with a view to merging the two consortia.

Since then, the eight core companies of the two consortia had discussed this issue several times, and I personally followed the talks closely. On August 4, the two consortia reached the final conclusion not to establish a unified new telecommunications carrier.

You may remember the short exchange of views we had on this issue in Venice. Given the new development, I would like to reiterate the position of the Government of Japan that it will deal with the applications by the two consortia, when they are submitted, in a fair, transparent and prompt manner in accordance with the relevant laws and regulations.

Sincerely,

YASUHIRO NAKASONE  
Prime Minister of Japan

Her Excellency

Mrs. Margaret Thatcher,

Prime Minister of the United Kingdom,  
London



010.  
APS/ Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

CONFIDENTIAL

David Norgrove Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1A 2AA

13 July 1987

Prime Minister<sup>2</sup>

You will want to avoid  
being caught up in this until  
it is clear exactly what game  
Cable and Wireless are playing.

Dear David,

CABLE & WIRELESS IN JAPAN

The Prime Minister asked to be kept in touch with developments on this issue. Although the final outcome is still unclear, my Secretary of State thought it would be helpful to give you a report on developments since the Venice Summit.

The Prime Minister will recall that Mr Nakasone told her his government would accept applications for two licences and that no further attempts would be made to impose a merger between the ITJ and IDC.

Contrary to expectations, neither consortium has submitted its application and further consideration is being given to the possibility of a merger - but this time at the initiative of C Itoh, C&W's main ally in the IDC consortium. This move seems to be generated by two factors; first to counter accusations that IDC were being inflexible, to the detriment of future working relationships with the Japanese Ministry of Posts and Telecommunications; and second to keep Toyota in the IDC. Toyota are a major member of the IDC but have always favoured a merger and have had increasing doubts about investing in the private pacific cable (PPAC).

DLW  
13/7.



Cable and Wireless have entered into negotiations on these new proposals within the IDC consortium, but they have sought supplementary guarantees from Toyota to safeguard C&W's position on the cable.

The proposals as they now stand envisage;

- (i) a merged consortium of ITJ and IDC to run the new international telecommunications system within Japan. C&W would hold 10% of this company.
- (ii) a separate company would be formed to construct and run the cable. C&W and Pacific Telesis would hold at least 30% of this group in partnership with Japanese companies and IDC.
- (iii) Toyota would give written guarantees relating to the construction of the cable and the routing of traffic over it by the merged consortium.

Cable and Wireless have been discussing these proposals in detail with Toyota, and the IDC has been doing the same with the MPT. C&W say they would find these proposals acceptable, but may, even now, be manoeuvring for position in the hope that the eventual outcome will be a separate application by IDC, including Toyota. It is not yet certain that Toyota will sign up. There is growing pressure in Japan and the US for a solution to this long running story, and it is clear that the parties are considering the proposals more urgently than before.

Cable and Wireless have not requested any supportive action at this stage. Just before these new proposals emerged, Sir Eric had requested that the Prime Minister should write to Mr Nakasone to consolidate their conversation in Venice. The company then agreed, however, that this would not be appropriate, given the changing ground, and a separate route has now been found for recording Mr Nakasone's commitment to the Prime Minister. It is however likely that the Company may encourage parliamentary coverage to strengthen their hand in Tokyo.

If there are any significant changes in the position, we shall keep you informed.

I am copying this letter to Lyn Parker (FCO) and Tony Kuczys (Treasury).


*Yours sincerely*

*Gina M. Davis*

JG5BDZ

GINA M DAVIS  
Assistant Private Secretary

# A The National Archives

DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>2285</i> ..... (one piece/item number)	Date and sign
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DAS

alc

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

8 June 1987

*Dear Alex,*

ANGLO-JAPANESE FINANCIAL TALKS

The Prime Minister was grateful to see your letter to me of 5 June which set out the results of the talks between UK and Japanese officials on 30 May, and the subsequent announcements by the Japanese Ministry of Finance.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Timothy Walker (Department of Trade and Industry), David Roe (Private Secretary to Michael Howard, QC), John Footman (Bank of England) and to Trevor Woolley (Cabinet Office).

*Yours,*

*David*

D R NORRGROVE

A. C. S. Allan, Esq.  
H.M. Treasury

6

*CCP*



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215  
GTN 215 — 5422  
(Switchboard) 01-215 7877

PS/ Secretary of State for Trade and Industry

8 June 1987

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1A 2AA

*NBSM*

Dear Charles,

**ANGLO-JAPANESE TALKS**

This letter is to record my Secretary of State's <sup>at top</sup> reactions to the outcome of the Anglo-Japanese Financial Consultations which were the subject of the Chancellor's minute of ~~27~~ <sup>28</sup> May and Sir Robert Armstrong's note of ~~27~~ <sup>28</sup> May.

The public commitment of the Ministry of Finance to expansion of the Tokyo Stock Exchange on the lines which Mr Howard described during his visit is a positive response by the Japanese to the most important problem we had identified in access by British firms to Tokyo's financial markets. Taken together with the Japanese Government's announcement of ten investment management licences and three securities branch licences for British firms, this represents significant progress.

My Secretary of State believes, however, that there is a long way to go before we might see the Japanese accept foreign participation in their financial markets in the same way we accept it in the City. He believes that the availability of reciprocity powers in the Financial Services Act played an important part in helping in the achievement of our objectives in respect of the Tokyo Stock Exchange, and believes that they will continue to have an influence on the Japanese as they consider further liberalisation of their financial markets.

Yours  
Paul Steeples

PAUL STEEPLES  
Private Secretary

JG5AYD

JAPAN: Relations PT7



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David Norgrove      cc as in  
attached letter

The attached article in today's  
Guardian is making mischief.  
I attach a transcript of  
the Chancellor's actual  
remarks at his press conference.

Alise Allan

---



Tokyo contradicts claim that Britain has gained any new concessions or objectives

3

## Japan says Lawson fudged trade talks

24

From John Hooper  
in Tokyo

The senior Japanese official who was in London last weekend for talks on whether more British firms should be allowed on to the Tokyo Stock Exchange yesterday flatly denied offering any new concessions.

His remarks appeared to contradict the statement by the Chancellor of the Exchequer earlier this week that the Government had achieved its objectives in negotiations with Japan.

London had threatened to revoke the licences of Japanese financial institutions op-

erating in London unless the number of British security houses on the Tokyo Stock Exchange was increased. When he visited Tokyo earlier this year, the Minister for Corporate Affairs, Mr Michael Howard, presented the Japanese government with a list of three firms which it wanted to see trading by the end of this year.

Mr Nigel Lawson said on Tuesday that a committee set up by the Tokyo Stock Exchange had accelerated its review of membership and that this meant that British firms would become members.

Asked yesterday whether he

had given an undertaking to this effect, Japan's Vice-Minister of Finance, Mr Toyoo Ghyoten, replied: "If you imply that there was a formal agreement or arrangement to allow specific numbers or names of foreign firms to be permitted to join the Tokyo Stock Exchange, that is not correct." He added that the committee was due to report in the autumn.

The Tokyo Stock Exchange would then amend its charter and invite applications before the end of this year. This would allow those foreign firms which were selected to begin operations next May.

There was no difference be-

tween the timetable outlined by Mr Ghyoten and the position his government has taken from the start. Nor was there any hint of a commitment to give British firms a seat.

Mr Ghyoten later took the unusual step of reading from the prepared statement which, he said, he had read to British officials last Saturday. It stressed that the decision on increasing membership was for the exchange itself to take.

"The Ministry of Finance hopes that it will be able to be made in such a manner that the wishes of foreign securities houses will be satisfied to the largest extent possible," the statement concluded.



Nigel Lawson

3.10/12

CHANCELLOR - PRESS BRIEFING ON VENICE SUMMIT

Let me say a little bit about the talks that we've been having with the Japanese, at an official level conducted by Sir Geoffrey Littler. He has now reported back to me. It does seem that satisfactory progress has been made. The Tokyo Stock Exchange has agreed to accelerate their review of membership and, I think that that is likely to lead to the outcome of additional British firms acquiring membership of the Tokyo Stock Exchange in due course. The Japanese Ministry of Finance has categorically promised fair and equal treatment. And I think this will lead to the 3 applicants that we have at the moment joining next year when the Tokyo Stock Exchange is extended, and being formally informed of that by the end of this year. So that has achieved our objective there.

But we have already seen quite a remarkable success on investment management licences. Of the first 17 foreign licences 10 out of the 17 have gone to British firms. That was announced last week. And of course Liffe have now been permitted to trade on the Japanese long bonds contract. So that, as I say, we have made important progress in this financial field with the Japanese.



JAPAN: station pt 7



CCPC  
mt

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

5 June 1987

David Norgrove Esq  
10 Downing Street  
LONDON  
SW1

Prime Minister 2

The Treasury say the press exaggerated the claims the Chancellor made for the success of the talks and the Guardian today was mischievous in its claim that "Japan says Lawson

Dear David,

**ANGLO-JAPANESE FINANCIAL TALKS** judged trade talks. The papers are attached. DW 5/6

The Chancellor's minute to the Prime Minister on 27 May said that talks between UK and Japanese officials were due to take place on 30 May. He has asked me to write to you to report the results.

The talks went satisfactorily, very much on the lines foreshadowed in the Chancellor's minute. Officials were given assurances about the expansion of the Tokyo Stock Exchange which meet the framework Michael Howard laid down in Tokyo. Officials made a point of registering that British interests are not confined to the three houses named, but included other well-qualified houses who will want, in some cases quickly, to join the Tokyo Stock Exchange. They also made it clear that the option of using reciprocity powers remains, if we are not satisfied in future.

... Since the talks, the Japanese Ministry of Finance has announced, on 4 June, a wide-ranging package of liberalisation measures in the financial field. I attach a copy. Much of this simply confirms what had been stated separately in earlier public announcements, including the excellent news on licences for investment management (already mentioned in the Chancellor's earlier minute), and a new batch of securities licences (including three British). The string of measures to liberalise market instruments and interest rates are helpful, but will need to be carried further. The comment on international cooperation in banking standards and supervision is unexpectedly warm. We and the US recently reached an important agreement on this, and we have both been pressing the Japanese to collaborate; their announcement raises our hopes.



Altogether, the Chancellor thinks the Japanese authorities have been making a real effort in the financial field, and producing helpful results which we should acknowledge. There is of course room still for improvement, and we must continue to exert pressure - not least as a means of assisting the Japanese authorities to continue to over-ride domestic opposition.

I am copying this letter to Tony Galsworthy (FCO), Timothy Walker (DTI), David Roe (PS/Mr Howard), John Footman (Bank of England) and to Trevor Woolley in Sir Robert Armstrong's Office.

*Yours  
Alec*

A C S ALLAN  
Principal Private Secretary

Current Plans for the Liberalization and  
Internationalization of Japanese Financial and  
Capital Markets (Provisional Translation)

Under the recognition that liberalizing and internationalizing financial and capital markets contribute to the development of the national economy, Japan has put in place a series of liberalizing measures for various areas of these markets. The contents of these measures cover such areas as liberalization of interest rates, improvement and enlargement of short-term financial markets and capital markets, improvement of foreign financial institutions' access to Japanese markets, and development of the Euroyen markets. As a result, the liberalization and internationalization of Japanese financial and capital markets have been proceeding steadily in recent years.

The importance of the Japanese economy within the world economy has been rising in recent years. As a result, there are requests from foreign countries for Japan to play a greater role in proportion to its importance. At the same time, the globalization of financial and capital markets has advanced considerably. Under these circumstances, it is necessary for Japan to pay more regard to strengthening cooperative relations with foreign countries and to develop Japanese financial and capital markets so that these markets can play a major role in such markets around the world. With the increasing needs for diversified and sophisticated financial instruments, financial institutions are expected to actively work to meet these needs. Considering these responsibilities in external relations and the growing domestic needs placed on the financial industry, it is necessary to promote further liberalization and internationalization of Japanese financial and capital markets so that the markets can be sophisticated and made efficient enough to fully respond to the domestic and international needs.

Taking such a point of view as mentioned above, the Ministry of Finance (MOF) plans to implement the following measures in a positive and steady manner.

1. Further Promotion of Liberalization of Interests on Deposits

With regard to the liberalization of interests on deposits, there has recently been considerable progress. Further steps will be implemented to liberalize interests on deposits.

This coming October, the minimum denomination of MMC's will be lowered to 10 million yen. The minimum maturity of large denomination time deposits will be shortened to one month.

Regarding liberalization of interests on deposits, the minimum denomination of deposits on which interest is liberalized will be further lowered. A study will be proceeded to set up a plan in this direction as soon as possible. The plan will include establishment of small denomination time deposits on which interest is determined in relation to money market interest rates. The plan will be considered on the premise that a suitable environment or a level playing field between commercial banking and the postal saving system be established.

## 2. Developments in Short-Term Financial Markets

Further developments in short-term financial markets will be promoted from the viewpoint of providing proper measures for short-term fund raising and investment.

### (1) Establishing a Commercial Paper (CP) Market

A domestic commercial paper (CP) market will be established for the purpose of providing a wider variety of corporate fund raising measures, developing short-term financial markets, and diversifying investors' portfolios.

### (2) Improving the Marketability of TBs and FBs

MOF will lower the minimum denomination of TBs and FBs from ¥100 million to ¥50 million by this August.

As for TBs and FBs purchased by sovereign tax-exempt entities such as foreign central banks, a system under which an equivalent amount to the tax withheld is refunded at the time of purchase instead of the current treatment of refunding at the time of redemption will be introduced no later than this summer.

### (3) Improving and Expanding the Interbank Money Market

Measures to liberalize and relax interbank money market regulations have been taken in recent years. Among these measures is the implementation of a wider variety of money transactions such as the introduction of uncollateralized call money. As a result, the scale of the market has increased. MOF will request market participants including the Bank of Japan for further improvement and expansion of the interbank money market in compliance with the various needs in the market.

## 3. Improvement and Expansion of Financial Futures Markets

In view of the growing importance of futures markets in financial and capital markets, MOF will endeavor to broaden the participation of Japanese residents in foreign financial futures markets and will improve and expand the domestic financial futures markets.

With respect to the Japanese residents' participation in financial futures transactions abroad, MOF has liberalized financial institutions' transactions on their own account in May this year. MOF will make efforts to liberalize financial futures transactions for other Japanese residents after relevant legal and other measures are taken.

The Osaka Stock Exchange will introduce packaged stock futures trading (futures trading based on a group of 50 stocks) in June this year. As for stock index futures trading and securities options trading, preparations will be made along the lines presented in the report of the Securities



Exchange Council of May this year, aiming at the introduction of these new trading methods in 1988.

Vigorous study will be made toward the establishment of financial futures markets of currency, deposit and others.

#### 4. Improvement of Capital Markets

Necessary measures will be taken from the viewpoint of further improvement of capital markets.

##### (1) Vitalization of the Corporate Bond Primary Market

Measures such as increasing the number of companies able to issue non-secured bonds, the introduction of the "proposal method" (open-bid issuing method of particular corporate bonds), and the liberalization of private-placement bonds have already been implemented along the lines presented in the report of the Securities Exchange Council last December. In addition, a rating system of domestic bonds will be introduced in July this year. In order to vitalize the corporate bond primary market, MOF will continue to take necessary measures such as the diversification of corporate bonds.

##### (2) Improvement of the Disclosure System

Along the lines presented in the above mentioned report of the Securities Exchange Council, measures such as simplifying the disclosure procedures for public offering have already been taken. As for the introduction of the shelf-registration system etc, MOF will take necessary measures aiming at its introduction within 1988. As for the improvement of segment information etc, studies will be continued by the Business Accounting Deliberation Council.

##### (3) Further Improvement of Securities Secondary Markets

Measures such as ① preparing for the starting of operation of the Central Securities Depository System and ② expanding the scale of market making in the bond market will be taken.

#### 5. Liberalization and Relaxation of Regulations concerning Financial Institutions' Business Operations

Further efforts to liberalize and relax regulations concerning financial institutions' business operations will be made corresponding to the demand for diversification and sophistication of financial products and services, vis-à-vis the overall financial liberalization and internationalization. Specifically, the development of new financial products and services as well as a wider spread use of electronic banking will be encouraged.

##### (1) Flexible Scheme for Liquidating Home Mortgages

Home mortgages are being actively granted corresponding to an upsurge in demand by Japanese people in recent years. Risks, however, are increasing because of interest rate fluctuations, as financial liberalization proceeds. Under these circumstances, scheme for liquidating home mortgages will be made more flexible to ensure a more positive supply of funds for such mortgages.

(2) Liberalization of Medium-and Long-term Euroyen Loans to Japanese Residents

With respect to the liberalization of medium-and long-term Euroyen loans to Japanese residents, MOF is positively considering its early liberalization from a viewpoint such as the diversification of the means of raising yen funds by Japanese residents, paying attention to its effect on domestic financial markets.

(3) Proceedings for the Wide Spread Use of Electronic Banking

Due to developments in information processing and communication technology, there has been a wider spread use of electronic banking in recent years. From the users' point of view, further improvement and expansion of financial services utilizing advances in electronic banking will be sought, while maintenance of transaction security should be given full consideration.

6. International Harmonization of Banking Supervision and Improvement of the Capital Adequacy

Improving the capital adequacy of banks has become an urgent task in view of the increase in risk through financial liberalization and internationalization. International cooperation in the area of banking supervision, especially with regard to the capital adequacy, is becoming an important task as well, because world financial markets are increasingly globalized and Japanese banks are more involved in overseas transactions. Under these circumstances, improvement in Japanese banks' capital adequacy and positive participation in the efforts for the international harmonization of banking supervision will be sought with due attention to secure the soundness of Japanese banks' activities in each country's financial market.

7. Studying Issues Concerning from the Distinctions of Business Areas of Financial Institutions

With regard to the issues of the specialized financial institutions system such as the distinctions between long-and short-term credit banking institutions and between trust banks and other banks, the Committee on Financial System Research will analyze the system and identify the problems of the system by the end of this year.

With regard to the issue of distinction between the activities of banks and those of securities companies, MOF will review appropriately, as necessary, how this distinction should be in specific

areas, respecting each industry's inherent fields of business and considering changes in domestic and international situations.

#### 8. Improvement of Access by Foreign Financial Institutions

As for the access by foreign financial institutions, MOF has welcomed their access to Japan, and this policy will be continued. Under such a policy, the following measures will be taken to improve the access by foreign financial institutions to Japanese financial and capital markets.

##### (1) Increasing Membership on the Tokyo Stock Exchange

The Tokyo Stock Exchange is preparing to increase the number of its membership so that the new members can be determined by the end of this year. The Ad Hoc Committee on Membership Structure was established by the Tokyo Stock Exchange in order to work out a specific plan for membership increase.

##### (2) Increasing Access to Government Bond Issues

MOF has eased the eligibility for bidding in the auction of medium-term government bonds this April, and the syndicate has eased membership requirements for foreign banks and increased underwriting shares of foreign securities companies this April.

MOF will adopt an auction method instead of the current syndicate method for 20-year government bond issues around this autumn, and will also adopt an "auction method of underwriting amount" (provisionally named) around this autumn for 10-year issues, along with the current syndicate method with fixed allocation, under which a certain percentage of issues can be underwritten additionally through the auction method.

##### (3) Access to Japan by Foreign Securities Companies

As for the access to Japan by foreign securities companies, MOF has welcomed their access from the viewpoint of internationalizing Japanese capital markets. On June 8, MOF has announced its intention to invite in the near future 10 foreign securities companies including 4 foreign securities subsidiaries of U.S. commercial banks to file formal applications for the license as the first package for this year, and they will be granted licenses as soon as possible.

##### (4) License for Discretionary Investment Management

MOF recognizes that the entrance of well-experienced foreign companies into the Japanese investment management field serves its internationalization. Based on this recognition, MOF has been studying applications for licenses for discretionary investment management maintaining equal treatment between domestic and foreign companies. 56 companies including 17 foreign companies, which have cleared the examination up to now, were already invited in May this year to file formal applications for the license. MOF expects to grant licenses to all of them in June this year.



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

29 May, 1987.

*See Robert,*

I enclose a copy of a letter to the Prime Minister from Mr. Nakasone. As you will see, it deals principally with the Japanese Government's emergency economic measures. But the final paragraph also refers in passing to the problems of whisky, telecommunications and Tokyo Stock Exchange membership.

I am sending copies of this letter and its enclosure to Alex Allan (HM Treasury), Tim Walker (Department of Trade and Industry), and Trevor Woolley (Cabinet Office).

*yes on each.  
Chris Powell*

(C.D. Powell)

R.N. Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

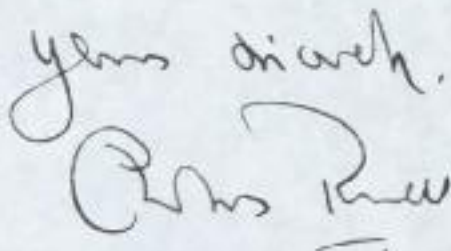
29 May, 1987.

See Alex.

## ANGLO-JAPANESE FINANCIAL TALKS

The Prime Minister has seen the Chancellor's minute of 27 May about the tactics we should adopt in the Anglo-Japanese financial talks on 30 May. She agrees with the proposals set out in it.

I am sending copies of this letter to Robert Culshaw (Foreign and Commonwealth Office), Tim Walker (Department of Trade and Industry), David Roe (Mr. Howard's Office, Department of Trade and Industry), John Footman (Office of the Governor of the Bank of England), and Trevor Woolley (Cabinet Office).

Yours sincerely,  


(C.D. Powell)

Alex Allan, Esq.,  
 HM Treasury.



10 DOWNING STREET

Prime Minister

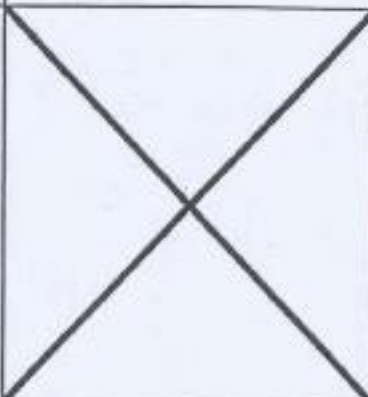
The Cabinet Office

note setting out the  
possible options for  
retaliation against the

Japanese in the  
Financial Services sector  
is also attached.

But it is NOT  
necessary reading at this  
stage. (CD)

# **A** The National Archives

DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>2285</i> ..... (one piece/item number)	Date and sign
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CCP  
 Prime Minister

CDP

Treasury Chambers, Parliament Street, SW1P 3AG 27/5  
 01-270 3000

PRIME MINISTER

**ANGLO-JAPANESE FINANCIAL TALKS**

The twice-yearly talks between officials are to be held in London on 30 May. We are anxious to use them to pin down the Japanese satisfactorily on particular questions of British access to the Japanese financial markets, as was envisaged by Michael Howard during his April visit to Tokyo. You and others to whom I am copying this minute will want to know what are the prospects, and how I suggest we should handle the outcome.

We have identified three objectives:

- continued satisfactory flow of securities licences for our applicants in Tokyo;
- licences to undertake investment management (an extremely important objective for many of our well-qualified City houses - they foresee large and profitable business);
- admissions to Tokyo Stock Exchange membership.

We want success on all three fronts.

The position seems to be as follows:

- Securities Licences: we have already broken the back of this problem - first, from late 1985, in opening up a series of successful applications by merchant banks; and second, from last year, getting (so far) two investment subsidiaries of clearing banks in (this has been heavy going since the Japanese maintain the US-type distinction





between clearing banks and securities dealers). We took the lead and have done better than other Europeans over this. There remain half a dozen British firms at various stages of application, including subsidiaries of Barclays and Lloyds. Informal soundings in advance suggest that we shall have a fair share of the next batch of licences to be given shortly, and that no other British applicants already in a position to open up in Tokyo will be left out.

- Investment Management: some excellent and firm news was announced in Tokyo on 25 May. No such licences exist so far - either Japanese or foreign. By the end of March applications for registration as investment advisers had been made by 178 Japanese and 33 foreign companies, of which 15 are UK (or UK-linked) firms. Some of these have sought investment management licences, including 13 from the UK. It has now been announced that the first batch of formal licence invitations is confined to pre-January applicants and comprises 39 Japanese companies and 17 foreign, including 8 UK and 2 UK-linked (via Hong Kong), plus 4 US and 3 European. No British applicant has been rejected. This news will be very well received in the City. The Japanese have not yet given us a date for the next batch of licences and we will of course press them on that. But we can certainly welcome the outcome under this heading.
- Tokyo Stock Exchange: Michael Howard made very clear during his April visit to Tokyo what we want: positive indications on Stock Exchange Membership for the three leading British applicants - on the basis that we can accept that they will not obtain physical entry until May 1988 (on expansion of the building) if there is a firm decision on entry by around November. We expect to be told that a membership review committee is to be set up



immediately; that the Ministry of Finance commits itself to support the UK interest; but that the decision is for the Tokyo Stock Exchange itself (this is technically true, though the Ministry of Finance has substantial influence), probably in November.

This is satisfactory so far as the first two headings are concerned. On the issue of Stock Exchange membership it is quite promising, but in effect we shall be asked to take the final answer on trust - which is not an arrangement I would recommend as it stands.

It seems to me, however, that something on the lines we are expecting does meet our aims, provided we can protect ourselves against the risk of betrayal of our trust on the Stock Exchange membership question. And I believe that we have an eminently appropriate response to hand.

As you will recall, the Japanese are extremely anxious that we should give banking licences to the remaining two of their four leading securities houses. The fact that we have already licensed the first two has increased their anxiety - we know that all four houses have been lobbying on our behalf in Tokyo, as a means of getting what they want here. My proposal - conditional of course on confirmation of the expectations outlined above - is that the Bank of England should invite formal application for licences by the two remaining applicants, on the clear understanding that they cannot count on a favourable decision unless and until we have a definitive and satisfactory response on Stock Exchange members. (In fact the Bank, having invited applications, would be legally obliged to give a decision within 6 months. By that time, however, we should know where we stand on Tokyo Stock Exchange membership, and we should also be armed with the full powers of the reciprocity provisions of the Financial Services Act.)



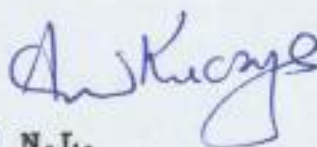
I think this is likely to prove the most potent immediate lever on the Japanese authorities, given the importance they attach to the remaining banking licences. Of course if things go wrong towards the end of the year, we shall then be in the stronger position of having available the reciprocity powers on securities under the Financial Services Act.

There are two further points on timing and publicity:

- The Japanese do not want to make announcements from London immediately after the meeting. This is because Prime Minister Nakasone is planning to make a package of announcements about market liberalisation just before the Venice Summit on 8-10 June. I think we can live with that provided our officials agree a line at the meeting which enables us to state categorically that agreement in principle has been reached, that the Japanese will be making a formal announcement in Tokyo next week, and that we will reserve comment until then.
- If all goes as I suggest, I would propose that the Bank of England might defer the actual invitations to the remaining two Japanese securities houses until after the Election.

I think this gives us a defensible public position, and a prospect of renewed and substantial progress which will be widely welcomed among the British financial institutions concerned.

I am copying this minute to Geoffrey Howe, Paul Channon, Michael Howard, the Governor of the Bank of England, and to Sir Robert Armstrong.

  
pp N.L.

(Approved by the Chancellor  
and signed in his absence)

27 May 1987

15/5



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422  
GTN 215  
(Switchboard) 01-215 7877

PS/ Secretary of State for Trade and Industry

15 May 1987

David Norgrove Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Prime Minister<sup>2</sup>  
DNW  
15/5.  
mb

Dear David,

KANSAI INTERNATIONAL AIRPORT PROJECT

gap

I am sure the Prime Minister will be interested to know that, as foreshadowed in my letter to you of 7 May, British Airport Services (part of the British Airports Authority) have been awarded a consultancy contract valued at about £75,000 by the Kansai International Airport Company (KIAC). The contract is to provide advice on a number of alternative layouts for the airport, and will be signed at the end of May. This success follows continuing contract over the last few months between BAA and KIAC and, though not especially large in itself, the contract is significant as the first British success on this project. BAA is one of six airport authorities to be awarded such a contract, the others being New York, Dallas, Paris, Frankfurt and Schipol.

BAA are issuing their own press notice and the DTI will be taking action to ensure that other British companies who manufacture airport equipment or provide services are made aware of this success.

I am copying this letter to Lyn Parker (FCO) and Jon Cunliffe (Transport).

Yours

Paul

PAUL STEEPLES  
Private Secretary

JF5BXQ

JAPAN: Relations Pt 7





SUBJECT  
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10 DOWNING STREET

THE PRIME MINISTER

13 May 1987

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 91/v7**

*Dear Prime Minister,*

I was very pleased to receive your letter of 31 March about the education conference held in Kyoto in January. Reports from our own participants confirm your impressions about its value and success.

Like you, we are in the process of introducing major reforms in education, in particular to make it more responsive to the increasingly rapid pace of social and technological change. We have much to gain from each other's experience, as the Kyoto conference clearly demonstrated. I am most grateful to you for making it possible.

*Yours sincerely  
Margaret Thatcher*

His Excellency Mr. Yasuhiro Nakasone.

*alt*

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10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

12 May 1987

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T89/87**

*Dear Prime Minister,*

Thank you for your recent letter, which I received on 30 April, about the measures which Japan proposes to take to ease the current international trade problems.

As I was able to tell Mr. Tamura when I saw him last week, I welcome the LDP proposals for emergency economic measures and the further commitment to implementation of the Maekawa proposals for structural reforms. I believe that such long term reform is the real solution to the current trade imbalances. I therefore look forward to early implementation of these proposals by the Japanese Government, so that we can begin to see results, in terms of increased imports, as soon as possible.

I know that you are personally committed to increased internationalisation of the Japanese economy and to removing the sources of trade friction with your trading partners and I have been following reports of your visit to the US with interest. I share your concern at the prospect of growing protectionism both in the US and elsewhere. But I believe that such pressures could be considerably reduced if we were to see significant and early measures to open up the Japanese market. You are well aware of our concerns in this regard on telecommunications, financial services and whisky, as well as a number of other issues.

*S. C. M.*

I look forward to discussing these issues further with you when we meet in Venice next month.

Yours sincerely  
Margaret Thatcher

---

His Excellency Mr. Yasuhiro Nakasone





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

PS/

11 May 1987

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Charles,*

Thank you for your letter of 30 April, enclosing a copy of one which the Prime Minister had received from Mr Nakasone.

You asked whether a reply is appropriate. It would be courteous to acknowledge the information which Mr Nakasone has provided about Japan's proposed "comprehensive economic measures". Moreover in the light of recent comments in the House about Mr Nakasone's failure to reply promptly to the Prime Minister's letter on Cable & Wireless, it would be inadvisable to leave this letter unanswered.

We are already familiar with the substance of the enclosure to Mr Nakasone's letter and a summary of it was included in the briefing which we provided for the Prime Minister's meeting with Mr Tamura last week.

The key elements of the proposal, which represents a further commitment to implementing the Maekawa reforms, are the large scale supplementary budget of around \$35 billion to stimulate domestic demand; the increase in overseas aid and recycling of developing countries' debt; and the creation of a special fund of around \$1 billion for Government procurement from overseas sources.

DW4CEK



The Prime Minister can give the proposals a cautious welcome, with the proviso that we reserve our judgement until we see them in operation. The letter also gives an opportunity to mention that further market opening is important, in addition to the longer term structural reforms. The attached draft therefore refers in passing to Cable & Wireless, financial services and whisky.

I am copying this, like yours, to Alex Allan (HM Treasury), Tony Galsworthy (FCO) and Trevor Woolley (Cabinet Office).

*Yours*

*Paul Steeples*

PAUL STEEPLES  
Private Secretary

DW4CEK

V04805

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

His Excellency Mr Yasuhiro Nakasone  
Prime Minister of Japan

Thank you for your recent letter, which I received on 30 April, about the measures which Japan proposes to take to ease the current international trade problems.

As I was able to tell Mr Tamura when I saw him last week, I ~~very much~~ welcome the LDP proposals for emergency economic measures and the further commitment to implementation of the Maekawa proposals for structural reforms. I believe that such long term reform is the real solution to the current trade imbalances. I therefore look forward to early implementation of these proposals by the Japanese Government, so that we can begin to see results, in terms of increased imports, as soon as possible.

I know that you are personally committed to increased internationalisation of the Japanese economy and to removing the sources of trade friction with your trading partners and I have been following reports of your visit to the US with interest. ~~My Government~~ shared your concern at the prospect of growing protectionism both in the US and elsewhere. But I believe that such pressures could be considerably reduced if we were to see significant and early measures to open up the Japanese market. You are well aware of our concerns in this regard on telecommunications, financial services and whisky, as well as a number of other issues.

I look forward to discussing these issues further with you when we meet in Venice next month.

CM

DW4CEP



Japan

HEAVENS

PTD



Minister of International Trade  
and Industry

Her Excellency  
Margaret Thatcher  
Prime Minister  
No. 10 Downing Street  
London SW1

May 9, 1987

RIS

ms

Dear Prime Minister:

I am very glad to have had the opportunity to talk with Your Excellency during my recent visit to your country. Thank you for affording me the time, which I am sure was especially hard to spare with Parliament in session.

It was most significant that we could confirm in our discussion the importance of maintaining and strengthening free trade amid the rising tide of global protectionism. Your Excellency will recall that I explained in concrete terms Japan's efforts to correct its external imbalances and to form more harmonious economic relations with other nations. I intend to continue these efforts in the firm belief that "actions speak louder than words."

After I returned to Japan, I spoke with Prime Minister Nakasone about my talks with Your Excellency, including Your Excellency's concerns on individual issues, and strongly recommended implementing the comprehensive economic measures. Drawing upon what I learned from my recent visit, I intend to redouble my efforts to build closer relations with the United Kingdom.

With my best regards,

Respectfully yours,

田村 元

Hajime Tamura

010

Prime Minister  
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FILE  
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289

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

8 May 1987

*Dear Paul,*

JAPAN

The Prime Minister has seen your letter to me of 7 May about the latest position on Kansai Airport and Cable and Wireless. She finds your reports reassuring, but would be glad to continue to be kept in touch on both projects.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and to Trevor Woolley (Cabinet Office).

*Yours,  
David.*

David Norgrove

Paul Steeples, Esq.,  
Department of Trade and Industry.

*ds*

ce/BJ



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

7 May 1987

David Norgrove Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Prime Minister<sup>2</sup>

Reasoning as far as it  
goes, but you will wish to be  
kept in touch.

Dear David,

HW  
7/5.

JAPAN

Thank you for your letter of 28 April about recent reports bearing on our trade relations with Japan.

KANSAI AIRPORT

We have no evidence at present that the US and Japan are making bilateral agreements which will disadvantage British companies interested in winning contracts with the Kansai International Airport Company (KIAC). So far US pressure on the Japanese has centred largely on construction work to be undertaken in Phases I and II of the project, which hold little interest for British companies. We are keeping a close watch on KIAC activities to ensure that there is no impediment to British companies seeking contracts under Phase III, which holds the best opportunities for us.

The KIAC announced some weeks ago that it had awarded a small (Y30m) consultancy contract to the US consultant Bechtel for a study of the best foreign airports. There are other foreign successes on the horizon. Press reports in early April also indicated that KIAC had decided to appoint 5 or 6 airports authorities in Europe and the US as consultants to the project; the Port of New York Authority and the Paris Airport Authority were mentioned as being among those selected. Although they have not been informed officially, the British Airports Authority are confident that they too will be appointed. BAA have built close



links with KIAC. KIAC engineering teams have studied Heathrow and Gatwick airports several times in the last few months and, during his visit to the UK in March, Dr Takeuchi, KIAC President, invited BAA to send a team to Japan to study the plans for the new airport.

It is difficult to know exactly what is meant by "more transparent bidding procedures", but we have no reason to believe that discrimination in favour of the US is intended. During the Takeuchi visit, British officials and representatives of British companies pressed for the use of performance, rather than design, specifications for equipment suppliers and for a tendering period sufficient to enable foreign companies to offer a satisfactory response. Mr Nagata, Dr Takeuchi's assistant, confirmed that KIAC fully understood British concerns on those points. If KIAC are now proposing to introduce such procedures when they prepare specifications and invite bids, the changes would be welcomed by those British companies that have expressed an interest in the project.

#### CABLE & WIRELESS

Mr Karasawa's statement on welcoming a proposal for a cable from the merged consortium did relate to IDC's pacific cable, PPAC, rather than KDD's feasibility study for their TPC4 cable as reported in some papers. This is clear because of Mr Karasawa's reference to the merged IDC-ITJ consortium, and ITJ's negative reaction to the Karasawa statement. As the Prime Minister is aware, ITJ, the all Japanese consortium, have no plans to construct the cable. The press reports seem to have confused the two issues and the reports have not been repeated.

Following the inconclusive discussions between IDC and ITJ last Friday, another meeting at a more junior level is expected. But no final decision has been taken to break off the talks and a separate IDC application, which would propose the construction of PPAC, is not imminent. HMG intervention with the MPT at this stage is unlikely, therefore, to be productive. We shall, however, need to monitor as closely as we can the progress of KDD's feasibility study, since this may clearly have an effect on the IDC proposals.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and to Trevor Woolley (Cabinet Office).

*Yours*

*Paul*

PAUL STEEPLES  
Private Secretary

DW3CBH



Japan: Relations PT6





SSPS /4156 / 0400 <sup>CIPK</sup>

ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

Charles Powell  
Private Secretary  
10 Downing Street  
London SW1A 2AA

6 May 1987

Dear Charles,

CONFERENCE OF HIGH-LEVEL EXPERTS ON EDUCATION, KYOTO,  
JANUARY 1987

Dr Noel Thompson, the Under-Secretary who attended this conference, has reported on it as follows:-

"This was a set piece OECD conference, impressively well organised at short notice by the Japanese, with their traditional lavish hospitality. It was opened by Prime Minister Nakasone and attracted considerable media coverage inside Japan on that account.

In terms of work done, it added little to existing knowledge of educational problems, many of which are shared by most of the OECD contributors, including Japan. But Japan has particular educational problems of its own - notably, immense competitive pressure on young people, especially for university entry, which leads to high suicide rates; and a widespread private coaching system which puts heavy financial burdens on poorer parents. The Japanese Government was very frank about them and Nakasone is determined to introduce fundamental reforms. One cannot escape the conclusion that the conference was seen and used by the Japanese Government as an instrument for giving these policies additional domestic visibility, with the implication that they had successfully run the gamut of international scrutiny."

I suggest that a gracious acknowledgement from the Prime Minister to Mr Nakasone is all that is needed in reply to his letter. A draft is attached.

I am copying this to Lyn Parker at the Foreign and Commonwealth Office.

yours sincerely  
Robert Smith  
R L SMITH  
Private Secretary

L06AGJ

DRAFT REPLY FROM THE PRIME MINISTER TO MR NAKASONE

I was very pleased to receive your letter of 31 March about the education conference held in Kyoto in January. Reports ~~from our own participants~~ which I have received about it confirm your impressions about its value and success.

We, like you, <sup>are</sup> are in the process of introducing major reforms in education, I share your perception of the importance of making education responsive to the increasingly rapid pace of <sup>social & technological</sup> change in all our countries. We have much to gain from each other's experience, as the Kyoto conference so clearly demonstrated. I am most grateful to you for making it possible.

GD

PART 6 ends:-

Japanese Ambassador to PM 30.4.87

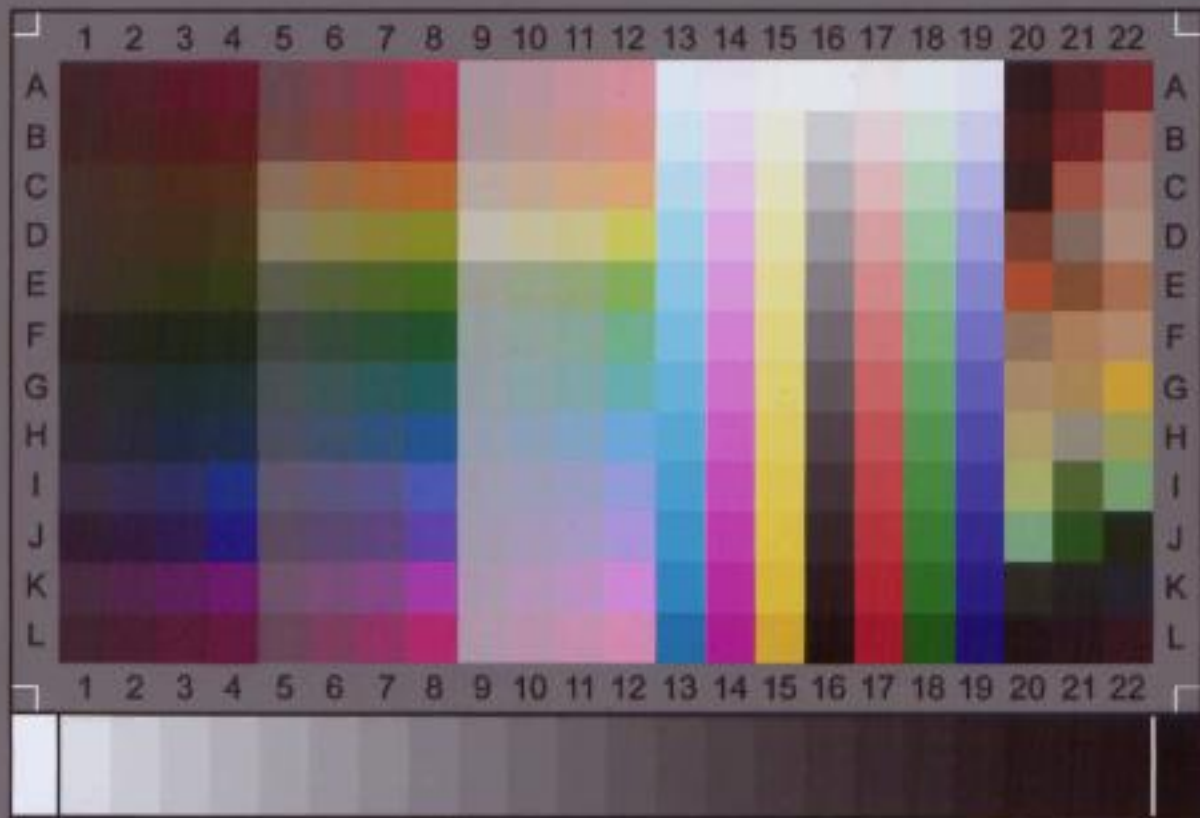
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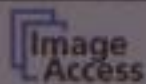
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