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10 DOWNING STREET

From the Private Secretary

6 May 1986

Dear Tony,

Prime Minister's Meeting with Mr Nakasone at the
Otani Hotel in Tokyo on Monday 6 May 1986 at 1715

The Prime Minister met Mr Nakasone shortly after the end of the Economic Summit. Mr Nakasone was accompanied by Mr Gotoda (Chief Cabinet Secretary), the Japanese Ambassador to London, the Deputy Foreign Minister and at least five note-takers. HM Ambassador Tokyo was also present.

Economic Summit

The Prime Minister congratulated Mr Nakasone on an excellent Summit meeting and his skilful chairmanship. She thought that the Summit had taken place in a very good atmosphere. She also asked Mr Nakasone to convey her thanks to all those responsible for the efficient organisation and security of the Summit. Mr Nakasone said that he had learned much from the London Summit, especially regarding the art of chairmanship.

Bilateral Matters

The Prime Minister said that she knew that the Prince and Princess of Wales were greatly looking forward to their visit to Japan. We had been very pleased to welcome the Crown Prince's son at Oxford., Mr Nakasone said that he would like to reiterate the Japanese Government's gratitude for the hospitality given to Prince Hiro.

Japanese Economic Policy

The Prime Minister said that she appreciated the enormous significance of the rise in the value of the yen. She recognised that this was not easy for the Japanese Government. At the same time she had been concerned to hear that Japanese exporters were asking for subsidies. These would negate the effect of the rise in the value of the yen.

Mr Nakasone said that no subsidies were being given to exporters. Indeed Japan was subsidising imports. The Prime Minister observed that Japan was certainly not subsidising the import of Scottish whisky. She would be asked on her return whether she had raised the taxation of Scottish whisky with Mr Nakasone. What should she say? Mr Nakasone said that the Japanese Government were

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planning a major reform of indirect taxation. They hoped to present a bill in January. Any problems over whisky could be resolved in this context. In any event, there was no discrimination between domestic and imported brands of whisky: the level of taxation depended upon the quality of the product. High grade Japanese whiskies were equally subject to high taxes. The import tariff on whisky had recently been reduced.

Japan/United Kingdom Trade Relations

The Prime Minister said that relations between Britain and Japan were dominated by the trade imbalance. Her aim was to get away from this but it was not possible to do so while the imbalance was as serious as at present. Purchase of Tornado, Harrier or civil aircraft from Europe would go a long way to solve the problem. She did not want the relationship between Britain and Japan to be so dominated by trade problems. Freed of that constraint, relations would be much better.

The Prime Minister continued that she was very pleased with the cooperation between Japanese and United Kingdom companies, for instance on the Samanala Wewa dam in Sri Lanka. She hoped that this would be followed by other similar ventures. There was room for both cooperation and competition provided we could compete on a fair basis. Mr. Nakasone said that certain joint ventures were in planning stage, for instance the Ain Moussa power station in Sinai and another power station in Botswana. He was all in favour of such cooperation where the private sector found it feasible. He hoped the Prime Minister knew that half of the cables in the new Bosphorous Bridge had been purchased from the United Kingdom.

The Prime Minister said that she wanted to draw to Mr. Nakasone's attention Cable & Wireless' interest in participating in a consortium which she understood was being put together for a second international telecommunications carrier in Japan. Cable & Wireless enjoyed a very high reputation in the United Kingdom and round the world. They had also been the first British company to be quoted on the Japanese Stock Exchange. Mr. Nakasone said that he was well aware of Cable & Wireless' interest and was encouraging it. He would certainly convey the Prime Minister's remarks to the Minister of Posts and Telecommunications. Personally he hoped that Cable & Wireless would succeed.

Mr. Nakasone referred to the forthcoming opening of the Nissan plant in the UK. He understood that Komatsu were planning to open a plant in the vicinity. He hoped there would be further such Japanese investment in Britain.

IDA

The Prime Minister said that she hoped Japan would be able to contribute in full to the IDA Replenishment. The strengthening of the yen would reduce the real size of the Japanese contribution. Mr. Nakasone said that if Japan could have a bigger say in the World Bank there would be no difficulty in setting their share of the replenishment once again at 18%.

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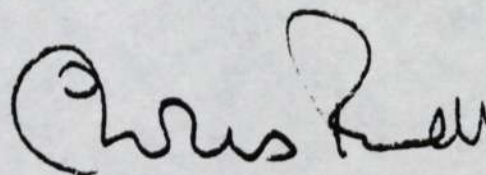
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Economic Summit Seven

The Prime Minister said that she felt that there were not enough contacts between Summit countries in the period between Summit meetings. Although the European countries tended to see a lot of each other, there was less regular links with Japan and the United States. She was pleased that the Tokyo Summit had provided for experts on terrorism to meet regularly. She hoped that this could be matched by similar links in other areas. Mr. Nakasone said that he entirely agreed.

The meeting ended at 1815.

yours sincerely,



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