PREM 19/2284

MT

PART 6

CONFIDENTIAL FILING

- Japanese Relations

Effects of Japanese Imports on the European Car Industry

Nissan . Honda

JAPAN

PT 1: May 1979

PT 6: January 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~6.1.87~~							
~~8.1.87~~							
~~11.1.87~~							
~~13.1.87~~							
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~~3.4.87~~							
~~9.4.87~~							
~~10.4.87~~							
~~15.4.87~~							

PREM 19/2284

PART 6 ends:-

Japanese Ambassador to PM 30.4.87

PART 7 begins:-

DTI to DRN 7.5.87

EMBASSY OF JAPAN
LONDON

30th April 1987

Dear Prime Minister,

I have been asked by Mr. Yasuhiro Nakasone, Prime Minister of Japan, to forward a message to you.

I have pleasure in enclosing herewith the text of this message together with the text of the "Outline of the Comprehensive Economic Measures" adopted by the Liberal Democratic Party on April 24th.

Yours sincerely,

Toshio Yamazaki

Ambassador

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

EMBASSY OF JAPAN · 日本国大使館 · UNITED KINGDOM

Progress in the promotion of Economic Structural Adjustment
(Implementation status of the measures recommended in the "Maekawa Report")

April 24, 1987

Items	State of progress	Notes
1. Expansion of domestic demand		
(1) Promotion of housing policies	o The 5th 5-Year Housing Program (building of 3.3 million houses by public funds) was determined by the Cabinet on March 25, 1986. o The Housing Loan Corporation has lowered several times its interest rates on loans for the construction of private houses. o A system of tax deductions for housing acquisition was created and subsequently expanded.	Real growth of housing investment compared with the preceding year 1985 2.6% 1986 10.1%
(2) Public works	o In the FY 1986 supplementary budget based on the comprehensive economic measures announced in September, additional allocations for general public works were made by about 850 billion yen (on the basis of funds actually used) for the first time since FY 1978. o In the FY 1987 budget bill the government assured a 5.2% increase in funds for general public works, which is higher than the nominal GNP growth rate in the Government Economic Outlook (4.6%).	Effect on domestic demand by the comprehensive economic measures announced in September, 1986 (estimated by the Economic Planning Agency) - Amount of undertaking 3.6 trillion - Effect both direct and indirect 4.9 trillion yen* * This amount corresponds to about 1.5% of the nominal GNP for FY1986 in the Government Economic Outlook.
(3) Promotion of projects in local areas	o Development of "Kansai Science City", "Minato Mirai Yokohama City in 21 Century", and "Makuhari New Town."	
(4) Privatization of three public service corporations	o Through the privatization of the Japan National Railways, NTT, the Japan Tobacco Public Corporation etc., public corporations services are expected to be activated.	
2. Structural conversion of enterprises	o Various efforts are now under way, e.g. reducing the scale of enterprises. The respective states of Japan's principal industries are as follows,	Impoverishment of regional economies

.. Steel

- Suspension of operation of plant and equipment
  (number of blast turnaces in operation: 34→28)

- Reduction of workforce
  (in the steel sector, the workforce is scheduled to be reduced from 140 thousand to 100 thousand)

- The importation of steel products in 1986 was up 14% compared with the preceding year.

.. Coal Mining

- Supply cuts are planned.
  (Supply targets under the 7th Coal Plan : 20 million tons
  supply targetunder the 8th Coal Plan: about 10 million tons

- In FY 91 coking coal is expected not to be mined.

.. Shipbuilding

- Reduction in plants and equipment
  (a 20% reduction in total plant and equipment is planned during FY 87)

- Reduction of workforce
  (the workforce of the four biggest companies was reduced by 1/3 in 1987, compared with that in FY 1985)

..Nonferrous metal mining

- Mine closures
  (number of mines: 52 (April, 1986)→36 (March, 1987))

- Reduction of workforce
  (the workforce of nonferrous metal mines was reduced by half during FY 1986)

.. Aluminum smelting

- Decrease in number of companies
  (number of aluminum smelting companies:
  7 (April, 1986)→1 (April 1987)

-Muroran City (Steel industry)

-Mining and manufacturing production index

1980	1985	1986
100	89	65

-Ratio of job opportunities to officially registered applications.

1986
0.22*

-Omuta City
(Aluminum smelting industry)

-Mining and manufacturing production index

1980	1985	1986
100	82	58

-Ratio of job opportunities to officially registered applications)

1986
0.21

(**)cf. the national average ratio for Japan is 0.61.

3. Proposed tax reforms

o A proposal has been made to review the system of preferential treatment for savings.

Effect of the proposed tax reforms on the GNP (estimated by the Economic planning Agency)
about 0.1% per year

o A proposal recommends a substantial tax refer including advancing the implementation of reductions in income tax and corporate tax as well as the establishment of the Sales Tax.

4. Agricultural policies

o Government-set prices for livestock products were reduced as a part of an effort to bring them closer to international prices.

Change in prices compared with preceding year

Wheat : 5.0% decrease. pork : 15.4% decrease

o Increase in imports of agricultural, forest and fishery products
- total amount in 1986: 29.9 billion dollars (13.9% increase)

5. Market access etc.

o Efforts are under way to promote the full implementation of the action program.

- Average tariff rate of 1,853 products
5.0% (before reduction)→3.9% (after reduction)

o 302 leading companies in various field were requested to exapnd their importson April, 1987.

- Outlook for growth in imports in FY 1987 compared with the preceding year:

21% increase (corresponding to an increase of about 6.8 billion dollars)

(cf. before the request, the outlook was for an 8% increase.)

Average tariff rate of mined and manufactured products

	April 1985	April 1986
Japan	2.8%	2.1%
USA	4.3%	4.3%
EC	4.6%	4.6%

Ratio of manufactured products in total import

31.0%(1985)→ 41.8%(1986)

o In industry as a whole, the amount of foreign direct investment between April 1986 and February 1987 was 19.5 billion dollars and the growth rate was 84.6% compared with the corresponding period of the preceding year (calculated in dollar terms)

Effect of expanded direct foreign investment in reducing the trade surplus
(average annual increase rate: 12%, estimated by the Industrial Structure Council)

6. Increase in direct investment

o Foreign direct investment in the manufacturing sector increased by a little over 30% (calculated in dollar terms)
cf. the annual average growth ratio between FY 1980 and FY 1985 was 13.2%.

7. Reduction of working hours

o A bill to reform the Labor Standards Law was submitted to the Diet in March 1987, proposing the gradual reduction of legal working hours per week from 48 hours to 40 hours.

Effect of the entire implementation of a 5-day work week on the expansion of consumption.

about 3 trillion yen
(estiimated by the Industrial Structure Council)

8. Establishment of an Offshore Market

o An offshore market was opened on December 1, 1986.
In February 1987, the Tokyo market has assets of 123.8 billion dollars and total liabilities of 124.4 billion dollars.

9. ODA, recycling funds to developing countries

o A steady increase(increase rte: compared with the preceding year: 5.8%) in the budget for ODA (official Development Assistance to 658 billion yen in 1987 FY.

o Financial aid through international financial organizations was reinforced (to total about 10 billion dollars).
(1) In December 1986, Japan Special Funds amounting to about 2 billion dollars were established in the International Bank for Reconstruction and Development.

(2) A loan of about 3.6 billion dollars was furnished to IMF in December 1986.

(3) About 4 billion dollars in funds were contributed to financial organizations for international development, including the International Development Association (IDA).

The growth of actual ODA between 1985 and 1976.

-JAPAN 340%
(3.8billion dollars)

-USA 220%
(9.4billion dollars)

10. Passing on benefits of the strong yen

o Rate reductions by each electric power company and three major gas companies. Within one year from Janauary 1987, savings of some 1.9 trillion yen will be passed on to consumers.

o Retail prices have been lowered on about 90% of goods imported from the U.S.A. and Asia. (according to a February 1987 survey on price trends of consumer goods and related matters)

Average price of an American passenger car in Japan
(million yen)
5.6 → 3.98
(August 1985) (January 1987).
This was a drop of 1.62 million yen, or 28.9%.

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10 DOWNING STREET

LONDON SW1A 2AA

30 April 1987

From the Private Secretary

Dear Tim,

PRIME MINISTER'S MEETING WITH THE JAPANESE MINISTER FOR TRADE AND INDUSTRY

The Prime Minister held a brief meeting in her room at the House of Commons this afternoon with the Japanese Minister of International Trade and Industry. Mr. Tamura was accompanied by the Japanese Ambassador and another official. The Minister for Trade was also present.

Mr. Tamura said that he brought Mr. Nakasone's warm regards to the Prime Minister. He was visiting the United Kingdom on Mr. Nakasone's instructions to explain Japan's economic policies. He wanted to assure her that Japan was implementing the Maekawa Report and restructuring Japanese industry, with the aim of bringing Japan's imports and exports into a better balance. The process was painful and added to unemployment in Japan, but nonetheless the Japanese Government were seeing it through with determination. In the short term they were proposing to implement a domestic expansion programme amounting to some 5 trillion yen, details of which would be sent to the Prime Minister by Mr. Nakasone. The Government was also taking action to encourage imports. They had been in touch with some 300 major corporations and asked them to estimate their import growth for 1987. The initial response had averaged 8 per cent but, under pressure from the Government, had been revised to 21 per cent. The recent Quadripartite Trade Ministers meeting had agreed that balance should be achieved not by restricting exports but by expanding trade. Japan's trade with the United States and the United States' trade with the European Community were roughly similar in total. The Japanese Government wished to bring Japan/European Community trade up to the same level. He wanted to assure the Prime Minister that the Japanese Government were sincere in their desire to deal with the problem of their external surpluses. They wanted to gain the trust and confidence of other members of the international community and allay protectionist pressures.

The Prime Minister said that she had just received a letter from Mr. Nakasone explaining the domestic expansion programme for which she was grateful. The United Kingdom not only believed in free trade but practised it. Our markets were open and we had a very high level of manufactured imports. Our financial markets were also open and we probably had more foreign banks than in other countries. We wanted

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other countries to be as open as we were. Opinion in Britain was adamant that we could not go on being open while others maintained barriers of one kind or another against us.

The Prime Minister continued that there were a number of specific points which she wished to mention briefly:

- the Cable and Wireless case was extremely important. Cable and Wireless had a tremendous reputation internationally. We were very grateful to those in Japan who recognised this and were supporting Cable and Wireless' efforts to have a fair share in telecommunications projects.

- we were anxious to keep our financial markets in London open. We asked very little in return but must insist that what we did ask was granted.

- as regards trade in goods, the fact was that there were still barriers against us in the Japanese market. We had resorted to the GATT on whisky and might have to do likewise on other products unless satisfactory arrangements could be made. But our objective was to settle these and other problems amicably. We did not want to set off down the road of protectionism which would only reduce the volume of world trade.

The Prime Minister said that she had mentioned these and similar issues at every Economic Summit which she had attended and had always received soothing assurances. But the situation never changed. Now it could not go on like this any more. She was aware of the significance of the increase in the value of the yen, even though the effect on Japan's external surplus was much less than expected.

The Prime Minister said that she wished to underline one particular point and that was how very well Japanese companies which invested in Britain performed. They were outstandingly successful and people liked working for them. We should like to see more Japanese companies here.

The Prime Minister concluded that she greatly appreciated Mr. Tamura's visit and wanted to express her enormous admiration for Mr. Nakasone personally. She looked forward to continuing to work with him. But she must once more underline that the problem of the trade imbalance really had got to be sorted out this time in the spirit of free and fair trade on both sides.

I am copying this letter to Alex Allan (H.M. Treasury), Robert Culshaw (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,

CHARLES POWELL

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

FILE
JA
PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 April 1987

Dear Tim,

I enclose a copy of a brief message to the Prime Minister from Mr. Nakasone which was delivered to No.10 at 2 pm today. As you will see it covers a translation of the "comprehensive economic measures" announced by the Japanese Government. The Japanese Ambassador was anxious that the Prime Minister should be aware of the message before she sees the Japanese Trade and Industry Minister this afternoon.

I should be grateful for advice in due course on whether a reply is appropriate.

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

Yours sincerely

Charles Powell

(Charles Powell)

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

TEXT

CONFIDENTIAL

Dear Prime Minister Thatcher

I am writing to you at the moment when policy coordination among the major countries is becoming more and more important in the light of the difficult international economic situation today.

I am fully aware of the severe international economic situation now existing and of the significance that the measures Japan is going to take, including those for the expansion of domestic demand, have on the world economy. My government intends to carry out resolute measures, centering on the expansion of domestic demand, paying full respect to the "Outline of the Comprehensive Economic Measures" adopted by the Liberal Democratic Party on April 24, which involves, inter alia, measures for the expansion of domestic demand accompanied by fiscal measures amounting to more than 5 trillion yen. The text of the "Outline" in English translation is herewith attached for your reference.

I shall depart for the United States tomorrow, and have exchanges of views with President Reagan not only on Japanese-American relations but also on measures to bring about bright prospects for the world economy.

In order to cope with the current international economic situation, I attach great importance to concerted action with European countries, and I wish to continue working in close cooperation with you.

Looking forward to seeing you soon again in Venice.

Yours sincerely,

Yasuhiro Nakasone

Prime Minister of Japan

Outline
of
the Comprehensive Economic Measures
(Provisional Translation)

April 24, 1987
Liberal Democratic Party

I. Economic Measures for the Expansion of Domestic Demand

There is an urgent need for Japan to do its best to rectify its external imbalances.

At the same time, forceful measures are also urgently needed to stimulate the economy in the face of economic stagnation, deteriorating employment, and other difficulties stemming from the yen's sharp appreciation.

Such economic policy actions will promote economic growth led by domestic demand while contributing to further progress in structural adjustment.

Accordingly, the party proposes, based on Basic Policy Guidelines for the Expansion of Domestic Demand decided earlier, that immediate steps be instituted for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥5 trillion and with particular emphasis on the following items.

1. Public works implementation will be front-loaded as never before. (The contract rate in the first half of this fiscal year should be at least 80%.) In the course

of the budgetary allocations, all due attention should be paid to the situation in depressed industries and areas.

2. A large-scale supplementary budget will be formulated, public works will be added through the acceleration of the long-term plan for public works and public investments will also be increased for the improvement of facilities used for such purposes as research and development and education. The priority will be given to those projects with lower land acquisition costs, quicker impact, and wider ripple effects.

3. Budget request guidelines for investment expenditures will be reviewed.

4. Tax reform will be achieved and income tax reductions implemented. Tax reductions to stimulate domestic demand-oriented capital investments such as research and development in the private sector will also be implemented.

5. Measures to promote housing-related investments including housing enlargement and rebuilding and the installation of housing-related equipment will be improved and reinforced.

6. Deregulation will continue to be promoted and drastic measures will be taken with a fixed time limit to promote the utilization of private-sector vitality and projects conducive to the revitalization of local economies.

7. Adjustment policies for small and medium-sized enterprises will be expanded through such measures as the lowering of interest rates of Government-related financial institutions and the designation of additional specified areas.

8. The reduction of working hours, such as the promotion of the five-day work week, will be pursued. Employment policies will be strengthened through such measures as the promotion of the Employment Development Programme for 300 Thousand People.

9. Passing along the benefits of yen appreciation will be vigorously continued.

10. Monetary policy will be implemented in an appropriate and timely manner through the reduction of the Trust Fund Bureau depository rate and other means.

II. External Economic Measures

The international economic situation as it affects Japan, including Japan-U.S. bilateral relations, is extremely difficult, and there is an urgent need to make the utmost efforts to rectify external imbalances, to formulate harmonious external economic relations, and thus to contribute positively to the vitalization of world economy.

Accordingly, the Liberal Democratic Party proposes that the necessary measures be promptly taken with particular emphasis on the following items.

1. Import Expansion

(1) The necessary measures will be taken, including earmarking a special emergency fund, to promote the government procurement of foreign manufactured goods.

(2) Institutional improvements will be made in the field of government procurement. (These include enlarging the scope of coverage, and those concerning transparency and academic discounts in the procurement procedures for super-computers.)

(3) Further efforts will be made to encourage the private sector to increase its imports of manufactured goods.

(4) Import credit facilities for manufactures will be expanded.

(5) Implementation of the Action Program will be further promoted.

2. Contributing to the International Society

(1) Implementation of the third Medium-Term Target for ODA will be moved up (at least two years' advance implementation of the target to double the ODA amount in seven years).

(2) A Financial Recycling Promotion Scheme will be set up for the developing countries (especially the debtor countries) with the combined financial resources of

the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, and the private sector.

(3) Technical cooperation, including the dispatch of experts, and international research and development cooperation will be expanded.

(4) The necessary measures will be taken to positively support Sub-Sahara African and other least developed countries.

received 30/4/87

subject ca. master OPS.

[Japan]

TEXT

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T78/87

CDP 3/4.

CONFIDENTIAL

Dear Prime Minister Thatcher

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Such economic policy actions will promote economic growth led by domestic demand while contributing to further progress in structural adjustment.

Accordingly, the party proposes, based on Basic Policy Guidelines for the Expansion of Domestic Demand decided earlier, that immediate steps be instituted for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥5 trillion and with particular emphasis on the following items.

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2. A large-scale supplementary budget will be formulated, public works will be added through the acceleration of the long-term plan for public works and public investments will also be increased for the improvement of facilities used for such purposes as research and development and education. The priority will be given to those projects with lower land acquisition costs, quicker impact, and wider ripple effects.

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(3) Technical cooperation, including the dispatch of experts, and international research and development cooperation will be expanded.

(4) The necessary measures will be taken to positively support Sub-Sahara African and other least developed countries.

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

30 April 1987

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

Dear Charles

I attach line to take and background notes for the Prime Minister's meeting with Mr Tamura this afternoon. This covers the entire range of trade issues with Japan. On the Prime Minister's specific question on the possibility of a trans-Pacific cable to be constructed by KDD and AT&T, paragraph 6 of the background note confirms this is almost certainly an inaccurate report. It is not therefore covered in the speaking note.

Mr Clark will be accompanying the Japanese party to the Prime Minister's room in the House and representing the Department at the meeting.

Please contact me if there are any further queries.

Yours ever,

Paul Steeples

PAUL STEEPLES
Private Secretary

JG4AWX

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PRIME MINISTER'S MEETING WITH MR TAMURA

Line to Take

Pleased to have this opportunity for brief discussion with you. Regret our trade relations are suffering from the consequences of Japan's exceptionally low propensity to import. Various symptoms of this where we look to your Government to co-operate in finding solutions urgently.

2 Mr Michael Howard discussed some of these with your colleagues in Tokyo recently. I very much hope that his request for assurances on admission to the Tokyo Stock Exchange will receive a satisfactory response. His reference to the reciprocity provisions of the Financial Services Act must be taken seriously. Grateful if you could pass this message to Mr Nakasone.

3 Appreciate your Ministry's helpful influence on the Cable & Wireless problem. Hope there will now be an objective analysis of the IDC's proposal including that for a separate Pacific cable. I regard this as a test case for Japan's sincerity on market opening.

4 A pity we had to go to the GATT on whisky. Understand your Government's proposals for tax changes are now undergoing further study. Trust this opportunity will be taken to reduce the enormous import barriers which would still exist under those proposals. A tax burden six times greater on imported spirits really is unacceptable.

DW1CZH

999-49

CONFIDENTIAL

5 I welcome the recent news about Japan's intentions to implement the Maekawa recommendations including those relating to an increase in domestic demand. It is disappointing that so little has happened on this front during the last year.

6 Please do give Mr Nakasone my very best wishes. I shall be looking forward to seeing him at the Venice Summit.

DW1CZH

999-49

PRIME MINISTER'S MEETING WITH MR TAMURA: 30 APRIL 1987

BACKGROUND

Mr Tamura's principal objective is to explain the recent Japanese package of economic proposals, and to play up the positive side of the relationship (eg industrial cooperation). He will expect the Prime Minister to raise C&W and Financial Services, although they do not fall within his responsibilities. He will also not be surprised if she mentions whisky.

Recent developments

2. The Prime Minister's meeting on 23 April, endorsed the recommendations in the Cabinet Office paper. On C&W, Ministers agreed to watch the situation closely, but hold our hand on retaliatory action for the present. On financial services, work is in hand on options for use of reciprocity provisions, in case of a negative response at the May consultations, to the UK timetable for access to the Tokyo Stock Exchange. The UK is keeping up pressure within the community for positive decisions on unbinding (May FAC), diversion (May) and anti-dumping (June)

3. Since then, the FAC met on 27 April. There was no dissent from the Commission proposal to introduce ex ante surveillance of imports of products affected by the US sanctions (certain small CTVs, personal computers and power tools). The Commission have now circulated draft regulations for comment and they will be working up proposals for tariff quotas (for decision at May FAC) if evidence of diversion is found.

4. Last weekend (25/26 April) De Clerq participated in the quadrilateral trade ministers meeting in Tokyo, with his Japanese, US and Canadian counterparts. There was considerable discussion of the general state of the international trading system, with the Japanese surplus and her macro-economic policy at the heart of the debate. De Clerq took a firm line on the need for Japanese action, both in the quadrilaterals and in his bilaterals with Tamura and colleagues.

5. On C&W, there have been no major developments since the ITJ press conference last Thursday, when ITJ made clear they would submit a separate application to the MPT if the next merger meeting failed. This meeting is expected to be tomorrow. The outcome remains uncertain, although the ground seems to be

shifting in C&W's favour. If the meeting ends with no agreement, MPT may well be obliged to accept separate applications from ITJ and IDC. In her letter to PM Nakasone, the Prime Minister pressed for a fair appraisal of the IDC bid.

6. The FT has reported that Mr Karasawa's concession on the cable related not to PPAC, but to another cable to be constructed by KDD with AT&T. We are pursuing this with the Embassy in Tokyo, but the report is almost certainly inaccurate. Whilst there are plans (not publicly announced) for KDD to construct a cable (TPC 4 - trans Pacific cable 4), the timing of this has always been very uncertain. But Mr Karasawa's comments clearly did not relate to this; first because he said he would welcome a proposal for the cable from a joint consortium, clearly referring to an IDC-ITJ combination; and second because the statement provoked a strong negative reaction from ITJ who are not committed to the cable construction. C&W have confirmed that the article was based on a misunderstanding.

Specific Issues

7. The GATT panel on alcoholic drinks had its first meeting on 28 April, an opportunity for each side to present its case. It is due to report by end July, if discrimination is found the EC will be able to take GATT-legal retaliation. Japanese proposals in December went some way to meeting EC concerns on wine, but on whisky heavy discrimination remains. Imported scotch will be taxed six times more heavily than other competing spirits. Japanese import tariffs on liquor remain significantly higher than EC levels.

8. US sanctions, consisting of 100% tariffs on around $300 million of Japanese colour TVs, desktop and personal computers and power tools, were announced on 17 April, in retaliation for Japan' failure to implement satisfactorily the bilateral semiconductor agreement. The EC oppose the bilateral nature of the agreement,

which covers pricing in US and third markets and access to the Japanese market, and have taken it to the GATT.

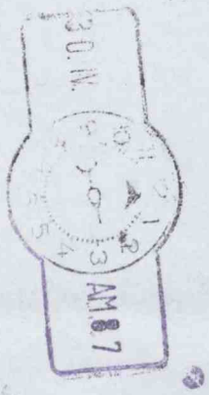
Recent Japanese Economic proposals

9. With their usual timing, the Japanese have just made two major announcements on economic policy, in preparation for Mr Nakasone's visit to the US, and the Venice Summit next month:

i. the LDP made a policy statement on emergency economic measures to expand domestic demand and improve Japan's external economic relations

ii. Maekawa's structural adjustment committee published its final report, fleshing out the proposals in his original report of last year.

10. In brief, the two announcements are welcome: the proposals point in the right direction, although as usual they are thin on detail and timescale for implementation. Extra expenditure on construction plays a major role in both. This will help Japanese growth, but is unlikely to stimulate Japanese imports as much as alternative measures would have done. The ability of the Japanese government to deliver must also be seen in the context of Mr Nakasone's recent defeat on his proposed tax reforms. He has in effect been required to abandon the idea of a sales tax, by referring this aspect of the budget package to a consultative committee.


BONN
AM 87

10 DOWNING STREET

Charles,

Japanese Embassy – Gen. Counsellor – phoned.

Letter to PM from Japanese PM will be delivered to No 10 before 1400. They would like PM to see it before meeting Tamura.

Duty Clerk informed.

I will also check

Andy

GRS 1000

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FM TOKYO
TO IMMEDIATE FCO
TELNO 352
OF 281000Z APRIL 87
INFO IMMEDIATE DTI, UKREP BRUSSELS, UKMIS GENEVA, WASHINGTON

WASHINGTON TELNO 906: US/JAPAN SUMMARY

1. ECONOMIC ISSUES WILL DOMINATE NAKASONE'S VISIT TO WASHINGTON. THE MAIN TOPICS ON THE JAPANESE AGENDA ARE PROPOSALS FOR DOMESTIC EXPANSION, EXPANDED IMPORTS, INCREASED AID AND LOANS TO LDCS, AND SPECIFIC ISSUES, OF WHICH SEMICONDUCTORS IS THE MOST PRESSING. JAPANESE EXPECTATIONS ARE REALISTIC. AT MOST THEY HOPE THAT NAKASONE'S PERSONAL DIPLOMACY WILL HELP TO STEM THE DETERIORATION IN ECONOMIC RELATIONS. THE CONTINUING FALL OF THE DOLLAR ADDS TO JAPANESE CONCERN THAT WE COULD BE ENTERING A DOWNWARD SPIRAL IN TRADE AND ECONOMIC GROWTH.

DETAIL

2. OUR CONTACTS IN MFA, MITI AND MOF CONFIRM THE ACCOUNT OF JAPAN/US EXCHANGES LAST WEEK CONTAINED IN WASHINGTON TUR. ABE'S ADMISSION WAS PRIMARILY DESIGNED TO TEST THE GROUND FOR NAKASONE'S VISIT, AND AS A RESULT A SLIGHTLY REVISED ECONOMIC PACKAGE HAS BEEN APPROVED BY THE LDP WHICH NOW CONTAINS A FIGURE OF ''OVER 5 TRILLION YEN'' FOR SUPPLEMENTARY FISCAL MEASURES THIS YEAR. IT HAS BEEN CLARIFIED THAT THIS WILL IN EFFECT ALL BE NEW MONEY AND NOT, AS LAST YEAR, INCLUDE THE ANTICIPATED PRIVATE SECTOR CONTENT IN NEW PROJECTS. THE REFERENCES TO PUBLIC SECTOR HAVE ALSO BEEN BEEFED UP IN AWAY WHICH CLEARLY INDICATES THAT PURCHASES FROM THE US WILL BE A PRIORITY, WITH SUPER COMPUTERS AT THE TOP OF THE LIST. KANSAI AIRPORT COMPANY ALSO PRODUCED ON 24 APRIL (COPIED TO WASHINGTON AND OT2) REVISED GUIDELINES FOR THEIR PROCUREMENT PROCEDURES. FURTHER DETAILS OF THE ECONOMIC PACKAGE, IMPORT PROCUREMENT MEASURES AND MEASURES TO INCREASE CAPITAL FLOWS TO LDCS (MY TELNO 347) ARE BEING WITHHELD UNTIL THE VISIT, BUT THESE MAY ALL BE SUBJECT TO FURTHER AMENDMENT IN THE LIGHT OF AMERICAN REACTIONS.

3. ON SPECIFIC ISSUES MITI HAVE BRIEFED OPTIMISTICALLY SINCE THE TAMURA MEETING WITH YEUTTER ON 23 APRIL THAT THE MEETING OF OFFICIALS AGREED FOR MID MAY TO EXCHANGE FURTHER INFORMATION ON US PENETRATION OF THE JAPANESE SEMICONDUCTOR MARKET AND EXPORT PRICING HAS OPENED THE WAY TO AN EVENTUAL RESOLUTION OF THE PROBLEM, BUT OFFICIALS REALISE THAT NO COMMITMENT HAS BEEN MADE ABOUT THE LIFTING OF SANCTIONS. THE MFA SAY THAT THEIR TATIC WITLL BE TO ARGUE , AS THEY ARE NOW DOING IN THE GATT, ON THE ILLEGALITY OF THE AMERICAN SANCTIONS RATHER THAN DETAILS OF THE FIGURES, BUT PRIVATELY OFFICIALS SEEM RESIGNED TO THE NECESSITY OF THE ADMINISTRATION BEING SEEN TO HAVE ITS POUND OF FLESH.

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14.

4. MFA CONFIRM THAT APPROACHES FROM THE ADMINISTRATION ON THE 2KDD ISSUES HAD NOT BEEN PARTICULARLY STRONG. THE AMERICANS HAD SAID THEY WERE WATCHING THE ITJ/IDC TALKS VERY CAREFULLY BUT HAD NOT TAKEN A STAND ON WHETHER THE OUTCOME SHOULD INVOLVE ONE OR TWO ALTERNATIVE COMPANIES.

5. BOTH THE MFA AND MAFF HAVE TOLD US THAT THE DISCUSSIONS ON AGRICULTURE WENT BADLY AND THIS ECHOED BY THE US EMBASSY. THE GOVERNMENT'S POSITION AS ENUNCIATED PRIOR TO LYNG'S AND YEUTTER'S VISIT WAS THAT JAPAN WOULD BE PREPARED TO DISCUSS EVERYTHING IF OTHERS WERE PREPARED TO DO LIKEWISE IN GATT AND NAKASONE TOOK THIS LINE WITH YEUTTER. HOWEVER LYNG, IN TRYING TO FORCE AGRICULTURE MINISTER KATO'S HAND HAD EXTRACTED A MORE DEFINTIVE REFUSAL FROM KATO TO NEGOTIATE AN END TO THE RICE IMPORT EMBARGO, EVEN AS A RESULT OF THE GATT. LYNG'S PUBLIC EXPRESSION OF DISSAPOINTMENT HAD PERHAPS UNNECESSARILY ADDED TO THE DIFFICULT ATMOSPHERE. NONETHELESS, MFA AND MAFF CONFIRMED THAT THE JAPANESE GOVERNMENT'S POSITION WAS TO REFUSE TO ENTER INTO BILATERAL TALKS ON THE LIBERALISATION OF RICE AND THAT THERE HAD BEEN NO PROGRESS WITH THE 12 ITEMS CURRENTLY THE SUBJECT OF A US/GATT ACTION ALTHOUGH THEY WERE PREPARED TO TALK IN PARALLEL WITH GATT ON THESE ITEMS. ON BEEF AND CITRUS THE JAPANESE HAD DENIED ANY UNDERTAKING TO LIBERALISE THESE PRODUCTS AFTER THE EXPIRY OF THE CURRENT ''SETTLEMENT'' AT THE END OF APRIL 1988, BUT HAD SAID THEY WERE PREPARED TO TALK FURTHER ABOUT THESE PRODUCTS. (ON CHOCOLATE TARIFF SEE MY TELNOS OTTERS 249 AND 258) KATO HAD REACTED UNENTHUSIATICALLY TO YEUTTER' CALL FOR AN EARLY HARVEST ON AGRICULTURE IN THE URUGUAY ROUND, BUT THERE HAD NOT BEEN MUCH DISCUSSION OF THE NEW NEW ROUND EXCEPT FOR THE RICE ISSUE - ONLY BRIEF REFERENCE TO OECD.

6. ALL THE PRESS COMMENT IS DOWNBEAT ABOUT PROSPECTS FOR THIS VISIT. NAKASONE IS SEEN AS BEING ON A NO-WIN MISSION, DESPITE THE RELATIVE BOLDNESS OF THE PROPOSED ECONOMIC PACKAGE, DUE TO THE LACK OF CREDIBILITY OF JAPANESE PROMISES IN THE EYES PARTICULARLY OF CONGRESS, THE FACT THAT NAKASONE'S POLITICAL LIFE IS NEARING ITS END AND HIS PERSONAL AUTHORITY ACCORDINGLY DIMINISHED, AND THE WEAKEND AUTHORITY OF THE US ADMINISTRATION VIS-A-VIS CONGRESS. THE MOST IT IS HOPED HE WILL BE ABLE TO DO IS TO STOP THE ROT AND TRY AND GET DISCUSSION OF ECONOMIC PROBLEMS BACK ON A LESS EMOTIONAL LEVEL. AS FAR AS WE KNOW, NAKASONE WILL HAVE NO PROPOSALS FOR DEALING WITH THE ISSUE OF MAIN CONCERN TO JAPANESE INDUSTRY - THE CONTINUED FALL OF THE DOLLAR, ITS IMPACT UPON JAPANESE BUSINESS, AND ITS POTENTIALLY SERIOUS IMPACT ON THE

/US

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US WORLD ECONOMIC SCENE. JAPANESE SELLING OF BONDS HAS EMERGED IN RECENT WEEKS AND THERE IS NOW A REAL RISK THAT JAPANESE INVESTORS WILL HOLD BACK AT THE US TREASURY'S BOND AUCTIONS NEXT WEEK. GREATER EFFORTS BY THE AMERICANS THEMSELVES TO REDUCE THEIR DEFICIT, EVEN AT THE COST OF HIGHER INTEREST RATES, ARE SEEN AS A REQUISITE FOR A REDUCTION IN THE TRADE IMBALANCE. TO THIS EXTENT PRESIDENT REAGAN'S REMARKS TO THE US CHAMBER OF COMMERCE (WASHINGTON TELNO 912) WILL HAVE BEEN MUSIC IN JAPANESE EARS.

WHITEHEAD

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CDP 29/4.

PRIME MINISTER

JAPANESE TRADE AND INDUSTRY MINISTER

Sir Keith Joseph has been in touch to urge you to see the Japanese Trade and Industry Minister very briefly when he is in London on Thursday. He is apparently pro-Cable & Wireless and needs to be encouraged. A handshake and 15 minutes would be ample.

I have spoken to DTI who support this proposal.

Agree to see Mr. Tamura briefly? Yes

C.D.P.

(C. D. POWELL)
28 April 1987

CONFIDENTIAL

LBR

cc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 April 1987

Dear Carolyne,

JAPAN

BF

The Prime Minister would be grateful for your comments on two recent reports bearing on our trade relations with Japan.

First, during the weekend there were reports that the willingness of the Minister of Posts and Telecommunications to consider a new trans-Pacific cable may relate in fact to a cable to be laid by the existing Japanese national monopoly, perhaps with AT&T, rather than to the proposed C&W cable. Is there any truth in this, and if so, what action is being taken with the Ministry of Posts and Telecommunications?

Secondly, Tokyo tel. no. 906 reported that Abe had promised in Washington that more transparent bidding procedures would be announced for the Kansai Airport and that US/Japanese joint venture work on the project would be facilitated. Our Ambassador also noted unconfirmed reports that during the Nakasone visit a study of airport operations by the Port of New York Authority and a Bechtel construction contract would be announced. The Prime Minister is concerned that British companies may be squeezed out by such bilateral agreements and would be glad to know the position.

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

Yours,

David.

David Norgrove

Miss Carolyne Akers,
Department of Trade and Industry.

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BGW

2

PRIME MINISTER

JAPAN

Two points have emerged recently which you may want me to follow up.

First, there have been reports that the willingness of the Ministry of Posts and Telecommunications to consider a new Trans-Pacific cable in fact relates not to the proposed C & W cable but to a cable which may be laid by the existing Japanese national monopoly, KDD, together with AT & T.

Secondly, there are reports that Abe in his discussions in the United States with Shultz promised that more transparent bidding procedures would be introduced in the Kansai Airport project and that US/Japanese joint venture work on the project would be facilitated. There are unconfirmed reports that during the Nakasone visit a study of airport operations by the Port of New York Authority and a Bechtel construction contract will be announced. There is a risk that British Companies may be squeezed out by these bilateral agreements.

I shall follow these points up with DTI.

DAVID NORGROVE
27 April 1987

EL3BXF

FILE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1987

I enclose a copy of a letter to the Prime Minister from Mr. Nakasone about the Conference of High Level Experts on Education. I should be grateful for advice, in particular whether any further reply is required.

I am copying this letter and enclosure to Rob Smith (Department of Education and Science).

(Charles Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

The National Archives

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PRIME MINISTER

22 April 1987

JAPAN TRADE

The Cabinet Office paper now does a much better job of setting out the main options with trigger points and timetables. On the whole these seem satisfactory. However, there are a number of specific points you might bring into the discussion.

Financial Services

Equitable granting of licences is a bilateral issue, whereas pressure for broader deregulation of their whole financial market structure is more a question for the EEC/US together.

Nervousness in the city about the Japanese reaction has been overplayed, based on the "strawman" scenario of withdrawing licences from a major player such as Nomura. The more subtle route is to pick off and disadvantage a few (weaker) Japanese competitors against their Japanese rivals by dragging our feet on new licences - putting them in the position where they use their lobbying power with the Japanese Government to diffuse the situation. The superior international experience of UK institutions in specific areas is the one competitive advantage they currently have in breaking into the Japanese market; if we allow the Japanese to become fully international ahead of our institutions, we will never recover. We can therefore afford to drag things out as long as it takes to get reciprocal treatment.

The paper does not suggest how we should proceed on broader deregulation of Japanese financial markets - which currently give Japanese banks a competitive advantage by providing a pool of regulated, low interest deposits. You might ask the Chancellor how he intends to pursue this.

Cable and Wireless

Although we need an up to date assessment from Paul Channon, it does appear that the Japanese have made a significant movement of principle in welcoming a bid to lay a new cable. We have to accept that the final decision may still go against Cable and Wireless on fair commercial grounds - ie the specific cable proposed by C & W is not the best technical or economic solution. We need a clearer view of what we would count as "success" - and if we achieve that we should bank some political capital by celebrating a public victory. We should then ease off the pressure more generally for a while to demonstrate to the Japanese that they can gain from responding to our pressure.

If the decision is unfavourable, however, it is doubtful whether we can gain anything once the contract is awarded by taking specific action - eg on DAT equipment. We would eventually have to back down without any gain. The DAT option is powerful ammunition, and we should work out the proposal and keep it in reserve for the next specific bilateral issue where such action (or its threat) might achieve a change in policy.

General Market Opening

Since our objectives here are not specifically bilateral, it makes sense to maximise the cover of acting within the EEC. However, the objectives we put to the Japanese need to be more specific than that "they should open their markets and positively encourage foreign supply" (paragraph 8).

The major hidden barriers are the complexity of Japanese distribution and the difficulty of meeting their detailed specifications. We could perhaps push the Japanese to go further in setting up separate and advantageous import channels that enable foreign goods to bypass conventional

distributors in getting to the industrial buyers and retailers, and also provide help on meeting specifications and cutting through import red tape. Something similar is already provided by the Japanese electronics industry for US companies in the semi-conductor industry.

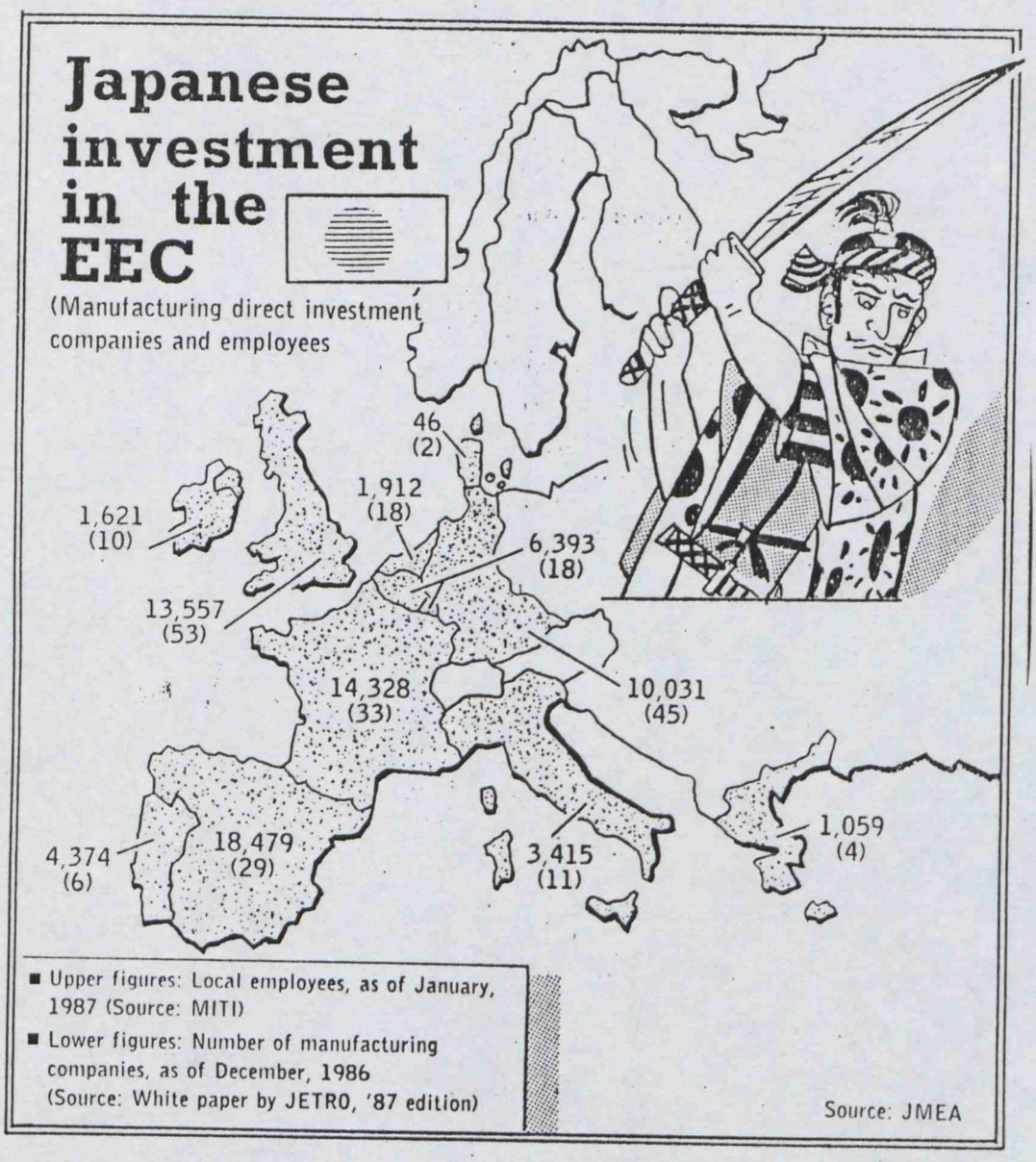
Reassuring Japanese Inward Investment

While pursuing an aggressive posture on opening the Japanese market, it is obviously also critical that we maintain friendly relations with companies which have started to tackle the trade problem by setting up manufacturing plants in the UK. With the appreciation of the yen, our advantages of political/economic climate and English language give us a good opportunity of capturing the lion's share of what should be an increasing flow of investment.

We have more at stake here than other EEC countries (see attached chart) and insensitive handling of antidumping duties on components could be particularly worrying for Japanese plants dependent on crucial imported components. It would be helpful to have a few public statements reaffirming our support for inward investment and our determination to ensure that Japanese companies which have invested here are not penalised by any actions that we or the EEC might consider.

Norman Blackwell

NORMAN BLACKWELL



Sources. Guardian April 87

PRIME MINISTER

JAPAN

The Cabinet Office have made the best of what is clearly great reluctance on all sides to take action yet, if at all. However their conclusions offer nothing new to say in public about possible action against Japan. I wonder whether it would be sensible now to begin to take a lead on the need for a spoiler to prevent DAT machines being used for recording pre-recorded material. It would be quite obvious to the Japanese and others why the UK was now taking a more forward position.

Honda yesterday announced their results for last year. They suffered a 42% fall in profits. Interestingly, their exports of cars to North America rose by 86 per cent. I have asked DTI why this was possible: sourcing outside Japan, an increase in a relatively small market share, changes in the restraints on Japanese car exports to the US, or what?

(DAVID NORGROVE)

22 April 1987
DCABWN

The National Archives

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DN to see
CP

No 10, DOWNING

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21 APR 1987

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TO DESKBY 210800Z DTI
TELNO OTTER 241
OF 210610Z APRIL 87
AND TO IMMEDIATE FCO, WASHINGTON

YOUR TELEGRAM NUMBERS OTTER 232 AND 237: CABLE AND WIRELESS

1. YOU WILL NOW HAVE SEEN MY TELEGRAM NUMBER OTTER 239 OF 18 APRIL ABOUT THE STATEMENT IN CABINET, AND SUBSEQUENTLY TO THE PRESS, ON 17 APRIL BY KARASAWA (JAPANESE MINISTER FOR POSTS AND TELECOMMUNICATIONS) THAT THE MPT WOULD WELCOME A PROPOSAL BY 2KDD FOR THE LAYING OF A TRANSPACIFIC CABLE. THIS STATEMENT BY THE RELEVANT JAPANESE MINISTER REPRESENTS A SUBSTANTIAL SHIFT IN ATTITUDE WHERE IT COUNTS MOST AND IS VIRTUALLY A VOLTE FACE IN POLITICAL TERMS.

2. THE WATANABE PROPOSALS AT THE BEGINNING OF APRIL (WHICH APPARENTLY INVOLVED THE MERGING OF THE TWO CONSORTIA ON WHICH KARASAWA'S OWN STATEMENT MAY BE PREDICATED) CONTAIN PROVISION FOR C AND W TO HAVE A SEAT ON THE BOARD OF A 2KDD AND A FINANCIAL SHARE IDENTICAL TO THE OTHER JAPANESE AND FOREIGN CORE COMPANIES. ALL THREE POINTS WHICH ARE OF FUNDAMENTAL INTEREST TO C AND W HAVE THEREFORE BEEN ADDRESSED AND CONCEDED IN PRINCIPLE OR TACITLY BY THE JAPANESE IN THE PAST THREE OR FOUR WEEKS.

3. ON TOP OF THIS THE DISSATISFACTION OF HMG WITH THE JAPANESE HANDLING OF THE MATTER IN RECENT MONTHS AND THE THREAT THAT WE WOULD TAKE RETALIATORY ACTION IF C AND W QUOTE DID NOT OBTAIN A FAIR CRACK OF THE WHIP UNQUOTE WERE MADE CRYSTAL CLEAR TO THE JAPANESE GOVERNMENT INCLUDING THE MINISTER OF POSTS AND TELECOMMUNICATIONS AND THE FOREIGN MINISTER WHEN MR HOWARD WAS HERE EARLIER THIS MONTH. THE JAPANESE GOVERNMENT HAVE BEEN LEFT IN NO DOUBT WHATSOEVER THAT WHILE NOT ENGAGED IN COMMERCIAL NEGOTIATIONS HMG IS FOLLOWING THESE NEGOTIATIONS CLOSELY AND IS LOOKING FOR A SATISFACTORY OUTCOME FROM THE BRITISH POINT OF VIEW.

4. HMG'S POSITION IS THEREFORE WELL SET OUT AND UNDERSTOOD AND COMMERCIAL NEGOTIATIONS ARE BEING PURSUED BY THE COMPANIES INTENSIVELY. THE TALKS ALSO INCLUDE DISCUSSIONS BETWEEN C AND W (SOLOMON) AND MPT, AOBUT WHICH C AND W HAVE NOT BEEN PREPARED TO GIVE US ANY DETAILS.

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5. IN THESE CIRCUMSTANCES THERE IS ABSOLUTELY NO QUESTION OF A BREAKDOWN IN THE TALKS AT THIS STAGE. C AND W INTEND TO CONTINUE THEIR DISCUSSIONS AT THIS LEVEL AT LEAST UNTIL THE END OF THE MONTH. WE ALSO KNOW THAT THE 2KDD ISSUE IS ONE TO WHICH ABE WHO IS NOW IN WASHINGTON AND MR NAKASONE WHO WILL ARRIVE THERE NEXT WEEK WILL BE PREPARED TO ADDRESS THEMSELVES IN DISCUSSIONS WITH THE AMERICANS, WHOSE POSITION ON THE AMERICAN END OF THE CABLE IS STILL NOT ENTIRELY CLEAR AS FAR AS WE ARE AWARE.

6. WHILE WE SHOULD DO NOTHING TO RELAX THE PRESSURE ON THE JAPANESE TO BRING THIS MATTER TO A SATISFACTORY AND PREFERABLY SPEEDY CONCLUSION, THIS WOULD I SUGGEST BE A THOROUGHLY INAPPROPRIATE MOMENT IN WHICH TO TALK OF SPECIFIC RETALIATION AGAINST THE JAPANESE IN THE EVENT OF AN UNSATISFACTORY OUTCOME, PARTICULARLY RETALIATION OF A SORT WHICH IS NOT DIRECTLY RELATED TO THE MATTER IN HAND. THE JAPANESE GOVERNMENT RESPONSE WOULD ALMOST CERTAINLY BE ONE OF IRRITATION OF NOT ANGER FOLLOWED BY TRUCULENCE AND POSSIBLY A LESS HELPFUL ATTITUDE THAN THEY HAVE BEEN DISPLAYING IN RECENT DAYS. MY OWN VIEW STILL REMAINS THAT THE MOST EFFECTIVE THREAT OF RETALIATION IN THIS FIELD COULD BE MADE BY C AND W HINTING AT A POSSIBLE SWITCH IN THEIR PURCHASES OF TELECOMMUNICATIONS EQUIPMENT FROM JAPAN TO ALTERNATIVE SOURCES OF SUPPLY. WE COULD HOLD IN RESERVE THE OTHER PROPOSALS SET OUT IN PARAGRAPH 6(A) OF MY TELEGRAM NUMBER 269 OF 30 MARCH, EG A POLICY DECISON BY HMG TO DISCRIMINATE AGAINST JAPANESE TELECOMMUNICATIONS CARRIERS IN ANY FIELD OR BY DELAYING THE ENTRY OF THE JAPANESE TELECOMMUNICATIONS EQUIPMENT INTO THE UK. A THREAT TO IMPOSE ADMINISTRATIVE DELAY ON THE ENTRY OF DATS WOULD BE MORE APPROPRIATE I SUGGEST IN THE CONTEXT OF OTHER DIFFICULTIES WITH THE JAPANESE, EG OVER THE TRADE IMBALANCE.

7. MORE GENERALLY I HOPE THAT MINISTERS WOULD BE PREPARED TO GIVE CONSIDERATION IN THE LIGHT OF THE MOST RECENT DEVELOPMENTS HERE TO A CAUTIOUS SLIGHT OF SHIFT IN THEIR POSITION ON THE C AND W ISSUE. IT IS HIGHLY UNLIKELY THAT THE JAPANESE GOVERNMEN WOULD HAVE BEEN PREPARED TO SHIFT ITS POSITION TO THE EXTENT THAT IT HAS (EVEN ALLOWING FOR THE FACT THAT THERE IS STILL SOME WAY TO GO UNTIL A SATISFACTORY CONCLUSION CAN BE FULLY ASSURED) WITHOUT SUBSTANTIAL PRESSURE FROM HMB. COULD WE NOT NOTE MR KARA-SAWA'S LATEST REMARK AND HINT AT LEAST THAT THESE ARE THE RESULT OF BRITISH MINISTERIAL INTERVENTION, WHILE MAKING IT CLEAR THAT THERE IS SOME WAY TO GO AND THAT HMG REMAIN CONCERNED TO SEE A FULLY SATISFACTORY OUTCOME? THIS WOULD BE A JUSTIFIABLE LINE AS SEEN FROM HERE AND COULD HELP TO CONTINUE TO PUSH THE JAPANESE

TOWARDS

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TOWARDS AGREEING TO SUCH AN OUTCOME.

8. PLEASE PASS ADVANCE COPIES TO PRIDDLE (DTI) AND TO BRIATHWAITE AND MASEFIELD(FCO)

WHITEHEAD

YYYY

TYHPAN 1513

JAPAN : POLITICAL AND ECONOMIC BACKGROUND

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CCPC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 4417
(Switchboard) 01-215 7877

From the Parliamentary Under Secretary of State for Corporate and Consumer Affairs

Michael Howard QC MP

Prime Minister!
Content with this draft statement? (Mr Howard knows of Mr Healey's remarks.)
DRN
21/4.

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

Yes mt

21 April 1987

Dear David,

I understand that Mr Howard may be required to make a statement in the House tomorrow, 22 April, on his recent visit to Tokyo. I attach a draft and would be grateful for any comments early tomorrow.

I am copying this letter to the private secretaries to the Chancellor of the Exchequer, the Foreign Secretary, the Leader of the House and the Chief Whip.

Yours sincerely,

David Roe

DAVID ROE
Private Secretary to Michael Howard

RH3BHY

MR HOWARD'S VlSIT TO JAPAN : 6-8 APRIL 1987

STATEMENT TO THE HOUSE OF COMMONS

With permission, Mr Speaker, I should like to report to the House on my visit to Japan from 6-8 April.

2. I had three main objectives. The first was to complete negotiations on a Memorandum providing for co-operation in the securities field between officials of my Department and the Japanese Ministry of Finance. I successfully concluded these discussions and signed the Memorandum on 8 April. This completes a triangle of such agreements between Japan the USA and the UK and will help us deal effectively with international fraud.

3. My second objective was to present the Japanese with a timetable for greater access for British firms to membership of the Tokyo Stock Exchange. I believe I successfully impressed upon the Ministry of Finance and the Tokyo Stock Exchange the importance of their meeting this timetable. I explained the Government's determination to take action under the Financial Services Act if a positive response was not forthcoming at the next bilateral meeting of

RTlABW

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officials being arranged for May or June. There has been some movement towards our objective: the Tokyo Stock Exchange have now announced a meeting of members in November on the enlargement of the Exchange and are bringing forward the date of enlargement from the Autumn to the Spring of 1988. This should be seen against the background of progress elsewhere. I can also report to the House that the Japanese Ministry of Finance is making good progress in preparing to issue Investment Management Licences to the British firms who have sought them under the new investment management law in Japan.

4. My third objective concerned the general imbalance of trade between our two countries, and the specific issue of Cable and Wireless's participation in the alternative international telecommunications services in Japan. It is, of course, for the Company to negotiate the detail, but I made clear the Government's concern, and the concern of this House, that C & W should be treated fairly. Following representations by the Government, there has been some progress on this issue; Prime Minister Nakasone has made it clear that he wishes to see a solution which is acceptable to all parties. All talk of active discrimination against C & W has ceased. And since my visit, I understand that the Ministry of Posts and Telecommunications is showing some

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flexibility in its consideration of the need for the cable which the consortium including Cable and Wireless have been proposing. No doubt these are issues the parties will be following up in their discussions and the Government will continue to play its part.

5. I should explain to the House that, apart from the Memorandum on Co-operation on securities regulation, I was not expecting, and did not ask, for an immediate reply to my representations. It would have been quite unrealistic to do so. But I am encouraged by the response on access to financial markets and developments in the telecommunications field to believe that progress can be made on these matters.

RT1ABW

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cc PC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

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16 April 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear David,

CABLE & WIRELESS

You sent me on 3 April Mr Nakasone's reply to the Prime Minister about Cable & Wireless.

Mr Channon agrees that no immediate reply is necessary.

An analysis of the present position is contained in the note at Annex A. A line to take, if public comment is required, is at Annex B.

I am copying this letter to Robert Culshaw (FCO), Tony Kuczys (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours

CAROLYNE AKERS
Private Secretary

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ANNEX A

CABLE AND WIRELESS : THE POSITION AFTER MR NAKASONE's REPLY

HMG's pressure so far has contributed to:

(i) overcoming Mr Karasawa's opposition to foreign participation;

(ii) eliminating the proposed distinction between Cable and Wireless, as an international telecoms operating company, and other foreign and Japanese participants.

2 What is not yet clear is:

(i) the extent of the equity stake Cable and Wireless can secure;

(ii) whether the proposed Pacific cable from the USA to Japan will be authorized.

3 Cable and Wireless have more to gain from a succesful bid by IDC, in which they have a 20 per cent stake, than from participation in a new company resulting from the merger of the interests of IDC and ITJ.

GOVERNMENT INTERVENTION

4 The main thrust of HMG's representations hitherto has been that the separate bids by IDC and ITJ should be objectively evaluated.

5 Mr Nakasone and Mr Karasawa have both relied, in their replies, on the merger proposals put forward by Mr Watanabe. In particular, both allege that these proposals respond to requests from the bidding companies.

POSITION OF CABLE AND WIRELESS AND ITS PARTNERS

6 C&W assert that this is not true. They say that their principal Japanese partners, C.Itoh, and the US companies in IDC stand firm. But any such public assertion by IDC collectively, C.Itoh or Toyota is notably absent.

7 Cable and Wireless have issued conflicting public messages over the past two weeks as follows:

(i) Before Mr Watanabe's proposals were publicly released, Cable and Wireless declared them unacceptable.

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(ii) On publication, they acknowledged that Mr Watanabe had "gone as far as he can to be fair within the one licence option" and agreed to discuss the proposals with their consortium partners; but they also stressed the merits of the separate IDC approach and the incompatibilities between it and ITJ's approach.

(iii) On 7 April, C&W put out a conciliatory press release in Tokyo, recognizing the goodwill of the Japanese Government and Mr Watanabe and expressing a wish to co-operate flexibly, though not necessarily to the extent of acceptance and unification.

8 In private, C&W have indicated alarm that HMG might regard a 10 per cent stake for C&W in a merged consortium, plus authorisation of the cable, as a sufficient Japanese response. They have asked HMG not to modify its public position, leaving the company to negotiate.

ASSESSMENT - PROSPECTS OF FURTHER GAINS

9 It appeared to Sir John Whitehead in Tokyo a week ago that it was unlikely that the Japanese Government would concede a more important role to C&W or entertain separate bids from the competing groups. He advised Ministers not to pin their colours to the mast of a 10 per cent stake for C&W in any merged consortium.

10 There have been reports, however, that Mr Nakasone has been disposed towards licensing two additional international carriers and even that one member of the ITJ consortium has proposed this solution. The IDC group drew closer together last week in preparation for the meeting with ITJ on 15 April. And press reports in Japan (which there are grounds to believe are valid) have suggested the Japanese Ministry of Post and Telecoms are seriously considering the possibility of allowing a merged consortium to lay a trans-Pacific cable.

11 A meeting of the two consortia in Tokyo yesterday, to explore the possibility of merger, was indecisive. Each party made a statement of position but there was no negotiation. A further meeting is expected, possibly next week. Cable and Wireless hope that it will become apparent that the interests of the two groups cannot be reconciled. They are satisfied with the way things are developing.

12 We cannot be sure that C&W can count on their IDC partners to stand out against unification. Toyota, in particular, is suspect, with possible ambitions to lead a

999-49

unified consortium (but with offsetting anxieties, too, about its standing in the USA).

13 If we were confident the Japanese partners of Cable and Wireless in IDC were being intimidated by pressure from the Japanese Government, we could continue to cry foul on the competitive procedures of the MPT. But the Japanese members of IDC continue to avoid public criticism of the Japanese Government.

14 Sir John Whitehead has advised Ministers not to give any impression that they are rejecting the unification proposals. The situation is, however, not so clear cut as to require HMG to embrace that solution. The best course, at present, is to leave the Japanese Government guessing as to what might satisfy HMG, leaving Cable and Wireless free to take what commercial advantage they can of the outrage expressed in the UK over recent weeks.

RISKS

15 The risk is that Ministers may be forced onto the defensive in public in the UK in response to renewed demands that they should get tough with the Japanese. A recommended line to take is set out at Annex B. This builds on aspects of Mr Nakasone's reply, while also continuing to lend discreet support to C&W's major remaining commercial objectives.

16 The wider effects on the UK economy need also to be taken into account, for example, in considering any retaliatory action over the issue. The Secretary of State for Trade and Industry has, therefore, made it clear that the company should keep in close touch with HMG, to ensure that there are no significant divergences of interest, or positions in public. The Secretary of State has also, of course, undertaken to continue to campaign on behalf of C&W's commercial interests. At present no further action is needed, or indeed requested by the company whilst commercial discussions continue.

April 1987 JF4ATV

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ANNEX B

LINE TO TAKE IN PUBLIC

Discussions are continuing in Tokyo between the parties involved.

Mr Nakasone has made it clear that he wishes to see a solution which is acceptable to all the parties, including Cable and Wireless.

I am glad to say that all talk of active discrimination against Cable and Wireless has ceased.

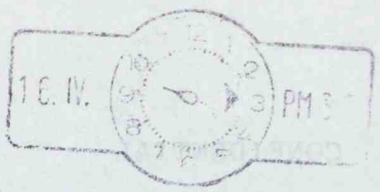
It remains to be seen whether a solution will emerge which properly reflects the contribution of each of the parties. Japanese telecoms users have much to gain from access to independent transmission facilities wholly financed, at its own risk, by the new service provider.

April 1987

JF4ATW

JAPAN

RELATIONS



PT 6

PRIME MINISTER

TRADE WITH JAPAN

The attached letter from DTI gives the latest position on Cable and Wireless - as well as a line to take at Flag X. Lord Young has also passed on a message from Sir Eric Sharpe to the effect that Cable and Wireless are still going hard for 20 per cent, and think they have a good chance of getting it. I understand that an impression may have been given at Cabinet last week that Cable and Wireless were ready to accept a smaller share.

I have also attached Alan Clark's minute which you saw last weekend. I think you already know the answers to the questions he raises - my latest information is that the US have not yet reached a decision on semiconductors, and you saw the telegrams reporting on last week's EEC meeting. There is a separate note in the box explaining how long it would take the EEC to take action.

P. A. BEARPARK
16 April 1987

JA1BHQ

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Foreign and Commonwealth Office

London SW1A 2AH

15 April 1987

Dear Andy,

The Prime Minister has asked for details of the likely timing of Community action to prevent diversion of Japanese exports as a result of US retaliatory duties on semi-conductors which are likely to be imposed on Friday 17 April.

At our insistence the Commission is currently working on the comprehensive US list of products from which the Administration will select those for retaliation. Once US retaliatory duties are introduced, the Commission will immediately begin monitoring relevant imports into the EC.

The Commission envisage breaking down the US list into 3 categories :

(i) Products which are considered essential to EC manufacturers, and on which we wish to see no interruption of trade.

(ii) Products where the potential for diversion is minimal.

(iii) Products where the potential for diversion is high and the EC must take urgent action.

On (iii) we want the Commission to be ready to make formal proposals in time for a meeting of member states' trade experts (the Article 113 Committee) on 24 April. If member states can thereafter reach

/agreement

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agreement swiftly, there would be no need to wait for formal endorsement at a Council meeting: the proposals could be adopted under an emergency written procedure within as little as twenty-four hours. Once adopted, this would enable the Commission to take action as soon as there was evidence of trade diversion. Their experts do not anticipate that any diversion of trade will take place in practice for at least 3 weeks following implementation of the US measures.

I am copying this letter to Timothy Walker (DTI) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

L Parker

(L Parker)
Private Secretary

P A Bearpark Esq
No 10 Downing St

EMBASSY OF JAPAN

LONDON

15th April 1987

Dear Prime Minister,

I am asked by Prime Minister Yasuhiro Nakasone to forward to you a letter, the text of which I transmitted to you on 2nd April 1987.

I have pleasure in enclosing herewith this letter, together with the official translation.

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.

MR. BEARPARK

PJ 16/4

CABLE AND WIRELESS

Lord Young telephoned me yesterday about his recent conversation with Sir Eric Sharpe, Chairman of Cable and Wireless. Sir Eric had said that C&W were still going hard for the 20 per cent share in the Japanese telecommunications project, and they thought they had a good chance of getting it.

Lord Young asked that this should be drawn to the Prime Minister's attention since the impression had been given at last Thursday's Cabinet that C&W were ready to accept a smaller share.

Please could you draw this to the Prime Minister's attention when you have the report today from the Department of Trade and Industry on the latest state of play on C&W negotiations.

N.L.W.

N. L. WICKS

15 April 1987

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX TELEPHONE 01-[illegible]433 LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

DEPARTMENT
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OF EMPLOYMENT

14th April 1987

The Rt. Hon. Lord Young of Graffham,
Secretary of State for Employment,
Department of Employment,
Caxton House,
Tothill Street,
LONDON. SW1

Dear David

The attached has just come in from Jonathan Solomon in Tokyo. For obvious reasons I am writing direct to you about the possibility of your (or the Prime Minister's office) approaching Geoffrey Howe as per his point 5. I am not in the position to approach Geoffrey through his Department until we can sort out who is firm and who is among the wobblies. You will also, of course, be interested in the tone of the White House letter to one of the Senators battling for Cable and Wireless and Pacific Telesis.

Yours ever

Eric

Enc.

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

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Chairman

cc Mr Pemberton
Mr Crouch
Mr P. Woodrow

Mr Abe's visit to USA.

This is important for us. Mr Abe is going to USA to get a sense of U.S. feeling on a variety of issues, including 2nd KDD.

2. Mr Abe will be meeting President Reagan, Mr. Schultz, Mr. Weinberger, Mr. Yeutter, Mr. Baldridge etc.

3. As you will see from the attached document – the U.S. has taken a tough position on the 2nd KDD at the highest level.

4. Our Japanese friends are confident of firmness from everyone – except Mr. Schultz who is perceived as relatively soft.

5. Can Sir Geoffrey Howe stiffen Mr Schultz's resolve? It would be helpful unless FCO is among our wobblies.

6. Mr Abe will return to advise Mr. Nakasone and if the message from Washington is loud and clear on 2 licences, the likelihood is that Mr K will swing the argument here in our favour more decisively than up to date. It will also strengthen Mr S's hand on the advice he is already giving Mr Nakasone on his visit.

7. We need to rally whatever friends we have in USA to press home the 2 licence case.

J. Solomon

伊藤忠商事株式會社

With the compliments of the
Private Secretary

Nigel

Lord Young asked me to send this to you on a personal basis. He will telephone you about it tomorrow

John Turner
13/4



Department of Employment
Caxton House, Tothill Street, London SW1H 9NF
Telephone: 01-213 6460

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01- 242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

13th April 1987

The Rt. Hon. Lord Young of Graffham,
Secretary of State for Employment,
Department of Employment,
Caxton House,
Tothill Street,
LONDON. SW1

Dear David

Herewith letter as requested. I mentioned to you that last Monday on my return from Malaysia I was so concerned about the situation that I had dinner alone with Geoffrey Pattie. I asked him whether he knew Mr. Channon had approved the Departmental line and whether the Prime Minister herself had endorsed the new Government policy. He said he doubted it very much whether the Prime Minister had approved or knew about the official statement that it was Government policy to support us up to 10 per cent and even doubted whether Mr. Channon knew about it.

I enclose for your private eye the letter he subsequently sent me.

Yours ever

Eric

Enc.

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01- 242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

HIGHLY CONFIDENTIAL

13th April 1987

The Rt. Hon. Lord Young of Graffham,
Secretary of State for Employment,
Department of Employment,
Caxton House,
Tothill Street,
LONDON. SW1

Dear David

I was glad to have had the opportunity of seeing you and Keith Joseph for lunch today. To summarise what I said about recent events:

Whilst I was in Malaysia, I received a call on Tuesday 31st March from the Department asking why I was insisting on 20 per cent as the Cable and Wireless equity participation in the IDC consortium. On Friday 3rd April I received a call from Mr. Channon saying that 'things were hotting up' in London and probing Cable and Wireless' position and whether our US partner would stand firm with Cable and Wireless. He said that it was important that the Prime Minister should not be left isolated by a retreat by Cable and Wireless and our partners although some flexibility must be entertained. I repeated emphatically that our negotations had to be conducted on a resolute basis, based on the Prime Minister's letter to Mr. Nakasone and in no way would Cable and Wireless retreat from that position. I recognised that our US partners might have different objectives in that they were more interested in the cable connecting Japan with the United States but that I would know within 48 hours as the representative of Pacific Telesis was seeing the Ministry of Posts and Telecommunications the next day in Tokyo. Mr. Channon said that the Department might wish to get in touch with me in Kuala Lumpur over the weekend (I was returning Sunday night) but the next night (Saturday) whilst we were having dinner with our Malaysian friends, Mr. Jonathan Solomon (ex Under Secretary at the DTI and now, Director, Corporate Strategy) took a telephone call from Mr. Priddle (Head of Telecommunications Division, DTI) saying that 'the Government's position was now that they would back Cable and Wireless up to 10 per cent and that beyond that we would be on our own'. Mr. Solomon returned very agitated to the dinner table and I then had a separate meeting with him considering our next move. I was concerned to know whether Mr. Channon himself had agreed to this position and, more importantly, whether the Prime Minister had also agreed to this retreat from her original position. As I had indicated to Mr. Channon in my telephone conversation with him it was

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

important for Mr. Howard to see our man in Tokyo before he saw the Minister of Posts and Telecommunications in order to get an update not only about our position but the position of our consortium. Mr. Solomon and I agreed that on my return to London on Monday 6th April I would send a letter to Mr. Howard direct, without going through the Department, to make sure that he did not reflect the apparent Government concession and that he stood firmly behind Cable and Wireless' position and the Prime Minister's letter to Nakasone. Any other course would be disastrous by indicating to the Japanese that our position was negotiable down to 10 per cent or below. Accordingly I faxed a letter direct to Mr. Howard, copy attached.

After that letter was sent on Monday to Mr. Howard, the same evening Mr. Priddle telephone Jonathan Solomon to say that the Department was concerned about Cable and Wireless sending that letter to Mr. Howard and that Cable and Wireless was in danger of diverging from HMG policy.

I was concerned to establish whether Mr. Channon and, more particularly, the Prime Minister had changed their position and I asked to see you and Sir Keith as soon as that could be arranged.

I have no knowledge as to what Mr. Howard's brief was as at no time have I seen or spoken to Mr. Howard. My instincts, therefore, were sound in making sure that Mr. Howard knew exactly and precisely where Cable and Wireless stood. During this last week, I have been concerned as to the way editorials in 'The Times', 'Financial Times' and 'Daily Telegraph' suddenly and mysteriously began to talk about how Cable and Wireless should be satisfied with 10 per cent in order to head off a trade war with Japan. The current situation is that our consortium is still standing firm and we shall probably know during negotiations in Tokyo this week as to whether the Japanese are prepared to meet the consortium's demands. I do know that the U.S., both at political and administration level, has been solidly behind the consortium and Cable and Wireless and that, within a matter of days, the U.S. Administration will be issuing the licence for the U.S. end of the U.S./Japan cable and this will put further pressure on the Japanese. I shall continue strongly to resist any suggestion of the Department or the Embassy negotiating away Cable and Wireless' position without the Prime Minister's own personal approval or initiative. There is still, if I may say so, a whiff of Munich about some of our Departmental ranks rather than the Falklands factor. You know, of course, on whose side I am on.

Yours ever

Eric

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5147
GTN 215)
(Switchboard) 215 7877

From the Minister of State
for Industry and
Information Technology

8th April 1987

Dear Eric,

Thank you so much for dinner. I very much enjoyed our conversation. Thank goodness we have people like you prepared to carry the fight to the enemy.

Yours ever

John

Cable and Wireless
Public Limited Company
Mercury House Theobalds Road London WC1X 8RX
Telephone: International +44 1 242 4433 National 01-242 4433 Telex: 23181 CANDW G

Ref: JHS/JLB/780/0563S

April 6th 1987

To : Mr Michael Howard Q.C. MP

via: Mr M Guest (Please pass message urgently to Mr Howard)
The British Embassy
Tokyo
Japan

cc: The British Ambassador
Mr Richard Histed IDC

Dear Michael,

I understand that you will be having a meeting with the Minister of Posts. As you will appreciate the situation on the 2nd KDD is very delicately poised. The USA Government and our partners, Pacific Telesis, are very firm, as are our Japanese allies. I am sure I need not say this but, you should not adopt into a negotiating role since it would cut across our Japanese and American allies.

We are very grateful for H.M.G. support and I would have thought that the best brief available is the Prime Minister's orginal letter of 4th March with a reiteration on the points already made by Prime Minister Nakasone - namely foreign ownership up to 33 and a third percent, and an agreement acceptable to all parties both at home and abroad.

You should also know that both our American and Japanese allies and Cable & Wireless believe there should be no prevarication about the cable.

I am copying this to H.M. Ambassador - Tokyo and Mr Richard Histed - IDC.

SIR ERIC SHARP
CHAIRMAN
CABLE AND WIRELESS

The National Archives

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MR. WICKS

I understand that Shana (on behalf of Michael Alison) put into the weekend box the attached personal note from Alan Clarke on trade relations with Japan. I only saw this note when it came out of the box with the Prime Minister's comment and questions written on it.

This needs to be handled sensitively because the Prime Minister likes Alan Clark to have direct access to her on one or two matters of this kind and it has therefore come in a private rather than official capacity.

Although the Political Office was used as a channel you must certainly see it.

STEPHEN SHERBOURNE
13.4.87

Box

I hear that the U.S. has taken action on superconductors against Japan. Are we going to follow suit? What was the result of Friday's E.E.C. meeting on

PRIME MINISTER

10Th April, 1987

TRADE RELATIONS WITH JAPAN

While I fully understand the message (conveyed to me directly and indirectly) to'cool' the subject I feel that I must send you a note of my views because most of the Ministerial (and I don't doubt all of the Official) advice you are getting is far too defeatist.

I understand, also, the strategic judgement that we must avoid any turbulence in financial markets, unpredictable consequences etc in the run-up to a General Election. But even this has its converse. While the City and Treasury Officials may be apprehensive I know from my own postbag, both as an MP and as a Minister, that there are large numbers of individuals and small businessmen who are trying to export into the Japanese market who feel very strongly on this subject. Only you can calculate the balance of political advantage.

In any case the City and the Bank are being quite needlessly aggravated. The Financial Services Sector is not the one in which to retaliate. It may be convenient, because it is legitimate. But it will not be effective. We are in surplus in our invisible trade with Japan. If you are going to fight a trade war you do not choose as your ground a sector where you are in surplus to your opponent. The EC/US dispute is the most recent example of how the deficit country always has a stronger position in a retaliatory cycle.

The only way we are going to get satisfaction is by retaliation in the field of manufactured imports. This is going to involve domestic legislation to give the Secretary of State enabling powers; and vigorous high-level lobbying in the Community to get some (even if not a majority) of our partners to condone what we are doing. I know from my own contacts with Noir, Willy de Clercq - even with Bangemann and Miss Van Rooy (NL) - that Ministers are sympathetic. But all initiatives are being throttled at COREPER level by senior officials. This reflects in a double act by our own Dep Secs at DTI, FCO, Treasury, Cabinet Office etc who will woodenly assert that 'The Community wouldn't wear it .....' etc etc.

This simply isn't true. Nor do I think that the Community or the Commission would do anything much, apart from a few ritual grumbles. If we and (say) the French took unilateral action.

999-49

I set out my argument:

1. The Trade Deficit with Japan in manufactures, is increasing at a compound rate.

2. It is likely to be the most prominent feature of a series of bad trade figures in the late summer.

3. The increased efficiency and competitiveness of Britsh Industry does now give our exporters a window in the Japanese market following the huge rise in the value of the Yen, provided the obstructions are removed.

4. It is probably true, as Nigel Lawson has said, that Japanese politicians have better intentions than their bureaucrats. My own view is that the bureaucrats are much more likely, given the nature of Japanese society, to respond to pressures from their business community. These pressures are most likely to emanate from those sectors that are finding their own exports being squeezed.

5. Retaliation (via the principle of reciprocity) in the financial services field may be convenient but it is de minimis, operates in a field where we are in fact doing very well and do not want to disrupt, and the Japanese know this. If it is to have any bite in the field of manufactures the ground will have to be prepared by enabling powers for the SoS which will clear him of liability to judicial review in actions brought by importers; and Community agreement to suspend Japan, bi-laterally, from certain of her GATT entitlements until she is seen to be assuming more positively her GATT obligations (Lane's Paper, which I gave to Norman Blackwell, refers).

Finally I must emphasise that this problem is soluble but we have to be far more radical in our approach. In particular we have to be discriminatory about much of the advice we are getting, as like all problems that are only susceptible to radical solutions it involves friction with a number of powerful, and long-established, vested interests who are convinced of their own divine right.

ALAN CLARK

PRIME MINISTER

This is a useful transcript of Denis Healey's interview on the Today Programme this morning. In it he accepts that Michael Howard's visit was useful.

I heard it.

MEA

MEA

10 April, 1987.

Unchecked

DENNIS HEALEY - INTERVIEW ON JAPAN VISIT

Transcript from: BBC Radio 4, Today, 10 April 1987

PRESENTER: Labour's Foreign Affairs spokesman, Dennis Healey, is on Japan on the first leg of a Far East tour that will take him onto China and Hong Kon. His visit to Japan coincides of course with the latest round in the on going row over trade relations. Neil Kinnock has described the Trade Minister, Michael Howerd's visit to Tokyo as "fruitless". But it seems Mr Healey might be willing to give the Trade Minister better marks for effort. But there's already been controversy over Mr Healey's status with accusations today that he's acting as a paid consultant for the Nippon Telegraph and Telephone Company. Tory MPs, including Anthony Beaumont Dark and Harry Greenaway, have accused him of not batting for Britain. Our reporter Justin Webb put those criticisms to Mr Healey in Tokyo.

HEALEY: Well that's illiterate rent a quote stuff from a couple of obscure Tory Back Benchers. If they'd taken the trouble to get in touch with Cable and Wireless they'd have known that NTT is working with Cable and Wireless to try to get this contract and Cable and Wireless is putting in for the contract with another very important Japanese firm Se Hito and one of the biggest of all the Japanese companies Yamaha. So they really don't know what they're talking about.

INTERVIEWER: (Justin Webb) So it wouldn't be right tosay that you're working for the Japanese?

HEALEY: Absolutely not. I'm working to get this contract for Britain in so far as that that enters into my visit. And I hope to be talking to some of the people in the Ministry of Posts and Telecommunications who have been making difficulties later this afternoon.

INTERVIEWER: There has been the suggestion though that perhaps you are getting fees from the Japanese side?

HEALEY: Ha ha ha ha ha, as I say, I'm simply a member of the Euroepan advisory board along with a lot of other distinguished Europeans like the former secretary general of the OECD and the former French Foreign Minister.

INTERVIEWER: What about the wider question of the difficulties that are occurring between Japan and Britain with regard to trade at the moment? Obviously you will have talked to people and in the light of Mr Howerd's visit to Japan what's your assessment of the way they're thinking about that visit?

HEALEY: Well first of all I think Mr Howerd's visit was useful because he did, as I am doing, put forward the strength of feeling in Britain about the attempt to freeze Cable and Wireless out of this very important contract. It basically gives Cable and Wireless the chance to lay a fibre optic cable across the Pacific which will enormously increase efficiency and treatment of this traffic and aadd greatly to Cable and Wireless' already great prestige. I think Mr Howerd did his best to rub into the Japanese he met the importance of not discriminating against Cable and Wireless, as of course I've been doing the same - with some help as I may say from NTT.

INTERVIEWER: So you'd describe Mr Howerd's visit as a success?

HEALEY: No, I think it was useful. It has nothing todo with success until victory is achieved and I think it'll be some time yet before the final decision is taken. I think two useful things have happened in the last few days and his vissit may have helped to contribute to that. One is that there's a discussion between the two consortia which are involved in setting up this alternative international telecommunications set up next week. I doubt myself whether that will lead very far. More important is for the very very first time the Ministry of Posts and Telecommunications in Japan, which has been the main obstacle so far to Cable and Wireless' bid being properly

considered, has at least siad now that it will shortly be considering their bid. That's the very first time they've agreed even to take notice of it. So that's a tiny bit of progress but there's still a long way to go and, as I say, I shall be doing my very best while I'm here to help Cable and Wireless. I was in touch with Cable and Wireless in London before I left and I've been in touch with them since I've been here and of course with the British Embassy, which is also deeply concerned.

The National Archives

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SECRETARY OF STATE FOR TRANSPORT

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Trade Sanctions against Japan : Air Services

1. Thank you for your letter of 31 March about possible action against Japan Airlines (JAL) in the context of the current UK/Japan trade dispute.

2. I share your opposition to any idea that JAL should be excluded from Heathrow as part of retaliatory action against Japan in the trade relations context. I was therefore glad that we were able to agree in Cabinet on 2 April that such action would be ill-advised.

3. In addition to the timing considerations you outline, concerning the hard-won agreement over Trans-Siberian services to Tokyo which your Department has recently concluded, it seems to me that there are more general dangers in attempting to use the allocation of airlines to particular London airports as a sanction in this way. As you know, we have had to use up a good deal of political credit with certain governments in defending our policy of not allowing "new" airlines to serve

/Heathrow

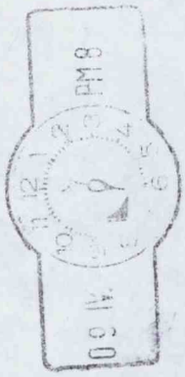
Heathrow (most recently in the case of the Dubai airline, Emirates, last summer). To eject a long-established airline from Heathrow on totally different (and non-aviation-related) criteria would drive a coach and horses through the credibility of that policy and expose us to increased pressure to change it. Nor, as you say, would it sit well with our efforts to build up Gatwick as a thoroughly respectable alternative London airport to Heathrow.

4. I am copying this minute to the recipients of your letter.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

9 April 1987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YOUR TELNO OTTER 216: EC/JAPAN TRADE: POSSIBLE ARTICLE XXIII ACTION

1. THESE CAN ONLY BE HURRIED THOUGHTS.
2. IN ADDITION TO YOUR POINTS, WE NEED TO CONSIDER
(D) THE BACKGROUND AGAINST WHICH ACTION WOULD BE TAKEN
(E) WHAT OUR OBJECTIVE IN BRINGING A CASE WOULD BE
(F) THE RESPECTIVE IMPACT OF A CASE WITH OR WITHOUT US SUPPORT.

3. THE JAPANESE ARE NOW ACUTELY AWARE OF THE INTERNATIONAL PRESSURE THEY FACE TO RAISE IMPORTS AND STIMULATE THEIR ECONOMY. THE UNPREDICTABLE ATMOSPHERE IN WASHINGTON IS CURRENTLY THEIR PRIME CONCERN. IN PART THEY RECOGNIZE THE VALIDITY OF FOREIGN COMPLAINTS ABOUT CLOSED MARKETS. IN PART THEY ALSO BELIEVE THAT THEY ARE BEING PENALIZED FOR THEIR OWN SUCCESS AND GREATER COMPETITIVE SKILLS. BUT THE SCOPE FOR TEMPORIZING TACTICS IS NOW RUNNING OUT, AND DOMESTIC INTERESTS AND EMOTIONS ARE INCREASINGLY ENGAGED BY THE ISSUED NOW PRESENTING THEMSELVES IN ADDITION TO DEALING SIMULTANEOUSLY WITH SPECIFIC ISSUES WHICH INVOLVE CHANGING DEEP ROOTED HABITS (EG AGRICULTURE, KDD, KANSAI AIRPORT), THEY ARE BEGINNING TO REALISE THAT MAJOR CHANGES IN AREAS OF DOMESTIC POLICY, EG ON LAND USE, ARE NOW REQUIRED IN ORDER TO BRING ABOUT THE NECESSARY SHIFT IN THE ECONOMY TOWARDS DEPENDENCE ON DOMESTIC DEMAND. AS I SEE IT CHANGE IS DEFINITELY MOVING IN THE RIGHT DIRECTION, AND WE WANT TO REINFORCE OR ACCELERATE THIS PROCESS OF CHANGE RATHER THAN EMBROILING JAPAN IN ACTIONS WHICH WILL DISTRACT HERE EFFORTS FROM THESE TASKS, SEEM UNNECESSARILY HOSTILE, OR PRODUCE ONLY INSIGNIFICANT RESULTS FOR US AT THE MARGINS. IN THIS RESPECT THEREFORE I DIFFERENTIATE BETWEEN THIS AND THE VERY DIFFERENT PURPOSE OF SPECIFIC ARTICLE XXIII(2) ACTIONS EG ON WHISKY. A GENERAL ARTICLE XXIII(1) CASE COULD HAVE A POSITIVE EFFECT IF IT CONCENTRATED ON MAJOR AREAS WHERE THE JAPANESE RECOGNISE THEMSELVES THE NEED FOR PROGRESS.

4. I WOULD THEREFORE SEE THE PURPOSE OF ANY ACTION AS BEING TACTICAL: IE WE WOULD LAUNCH AND PURSUE THE CASE FOR THE STIMULUS THAT AN INTERNATIONAL AIRING OF THE ISSUES MIGHT GIVE TO PROCESSES ALREADY TAKING PLACE INSIDE JAPAN, AND NOT WITH A VIEW TO THE SATISFACTION THOUGH A PANEL OF SPECIFIC DEMANDS ON NITTY GRITTY ISSUES SUCH AS TARIFFS, STANDARDS AND OTHER "ACTION PROGRAMME" - TYPE ISSUES.

/s

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5. THE CASE WOULD HAVE INFINITELY MORE IMPACT IF IT HAD US SUPPORT, DIFFICULT AS THIS MAY BE TO ACHIEVE. A CASE FOUNDED ON THE BROAD ISSUES CHARACTERISED IN PARA 3 ABOVE AND SPECIFIED IN PARA 6 3)92, MIGHT ATTRACT THE AMERICANS IN A WAY WHICH ONE BASED ON SPECIFIC COMMUNITY COMPLAINTS WOULD NOT. IT WOULD ALSO HAVE A MORE POSITIVE IMPACT HERE. IF WE WERE UNABLE TO GET AMERICAN SUPPORT THE IMPACT WOULD BE MUCH WEAKER.

6. IN CONSIDERING THE SUBSTANCE OF ANY CASE, I WOULD SUGGEST THAT WE SHOULD NOT TAKE ISSUE WITH CHARACTERISTICS OF THE JAPANESE SYSTEM WHICH DISTINGUISH IT FROM OTHER WESTERN ECONOMIES BUT ARE NOT NECESSARILY DISCRIMINATORY OR EVEN UNFAIR, SUCH AS HIGH SAVINGS PROPENSITY, THE AVAILABILITY TO INDUSTRY OF LONGTERM FINANCE AND LOW INTEREST RATES, THE EXISTENCE OF LARGE BUSINESS GROUPINGS, INFLUENTIAL INDUSTRY ASSOCIATIONS, THE DIFFICULTY OF BUYING OUT JAPANESE COMPANIES ETC.
THE WEAKNESS OF THE 1982 CASE WAS PERHAPS THAT IT PLACED TOO MUCH EMPHASIS ON SUCH CHARACTERISTICS WHICH ARE CULTURAL, UNLIKELY TO CHANGE IN THE SHORT OR EVEN LONGER TERM AND CONSIDERED BY MANY OUTSIDE JAPAN TO BE A GENUINE SOURCE OF STRENGTH. I WOULD RECOMMEND CONCENTRATING ANY CASE ON THOSE ISSUES WHICH ARE MOST RELEVANT TO TRADE AND WHERE THERE IS ALREADY SOME JAPANESE RECOGNITION OF OUR CASE. FOR EXAMPLE: THE CONCENTRATION OF INVESTMENT AND RESOURCES ON EXPORT INDUSTRIES, PREDATORY PRICING POLICIES OF JAPANESE COMPANIES ABROAD, JAPAN-FIRST POLICIES IN PUBLIC PROCUREMENT ON EG CONSTRUCTION CONTRACTS: THE DISTRIBUTION SYSTEM, THE RELUCTANCE TO TRANSFER TECHNOLOGY AND RESEARCH ABROAD, AGRICULTURAL PROTECTIONISM ETC. A LIST ALONG THESE LINES WOULD HAVE SOME USEFUL PRESENTATIONAL PARALLELS WITH THE MAIN POINTS OF THE MAEKAWA REPORT, THOUGH THEY SHOULD BE CAPABLE OF ACTION ON A SHORT TIME SCALE. EQUALLY I WOULD ADVISE AGAINST DESCENDING TO THE LOW GROUND OF SPECIFIC TARIFF AND NTB-TYPE ISSUES WHICH CAN BE PURSUED ELSEWHERE.
IN THIS SCENARIO, THE DEMANDS WOULD BE LESS IMPORTANT THAN THE CASE ITSELF.

7. THE 982 CASE CALLED FOR SPECIFIC MEASURES TO INCREASE IMPORTS OF MANUFACTURED GOODS. THIS IS AN OBJECTIVE ENDORSED BY THE JAPANESE GOVERNMENT. AND COULD BE RETAINED I WOULD NOT BE WISE IN MY VIEW TO GO FOR SPECIFIC IMPORT TARGET/FORECASTS.
ANY LIST OF DEMANDS ON THE ABOVE ISSUES WOULD PRESUMABLY HAVE TO BE CAST IN GENERAL TERMS OF DISMANTLING SYSTEMS WHICH INHIBIT FREE INTERACTION WITH OTHER ECONOMIES AND DISCONTINUING PRACTICES PARTICULARLY BY HIGH-TECH INDUSTRIES WHICH THREATEN OTHER COUNTRIES INDUSTRIES.

8. ON TIMING, IT WOULD BE BETTER NOT TO LINK THE LAUNCHING OF SUCH A CASE WITH ANY PARTICULAR GRIEVENCE. A LONGISH GESTATION PERIOD, PERHAPS INVOLVING CONSULTATIONS WITH THE JAPANESE COULD INDEED BE USEFUL, PARTICULARLY IF THE AMERICANS COULD BE BROUGHT ALONG.

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9. THE KEY AS I SEE IT AT VERY SHORT NOTICE, WOULD BE IN CONCENTRATING JAPANESE MINDS ON MAKING THE LEGAL AND ATTITUDINAL CHANGES WHICH WILL MAKE THEIRS A MORE GENUINELY INTERNATIONAL ECONOMY.

WHITEHEAD

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MY TELNO 281: MR HOWARD'S VISIT

SUMMARY

1. AN IMPORTANT VISIT RECOGNIZED AS SUCH BY THE JAPANESE GOVERNMENT. MR HOWARD CONVEYED AT A HIGH LEVEL THE STRONG CONCERN OF HMG AND PUBLIC OPINION IN THE UK ABOUT OBSTACLES IN THE JAPANESE MARKET AND THE TRADE IMBALANCE AND, IN PARTICULAR, THE HANDLING OF CABLE AND WIRELESS' PARTICIPATION IN THE 2KDD PROJECT AND THE LACK OF RECIPROCAL OPPORTUNITIES IN FINANCIAL SERVICES. HE PROPOSED A TIMETABLE FOR SPECIFIC PROGRESS ON TOKYO STOCK EXCHANGE (TSE) MEMBERSHIP AND MADE IT CLEAR THAT, ALBEIT RELUCTANTLY, HMG WOULD BE PREPARED TO USE ITS POWERS UNDER THE FINANCIAL SERVICES ACT TO ACHIEV E
THIS. HIS MESSAGES WERE CLEARLY UNDERSTOOD BY THE JAPANESE AND WILL, I JUDGE, HAVE PROVIDED VALUABLE PRESSURE IN SUPPORT OF C AND W'S NEGOTIATIONS HERE. HIS REFERENCE TO USE OF RECIPROCITY POWERS AND OTHER POSSIBLE MEASURES IN THE TRADE FIELD PRODUCED THREATS OF COUNTER-RETALIATION. FROM MITI, AND SUGGESTION FROM JAPANESE FINANCAIL COMPANIES THAT THIS COULD BE AGAINST LONDON'S INTEREST, BUT THESE WERE IN A MODERATELY LOW KEY.

DETAIL

2. MR HOWARD, PARLIAMENTARY UNDER SECRETARY OF STATE, DTI, VISITED JAPAN FROM 5 TO 8 APRIL. IN ADDITION TO HIS PLANNED NEGOTIATING ROLE ON FINANCIAL SERVICES ISSUES, HE BROUGHT A STRONG MESSAGE FROM THE CABINET OF DISSATISFACTION WITH JAPAN'S TRADE IMBALANCE AND CLOSED MARKETS, AND WITH THE HANDLING OF THE CABLE AND WIRELESS (C AND W) ISSUE. AGAINST THE BACKGROUND OF HMG'S DECISION ON 2 APRIL TO ADVANCE THE AVAILABILITY OF RECIPROCITY POWERS UNDER THE FINANCIAL SERVICES ACT, THE JAPANESE GOVERNMENT AND PRESS RESPONDED TO THE EXCEPTIONAL SIGNIFICANCE OF THE VISIT. MR HOWARD SAW KURANARI, FOREIGN MINISTER, KARASAWA, MINISTER OF POSTS AND TELECOMMUNICATIONS, PARLIAMENTARY VICE MINISTERS AT MITI (NAKAGAWA) AND MPT (OZAWA), VICE MINISTERS FOR INTERNATIONAL AFFAIRS AT MOF (GYOTEN) AND MITI (KURODA) AND TAKEUCHI CHAIRMAN OF THE TOKYO STOCK EXCHANGE. IN ADDITION TO SENIOR OFFICIALS IN MFA AND MOF HE ALSO HAD MEETINGS WITH REPRESENTATIVES OF THE MAJOR UK FINANCIAL INSTITUTIONS IN JAPAN AND OF THE LEADING JAPANESE FINANCIAL HOUSES.

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FINANCIAL SERVICES

3. AFTER CONSULTATION WITH BRITISH COMPANIES HERE AND WITH THIS EMBASSY, MR HOWARD SET OUT THE TIMETABLE FOR MY TUR (WHICH HAS SINCE LEAKED IN DETAIL TO THE PRESS) FOR GRANTING TSE MEMBERSHIP TO UK COMPANIES. HE SAID WE EXPECTED A POSITIVE RESPONSE AT THE NEXT ROUND OF ANGLO-JAPANESE FINANCIAL CONSULTATIONS WHICH WERE EXPECTED TO BE HELD NEXT MAY/JUNE. HMG WAS NOT SEEKING EXACT NUMERICAL RECIPROCITY, BUT BROAD EQUIVALENCE OF OPPORTUNITY FOR UK FIRMS IN TOKYO RELATIVE TO JAPANESE IN LONDON. OUR DEMANDS WERE MODEST. BUT IF THE TIMETABLE WERE NOT MET, HMG WOULD BE PREPARED TO USE ITS DISCRETIONARY POWERS UNDER THE FINANCIAL SERVICES ACT.

4. AT THE TSE, TAKEUCHI SAID THAT THERE WOULD BE ADDITIONAL SPACE FOR NEW MEMBERS BY MAY 1988: IN VIEW OF THE TIME THEY WOULD NEED TO PREPARE FOR THEIR SEATS, THE TSE WOULD EXPECT TO SELECT THE NEW MEMBERS AT LEAST FOUR MONTHS BEFORE THAT. HOWEVER, THOUGH HE WAS DETERMINED TO EXPAND THE MEMBERSHIP, HE COULD NOT COMMIT HIMSELF TO SPECIFIC NAMES BEFORE HE HAD THE APPROVAL OF THE MEMBERSHIP. HE POINTED OUT THAT IT WOULD BE DIFFICULT TO GIVE PRIORITY TO THE THREE BRITISH FIRMS OVER OTHER APPLICANTS.

5. MR HOWARD AGAIN EMPHASIZED THAT OUR DEMANDS WERE MODERATE, AND ACCEPTED AS SUCH BY LEADING FIGURES IN THE INDUSTRY (HE HAD IN MIND CHINO, CHAIRMAN OF DAIWA, AND TABUCHI, CHAIRMAN OF NOMURA WITH WHOM HE HAD TALKS EARLIER IN THE VISIT). IT WAS UP TO THE TSE TO GIVE A POSITIVE RESPONSE BY THE TIME OF THE NEXT BILATERAL TALKS. NO AGREEMENT WITH THE TSE WAS REACHED, ALTHOUGH THE TSE EVIDENTLY REALISED THAT THE GAP BETWEEN OUR DEMANDS AND THEIR TIMETABLE WAS IN PRACTICE NOT VERY WIDE.

6. FURTHER TALKS WITH KITAMURA AFTER THE CALL ON THE TSE GAVE SOME ENCOURAGEMENT THAT MOF COULD BE PERSUADED TO USE ITS INFLUENCE ON THE TSE TO CLOSE THAT GAP. IT WAS AGREED THAT FURTHER DISCUSSIONS BETWEEN OURSELVES AND MOF ON THE NATURE OF THE POSITIVE RESPONSE THAT WAS REQUIRED AT THE BILATERALS WOULD BE NECESSARY AT OFFICIAL LEVEL.

7. THE MINISTER TOLD THE MOF THAT HE WAS GENERALLY SATISFIED WITH PROGRESS ON THE GRANTING OF SECURITIES BRANCH LICENCES AND INVESTEMENT MANAGEMENT LICENCES, AND LOOKED FOR THIS TO CONTINUE. BOTH GYOTEN AND KITAMURA (SECURITIES BUREAU) INDICATED THAT THERE SHOULD BE NO DELAYS, EITHER FOR THE NEXT BATCH OF SECURITIES LICENCES IN MAY OR FOR THE ISSUE OF INVESTMENT MANAGEMENT LICENCES BY THE MIDDLE OF THE YEAR. ASKED ABOUT BANKING LICENCES FOR NIKKO AND YAMAICHI, MR HOWARD POINTED OUT THAT PROCESSING OF APPLICATIONS WOULD STILL TAKE TIME: IN RESPONSE KITAMURA HOPED THAT THEY WOULD BE GIVEN LICENCES AS SOON AS POSSIBLE.

8. MR HOWARD ALSO SIGNED THE MEMORANDUM OF UNDERSTANDING FOR THE EXCHANGE OF INFORMATION BETWEEN FINANCIAL REGULATORS, AND THE ACCOMPANYING CONFIDENTIAL SIDE LETTER WAS ALSO AGREED ON 8 APRIL. BOTH HE AND THE MOF EXPRESSED THEIR SATISFACTION WITH THE SPEED AND EASE WITH WHICH AGREEMENT HAD BEEN REACHED ON THE MEMORANDUM.

CABLE AND WIRELESS

9. MR HOWARD SAID THAT THIS ISSUE HAD HAD A DRAMATIC EFFECT ON PERCEPTIONS IN THE UK AND WAS VIEWED AS A TEST CASE. THERE WAS PROFOUND FRUSTRATION IN THE UK ABOUT THE LACK OF MEASURES TO CORRECT THE HUGE TRADE IMBALANCE; THE C AND W ISSUE HAD CAUSED THE POT TO BOIL OVER. C AND W WERE SEEN AS THE VICTIM OF AN ATTEMPT BY THE JAPANESE GOVERNMENT TO EXCLUDE FOREIGN COMPANIES IN FAVOUR OF JAPANESE CORPORATIONS. HE HAD NOT COME TO NEGOTIATE ON C AND W'S BEHALF, BUT THEY HAD THE RIGHT TO EXPECT THAT NDC'S PROPOSALS WHICH WERE WITHIN THE LAW WOULD BE LOOKED AT ON THEIR MERITS. THERE WAS A SERIOUS DANGER OF DETERIORATION IN UK-JAPAN RELATIONS. THE GOVERNMENT WAS STUDYING POSSIBLE MEASURES WHICH MIGHT BE TAKEN IF A SOLUTION WHICH SATISFIED C AND W WERE NOT REACHED AS QUICKLY AS POSSIBLE. THE JAPANESE SIDE PRESENTED THE WATANABE PROPOSALS AS ''BRAVE'': THEY WENT FURTHER THAN ANY OTHER ADVANCED COUNTRY IN PERMITTING FOREIGN PARTICIPATION AND BOARD MEMBERSHIP. JAPANESE LAW DID NOT PROVIDE THIS AS OF RIGHT. THE TERMS OF C AND W'S SHARE AND THE LAYING OF THE TRANS-PACIFIC CABLE WERE STILL FOR DISCUSSION. MR HOWARD DID NOT DRAW THE JAPANESE INTO CLARIFICATION OF THESE POINTS BECAUSE OF THE RISK OF SEEMING TO ENDORSE THE WATANABE PROPOSALS AND TO BE NEGOTIATING ON C AND W'S BEHALF. HE SAID THAT A RAPID SETTLEMENT WAS HIGHLY DESIRABLE GIVEN THE STRENGTH OF FEELING IN THE UK WHICH WOULD FUELLED BY THE FACT THAT WE MIGHT BE ENTERING A PRE-ELECTORAL PERIOD.

TRADE ISSUES

10. MR HOWARD SAID THAT THE CURRENT MOOD OF ANGER IN THE GOVERNMENT AND PARLIAMENT HAD ITS ROOTS IN LONG TERM GRUSTRATION WITH THE TRADE IMBALANCE. THE PERCEPTION WAS THAT JAPAN DELIBERATELY EXCLUDED FOREIGN GOODS. HE MENTIONED WHISKY IN STRONG TERMS AS THE EXAMPLE OF AN ISSUE WHERE JAPAN SHOULD HAVE REMOVED DISCRIMINATION WITHOUT HAVING TO BE DRAGGED TO THE GATT. THERE WERE MANY OTHER BARRIERS, EG ON CAR IMPORTS. WE WERE LOOKING FOR SIGNS THAT JAPAN WOULD TAKE THE INITIATIVE IN REMOVING TRADE BARRIERS. ON THE ANNIVERSARY OF THE MAEKAWA REPORT, WE WERE ALSO LOOKING FOR SIGNS OF ITS IMPLEMENTATION. ITS PRESCRIPTIONS HAD BEEN VERY RELEVANT.

11. THE JAPANESE ARGUED THAT THEY HAD MADE GENUINE EFFORTS TO REDUCE SPECIFIC BARRIERS, INCLUDING ON WHISKY, AND WOULD CONTINUE TO DO SO. JAPANESE TRADE VOLUMES WERE ADJUSTING TO THE HIGHER VALUE TO THE YEN, AND THE MAEKAWA PRESCRIPTIONS WERE NOW BEING INCORPORATED INTO POLICY. BYT THE TRADE IMBALANCE HAD MANY OTHER CAUSES. OTHER COUNTRIES' ECONOMIC POLICIES WERE RELEVANT. THE JAPANESE WERE SERIOUSLY CONCERNED ABOUT THE SITUATION IN THE US. IMBALANCES SHOULD NOT BE SOLVED BY ERECTING NEW BARRIERS. MITI ADDED THAT ANY TRADE-REALTED MEASURES BY HMG MIGHT WELL BE MET BY COUNTER-MEASURES.

12. THE RECOMMENDATIONS OF THE LDP FOR A MAJOR NEW STIMULATORY AND IMPORT-PROMOTING PACKAGE INCLUDING TRADE MEASURES (SEE SEPARATE TELEGRAM) WERE GIVEN TO MR HOWARD AS EVIDENCE OF THE AWARENESS OF MOUNTING FOREIGN CONCERNS. MR HOWARD LEFT THE CLEAR MESSAGE THAT WE WOULD BE LOOKING FOR RESULTS.

COMMENT

13. THE STRENGTH OF THE GOVERNMENT'S CONCERN OVER THESE POINTS WAS, IF I MAY SAY SO, EFFECTIVELY AND UNEQUIVOCALLY DELIVERED BY MR HOWARD. THERE WAS EVIDENCE, BOTH IN THE WAY HE WAS RECEIVED AND IN THE SUBSTANTIAL PRESS COVERAGE, THAT THE MESSAGES WERE ALSO CLEARLY UNDERSTOON. MR HOWARD MADE CLEAR IN HIS CONCLUDING PRESS CONFERENCE THAT HE HAD NOT COME TO RECEIVE PROMISES, BUT THAT WE WOULD JUDGE THE RESPONSE IN DUE COURSEBY RESULTS.

WHITEHEAD

YYYY
FCO PASS SAVING ATHENS, BONN, BRUSSELSEMBASSY, COPENHAGEN, DUBLIN
FCO PASS SAVING LISBON, LUXEMBURG, MADRID, PARIS, ROME, THE HAGUE

TYHPAN 1252

FRAME EXTERNAL
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COPIES TO:

PRIME MINISTER, FIRST LORD OF THE TREASURY AND MINISTER FOR THE CIVIL SERVICE—
The Rt. Hon. Margaret Thatcher, MP
LORD PRESIDENT OF THE COUNCIL AND LEADER OF THE HOUSE OF LORDS—The Rt. Hon. Viscount Whitelaw, CH, MC
LORD CHANCELLOR—The Rt. Hon. The Lord Hailsham of St. Marylebone, CH
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS—The Rt. Hon. Sir Geoffrey Howe, QC, MP
CHANCELLOR OF THE EXCHEQUER—The Rt. Hon. Nigel Lawson, MP
SECRETARY OF STATE FOR THE HOME DEPARTMENT—The Rt. Hon. Douglas Hurd, CBE, MP
SECRETARY OF STATE FOR ENERGY—The Rt. Hon. Peter Walker, MBE, MP
SECRETARY OF STATE FOR DEFENCE—The Rt. Hon. George Younger, TD, MP
SECRETARY OF STATE FOR WALES—The Rt. Hon. Nicholas Edwards, MP
LORD PRIVY SEAL AND LEADER OF THE HOUSE OF COMMONS—The Rt. Hon. John Biffen, MP
SECRETARY OF STATE FOR SOCIAL SERVICES—The Rt. Hon. Norman Fowler, MP
CHANCELLOR OF THE DUCHY OF LANCASTER—The Rt. Hon. Norman Tebbit, MP
SECRETARY OF STATE FOR NORTHERN IRELAND—The Rt. Hon. Tom King, MP
MINISTER OF AGRICULTURE, FISHERIES AND FOOD—The Rt. Hon. Michael Jopling, MP
SECRETARY OF STATE FOR THE ENVIRONMENT—The Rt. Hon. Nicholas Ridley, MP
SECRETARY OF STATE FOR EMPLOYMENT—The Rt. Hon. The Lord Young of Graffham
SECRETARY OF STATE FOR EDUCATION AND SCIENCE—The Rt. Hon. Kenneth Baker, MP
PAYMASTER GENERAL AND MINISTER FOR EMPLOYMENT—The Rt. Hon. Kenneth Clarke, QC, MP
CHIEF SECRETARY TO THE TREASURY—The Rt. Hon. John MacGregor, OBE, MP
SECRETARY OF STATE FOR SCOTLAND—The Rt. Hon. Malcolm Rifkind, QC, MP
SECRETARY OF STATE FOR TRADE AND INDUSTRY AND PRESIDENT OF THE BOARD OF TRADE—The Rt. Hon. Paul Channon, MP
SECRETARY OF STATE FOR TRANSPORT—The Rt. Hon. John Moore, MP

Confidential

Tessa
Could you arrange a meeting
I hour asap after the recess with
the people below please?
David.

PRIME MINISTER

JAPAN

The Cabinet Office paper on Japan, commissioned at Cabinet on Thursday, should be ready by around the end of the week. It will discuss the measures which might be taken. In addition, as you agreed, I have asked that it should advise on specific objectives and a sequence of steps which might be taken progressively to increase the pressure, together with an assessment of how far improvement in the C & W contract is likely to be feasible, of how far C & W's own commercial objectives should be supported by the Government and of C & W's negotiating tactics (including the risk that C & W might sign up to a deal, leaving the Government out on a limb).

So there should be a fairly comprehensive paper. But it will be difficult to fit in a meeting before the recess. The Chancellor will be in Washington for the rest of the week and not many colleagues may be available on Friday (which you have anyway set aside for clearing the flat).

I suggest a meeting as soon as possible after the recess with:

Mr. Channon
Chancellor
Foreign Secretary
Mr. Tebbit
David Williamson

Agree?

Yes

Amanda Ross
pp (DAVID NORGROVE)
6 April 1987

MR WHITTINGDALE

3 April 1987

JAPAN AND TRADE

I promised to send you some thoughts on the next steps.

It seems to me that the crucial thing now is to lay out a clear game plan and timetable, indicating:

(1) the sequence of steps we could take to progressively escalate pressure, with the pros and cons of each step and the conditions which might trigger moving to the next level;

(2) the specific objectives we ask the Japanese to deliver as the price for easing off;

(3) the 'escape routes' we can keep in hand to allow us to back away from increasing confrontation at each stage without loss of face.

Unless we have this worked through now, there is a danger that we will be carried by events to an untenable posture without an easy means of retreat.

Clearly the logical sequence of steps to consider next would be the selective use of the Financial Services Act to impede the development of selected institutions. It has been suggested that there could be considerable gains from playing off one Japanese competitor against another (rather than acting in a blanket way against all Japanese firms). The Japanese banks and security houses are all bitter competitors, and any individual company which found itself disadvantaged by the course of events might be expected to bring strong pressure to bear on the Japanese Government to offer concessions at home that would defuse the situation. Clearly there would also be more risk from inconveniencing

one of the 'giants' than from tackling a second tier player as the first move. For all these reasons the targets would need to be carefully selected.

Other steps on trade sanctions outside the financial services area will be largely dictated by Europe, but the sequence of letting it be known what moves we are actively pursuing and with whom in Europe we are discussing them is of itself a tangible part of escalating pressure.

So far as specific objectives go, we need urgently to establish what limiting position we should push for on C&W. It is not clear that their understandable commercial objectives - use of a specific cable network, for example - are necessarily defensible as national objectives. In financial services, we can push for explicit commitments on the opening of their domestic market - but the timing and degree of specificity of any commitment offers some ground for negotiation. In other areas of trade we clearly need to pinpoint at each stage the specific products where we are looking for immediate action on tariff or non-tariff barriers.

As for escape routes, there are no doubt various forms of words on intent and future cooperation that we can have ready to salvage something if we ever need to take a few steps back without any concrete gains. However, this may also be where we could use the proposals we discussed for getting the Japanese Government and major companies to establish easier import channels for UK goods in specific Japanese market sectors. DTI officials believe that (a) they are already doing a fair amount of this with JETRO and (b) the poor response from UK exporters means that it is unlikely to make much difference. Nevertheless, a commitment to set up a number of industry assisted procurement agencies - along the lines of the service centre for US semi-conductors - could be

presented as a worthwhile achievment and symbolic of 'opening their markets'.

Clearly it may not be possible to set the game plan out too explicitly, but it seems to me important that we explore all these avenues in advance.

Perhaps we can talk further on this next week?

NORMAN BLACKWELL

CONFIDENTIAL

file VSC
cc Prof Griffiths

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 April 1987

Dear Trevor,

JAPAN

Cabinet yesterday discussed action which might be taken in the event of an unsatisfactory outcome on Cable and Wireless and discussions on opening up Japanese financial markets. Further work was commissioned from officials about the possible Government action. The Prime Minister has asked that officials should also consider and advise on:

(i) the specific objectives of our pressure on the Japanese that we will wish them to deliver;

(ii) a sequence of steps which might be taken progressively to increase the pressure, with arguments for and against, and the conditions which might trigger a move to the next level.

You will have seen my letter of today to Caroline Akers which pointed to the need to assess how far improvement in the terms of Cable and Wireless' participation in 2KDD is likely to be feasible. We ought also to consider how far the commercial objectives of Cable and Wireless - use of a specific cable network for example - are necessarily defensible as national objectives and whether there is a risk that Cable and Wireless could push, as a negotiating ploy, for better terms with the Government's support and then accept poorer terms, leaving the Government in an awkward position.

I am copying this letter to Timothy Walker (Department of Trade and Industry), Alex Allan (HM Treasury) and Robert Culshaw (Foreign and Commonwealth Office).

Yours,
David.

DAVID NORGROVE

Trevor Woolley, Esq.,
Cabinet Office.

CONFIDENTIAL

For "T" message
see Nakasone to PM 2/4/87.

LCCRC

493 6030.

EMBASSY OF JAPAN,
46, GROSVENOR ST.,
LONDON,
W1X OBA

Mr C D Powell
Private Secretary to the Prime Minister
(Overseas Affairs)
No 10 Downing Street
London SW1

ATK
A. copy to
FCO & DTI

3 April 1987

CDP
3/4

pa

Dear Mr Powell

Please find enclosed the translation of Prime Minister Nakasone's letter to Prime Minister Thatcher which replaces the provisional translation that was sent to your office yesterday.

I hope to be able to forward to you the original letter next week.

Yours sincerely

Tetsuro Ito

Mr T Ito
Economic Counsellor

Text of the letter from Prime Minister Nakasone to Prime Minister Thatcher MP

2 April 1987

Dear Prime Minister Thatcher,

I have the honour to acknowledge the receipt of your letter dated 4 March 1987.

I have renewed my recognition of your deep interest regarding the participation of Cable and Wireless in a consortium to provide an alternative international telecommunications service.

While this matter is now under serious and comprehensive study within the government, we welcome participation of foreign companies to the extent permitted by law, that is, up to one third of the total shareholdings.

Today, Mr. Watanabe, Chairman of the Committee on Information and Telecommunication Policy of Keidanren, who has hitherto been making coordination efforts to merge the two consortia responding to their requests, announced a coordination proposal. This proposal recognizes Cable and Wireless as one of the core companies, and Cable and Wireless shall be treated on a completely equal basis as the Japanese core companies in terms of equity and provision of director. Furthermore, the new consortium shall immediately set to work on the feasibility study of constructing a new cable. I understand that this is a fair proposal responding to the concerns expressed by the foreign companies.

If all the parties concerned could agree to proceed on the basis of this proposal, I will give my strong support to it. I now await the responses of those concerned.

In any event, I am paying my personal attention to this matter, and am of the opinion that a solution should be sought, which is acceptable to all those concerned both at home and abroad.

Sincerely yours,

Yasuhiro Nakasone
Prime Minister of Japan

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10, Downing Street,
London, SW1.

file DTI

cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 April 1987

CABLE AND WIRELESS

I attach Mr. Nakasone's reply to the Prime Minister's letter of 4 March about Cable & Wireless. It seems to call for no immediate reply.

overtaken

It clearly is important now to have a firm report as soon as possible on the attitude Cable and Wireless is taking to these latest proposals, and your assessment of the prospects for securing improvements, whether on the size of Cable & Wireless' shareholding or a more committing statement from the Japanese about the trans-Pacific cable.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Tony Kuczys (HM Treasury) and Trevor Woolley (Cabinet Office).

DAVID NORGROVE

Miss Caroline Akers
Department of Trade and Industry

EMBASSY OF JAPAN

LONDON

2nd April 1987

Dear Prime Minister,

I have been asked by Mr. Yasuhiro Nakasone, Prime Minister of Japan, to forward a message to you.

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

Yours sincerely,

Toshio Yamazaki

Ambassador

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

OFFICE OF THE PRIME MINISTER
TOKYO

(Translation)

2 April 1987

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the foreign companies. If all the parties concerned could agree to proceed on the basis of this proposal, I will give my strong support to it. I now await the responses of those concerned.

In any event, I am paying my personal attention to this matter, and am of the opinion that a solution should be sought, which is acceptable to all those concerned both at home and abroad.

Sincerely yours,

Yasuhiro Nakasone
Prime Minister of Japan

拝復

三月四日付貴首相よりの書簡を受け取りました。

第二ＫＤＤへのＣ＆Ｗ社参加問題について、貴首相の強い関心を更めて承知致しました。

本件につきましては、現在、政府部内にて総合的見地より鋭意検討中でありますが、外資の参加に関しては法律の規定の許す範囲、即ち三分の一未満の範囲でこれを歓迎する考えでおります。

今般、関係二社の要請を受けてこれまで一本化の調整努力を行つてこられた渡辺経団連情報・通信委員長より、調整案が発表されました。右案は、Ｃ＆Ｗ社を中核会社の一社と認めて出資率・取締役の派遣につき日本側中核企業と全く同等に取り扱い、更にケーブルの敷設についても新会社が直ちにフィージビリティ・スタディを開始することとしており、外国企業の関心にも応えた公平

な調整内容になつていると承知しております。この案を基礎に本件を進めることにすべての関係者の同意が得られるのであれば、私としてもこれを強く支持したいと思つております。現在関係者のレスポンスを見守つているところであります。

いずれにせよ、私は本件に強い関心を有しており、内外の関係者の納得が得られるような形で本件を解決すべきであると考えております。

敬具

昭和六十二年四月二日

日本国内閣総理大臣

中曽根康弘

連合王国首相

マーガレット・サッチャー　閣下

(Provisional Translation)

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 60/87

EMBASSY OF JAPAN
LONDON

2nd April 1987

SUBJECT: OPS MASTER.

See also
Japan Embassy
to CDP 3/4/87.

Dear Prime Minister Thatcher,

I have the honour to acknowledge receipt of your letter dated 4 March 1987. I have renewed my recognition of your deep concern regarding the participation of Cable and Wireless in a consortium to provide an alternative international telecommunications service. While this matter is now under serious comprehensive study within the government, we welcome participation of foreign companies to the extent permitted by law, that is, up to one third of the total share holdings.

Today, Mr Watanabe, Chairman of the Committee on Information and Telecommunications Policy of Keidanren, who has hitherto been making coordination efforts to merge the two consortia responding to their requests, announced a coordinator proposal. This proposal recognized Cable and Wireless as one of the core companies, and Cable and Wireless shall be treated on a completely equal basis as the Japanese core companies in terms of equity and provision of director. Furthermore, the new consortium shall immediately set to work on the feasibility study of constructing a new cable.

EMBASSY OF JAPAN

LONDON

I understand that this is the fair proposal coordinated responding to the concern expressed by the foreign companies. If all the parties concerned could agree to proceed on the basis of this proposal, I will give my strong support to it. I now await the responses of those concerned. In any event, I am paying my personal attention to this matter, and am of the opinion that a solution should be sought which is acceptable to all those concerned both at home and abroad.

Sincerely yours

Yasuhiro Nakasone

The Rt Hon Margaret Thatcher MP
Prime Minister and First Lord of the Treasury
10 Downing Street
London SW1

CABLE AND WIRELESS AND JAPAN

FOLLOWING IS TEXT OF TOKYO TELNO OTTER 190 TO DTI

YOUR TELNO OTTER 197 : CABLE AND WIRELESS

1. HAYASHI, DIRECTOR FIRST INTERNATIONAL AFFAIRS DIVISION MFA GAVE US IN STRICT CONFIDENCE TODAY THE FOLLOWING INFORMATION ABOUT FURTHER DEVELOPMENTS IN THE SITUATION HERE. HAYASHI SAID THAT MPT HAD NOW DROPPED THEIR OPPOSITION TO THE PARTICIPATION OF A FOREIGN INTERNATIONAL CARRIER IN A MAJOR JAPANESE TELECOMMUNICATIONS COMPANY, THOUGH THEY STILL REMAINED OPPOSED TO A SEAT FOR C AND W ON THE BOARD OF ANY SUCH COMPANY. IN HAYASHI'S VIEW, HOWEVER, THE MPT HAD SOFTENED CONSIDERABLY AND WOULD PROBABLY ACCEPT THE RESULTS OF WATANABE'S ARBITRATION.

2. WATANABE HAD SEEN SOLOMON THIS MORNING (31 MARCH) AND PUT TO HIM THE FOLLOWING PROPOSAL ON HIS OWN AUTHORITY:

(I) THERE WOULD BE A SINGLE COMPANY, OF WHICH THE MAIN SHAREHOLDERS WOULD BE 8 ''NUCLEAR'' COMPANIES - MITSUBISHI, MITSUI, SUMITOMO AND MATSUSHITA FROM ITT AND C ITOH, TOYOTA, CABLE AND WIRELESS AND PACIFIC TELESIS FROM IDC, EACH WITH EQUAL SHARES. SHAREHOLDING BY OTHER COMPANIES SUCH AS MERRILL LYNCH WOULD ALSO BE PERMITTED, BUT THESE COMPANIES WOULD HAVE SECONDARY STATUS. THE SHARE OF THE WHOLE TO BE ALLOCATED TO THE NUCLEAR COMPANIES, WAS NOT YET DEFINED. IN REPLY TO OUR QUESTION, HAYASHI SAID THAT WATANABE'S PROPOSAL ENVISAGED A PLACE ON THE BOARD FOR C AND W.

(II) PART OF THE PACKAGE WOULD BE THE ESTABLISHMENT OF A FEASIBILITY STUDY ON THE TRANS-PACIFIC DIGITAL CABLE. IN HAYASHI'S UNDERSTANDING, THIS IMPLIED AGREEMENT THAT APPROVAL FOR THE CABLE WOULD BE GIVEN, BUT WATANABE MAY NOT HAVE GONE SO FAR IN EXPLAINING THIS TO C AND W.

3. SOLOMON WAS NOW RETURNING TO THE UK IN ORDER TO CONSULT WITH SIR E SHARP. BECAUSE OF THE DANGER OF LEAKS WHICH MIGHT GIVE RISE TO MISUNDERSTANDING, HOWEVER, WATANABE FELT IT NECESSARY TO MAKE THE FACT OF THIS PROPOSAL PUBLIC AND PLANNED TO DO SO AT A PRESS CONFERENCE ON 2 APRIL. WE ASKED HAYASHI WHETHER IN HIS VIEW THE ORIGINAL PROPOSAL THAT THERE SHOULD BE TWO SEPARATE COMPETITORS TO KDD WAS STILL ALIVE. HE REPLIED OBLIQUELY THAT, AS HE THOUGHT C AND W WOULD KNOW, JAPANESE BANKS WERE NOT CONVINCED OF THE DEMAND FOR TWO COMPETITORS. IT WAS NOT EXCLUDED THAT C AND W COULD ENTER SEPARATELY PURELY TO OPERATE A TRANS-PACIFIC CABLE, BUT IN HIS VIEW THIS WOULD BE LESS SATISFACTORY FOR ALL CONCERNED.

4. HAYASHI WAS ANXIOUS HMG SHOULD BE AWARE OF THESE DEVELOPMENTS AS SOON AS POSSIBLE. HE ASSUMED WE WOULD IN ANY CASE BE HEARING FROM C AND W. FOR INTERNAL REASONS, THE JAPANESE EMBASSY IN LONDON WOULD PROBABLY NOT KNOW FOR A FURTHER 24 HOURS AND WE SHOULD WAIT FOR THEM TO RAISE THE MATTER WITH US. WE OFFERED NO COMMENT ON THE SUBSTANCE OF THE PROPOSAL BEYOND SAYING IT SEEMED TO REPRESENT A POTENTIALLY USEFUL MOVEMENT BUT IT WOULD BE FOR C AND W TO EVALUATE THE PROPOSAL VERY CAREFULLY.

5. HAYASHI MENTIONED THAT KARASAWA'S LETTER TO BALDRIGE (WASHINGTON TELNO 682) HAD ISSUED WITHOUT MFA APPROVAL. A LETTER ON SIMILAR LINES TO MR CHANNON HAD BEEN STOPPED BY THE MFA. THE JAPANESE EMBASSY HAD MEANWHILE BEEN INSTRUCTED TO DELIVER A HOLDING REPLY FROM MR NAKASONE TO THE PRIME MINISTER SAYING THAT THE JAPANESE GOVERNMENT WAS STUDYING THE PROBLEM CAREFULLY TAKING ACCOUNT OF THE VIEWS OF OTHER GOVERNMENTS BUT NEEDED MORE TIME TO ARRIVE AT A SOLUTION. A SIMILAR REPLY TO MR CHANNON'S LETTER TO MR KARASAWA WAS ALSO ON ITS WAY.

Mr Powell
PS/N[redacted]O

With the compliments of

Robert Culshaw

~~THE~~ PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

ZCZC
HPLNCN 7078 TYHPAN 1087
CONFIDENTIAL
DD 020700Z OTTER
DD 020700Z FCOLN
PP WASHI
PP BRUEC
FM TOKYO TO OTTER
020235Z APR
GRS 520

CONFIDENTIAL
FM TOKYO
TO DESKBY 020700Z DTI
TELNO OTTER 197
OF 020235Z APRIL 87
AND TO DESKBY 020700Z FCO
INFO PRIORITY WASHINGTON, UKREP BRUSSELS

MY TELNO OTTER 194 AND TELECON HITCH/PRIDDLE: CABLE AND WIRELESS

1. KOJI WATANABE, DIRECTOR-GENERAL OF THE ECONOMIC AFFAIRS BUREAU OF THE MFA, RANG ME TO REPRESENT THE PROPOSALS WHICH FUMIO WATANABE HAD MADE TO SOLOMON (C AND W) AS, IN THE VIEW OF THE MFA, ''VERY REASONABLE'' AND STRONGLY TO RECOMMEND TO HMG NOW TO ADVISE C AND W TO ACCEPT THEM. THEY WERE ALREADY FIRMLY ENDORSED BY THE MFA AND HE WAS CERTAIN THEY WOULD BE APPROVED BY MR NAKASONE (THOUGH THIS WAS NOT YET CONFIRMED). THE MPT MIGHT SEEK TO WATER THEM DOWN, BUT THIS COULD BE RESISTED PROVIDED THAT C AND W AND HMG GAVE AN INDICATION THAT THEY WERE ACCEPTABLE.

2. HE WENT ON TO OUTLINE THEM AS WE REPORTED THEM IN OUR TELNO OTTER 190, EMPHASISING THAT 4 OF THE 3 ''NUCLEAR'' PARTICIPATING COMPANIES, ALL TO BE TREATED EQUALLY, WERE THE ''NUCLEAR'' IDC COMPANIES VIZ C.ITOH, C AND W, PACIFIC TELESIS AND TOYOTA.

3. THE NEW PROPOSALS DO INDEED APPEAR TO BE A DISTINCT IMPROVEMENT ON ANYTHING WE HAVE SEEN EARLIER, IN AT LEAST THREE RESPECTS:
(A) PROVISIONS FOR CORPORATE FINANCING, WITH EQUALITY OF TREATMENT FOR C AND W,
(B) MANAGEMENT EQUALITY I.E. A SEAT ON THE BOARD AND,
(C) THE PROSPECT OF THE INDEPENDENT CABLE BEING LAID.
BUT SOME RISK MUST REMAIN OF THE MPT UNPICKING THE PACKAGE, AND TWO POINTS IN PARTICULAR STILL REMAIN UNCLEAR:
(A) THE ACTUAL SHARE WHICH C AND W WOULD GET , AND
(B) HOW SOLID THE ASSURANCES TO C AND W WERE ABOUT THE CABLE.
(WE WOULD NOT EXCLUDE FUMIO SATANABE'S HAVING TOLD SOLOMON MORE ABOUT THESE POINTS THAN EITHER SOLOMON IS TELLING US OR THAN WATANABE WILL MAKE PUBLIC LATER TODAY). HAYASHI, KOJI WATANABE'S JUNIOR IN THE MFA, WAS OF THE VIEW THAT IF C AND W WERE PREPARED TO NEGOTIATE ON THE REST OF THE PACKAGE THE ASSURANCES ON LAYING THE CABLE COULD BE FIRMED. IT SEEMS TO US UNLIKELY IN ANY EVENT THAT THE JAPANESE GOVERNMENT WILL NOW CONCEDE A MORE IMPORTANT ROLE TO C AND W OR GO BACK TO THE TWO CONSORTIUM IDEA EITHER IN THE FORM OF A RUNN-OFF BETWEEN THE TWO OR OF AUTHORISING THEM BOTH.H2FO NOT (NOT) KNOW THE EXACT STATE OF PLAY BETWEEN C AND W AND C.ITOH BUT C.ITOH (AND TOYOTA) WILL NEED TO WEIGH CAREFULLY THE RISK OF JEOPARDISING THEIR CHANCE OF TAKING PART IN SOME KIND OF 2KDD.

4. I CONSIDER IT NOW ADVISABLE TO AWAIT THE PUBLICATION OF FUMIO WATANABE'S PROPOSALS AND TO HOLD TO OUR PRESENT LINE TILL MR HOWARD'S VISIT ON THE GROUNDS, FOR PUBLIC CONSUMPTION, THAT THE NEW PROPOSALS REQUIRE CAREFUL STUDY. MR HOWARD, WHILE PERHAPS NOT WISHING ACTUALLY TO NEGOTIATE, MIGHT THEN SEEK TO OBTAIN ASSURANCES FROM THE JAPANESE GOVERNMENT AS A WHOLE ON THE POINTS IN PARA 3 (A) AND (B) ABOVE. IN THE MEANTIME, WE PROPOSE TO DISCUSS WITH THE MFA OUR BEST TACTICS WITH THE MPT, INCLUDING THE QUESTION (FOR MR HOWARD'S DECISION AFTER ARRIVAL, WHETHER HE COULD PROFITABLY CALL ON THE MPT.

WHITEHEAD

PRIME MINISTER

JAPAN

Bernard will need a line to take after Cabinet. This is difficult to draft before your decisions, but might be along the following lines:

"Cabinet had a thorough discussion of the present trading difficulties with Japan. They agreed that the willingness of the Japanese Government to allow a full and substantial participation by Cable and Wireless in 2KDD should be seen as a test of its willingness to open up Japanese markets. They further agreed on the need to maintain pressure for British firms to be allowed the same access to Japanese financial markets that Japanese firms enjoy in London. Appropriate measures would need to be taken if the various discussions now under way did not come to a successful conclusion."

The final sentence could, of course, be strengthened in a variety of ways, most simply by omitting the words "need to".

DAVID NORGROVE
2 April 1987

BM2BDM

CONFIDENTIAL

PRIME MINISTER

JAPAN

The Cabinet Office brief is much less wet than the DTI paper and I suggest you concentrate on that.

We shall need to watch the position of Eurotunnel. I believe Japanese banks are down to provide a large share of the finance. Would other banks be ready to take their place if they were leant on to withdraw? Possibly more important, how much of the next tranche of equity is Eurotunnel planning to sell to Japan, and could that be put at risk?

DRN

DAVID NORGROVE

1 April 1987

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2284 (one piece/item number)	Date and sign
Extract details: Minute from Blackwell to Prime Minister dated 1 April 1987	X
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
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Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

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*

1 April 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear David

CABLE AND WIRELESS : 2-KDD

As you requested, I attach a short note giving a factual account of recent developments on this issue.

I should add that the paragraphs relating to C&W's current thinking should be treated with some caution; the Director most concerned and Sir Eric Sharp are both abroad, so it has been difficult to get a clear assessment of their current thinking.

Yours

CAROLYNE AKERS
Private Secretary

JG3AVI

CABLE AND WIRELESS

Recent Developments

1. Following the Watanabe proposals on 18 March, a joint company was set up comprising ITJ and IDC members. The aim was to set up a sponsor company comprising 17 members. The core Japanese members could hold 5% each and be on the Board, Cable and Wireless, Pacific Telesis and some others would hold 3% each without Executive Board representation. The new company would use existing satellite and cable capacity and undertake a "feasibility study" with no commitment on the new Pacific cable (PPAC); the proposal which lies at the core of the IDC's investment plans.

2. Cable and Wireless agreed to take part in the merger discussions provided:

i) there was no discrimination on nationality grounds for levels of shareholdings and Board membership.

ii) 3% was not a serious business investment.

iii) an independent alternative facility was necessary (ie PPAC, the private pacific cable).

In addition to these points, Cable and Wireless has also voiced strong concerns that the combining of ITJ and IDC is akin to mixing oil and water. This is largely because of the differing approaches of the two consortia; ITJ plan to use surplus KDD capacity, and later satellite capacity on Intelsat. IDC propose the independent cable to KDD, and the use of Intelsat in the interim.

3. A number of rumours have circulated during the negotiations. In particular, it seems likely that ITJ has been approaching US companies and others to take small stakes in their consortium. This would confuse the clear distinction that ITJ is all-Japanese and IDC a third foreign owned.

4. New proposals will be announced tomorrow Thursday by Watanabe, although they have already received substantial press coverage. These are as follows;

i) Cable and Wireless should become one of eight core companies at the same shareholding level as the other members. No figure has been put forward officially, but 5% seems likely. The remaining shares would be distributed amongst other companies who would hold secondary status.

ii) Cable and Wireless would also have a place on the Board.

iii) there would be the feasability study for the private pacific cable but still no commitment.

This slight flexibility appears to have MPT backing.

5. Cable and Wireless has already rejected these proposals. We understand they continue to have considerable doubts about the practicability of a merger and continue to place great emphasis on the importance of constructing PPAC and the need for an objective assessment of IDC's proposals by the MPT.

1. THE JAPANESE HAVE ALWAYS NEEDED EXTERNAL PRESSURE TO MAKE THEM MOVE SIGNIFICANTLY IN THEIR TRADING POLICIES. THE HEAD OF STEAM WHICH HAS BECOME APPARENTIN THE HOUSE OF COMMONS IN THE PAST FEW DAYS IS THEREFORE TIMELY IN PROVIDING A BACKDROP FOR INCREASED PRESSURE ON THE JAPANESE GOVERNMENT AND IN CONCENTRATING ON THREE IMPORTANT ISSUES ABOUT WHICH WE HAVE GOOD GROUNDS FOR COMPLAINT: CABLE AND WIRELESS AND ITS BID FOR PARTICIPATION IN 2KDD, FINANCIAL SERVICES PARTICULARLY ACCESS TO THE TOKYO STOCK EXCHANGE, AND TO A LESSER EXTENT THE IMBALANCE IN VISIBLE (REPEAT VISIBLE) TRADE.

2. IN CONSIDERING HOW BEST TO EXERT PRESSURE ON THE JAPANESE I SUGGEST THAT WE MUST LOOK COOLLY AT THE FOLLOWING POINTS:
A. EXACTLY WHAT IT IS THAT WE HOPE TO ACHIEVE ON EACH OF THESE ISSUES
AND ROUGHLY ON WHAT TIME-SCALE,
B. THE LIKELIHOOD OF CARRYING ANY MEMBERS OF THE EC OR THE AMERICANS WITH US,
C. THE WEAPONS WHICH ARE REALISTICALLY AVAILABLE TO US,
D. THE CHANCES OF SUCCESS,
3. THE POSSIBILITY OF JAPANESE RETALIATION.

3. AIMS. OUR IDEAL AIMS ARE A LICENCE FOR IDC TO OPERATE AS 2KDD WITH THE TRANSPACIFIC SUBMARINE CABLE, A 20 EQUITE SHARE AND SEAT ON
THE BOARD FOR C AND 2: THE OPENING OF THE TOKYO STOCK EXCHANGE (TSE) TO ALL QUALIFIED FOREIGN COMPANIES THAT WISH TO PARTICIPATE ON A TIMING TO SUIT THEIR OWN COMPANY STRATEGY AT ANY MOMENT FROM, SAY, SUMMER 1988 WHEN FURTHER COMPUTERIZATION WILL ALLOW MORE SPACE FOR FLOOR TRADERS, SPEEDY FINANCIAL LIBERALISATION IN OTHER AREAS NOTABLY THE LIBRALISATION OF INTEREST RATES: AND SUBSTANTIAL MOVES TOWARDS A REDUCTION OF THE VISIBLE TRADE DEFICIT.

4. ALLIES. EXPERIENCE OVER THE PAST 30 YEARS SUGGESTS THAT WE SHOULD PLACE LITTLE FAITH IN TRYING TO ACHIEVE CONCERTED AS OPPOSED TO PARALLEL POLICIES ON ANY OF THESE THREE FRONTS WITH THE AMERICANS (WASHINGTON TEL NO 686) THEIR GENERAL INTEREST IS IN FURTHER OPENING UP THE JAPANESE MARKET, PARTICULARLY AS FAR AS BUREAUCRATIC PRACTICES ARE CONCERNED AND THEY HAVE A STATED INTEREST IN HOW 2KDD ISSUE AND FINANCIAL SERVICES PROBLEMS ARE HANDLED. BUT THEY HAVE ALWASY DECLINED TO CONCERT THEIR POLICIES VIS-A-VIS JAPAN WITH THE EC OR INDIVIDUAL COUNTRIES IN THE PAST: THEY ARE POTENTIALLY COMPETITORS OF OURS FOR SEATS ON THE TSE IN CIRCUMSTANCES OTHER THAN THE SORT OF COMPLETE OPENING SET OUT AS OUR IDEAL IN THE PRECEDING PARAGRAPH (ALTHOUGH IN OTHER FINANCIAL AREAS OUR OBJECTIVES ARE VERY CLOSE): AND ON 2KDD THEY HAVE ENTERED THE LISTS IN SUPPORT OF PACIFIC TELESIS AND MERILL LYNCH AT THE LATE STAGE AND IN A WAY WHICH
SUGGESTS THAT THEY WOULD NOT BE AVERSE TO A SOLUTION WHICH DISCRIMINATED AGAINST C AND W. THEY HAVE MADE IT CLEAR ON NUMEROUS OCCASIONS THAT THEY ARE SPECIFICALLY OPPOSED TO CONCERTED ACTION WHICH APPEARS TO BE GANGING UP ON THE JAPANESE: THIS IS IN PART BECAUSE OF THEIR FEELING THAT THEIR RELATIONSHIP WITH JAPAN IS DEEPER AND MORE STRATEGICALLY IMPORTANT THAN IS THAT OF THE EC AND PARTLY BECAUSE THEY WISH TO ORCHESTRATE THEIR OWN APPROACH TO PROBLEMS WITH JAPAN WITHOUT THE NEED TO CONSIDER THE EUROPEAN DIMENSION (THE SPEED WITH WHICH THEY HAVE GONE OFF THE BOIL ON THE LIQUOR TAX ISSUE IS AN EXAMPLE OF THE AMERICANS REVERTING TO TYPE AFTER A RARE PERIOD OF PARALLEL AND ALMOST CONCERTED PRESSURE ON A SINGLE ISSUE).

5. THERE IS NO SHARED INTEREST IN THE

5. AS REGARDS COMMUNICTY ACTION, THERE IS NO SHARED INTEREST IN THE SPECIFIC KDD PROBLEM, THOUGH THE COMMUNITY SHOULD BE PREPARED TO SUPPORT THE PRINCIPLE OF MARKET OPENING. THE FINANCIAL SERVICES, MORE INVOLVEMENT BY THE COMMISSION MIGHT BE A COMPLICATING RATHER THAN A HELPFUL FACTOR. ON THE OTHERE HAND, THERE IS CONSIDERABLE FEELING WITHIN THE COMMUNITY ON THE TRADE IMBALANCES, THOUGH AS THE 13 MARCH COUNCIL SHOWED, AN ABSENCE OF NEW IDEAS ON HOW TO SOLVE THE PROBLEM IN THE SHORT TERM. FOR THE TIME BEING THE COMMISSION AND JAPAN ARE TRYING TO MANAGE THE ISSUE BY UNOFFICIAL VOLUNTARY RESTRAINT IN SENSITIVE SECTORS. ACTION AGAINST JAPANESE EXPORTS WHICH HAD THE SUPPORT OF OUR PARTNERS WOULD BE STRONGER THAN THAT WHICH DID NOT. WHETHER THE COMMUNITY ITSELF WOULD BE PREPARED TO TURN UP THE WICK ON JAPAN IN SUPPORT OF OUR CASE ON CABLE AND WIRELESS IS, IN MY VIEW, DOUBTFUL, BUT THE ESSENTIAL POINT IS THAT WHATEVER WE MIGHT DECIDE TO DO SHOULD NOT BE CHALLENGED BY, AND INDEED SHOULD AT LEAST HAVE THE SUPPORT OF THE COMMISSION AND OUR PARTNERS. ALTHOUGH THE CASE OF ALCOHOLIC BEVERAGES HAS GONE TO GATT, I STRONGLY FAVOUR KEEPING UP THE BILATERAL AND COMMUNITY PRESSURE ON THIS ISSUE. IN PARTICULAR HOWEVER TAKING IT OUT OF THE HEADLINES RECENTLY HAS EASED THE PRESSURE ON THE JAPANESE. I FAVOUR CREATING A N
EXPECTATION THAT THE COMMUNITY WILL WIN THE GATT CASE AND THAT WE SHOULD CONSIDER NOW WHAT COMPENSATING/RETALIATORY MEASURES WE WOULD TAKE IF WE WIN THE CSE BUT IF, AS IS LIKELY, THE JAPANESE OFFER ONLY MINOR ADJUSTMENTS IN RESPONSE.

6. WEAPONS. IN CHOOSING THESE I SUGGEST IT IS IMPORTANT TO SELECT ONES WHICH ARE APPROPRIATE TO THE PARTICULAR AIM THAT WE HAVE IN VIEW. IF WE DO NOT, WE RISK CONFUSING OUR SIGNALS, FINDING IT HARD TO END OUR ATTACK WITH AN IDENTIFIED TARGET HAVING BEEN ACHIEVED, AND INCREASING THE POSSIBILITY OF JAPANESE COUNTERATTACK. AND IT WOULD, I ASSUME, BE MORE DIFFICULT TO OBTAIN THE AGREEMENT OF BRITISH FIRMS IN ANY PARTICULAR FIELD TO A COURSE WHICH WOULD PUT SOME OF THEIR OWN INTERESTS AT STAKE. THE MOST EFFECTIVE WEAPONS AS SEEN FROM HERE WOULD THEREFORE BE:

A. A POLICY BY C AND W OF SWITCHING PURCHASES OF TELECOMMUNICATIONS EQUIPMENT FROM JAPANESE TO ALTERNATIVE SOURCES OF SUPPLY. THIS MIGHT BE SUPPLEMENTED BY A POLICY DECISION TO DISCRIMINATE AGAINST JAPANESE TELECOMMUNICATIONS CARRIERS IN ANY FIELD IN WHICH HMG IS THE REGULATORY AUTHORITY OR BY EG WITHHOLDING OR DELAYING JAPANESE TELECOMMUNICATIONS EQUIPMENT (KDD ARE ALSO CONSIDERING A TELE-HOUSING PROJECT IN LONDON). BUT THE IDEAL SOLUTION SET OUT IN PARA 3. ABOVE MAY NOT BE ATTAINABLE AND C AND W MAY ALREADY HAVE EMBARKED ON DISCUSSIONS WHICH MAKE IT CLEAR THAT THEIR BOTTOM LINE IS SOMETHING LESS (MY TELNO OTTER 185),

B. A CLEAR MESSAGE BY MR HOWARD IN TOKYO NEXT WEEK THAT IF THERE WERE QUALIFIED BRITISH FINANCIAL FIRMS THAT WERE STILL BARRED FROM THE TOKYO STOCK EXCHANGE FROM SUMMER 1988 THEN THE SAME OR A GREATER NUMBER OF JAPANESE SECURITIES COMPANIES WOULD FIND THAT THEIR LICENCES TO OPERATE ON THE STOCK EXCHANGE IN LONDON WOULD BE WHOLLY OR PARTIALLY WITHDRAWN.

C. IF THERE IS SCOPE, SUBSTANTIAL ADMINISTRATIVE DELAY IN ALLOWING INTO THE UK JAPANESE GOODS WHICH ARE COMING TO THE MARKET FOR THE FIRST TIME, SUCH AS DATS. WE ARE NOT FULLY BRIEFED ON THE CURRENT STATE OF DISCUSSION IN EUROPE ABOUT STANDARDS FOR THE EUROPEAN PRODUCTION OF DATS, BUT ACTION AGAINST THE PRODUCT FOR WHICH THERE IS YET NO MARKET (AND ON WHICH THE JAPANESE INDUSTRY IS STAKING A GOOD DEAL) IS LIKELY TO RUN INTO LESS CONSUMER OPPOSTION AND HIT THE JAPANESE INDUSTRY HARDER. IF ONE WAS LOOKING FOR SENSITIVE SECTORS WHICH COULD BE SELECTED FOR ANALYSIS, THE AREAS WHERE JAPANESE EXPORTS TO THE UK SHOWED MAJOR GROWTH IN 1986 INCLUDE AUTOMATED DATA PROCESSING (ADP) AND OFFICE MACHINERY, COLOUR TELEVISIONS AND TELECOMMUNICATIONS EQUIPMENT. OTHER AREAS WHICH MIGHT BE WORTH EXAMINATION INCLUDE SERVICES INTO WHICH THE JAPANESE ARE MOVING QUITE RAPIDLY, FOR EXAMPLE CONSTRUCTIONS CONTRACTS AND REAL ESTATE ACQUISITIONS PARTICULARLY IN THE CITY OF LONDON.

7. THERE ARE OTHERCONSIDERATIONS WHEN ONE MOVES AWAY FROM THE SPECIFIC PSSUES OF INTERNATIONAL TELECOMMUNICATIONS AND FINANCIAL SERVICES. WHILE THE TRADE BALANCE WIDENED A LITTLE FURTHER LAST YEAR JAPAN PROVED TO BE ONE OF THE MORE SUCCESSFUL MARKETS FO R BRITISH EXPORTS IN 1986, WITH AN INCREASE IN STERLING TERMS ON BRITISH FIGURES OF OVER 18 ON THE PREVIOUS YEAR. THIS MATCHED THE INCREASE IN JAPANESE EXPORTS TO BRITAIN OVER THE SAME PERIOD, THE FIRST TIME THAT THIS HAS HAPPENED FOR MANY YEARS. 1986 SAW THE SUBSTANTIAL AIRBUS CONTRUCT. THE JAPANESE EXPORT FIGURES INCLUDED BOTH THE EXPECTED J-CURVE EFFECTS AND A SUBSTANTIAL INCREASE IN PARTS SHIPMENTS TO COMPANIES SUCH AS NISSAN MANUFACTURING CARS AND VTRS IN THE UK. THE TREND ACCORDING TO JAPANESE FIGURES WAS EVEN MORE FAVOURABLE AND SHOWE FURTHER PMPROVEMENT TOWARDS THE END OF THE YEAR, WHICH SHOULD BODE WELL FOR 1987. EUROPEAN EXPORTS TO JAPAN ARE NOW GROWING MUCH MORE QUICKLY THAN AMERICAN EXPORTS: AND THE UK IS DOING BEST AMONG THE EUROPEANS. THE OFFICIAL SERVICES AS WELL AS BRITISH BUSINESSMEN ARE MAKING A MAJOR EFFORT IN THIS MARKET IN 1987. THE GENERAL IMPROVE-MENT AS WELL AS OUR PARTICULAR PERFORMANCE HAS BEEN BROUGHT ABOUT NOT SO MUCH BY A CHANGE OF HEART ON THE PART OF THE JAPANESE (ALTHOUGH THEY RECOGNISE THAT THE SORT OF TRADE SURPLUSES WHICH THEY HAVE BEEN AMASSING IN THE LAST 2 OR 3 YEARS CANNOT PERSIST WITHOUT SERIOUS CONSEQUENCES) AS BY THE SHARP APPRECIATION OF THE YEN. THIS APPRECIATION IS STILL CONTINUING AND SEEMS LIKELY TO DO SO AS A RESULT OF PRESSURE IN THE MARKETS, PARTICULARLY IN THE NEXT FEW WEEKS SINCE THE JAPANESE GOVERNMENT HAS ITS HADNS EFFECT-IVELY TIED BY A MIXTURE OF POLITICAL DIFFICULTIES AND THEIR INABILIT Y
TO PRODUCE ECONOMIC POLICIES WHICH MIGHT CARRY CONVICTION IN STIMULATING DOMESTIC DEMAND IN THE SHORT TERM. ONE TACTIC WHICH WE AND THE AMERICANS HAVE AVAILABLE IS TO STRENGTHEN THE CONDITIONALITY OF OUR SUPPORT FOR THE YEN IN AGREEMENTS SUCH AS THAT REACHED RECENTLY IN THE G5.

8. THE IDEAS IN 6(A) AND (B) ABOVE AND JUDICIOUS MOVES TO PROMOTE FURTHER APPRECIATION OF THE YEN WOULD NOT REPRESENT A PARTICULARLY HIGH-RISK POLICY PROVIDED THE SIGNALS TO THE JAPANESE ON TELE-COMMUNICATIONS AND FINANCIAL SERVICES WERE UNEQUIVOCALLY CLEAR AND THE JAPANESE WERE GIVEN A SUITABLE PERIOD IN WHICH TO REACT. THE MPT POLICY TOWARDS C AND W IS BLATANTLY DISCRIMINATORY. THE DEBATE WITHIN THE TSE MEMBERSHIP ON ENLARGEMENT IN 1988 HAS NOT YET STARTED IN EARNEST AND THERE IS MUCH TO BE SAID FOR STATING OUR POSITION CLEARLY AND FIRMLY AT THIS STAGE FOR THE BENEFIT OF BOTH THE TSE AND MOF. BUT THE EXCUSES SO FAR ADVANCED BY THE JAPANESE FOR MOVING TO ADMIT FOREIGN COMPANIES AT A PACE WHICH WOULD REINFORCE THE ALREADY CONSIDERABLE INEQUALITY OF OPPORTUNITY FOR BRITISH AND JAPANESE FIRMS TO OPERATE IN EACH OTHER'S MARKETS SEEM TO BE NO MORE THAN THAT,
DESPITE THE VENEER OF PRACTICAL PROBLEMS WITH WHICH THEY ARE COVERED .
IT SEEMS HIGHLY UNLIKELY THAT JAPANESE FIRMS WOULD TAKE THEIR BUSINESS IN A CONCERTED MANNER TO ANOTHER EUROPEAN CENTRE SIMPLY FOR THE SAKE OF NOT PERMITTINGA COMPARATIVE HANDFUL OF BRITISH AND

OTHER FOREIGN FIRMS TO OBTAIN SEATS ON THE TSE.

THE LIKELIHOOD OF JAPANESE RETALIATORY ACTION IF WE TAKE SPECIFIC ACTION IN THE GENERAL TRADE FIELD (OTHER THAN TALKING UP THE YEN) IS IN MY VIEW MUCH GREATER. THE JAPANESE ARE MUCH MORE ASSERTIVE NOW THAN THEY WERE EVEN 5 YEARS AGO AND SOME OF THE PROBLEMS WHICH THEY ARE NOW FACING IN THEIR ECONOMY ARE ONES WHICH MANY COMPANIES HAVE NOT HAD TO DEAL WITH INTHE PAST 40 YEARS. WITH SHARPLY FALLING PROFITS, MANY COMPANIES (INCLUDING BIG ONES) TRADING AT A LOSS, INCREASING UNEMPLOYMENT AND A RISING NUMBER OF BANKRUPTCIES, AND FACED WITH GREATER THAN USUAL PRESSURE FROM THE AMERICANS AND A TRADING RELATIONSHIP WITH THE EC WHICH THEY CATEGORISE AS HISTORICALLY BAD, THE TEMPTATION FOR A BELEAGUERED JAPANESE ESTABLAISHMENT TO TAKE SHARPLY REATLIATORY ACTION AGAINST ONE MEMBER OF THE EC WHICH THEY JUDGE TO BE TAKING UNWARRANTED OR INDISCRIM-INATE MEASURES AGAINST THEM COULD BE GREAT. THIS IS NOT A REASON FOR INACTION: BUT IT SUGGESTS THAT WE SHOULD EXERCISE CARE IN SHOOSING OUR COURSE.

10 FCO PLEASE PASS ADVANCE COPY TO MASEFIELD FED FCO AND PS/MR HOWARD DTI

WHITEHEAD

ENDS:

HOWE

The National Archives

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SUBJECT
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OFFICE OF THE PRIME MINISTER

TOKYO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. TS7A/87

March 31, 1987

Dear Prime Minister,

I am delighted to be able to inform you that the Conference of High-Level Experts on Education held in Kyoto from January 19 to 21 was a most signal success.

I am convinced that that success is to be attributed in very great part to your invaluable support. I should like to thank you, particularly, for sending experts as distinguished as Dr. N.B.W. Thompson and Dr. Gareth Howell to participate in the Conference.

I myself considered the importance of the Conference and travelled to Kyoto to attend the opening session in person. At that session, I delivered an inaugural address in which I stressed that education in the new age dawning must foster a "New Global Spirit" to nurture the philosophy of coexistence in its infancy, to encourage it in its youth and to bring it to full maturity. I take the liberty of enclosing the text of that address.

As the Chairman's Summary issued at the end of the Conference shows, there was very wide-ranging and constructive discussion on the subjects of educational reform appropriate to the needs of the twenty-first century and the need for more active international exchange and cooperation in the field of education. I also enclose a copy of that Statement.

I hope most sincerely that the Conference, by indicating needs and suggesting approaches, will make a very positive contribution to educational reform in many countries in the years ahead.

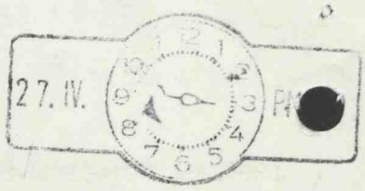
Once again, my most sincere thanks for your invaluable contribution to the Conference's success.

Yours sincerely,

Yasuhiro Nakasone

Yasuhiro Nakasone
Prime Minister of Japan

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


27. IV.
PM

Address by His Excellency Yasuhiro Nakasone
Prime Minister of Japan
at the Opening Ceremony
of the Conference of High-Level Experts on Education
January 19, 1987
Kyoto, Japan

Mr. Chairman,
Excellencies, distinguished guests,
Ladies and Gentlemen:

I am delighted to be here today to share with you my thoughts on education at the opening of this Conference of High-Level Experts on Education.

During the last few decades, the advanced industrialized nations have truly seen astounding economic and social changes resulting from advances in science and technology, and from the increasing internationalization of our societies. As we approach the twenty-first century amid these changes, education is called upon to play an extremely important role in maintaining and in enhancing the vitality and vigor of our societies.

All countries of the world, but especially the advanced industrialized nations, face a common task to re-examine and reform education in the light of the changes that are taking place.

Based upon an acute awareness of this fact, I proposed, at the Tokyo Summit last year, the holding of a conference on the topic of education to promote exchange and discussion among experts from all over the world. I am extremely pleased that my proposal has now become a

reality and that, with the support of the other Summit leaders, of the OECD Secretariat and of the Heads of Government of the OECD member states, the conference for this purpose is now convening in Kyoto, a city that has always been a major force in Japan's cultural and educational tradition.

On behalf of the Government and people of Japan, I am delighted, and honored, to welcome you to our country.

Ladies and gentlemen,

Although specific problems concerning education may differ from country to country, education is equally of vital concern for all countries. Japan is certainly no exception. Indeed, in the summer of 1984, I established a National Council on Education Reform within the Prime Minister's Office, entrusting it with the task of studying approaches to educational reform.

I would like to present frankly to you some of the problems facing Japanese education today, with the hope that they may be included in the topics for discussion at this conference. I would appreciate it very much if you could offer us your views and advice during the course of your discussions, thereby contributing to bring about breakthroughs in resolving our own educational problems in Japan.

Of the many problems confronting Japanese schools today, the most visible are the bullying of pupils by classmates, violence in classrooms and in the home, and a decline in the moral standards among many young people. Behind these problems lie excessive competition to enter prestigious schools and universities and the excessive importance of a person's academic record our society attaches to determining his or her career opportunities. As measures to remedy such a situation, improvement of entrance examinations, a greater role for the home and the community in education, better moral training, and improvement of the qualifications of our teachers are proposed. To be sure, it is vital for us to make the most vigorous efforts in these areas, but, at the same time, I believe that an exceedingly far more serious problem underlies them: the contradictions in contemporary society.

Fundamentally, the problem is, I feel, that education has failed to keep pace with the changes brought by the rapid transition from traditional society to a new social system.

For instance, what can be done when the ties which were forged over centuries, binding traditional society together, are broken? Furthermore, what leverage can parents and teachers use to exert their influence when the media in our advanced information age provides far more information to our children than that provided by parents

or teachers. Are these not problems confronting educational reform in a great number of nations?

Ladies and gentlemen,

Education is, indeed, closely connected with the culture and customs of a society and reflects its ethical and religious values. For this very reason, the educational system of each country faces unique problems. Education, moreover, is deeply related with the moulding of the consciousness of each individual. Thus, if you ask one hundred people their views, they will probably have one hundred different opinions on education. One consequence of this is that it is extremely difficult to reach a conclusion that will satisfy everyone.

Nevertheless, ladies and gentlemen, you will probably agree to what the French philosopher Blaise Pascal once said:

> "Nature maintains animals in an order of limited perfection, and does not allow them to add to it lest they go beyond the boundaries prescribed to them. It is different with man, made only for infinity. Man is ignorant in his life's first age, but he never ceases to learn as he goes forward, for he has the advantage not only of his own experience but also of that of his predecessors."

The reason I pursue international exchange in education is quite simply that it will enable us, our children, and our grandchildren to learn from the experience of a greater number of their predecessors. Indeed, I sincerely hope that the judicious conclusions reached here in your deliberations as experts on education will be reflected in actual educational programs in our various countries.

Ladies and gentlemen,

We are living today in perhaps one of the greatest periods of change in the history of humanity, due especially to magnificent breakthroughs in science and technology, and to the scale and pace of "globalization." Faced by the threat of nuclear war and the implications for human dignity of genetic engineering, we have realized that science and technology alone are not enough to guarantee the well-being of humanity.

On the other hand, scientific progress, through advances in communication and information technology, has linked the world's nations by means of information networks, uniting humanity as never before in history. For the first time in our history we are able to communicate, instantaneously, over tremendous distances, thanks to the development of man-made satellites and television. These and other communications media have made conditions ripe for the birth of what may truly be called a "new global spirit".

This "new global spirit" is, simply put, the spirit of coexistence. It is the spirit to understand the unique cultures of the different nations and ethnic groups that exist on our planet. It is the spirit to appreciate, and to strive for, such coexistence that makes our world richer.

It is probable that this change will be of even greater significance for humanity than the Industrial Revolution, which began to replace human labor by mechanical power over two centuries ago. This is so because, ultimately, the Industrial Revolution not only proved itself unable to save mankind from the ravages of war, it drastically magnified the scale of warfare, so that in this century we have seen two world wars, wars which cost tens of millions of lives. The information revolution, however, has made meaningless the "curtains" and other barriers that divide nation from nation, and people from people, offering us the potential to eliminate forever the tragedy of war.

Education in the dawning new age must foster this "new global spirit": to nurse this philosophy of coexistence in its infancy, to encourage it in its youth, and to bring it to maturity. We must never again, in the name of "education", fall into the folly of fanning hatred of other cultures and inciting the people of one nation to take up arms against another.

By cultivating the philosophy of coexistence, we must strive to lessen and to eliminate the mistrust and conflict that set generation against generation, class against class, and group against group in our societies.

The twentieth century, which has seen two world wars, is nearing its end. It is today's youth that will launch the start of the twenty-first century, toward another two thousand years beyond. This fact makes me acutely aware of my grave, indeed daunting, responsibility as head of the Japanese government, when I realize that the reform of Japan's education will have a most fundamental impact on both the character and the future of Japan's youth.

Over a hundred years ago, a far-sighted Japanese educationist of the Meiji era, Yukichi Fukuzawa, said in one of his books, "The aim of education is the development of human being, guiding him to attain the highest level of achievement possible. If one asks to what end education must guide, the answer is to enable mankind to obtain the greatest possible happiness."

The twenty-first century is already within sight as this Conference of High-Level Experts on Education meets today.

Ladies and Gentlemen,

I hope that you will keep in mind what Fukuzawa said when conducting your discussions.

Permit me to conclude by expressing my hope that your discussions will open up vistas toward the new role of education which we all can share.

Thank you.

# # #

Conference of High-level Experts on Education

Chairman's Summary

21st January, 1987, Kyoto

1. The "Conference of High-level Experts on Education", hosted by the Organizing Committee for the Conference (Chairman: Mr. Isao Amagi, Advisor to the Minister of Education), was held from 19th to 21st January, 1987, at the Kyoto International Conference Hall. The Conference, first proposed by Japan's Prime Minister, Mr. Yasuhiro Nakasone, at the Tokyo Summit in May, 1986, was held with the support of the Heads of State or Government of all the OECD countries.

2. Forty-four experts from twenty-four OECD countries, the Commission of the European Communities and the OECD Secretariat participated in the Conference.

3. The Conference agenda was as follows:

I. Educational reform to cope with economic and social changes

(1) Basic guidelines for educational reform: perspective for the twenty-first century

(2) Improvement of basic education (compulsory education)

(3) Improvement of education and training at the post-basic level

II. Promotion of international exchange and cooperation in the field of education

(1) Promotion of the exchange of persons

(2) Cooperation with developing countries

4. The Conference elected the following officers:

Chairman	Mr. Isao Amagi (Japan)
Vice-Chairman (Chairman of Session I)	Prof. J.J.R. da Silva (Portugal)
Vice-Chairman (Chairman of Session II)	Dr. R.J. in't Veld (The Netherlands)
Rapporteur	Mr. J. Lowe (OECD)
Rapporteur	Prof. Y. Abe (Japan)

[Speech]

5. Prime Minister Yasuhiro Nakasone stated in his inaugural address that the advanced industrialized countries are now experiencing rapid economic and social changes resulting from such developments as the advances in science and technology, the advent of an information age and the increasing internationalization of our societies. Japan is facing various educational problems. Underlying this situation is the fact that today's education is not capable of fully coping with changes resulting from the transition from the traditional social system. During the development of machine-dominated

civilization which started with the Industrial Revolution, mankind has experienced two major world wars. Today, as we enter the information revolution age, the foundation for a "new global spirit" that promises to make the sense of solidarity of the human race stronger than ever is being laid and a new spirit of "coexistence" among the nations and ethnic groups is emerging. Today's youth will launch the start of the twenty-first century, beginning mankind's next two millennia, and for this reason very great importance is to be attached to educational reform now. While recognizing that the educational tasks and concerns of one country may differ from those of another, the Prime Minister hoped that the participants would take advantage of that opportunity to have frank discussions and learn from one another, opening up vistas toward a new role for education which may bring about the greatest possible happiness for mankind.

6. In his speech, Minister of Education, Mr. Masajuro Shiokawa, covered the following points.

In Japan, the National Council on Educational Reform, established in 1984 as an advisory body to the Prime Minister, has been conducting deliberations on educational reform. In general terms, as the key points in educational reform, the following can be cited:

(1) Improvement of the life-long learning system, (2) improvement of the content of education, including moral education, (3) improvement of teacher quality,

(4) diversification of the universities, including the system for the selection of university entrants and improvement of graduate schools and (5) promotion of international exchange and cooperation, including plans for increasing the number of foreign students in Japan to one hundred thousand by the beginning of the twenty-first century. The Minister expressed the hope that the Conference would function as an international forum to contribute to the educational reform needed in each country, as well as to promote international exchange and cooperation in the field of education.

7. On behalf of OECD, Deputy Secretary-General Mr. Pierre Vinde spoke of the need for structural adaptation in advanced industrialized societies especially in the field of employment which is often accompanied by painful changes. This calls for the maximum development of human resources, a development that largely depends on the content and quality of education. What is required, above all, is the improvement of basic education by unlocking traditional structures, enhancing the status of vocational education and training and promoting adult and continuing education. He stressed that there was an ever-increasing need for educational investment in the developing countries of the world, where human resources development was the key to successful economic growth.

[Keynote Speech]

8. Speaking on the subject "Basic guidelines for educational reform: perspectives for the 21st century", Mr. George Papadopoulos, OECD Deputy Director for Educational Affairs, cited the main factors affecting the role of education at the present time: (1) demographic changes, particularly declining birth rates, the aging of populations and changes in family structure; (2) socio-cultural changes, including those to do with working hours, the uses of leisure and the growing role of culture in social and economic life; (3) economic changes such as the restructuring of industry, intensification of international competition and high rates of unemployment; (4) constraints on public spending for social purposes that often led to reductions in educational budgets. He also pointed out the difficulties which all this creates for educational policies, which have become both more complex and more politicized, with a lack of consensus about objectives and priorities. He also emphasized particularly the need to concentrate on improving the content and methods of education, which brought to the surface curriculum reform and an effective teaching force as key priorities for the future.

9. Prof. Shigeto Kawano, Director-General of the Association of International Education of Japan, gave a speech entitled "International Exchange and Cooperation

in the Field of Education". Citing some of Japan's policies, such as the plan to increase the number of foreign students in Japan, the exchange of researchers through the "core university system", exchange of teachers and technical cooperation, he emphasized the need for further promotion of exchange of persons and cooperation with developing countries in the field of education in an age of increased interdependence among nations.

[Special Guest's Speech]

10. Prof. Michio Okamoto, Chairman of the National Council on Educational Reform, gave a special lecture, "Educational Reform in Japan", and explained the background to the establishment of the National Council on Educational Reform. He gave his views on the implications for educational reform of science and technology and Japan's traditional culture. He stressed the importance for the future direction of educational reform of (1) harmony between scientific and technological civilization, on the one hand, and human society, on the other, (2) promotion of science and technology rich in originality and creativity and (3) promotion of internationalization in the fields of education and science.

I. Educational Reform to Cope with Economic and Social Changes

[Basic guidelines for educational reform: perspectives for the 21st century]

11. It was recognized that most advanced industrialized countries are now treating educational reform as one of their important policy tasks. The participants agreed that, although the specific issues countries are facing vary from one country to another, what can be seen as a common problem is how to make the educational system compatible with the recent economic and social changes, including scientific and technological innovation, structural changes in industry, the advances in information technology and increasing interdependence among nations.

In this connection, participants paid attention to the establishment and activities of the National Council on Educational Reform in Japan, and expressed keen interest in the educational reforms which would be carried out following the recommendations of the National Council on Educational Reform in Japan.

12. Recalling that the rapid economic and social changes, including scientific and technological innovation, advances in information technology, increase in leisure hours and aging of population have resulted in increasingly diverse and sophisticated demand for learning

opportunities suited to the different stages of life, the participants emphasized the need to provide people with diverse opportunities for life-long learning, as a basic strategy for education relevant to the 21st century. At the same time, the need for the schools' own efforts to reform themselves was emphasized.

13. It was pointed out that, although every country is faced with severe financial circumstances because of low rates of economic growth and the budgetary constraints on public spending, appropriate financial provision from both public and private sources has to be ensured in accordance with particular circumstances in each country for the implementing of educational reform. This is based on the recognition that the enhancement and advancement of education, designed to offer equitable learning opportunities for all, are basic prerequisites for a creative and vital society.

[Reforms of Basic Education (Compulsory Education)]

14. The participants confirmed that, whereas in the 1960s and 1970s the focus had been on the quantitative expansion of education, at the present time, quality of education is becoming the central issue in educational reform in every country.

15. One of the core matters of the issue of quality of education is school curricula at each educational stage. The participants discussed the need to clarify the content

of basic knowledge and skills, what is referred to as the "common core". The importance of introducing into the curriculum adequate resourses for computer and information technology was once more emphasized.

Participants from those countries where diversity of school curricula is seen pointed out the importance of securing adequate homogeneity and uniformity of curricula in order to improve educational standards throughout the country. In contrast, participants from countries where it is rather uniformity of curricula that is emphasized pointed out the importance of assuring diversity and originality in order to provide education appropriate to the individuals' capacities and aptitudes.

16. Deeply concerned about the decline in social morality, particularly among youth, caused by material affluence, the participants noted the need for the cultivation of self-reliance, self-control, compassion and similar qualities. It was recognized in this context that the recovery of the family's educational function has to be put first and foremost, and, to this end, an active approach is required through school-based initiatives designed to respond flexibly to the changes in and needs of school environments including family and local community. It was pointed out that cooperation between school and family on a continuing and regular day-to-day basis is needed.

17. The participants agreed that in order to ensure effective improvement of the quality of school education and to enable schools to carry out their tasks fully, it is vital to attract fully-qualified manpower to the teaching profession, as well as to enhance the motivation and morale of teachers and make persistent efforts to improve their ability and competence, since improvement of the quality of education depends ultimately on the competence of teachers. Importance was attached to such measures as improvement of the curricula in initial teacher-training courses, the provision of special in-service training programmes for beginning teachers and expansion of opportunities for in-service training for teachers appropriate to different stages of the teaching career. It was also noted that the performance of each teacher should be assessed, and appropriate working conditions, salaries and positive career incentives should be provided for teachers.

It was also pointed out that in order to make the most of educational reforms, it is essential to have the understanding, cooperation and professional commitment of all teachers.

[Reforms of Post-basic Education]

18. In connection with post-basic education, opinions were exchanged on such systems as the "dual system", in

which vocational training in firms and learning courses in schools are combined, and as the comprehensive school system. It was agreed that the premature separation of courses had an adverse effect on students, since it would restrict their career options.

19. The balance between general and vocational education in secondary education curriculum was also discussed. Participants stressed the importance of general education and of a broadly based vocational education over an excessively specialized vocational education and the need to find a place for vocational education in the general education.

20. It was emphasized that strengthened cooperation between upper secondary education and the world of work should be achieved. The need for the creation of diversified and flexible learning networks, operating within a recurrent education framework was discussed.

21. It was further pointed out that due attention should be paid to the continuing-education function to be fulfilled by institutions of higher education, whose qualitative improvement in terms of post-graduate courses and research capabilities, including interdisciplinary studies, was also mentioned. The importance of a cooperative relationship between institutions of higher learning and enterprises was pointed out.

22. The importance of evaluating students' performance at each educational stage was noted and some of the participants mentioned problems of efficiency and effectiveness of school administration and accountability of schools. Opinions were further exchanged on the system for the selection of university entrants, which constitutes a connecting point between secondary and post-secondary education, and on the acceptance of adults with work experience into universities and colleges.

II. International Exchange and Cooperation in the Field of Education

[Exchange of Persons in the Field of Eduation]

23. The participants considered that, in order to establish a peaceful international community for the 21st century, along with international exchange of goods and information in vast quantities, it was most fundamental, and effective, to promote exchange of persons based on the spirit of mutual respect for the cultures and values of the many different national and ethnic groups existing on earth today.

It was stressed that exchange of persons in the field of education, including students, researchers, teachers and other professionals, contributes not only to the improvement of both sending and host countries' educational and research standards but also to the promotion of mutual understanding of each other's society and culture.

24. It was pointed out that issues such as the cost of promoting such exchange and other economic aspects, methods of exchange and treatment accorded foreign students need to be discussed further and that the roles of government and private bodies are particularly important. In this regard, the participants stated that their governments attached importance to the promotion of exchange of persons, adopting various necessary measures.

25. In the discussions, it was stressed that to fully accomplish the purposes of the exchange of persons in the field of education, the governments of receiving countries and all governmental and non-governmental organizations concerned should work in close cooperation in order to exchange necessary information on student exchange and other forms of exchange of persons.

[Cooperation with Developing Countries]

26. It was agreed that accepting students from developing countries is particularly important, as it is a form of cooperation with those countries in the area of human resources development. It was also pointed out that the training of scientific researchers, in particular, who will become the cornerstone of economic and social development in developing countries, is of great importance, with cooperation by developed countries being called for. Moreover, it was pointed out that such cooperation efforts for researcher training must be made systematically and continuously, with the close cooperation between universities of both developed and developing countries. Many participants stressed the undesirability of the "brain drain", as in exchange of persons with developing countries students and researchers sent to developed countries are expected to play active roles in their countries after their return home.

27. In the discussions, it was stressed that, while the development needs of developing countries have been increasing in quantity and becoming more diverse, it is of great importance that the developed countries should provide both "hardware" and "software" and effective and efficient technical cooperation to meet such needs. On the other hand, it is also important for the developed countries to have an accurate perception of the actual needs of developing countries and to plan cooperation programmes accordingly. Attention was drawn to the importance of regional cooperation among developing countries, in collaboration with the advanced industrialized countries concerned.

28. It was also stressed that in order to positively promote cooperation with developing countries, the public's understanding on the actual conditions of these countries and their interest in and support for development cooperation must be aroused in the advanced industrialized countries.

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29. It should be noted that, because of time restrictions, the Conference could not fully discuss all of the relevant education matters coming under agenda items I and II, e.g. the problems of higher education and the financial aspects of education.

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30. The Conference expressed its appreciation for the invaluable cooperation extended by the OECD Secretariat for the holding of the Conference.

31. Noting the relevance of OECD activities in education to the concerns that had emerged from the discussions, the Conference considered that it was desirable that the OECD should continue the study and discussion of such matters.

32. The Conference participants expressed their whole-hearted thanks for the very warm hospitality extended by the host country and for the Chairman's outstanding leadership.

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Cc: PC

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

1. DW - [illegible]
2. CDP (o/r)

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

31 MAR 1987

Dear Geoffrey,

TRADE SANCTIONS AGAINST JAPAN : AIR SERVICES

As you will know, the day before your own visit to Moscow with the Prime Minister our air services negotiators completed negotiations with the USSR authorities to allow both BA and BCal to overfly the Soviet Union 3 times a week each (twice non-stop, once stopping at Moscow) on services to and from Tokyo. The complementary agreement with the Japanese was concluded in the early hours of 14 March, so now the way is finally clear for BA and BCal to start their trans-Siberian services at the end of May.

The new services, which represent a significant extension of BCal's network, and thus a very worthwhile contribution to our policy of encouraging competition between British airlines on major international routes, are also a major coup for Britain. Taking BA and BCal together we shall have 6 trans-Siberian services, compared with 3 operated by Air France. No other European airline has more than one, and it will be some time before they can hope to catch up. These fast new services will be of real benefit to the British exporter (whose journey will now be nearly 6 hours shorter) and will also help to facilitate Japanese inward investment in the United Kingdom.

Against this background I would have serious reservations about any suggestion that JAL should be excluded from Heathrow. I am all in favour of a tough approach in negotiations with the Japanese. We had to be tough ourselves through many months of arduous negotiations, and it has paid off. As a result we have succeeded in extracting a fair and well balanced deal from the Japanese, essentially on our terms, which is good for our airlines (who expect to earn about £150m per annum on the route), good for our businessmen and good for Britain. But we cannot expect to maintain these hard won benefits if we turn around within a few weeks and deny JAL access to Heathrow.

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Moreover, I doubt very much whether we could get away with it. Quite apart from the legal obstacles, which include a specific obligation to consult with the Japanese about any change in airports policy which might affect their air services, and a requirement under our domestic law to act on grounds which can be shown to be reasonable upon due inquiry, the Japanese have substantial powers to retaliate in this field. I have no doubt that they would find ways to prevent the start of BCal's services to Tokyo at the end of May, and very likely frustrate the start of BA's trans-Siberian services at the same time, for example by finding that there are unfortunately no convenient or suitably timed airport slots at Tokyo airport. Previous attempts to move airlines involuntarily from Heathrow have been defeated by the capacity of other governments to retaliate, and we have never even attempted such a move against a partner as powerful as the Japanese. (I might add that, after successfully building up Gatwick to the point where it is a major international airport in its own right, it would be very odd for us now to present it as a "second class"airport.)

Even if the arrangements reached with Japan were less favourable to us than they are, I would have to advise against breaking them on the grounds that to do so within weeks of reaching an agreement would seriously damage our international reputation for integrity in negotiating international agreements and upholding them. But in the present case where the agreement we have reached is so important to our pro-competitive policy, and so favourable to UK interests, we should not throw it all away in an attempt to deny JAL access to Heathrow.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, Norman Tebbit and Paul Channon, and to Sir Robert Armstrong.

JOHN MOORE

FM FCOLN TO MOSCO
311700Z MAR
GRS 9854

CONFIDENTIAL
FM [redacted]
TO IMMEDIATE MOSCOW
TELNO 446
OF 311700Z MARCH 87

FOLLOWING RECEIVED FROM CABINET OFFICE AS TELNO MISC 115

FOLLOWING FOR WICKS, PRIME MINISTER'S PARTY, FROM ADDISON, 10 DOWNING STREET.

JAPANESE MARKET

FOLLOWING IS THE TEXT OF A DRAFT CABINET PAPER. COULD YOU PLEASE ENSURE THAT THE FOREIGN AND COMMONWEALTH SECRETARY IS GIVEN A COPY

OPENING THE JAPANESE MARKET

FOLLOWING CABINET ON 26 MARCH, I AM REPORTING ON THREE ASPECTS OF TRADE POLICY TOWARDS JAPAN:

(HOW TO SECURE GREATER ACCESS FOR OUR FINANCIAL INSTITUTIONS
HOW TO OBTAIN A FAIR DEAL FOR CABLE AND WIRELESS (C AND W)
AND MORE GENERALLY HOW TO ACHIEVE FASTER PROGRESS IN OPENING THE JAPANESE MARKET.

2. ON THE FIRST TWO ISSUES WE HAVE CONSIDERABLE FREEDOM TO DECIDE OUR OWN LINE OF ACTION. WE HAVE TO PURSUE THE LAST ISSUE THROUGH THE EC BECAUSE UNDER THE TREATY OF ROME TRADE POLICY IS A MATTER OF COMMUNITY COMPETENCE. WE ALSO HAVE TO HAVE REGARD TO OUR GATT OBLIGATIONS.

FINANCIAL SERVICES

3. A LARGE NUMBER OF JAPANESE SECURITIES DEALERS AND BANKS HAVE ESTABLISHED THEMSELVES IN LONDON, HELPING TO BUILD UP LONDON AS A MAJOR INTERNATIONAL FINANCIAL CENTRE. ON THE OTHER HAND, UK FIRMS WHO HAVE APPLIED FOR PERMISSION TO SET UP IN TOKYO HAVE MET WITH OBSTACLES. OUR RESPONSE HAS BEEN TO DEMAND RECIPROCITY. IN ORDER TO STRENGTHEN OUR LEVERAGE WE TOOK POWERS IN THE FINANCIAL SERVICES ACT ENABLING THE GOVERNMENT TO OVERRIDE DECISIONS BY THE UK REGULATORY AUTHORITIES IF RECIPROCAL ACCESS TO FOREIGN MARKETS WAS DENIED TO UK FINANCIAL SERVICE FIRMS (SEE ANNEX A). AS THE POWERS WERE SPECIFICALLY TAKEN FOR THESE FINANCIAL MARKET OPENING PURPOSES THEY CAN ONLY BE USED IN THAT CONTEXT.

4. I HAVE TOLD THE CHANCELLOR OF THE EXCHEQUER THAT I PROPOSE TO MAKE FORTHWITH THE COMMENCEMENT ORDERS TO BRING INTO FFECT THE ACT'S POWERS IN RELATION TO THE BANKING AND INSURANCE SECTORS. THE INSURANCE POWERS ARE FOR ME TO EXERCISE; THE BANKING POWERS ARE FOR THE CHANCELLOR. THIS WILL BE A STRONG SIGNAL TO THE JAPANESE BUT

DOES NOT COMMIT US YET TO REVOKING THE AUTHORISATIONS GIVEN TO ANY JAPANESE BANKS OR INSURANCE COMPANIES OPERATING IN THE UK.

5. ONCE THE NEW SYSTEM OF AUTHORISATION OF INVESTMENT BUSINESSES UNDER THE FINANCIAL SERVICES ACT IS IN PLACE, I CAN THEN BRING INTO EFFECT THE RECIPROCITY POWERS FOR THOSE ACTIVITIES. THAT SHOULD BE AT THE END OF THIS YEAR.

6. [redacted] STRATEGY HAS PRODUCED SOME RESULTS (SEE ANNEX A). BUT WE ARE NOW MEETING JAPANESE RESISTANCE TO BETTER ACCESS TO THE TOKYO STOCK EXCHANGE. THE MINISTER OF CONSUMER AND CORPORATE AFFAIRS IS VISITING TOKYO NEXT WEEK AND WILL PRESS THE JAPANESE FOR A FIRM TIMETABLE FOR THE ENLARGEMENT OF THE MEMBERSHIP OF THE EXCHANGE WITH UNRESTRICTED ACCESS FOR UK FIRMS. IF NO SATISFACTORY TIMETABLE IS FORTHCOMING WE SHALL HAVE TO DECIDE ON THE MOST EFFECTIVE WAY TO USE OUR NEW POWERS.

CABLE AND WIRELESS

7. THE JAPANESE ASSURE US THAT NO DECISION HAS BEEN TAKEN BUT THERE IS VERY HEAVY PRESSURE FROM THE MINISTRY OF POSTS AND TELECOMMUNTCATIONS TO ALLOW C AND W ONLY A DERISORY SHARE IN THE WINNING CONSORTIUM (SEE ANNEX B). C AND W ARE ASKING FOR 20 PER CENT BUT REALISTICALLY THEY MAY HAVE TO SETTLE FOR SOMETHING LESS. WE ARE PRESSING THE JAPANESE GOVERNMENT TO PERMIT ADEQUATE FOREIGN PARTICIPATION, AS ALLOWED IN JAPANESE LAW, AND SHOULD CONTINUE TO DO SO BACKED BY THREATS OF UNSPECIFIED RETALIATORY ACTION. I AM CALLING IN THE JAPANESE AMBASSADOR AND WILL TAKE THIS LINE WITH HIM. I SHALL ALSO ASK HIM WHY THERE HAS BEEN NO REPLY TO THE PRIME MINISTER'S LETTER TO MR NAKASONE.

8. US SUPPORT IS VERY IMPORTANT IN RESISTING JAPANESE PRESSURE TO REDUCE FOREIGN SHAREHOLDINGS TO AN INSIGNIFICANT LEVEL. HOWEVER IT IS QUITE POSSIBLE THAT US INTERESTS COULD BE MET BY BRINGING IN OTHER US COMPANIES SUCH AS AT AND T IN A WAY THAT WOULD STILL RESTRICT C AND W TO AN UNSATISFACTORY LEVEL.

9. IT IS POSSIBLE THAT THE JAPANESE MAY ASK C AND W TO SELL THEM A SIMILAR SHAREHOLDING IN THEIR UK SUBSIDIARY MERCURY. HMG'S AGREEMENT WOULD BE REQUIRED IF THE JAPANESE ACQUIRED MORE THAT 15 PER CENT OF THE SHARES.

10. IF WE JUDGE THAT THE EVENTUAL OUTCOME IS UNACCEPTABLE WE SHOULD HAVE TO RESPOND. THE EC ARE MOST UNLIKELY TO AGREE TRADE SANCTIONS OVER A BILATERAL UK-JAPAN DISPUTE IN THE SERVICES FIELD AND AS NOTED ABOVE THE FINANCIAL SERVICES ACT POWERS CANNOT BE USED IN THE CONTEXT. THE AVAILABLE OPTIONS ARE LIMITED. IT IS OFTEN SUGGESTED THAT WE SHOULD TAKE ADMINISTRATIVE ACTION TO DELAY OR INCONVENIENCE IMPORTS, EG. CUSTOMS PROCEDURES AND DISCRIMINATION IN APPLYING SAFETY AND OTHER REGULATIONS. THE OBJECTION TO SUCH DEVICES IS THAT THEY WOULD BE SUBJECT TO LEGAL CHALLENGE IN OUR COURTS, AND EXPOSE US TO THE RISK OF DAMAGE AND INVESTIGATION BY THE PARLIAMENTARY COMMISSION. SOME OTHER OPTIONS ARE:

(1) TELECOMMUNICATIONS: I COULD ANNOUNCE THAT I INTEND TO TAKE RECIPROCITY CONSIDERATIONS INTO ACCOUNT IN DECIDING WHETHER TO GRANT TELECOMMUNICATIONS LICENCES TO FOREIGN COMPANIES, AND IN THE TELECOMMUNICATIONS APPARATUS APPROVALS PROCEDURE. BUT THE FORMER WOULD HAVE NO IMMEDIATE IMPACT SINCE THERE ARE NO PROPOSALS FROM JAPANESE COMPANIES, AND NONE SEEM TO BE IN PROSPECT. THE LATTER COULD BE CHALLENGED IN THE COURTS.

(II) INTELLECTUAL PROPERTY: DISCRIMINATE AGAINST JAPANESE PATENT APPLICATIONS SEMI CLN BUT THIS WOULD BE CONTRARY TO THE PARIS CONVENTION AND PATENTS VALID IN THE UK COULD BE OBTAINED FROM THE EUROPEAN PATENT OFFICE.

(III) AIR SERVICES: MOVE JAL FROM HEATHROW SEMI CLN RETALIATION AGAINST BRITISH AIRWAYS AND BCAL WOULD BE LIKELY.

(IV) WORK PERMITS: MAKE IT MORE DIFFICULT FOR THE JAPANESE TO OBTAIN PERMITS SEMI CLN THIS WOULD HAVE A SEVERELY DISCOURAGING EFFECT UPON JAPANESE INWARD INVESTMENT FROM WHICH THE UK ECONOMY BENEFITS SUBSTANTIALLY.

(V) SHARE PURCHASES: DENY THE JAPANESE THE OPPORTUNITY TO BUY SHARE IN PRIVATISATION AND IN THE BP SALE BUT WE WOULD NEED TO BE CLEAR THAT THE FLOTATIONS WOULD NOT THEREBY BE HARMED.

SO THAT WE ARE ABLE TO RESPOND QUICKLY, SHOULD THE NEED ARISE, I PROPOSE THAT THE PROS AND CONS OF THESE AND ANY OPTIONS SHOULD BE STUDIED BY OFFICIALS, BEARING IN MIND THE NEED FOR THE MEASURES TO FIT THE CIRCUMSTANCES OF THE C AND W CASE.

MARKET OPENING

11 UK/EC STRATEGY HAS BEEN TO:

- PRESS FOR MONETARY AND MACRO-ECONOMIC MEASURES. EG. A STRONGER YEN AND EXPANDED DOMESTIC DEMAND SEMI CLN
- SEEK TO REMOVE BARRIERS, BY ACTION IN THE GATT EG. ON ALCOHOLIC DRINKS SEMI CLN
- PROMOTE EXPORTS, BY OFFERING EXCEPTIONAL LEVELS OF SUPPORT TO BRITISH EXPORTERS TO JAPAN.

12 THESE POLICIES HAVE BEEN REFLECTED IN SUCCESSIVE COMMUNITY DECLARATIONS - MOST RECENTLY AT THE MARCH FOREIGN AFFAIRS COUNCIL. THIS CALLED FOR THE IMPLEMENTATION OF THE MAEKAWA REPORT ON STRUCTURAL ECONOMIC REFORM AND FOR MARKET OPENING AGAINST A QUANTIFIED IMPORT TARGET. THE COUNCIL AGREED TO CONSIDER FURTHER ACTION AT ITS JULY MEETING.

13 DESPITE LACK OF MARKET OPENING IT HAS BEEN DIFFICULT TO PERSUADE THE OTHER EC COUNTRIES TO TAKE DECISIVE ACTION. WE HAVE BEEN FORCED TO ADOPT A LEAD ROLE THROUGHOUT. THE GROWING U S RESENTMENT AGAINST JAPAN, REFLECTING THEIR TRADE DEFICIT AND DISSATISFACTION OVER THE WORKING OF THE U S-JAPAN AGREEMENT ON SEMI-CONDUCTORS, MAY BE HELPFUL IN STIMULATING THE EC TO TAKE A MORE ROBUST LINE. EVEN SO IT WILL BE AN UPHILL TASK TO GET EC AGREEMENT ON NEW AND TOUGHER MEASURES.

14 THE OPTIONS (SEE ANNEX C) FOR FURTHER ACTION, IN INCREASING ORDER OF DIFFICULTY, ARE AS FOLLOWS:

(I) TOUGHER MEASURES AGAINST THE DUMPING OF COMPONENTS, ON WHICH THE COMMISSION HAS RECENTLY TABLED A PROPOSAL SEMICLN

(II) UNBINDING THE EC'S TARIFFS AGAINST A RANGE OF JAPANESE ELECTRONIC CONSUMER GOODS TO BALANCE THE INDUSTRIAL BENEFITS WHICH JAPAN DERIVES FROM SPAIN AND PORTUGAL'S ACCESSION TO THE EC SEMI CLN

(III) IF THE U S ACTS AGAINST JAPANESE EXPORTS EG. AS IT THREATENED OVER SEMI-CONDUCTORS, FOR THE EC TO FOLLOW SUIT TO AVOID TRADE DIVERSION SEMI CLN

(IV) PRESS THE EC TO RELAUNCH ITS GENERAL GATT ARTICLE 23 ACTING AGAINST JAPAN UNDER WHICH WE WOULD EFFECTIVELY ACCUSE JAPAN OF 'NULLIFYING' THE RIGHTS OF GATT PARTNERS. IF SUCCESSFUL, JAPAN WOULD BE REQUIRED TO OFFER REMEDIES UNDER THREAT OF RETALIATION.

THERE IS REASONABLE PROSPECT OF GETTING EC AGREEMENT ON (I) TO (III). THE CHANCES OF ACHIEVING (IV) WOULD BE POOR WITHOUT SUBSTANTIAL NON-EC AND ESPECIALLY U S SUPPORT.

15 THERE IS ONE FURTHER OPTION: TO PRESS THE EC TO AGREE THAT JAPAN'S PERSISTENT REFUSAL TO TAKE EFFECTIVE ACTION TO INTEGRATE ITS ECONOMY INTO THE MULTILATERAL TRADING SYSTEM CAN NO LONGER BE TOLERATED SEMI CLN THAT JAPANESE BREACH OF GATT ARTICLE 23 IS SELF-EVIDENT SEMI CLN AND THAT DISCRIMINATORY TRADE ACTION AGAINST JAPAN, INCLUDING PENAL IMPORT DUTIES ON A SELECTED RANGE OF GOODS, SHOULD THEREFORE BE TAKEN. THE VERY ACT OF RAISING THIS OPTION IN THE EC WOULD SEND A SHOCK-WAVE THROUGH THE JAPANESE ADMINISTRATION, BUT SUCH A COURSE COULD BRING DOWN THE GATT AND WOULD MEET STRONG OPPOSITION FROM WITHIN THE EC, LED BY THE GERMANS. AND IF REJECTED IT WOULD UNDERMINE OUR CREDIBILITY BOTH WITHIN THE COMMUNITY AND IN THE EYES OF THE JAPANESE.

16 U S RESENTMENT AGAINST JAPAN SHOULD MAKE IT EASIER TO GET EC AGREEMENT TO TAKING STRONGER MEASURES. THE NEXT STEP COULD BE FOR THE FOREIGN SECRETARY TO SOUND OUT OTHER EC VIEWS AT THE EUROPEAN POLITICAL CO-OPERATION MEETING THIS WEEKEND. SUBJECT TO THE OUTCOME, WE SHOULD THEN ASK FOR DETAILED COMMUNITY CONSIDERATION. WE WANT TO LOBBY THE OTHER EC COUNTRIES HARD AND TAKE UP THE RECENT FRENCH OFFER OF BILATERAL TALKS. THEREAFTER WE COULD USE THE VENICE SUMMIT IN JUNE TO PROMOTE A DECLARATION CRITICAL OF JAPAN. JAPAN COULD ALSO BE HIGH ON THE AGENDA FOR THE EUROPEAN COUNIL MEETING LATER THAT MONTH.

CONCLUSIONS

17 I INVITE COLLEAGUES' AGREEMENT TO THE FOLLOWING COURSES OF ACTION:

(I) FINANCIAL SERVICES: THE RECIPROCITY POWERS OF THE FINANCIAL SERVICES ACT SHOULD BE BROUGHT INTO EFFECT AS SOON AS POSSIBLE: THE MINISTER FOR CONSUMER AND CORPORATE AFFAIRS WHEN IN TOKYO SHOULD PRESS HARD FOR A FIRM TIMETABLE FOR ACCESS OF UK FIRMS TO THE STOCK EXCHANGE.

(II) CABLE AND WIRELESS: MAINTAIN PRESSURE FOR FAIR TREATMENT: OFFICIALS SHOULD EXAMINE THE FULL RANGE OF OPTIONS FOR RETALIATION.

(III) MARKET OPENING: PRESS THE EC TO ACT QUICKLY ON ITEMS (I) - (III) IN PARAGRAPH 14: USE THE EUROPEAN POLITICAL CO-OPERATION MEETING TO PRESS EC COUNTRIES TO AGREE TO A GATT ARTICLE 23 CHALLENGE AND TEST REACTIONS TO THE FURTHER OPTION IN PARAGRAPH 15 SEMICLN SEEK U S CO-OPERATION TO A GENERAL GATT CHALLENGE SEMI CLN USE OTHER OPPORTUNITIES SUCH AS THE VENICE SUMMIT TO MAINTAIN PRESSURE ON JAPAN.

ANNEX A

ANNEX A

FINANCIAL SERVICES

THE FINANCIAL SERVICES ACT CONTAINS A RECIPROCITY PROVISION, WHICH ENABLES THE SECRETARY OF STATE TO REFUSE OR REVOKE THE AUTHORISATION TO DO BANKING, INSURANCE OR INVESTMENT BUSINESS, OF FINANCIAL SERVICES COMPANIES FROM COUNTRIES WHICH DO NOT OFFER RECIPROCAL ACCESS FOR UK FIRMS IN THEIR FINANCIAL MARKETS. THE BANKING BILL WAS AMENDED IN FEBRUARY, TO EXTEND THESE POWERS TO TAKEOVERS OF UK BANKS BY FOREIGN INSTITUTIONS= THE BANK OF ENGLAND WILL BE EMPOWERED TO BLOCK VOTING RIGHTS OR REQUIRE DIVESTMENT. IT IS PROPOSED TO BRING THE FINANCIAL SERVICES ACT POWERS INTO FORCE FOR BANKING AND INSURANCE NOW AND FOR INVESTMENT BUSINESS LATER THIS YEAR WHEN INVESTMENT BUSINESSES ARE AUTHORISED BY EITHER THE SECURITIES AND INVESTMENTS BOARD OR RECOGNISED SELF REGULATING ORGANISATIONS (ASSUMING THAT THE SIB BECOMES THE DESIGNATED AGENCY).

THE MINISTER FOR CONSUMER AND CORPORATE AFFAIRS IS TO VISIT JAPAN FROM 5-8 APRIL FOR DISCUSSIONS ON ACCESS TO THE JAPANESE FINANCIAL MARKETS. HIS PRINCIPAL TARGET WILL BE ACCESS FOR BRITISH FIRMS TO THE TOKYO STOCK EXCHANGE (TSE). SIX FOREIGN FIRMS HAVE SEATS ON THE TSE, FOLLOWING A 10 SEAT ENLARGEMENT IN SEPTEMBER 85, OUT OF A TOTAL MEMBERSHIP OF 93. THREE ARE US OWNED, ONE IS WHOLLY BRITISH OWNED (WARBURGS) AND TWO ARE UK-CONNECTED= VICKERS DA COSTA (US OWNED) AND JARDINE FLEMING (HALF HONG KONG OWNED). TWO BRITISH FIRMS, SCHRODERS AND KLEINWORT BENSON WOULD LIKE SEATS AT ONCE AND OTHERS WILL WANT THEM IN DUE COURSE. FOUR JAPANESE FIRMS ARE MEMBERS OF THE LONDON STOCK EXCHANGE, BUT FOLLOWING THE EXCHANGE'S MERGER WITH ISRO, 40 OTHERS ARE QUALIFIED TO BECOME MEMBERS OF THE NEW INTERNATIONAL STOCK EXCHANGE IN LONDON.

A NEW JAPANESE LAW, BROUGHT INTO FORCE LAST NOVEMBER, PROVIDES FOR THE REGISTRATION OF INVESTMENT ADVISERS, WHO MAY APPLY FOR LICENSING AS DISCRETIONARY INVESTMENT MANAGERS. REGISTRATION HAS BEEN STRAIGHTFORWARD= WE ARE WAITING TO SEE IF PROBLEMS ARISE WITH LICENSING= THE FIRST LICENCES ARE DUE TO BE ISSUED IN MAY. UK FIRMS HAVE PARTICULAR EXPERTISE IN THIS AREA.

SINCE OCTOBER 1984, WE HAVE SECURED 12 SECURITIES BRANCH LICENCES (SBLS). UK-OWNED OR UK-CONNECTED HOUSES NOW HOLD 14 OUT OF AROUND 30 FOREIGN SBLS (COMPARED WITH 2 OUT OF 9 THEN). WE HAVE BEEN BROADLY SATISFIED WITH RECENT PROGRESS IN THIS AREA, BUT 6 BRITISH FIRMS INCLUDING BARCLAYS AND LLOYDS ARE STILL SEEKING SBLS NOW AND DURING THE NEXT 12-18 MONTHS. JAPANESE AND OTHER FOREIGN FIRMS HAVE BEEN FREELY AUTHORISED BY DTI TO +DEAL IN SECURITIES IN GREAT BRITAIN+. THERE ARE NOW SOME 58 AUTHORISED SUBSIDIARIES OF JAPANESE HOUSES IN LONDON.

AS REGARDS BANKS THERE ARE IN LONDON 99 JAPANESE BANKS. IN ADDITION THERE ARE 15 JAPANESE REPRESENTATIVE OFFICES. THEIR BUSINESS HAS GROWN REMARKABLY. IN TOKYO ALL 5 UK CLEARERS HAVE COMMERCIAL BANKING OFFICERS BUT THEY HAVE FOUND BUSINESS DIFFICULT.

ANNEX B

CABLE AND WIRELESS

JAPANESE LAW ALLOWS 33 AND ONE THIRD PER CENT FOREIGN PARTICIPATION IN ANY COMPANY OPERATING TELECOMMUNICATIONS SERVICES. TWO CONSORTIA ITJ AND IDC, HAVE BEEN FORMED TO OFFER INTERNATIONAL SERVICES IN COMPETITION TO KDD, THE EXISTING JAPANESE MONOPOLY. ITJ IS ENTIRELY JAPANESE. IDC INCLUDES FOREIGN MEMBERS= C AND W (20 PER CENT), PACIFIC TELESIS (US) 10 PER CENT, AND MERRILL LYNCH (SU) 3 PER CENT). THE PROPOSALS THEY HAVE PUT FORWARD ARE DIFFERENT. ITJ, AT LEAST INITIALLY, WOULD RELY ON KDD FACILITIES. IDC PROPOSE THE USE OF A NEW PRIVATELY FINANCED TRANS-PACIFIC CABLE. THE MINISTRY OF POSTS AND TELECOMMUNICATIONS (MPT) HAS MADE IT CLEAR THAT SIGNIFICANT FOREIGN PARTICIPATION IS UNWELCOME, AND IT WOULD NOT WELCOME SEPARATE APPLICATIONS FROM IDC AND ITJ. IT HAS, THEREFORE, ENCOURAGED THE TWO GROUPS TO MERGE, AND AT PRESENT ONLY WANT TO ALLOW C AND W A 3 PER CENT SHARE. MANY JAPANESE COMPANIES ARE IN BOTH CONSORTIA, AND MOST ARE CONTENT TO MERGE, C AND W ARE FIGHTING THE MERGER PROPOSAL, WITH SOME JAPANESE SUPPORT. MITI AND FOREIGN MINISTRY ARE SYMPATHETIC TO UK AND US DEMANDS THAT FOREIGN PARTICIPATION SHOULD BE ALLOWED TO THE EXTENT PERMITTED BY JAPANESE LAW.

THE OUTCOME ON THIS ISSUE, AND WHAT CABLE AND WIRELESS WILL ACCEPT, ARE FAR FROM CLEAR. SIMILARLY WE CANNOT BE CERTAIN THAT C AND W WILL CONTINUE TO RECEIVE SUPPORT FROM THEIR JAPANESE PARTNERS OR FROM THE AMERICAN INTERESTS WHO ARE INVOLVED IN THIS CONSORTIUM.

ANNEX C

OPTIONS FOR FURTHER ACTION IN THE TRADE FIELD

(I) DUMPING OF COMPONENTS - THE COMMISSION WANT TO EXTEND EC ANTI-DUMPING RULES TO ALLOW ACTION NOT ONLY AGAINST IMPORTS OF COMPLETED PRODUCTS BUT ALSO AGAINST SUCH PRODUCTS ASSEMBLED IN THE COMMUNITY FROM IMPORTED PARTS. WE HAVE EXPRESSED STRONGLY SYMPATHY WITH THE COMMISSION'S OBJECTIVE BUT WANT TO ACHIEVE IT IN A WAY THAT DOES NOT DISCOURAGE INWARD INVESTMENT IN THE UK.

(II) UNBINDING EC TARIFFS - SPAIN AND PORTUGAL ARE CONSIDERABLY REDUCING THEIR IMPORT DUTIES ON MANUFACTURES AS PART OF THE PROCESS OF ACCESSION TO THE COMMUNITY. JAPAN WILL BENEFIT FROM THIS. THE COMMISSION RECOMMEND THAT CONSISTENT WITH GATT THE EC SHOULD UNBIND (IE FREE FROM INCREASE BUT NOT RAISE) ITS TARIFF ON VARIOUS CONSUMER ELECTRONIC GOODS. WE HAVE SUPPORTED UNBINDING SINCE IT CLEARS THE WAY FOR RAPID ACTION TO RAISE TARIFFS (OR THREATS TO DO SO) IN THE FUTURE. PRECISE PROPOSALS TO RAISE TARIFFS WOULD REQUIRE CAREFUL STUDY= IN SOME CASES UK HAS NO INDUSTR
Y
TO PROTECT BUT CONSIDERABLE INTEREST IN LOW PRICES FOR CONSUMERS.

(III) US RETALIATION - THE US HAS THREATENED TO IMPOSE PROHIBITIVE

TARIFFS ON DOLLARS 300 MILLION WORTH OF IMPORTS FROM JAPAN IN RETALIATION BOTH FOR JAPAN'S FAILURE TO IMPLEMENT THE US/JAPAN AGREEMENT ON SEMICONDUCTORS AND TO BALANCE THE LACK OF MARKET ACCESS IN JAPAN. IF DENIED ACCESS TO US MARKETS A PROPORTION OF THE GOODS AFFECTED WOULD PROBABLY BE DIVERTED TO THE COMMUNITY. THE EC COULD THEREFORE ARGUABLY MATCH THE US ACTION IN ORDER TO AVOID SUCH DIVERSION, CLAIMING UNDER GATT ARTICLE XIX THAT THIS THREATENED +SERIOUS INJURY+ TO EC INDUSTRIES.

(IV) GENERAL ARTICLE XXIII ACTION - IN 1982 THE EC OPENED A GATT CASE AGAINST JAPAN'S ENTIRE TRADE REGIME. THEY ARGUED THAT THE CLEAR IMBALANCE OF TRADE BENEFITS BETWEEN JAPAN AND THE EC CONSTITUTED, EFFECTIVELY, +NULLIFICATION OF THEIR GATT RIGHTS+. THE EC SUSPENDED THE CASE IN 1984 BECAUSE JAPAN OFFERED A PROGRAMME OF MARKET OPENING MEASURES AND BECAUSE THE COMMISSION DOUBTED THE LIKELIHOOD OF FURTHER SUCCESS. THE COMMUNITY COULD NOW RELAUNCH THE CASE, BUT THE PROSPECTS OF A CLEAR VICTORY REMAIN UNPROMISING.

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YOUR TELNO 222: TRADE RELATIONS WITH JAPAN

1. THE JAPANESE HAVE ALWAYS NEEDED EXTERNAL PRESSURE TO MAKE THEM MOVE SIGNIFICANTLY IN THEIR TRADING POLICIES. THE HEAD OF STEAM WHICH HAS BECOME APPARENT IN THE HOUSE OF COMMONS IN THE PAST FEW DAYS IS THEREFORE TIMELY IN PROVIDING A BACKDROP FOR INCREASED PRESSURE ON THE JAPANESE GOVERNMENT AND IN CONCENTRATING ON THREE IMPORTANT ISSUES ABOUT WHICH WE HAVE GOOD GROUNDS FOR COMPLAINT: CABLE AND WIRELESS AND ITS BID FOR PARTICIPATION IN 2KDD, FINANCIAL SERVICES PARTICULARLY ACCESS TO THE TOKYO STOCK EXCHANGE, AND TO A LESSER EXTENT THE IMBALANCE IN VISIBLE (REPEAT VISIBLE) TRADE.

2. IN CONSIDERING HOW BEST TO EXERT PRESSURE ON THE JAPANESE I SUGGEST THAT WE MUST LOOK COOLLY AT THE FOLLOWING POINTS:
A. EXACTLY WHAT IT IS THAT WE HOPE TO ACHIEVE ON EACH OF THESE ISSUES AND ROUGHLY ON WHAT TIME-SCALE,
B. THE LIKELIHOOD OF CARRYING ANY MEMBERS OF THE EC OR THE AMERICANS WITH US,
C. THE WEAPONS WHICH ARE REALISTICALLY AVAILABLE TO US,
D. THE CHANCES OF SUCCESS,
E. THE POSSIBILITY OF JAPANESE RETALIATION.

3. AIMS. OUR IDEAL AIMS ARE A LICENCE FOR HDC TO OPERATE AS 2KDD WITH THE TRANSPACIFIC SUBMARINE CABLE, A 20% EQUITY SHARE AND SEAT ON THE BOARD FOR C AND W: THE OPENING OF THE TOKYO STOCK EXCHANGE (TSE) TO ALL QUALIFIED FOREIGN COMPANIES THAT WISH TO PARTICIPATE ON A TIMING TO SUIT THEIR OWN COMPANY STRATEGY AT ANY MOMENT FROM, SAY, SUMMER 1988 WHEN FURTHER COMPUTERIZATION WILL ALLOW MORE SPACE FOR FLOOR TRADERS, SPEEDY FINANCIAL LIBERALISATION IN OTHER AREAS NOTABLY THE LIBERALISATION OF INTEREST RATES: AND SUBSTANTIAL MOVES TOWARDS A REDUCTION OF THE VISIBLE TRADE DEFICIT.

4. ALLIES. EXPERIENCE OVER THE PAST 30 YEARS SUGGESTS THAT WE SHOULD PLACE LITTLE FAITH IN TRYING TO ACHIEVE CONCERTED AS OPPOSED TO PARALLEL POLICIES ON ANY OF THESE THREE FRONTS WITH THE AMERICANS (WASHINGTON TEL NO 686) THEIR GENERAL INTEREST IS IN FURTHER OPENING UP THE JAPANESE MARKET, PARTICULARLY AS FAR AS BUREAUCRATIC PRACTICES ARE CONCERNED AND THEY HAVE A STATED INTEREST IN HOW 2KDD ISSUE AND FINANCIAL SERVICES PROBLEMS ARE HANDLED. BUT THEY HAVE ALWAYS DECLINED TO CONCERT THEIR POLICIES VIS-A-VIS JAPAN WITH THE EC OR INDIVIDUAL COUNTRIES IN THE PAST: THEY ARE POTENTIALLY COMPETITORS OF OURS FOR SEATS ON THE TSE IN CIRCUMSTANCES OTHER THAN /THE

THE SORT OF COMPLETE OPENING SET OUT AS OUR IDEAL IN THE PRECEDING PARAGRAPH (ALTHOUGH IN OTHER FINANCIAL AREAS OUR OBJECTIVES ARE VERY CLOSE): AND ON 2KDD THEY HAVE ENTERED THE LISTS IN SUPPORT OF PACIFIC TELESIS AND MERILL LYNCH AT THE LATE STAGE AND IN A WAY WHICH SUGGESTS THAT THEY WOULD NOT BE AVERSE TO A SOLUTION WHICH DISCRIMINATED AGAINST C AND W. THEY HAVE MADE IT CLEAR ON NUMEROUS OCCASIONS THAT THEY ARE SPECIFICALLY OPPOSED TO CONCERTED ACTION WHICH APPEARS TO BE GANGING UP ON THE JAPANESE: THIS IS IN PART BECAUSE OF THEIR FEELING THAT THEIR RELATIONSHIP WITH JAPAN IS DEEPER AND MORE STRATEGICALLY IMPORTANT THAN IS THAT OF THE EC AND PARTLY BECAUSE THEY WISH TO ORCHESTRATE THEIR OWN APPROACH TO PROBLEMS WITH JAPAN WITHOUT THE NEED TO CONSIDER THE EUROPEAN DIMENSION (THE SPEED WITH WHICH THEY HAVE GONE OFF THE BOIL ON THE LIQUOR TAX ISSUE IS AN EXAMPLE OF THE AMERICANS REVERTING TO TYPE AFTER A RARE PERIOD OF PARALLEL AND ALMOST CONCERTED PRESSURE ON A SINGLE ISSUE).

5. AS REGARDS COMMUNICTY ACTION, THERE IS NO SHARED INTEREST IN THE SPECIFIC 2KDD PROBLEM, THOUGH THE COMMUNITY SHOULD BE PREPARED TO SUPPORT THE PRINCIPLE OF MARKET OPENING. IN FINANCIAL SERVICES, MORE INVOLVEMENT BY THE COMMISSION MIGHT BE A COMPLICATING RATHER THAN A HELPFUL FACTOR. ON THE OTHERE HAND, THERE IS CONSIDERABLE FEELING WITHIN THE COMMUNITY ON THE TRADE IMBALANCES, THOUGH AS THE 13 MARCH COUNCIL SHOWED, AN ABSENCE OF NEW IDEAS ON HOW TO SOLVE THE PROBLEM IN THE SHORT TERM. FOR THE TIME BEING THE COMMISSION AND JAPAN ARE TRYING TO MANAGE THE ISSUE BY UNOFFICIAL VOLUNTARY RESTRAINT IN SENSITIVE SECTORS. ACTION AGAINST JAPANESE EXPORTS WHICH HAD THE SUPPORT OF OUR PARTNERS WOULD BE STRONGER THAN THAT WHICH DID NOT. WHETHER THE COMMUNITY ITSELF WOULD BE PREPARED TO TURN UP THE WICK ON JAPAN IN SUPPORT OF OUR CASE ON CABLE AND WIRELESS IS, IN MY VIEW, DOUBTFUL, BUT THE ESSENTIAL POINT IS THAT WHATEVER WE MIGHT DECIDE TO DO SHOULD NOT BE CHALLENGED BY, AND INDEED SHOULD AT LEAST HAVE THE TACIT SUPPORT OF THE COMMISSION AND OUR PARTNERS. ALTHOUGH THE CASE OF ALCOHOLIC BEVERAGES HAS GONE TO GATT, I STRONGLY FAVOUR KEEPING UP THE BILATERAL AND COMMUNITY PRESSURE ON THIS ISSUE. TAKING IT OUT OF THE HEADLINES
RECENTLY HAS EASED THE PRESSURE ON THE JAPANESE. I FAVOUR CREATING AN EXPECTATION THAT THE COMMUNITY WILL WIN THE GATT CASE AND THAT WE SHOULD CONSIDER NOW WHAT COMPENSATING/RETALIATORY MEASURES WE WOULD TAKE IF WE WIN THE CASE BUT IF, AS IS LIKELY, THE JAPANESE OFFER ONLY MINOR ADJUSTMENTS IN RESPONSE.

6. WEAPONS. IN CHOOSING THESE I SUGGEST IT IS IMPORTANT TO SELECT ONES WHICH ARE APPROPRIATE TO THE PARTICULAR AIM THAT WE HAVE IN VIEW. IF WE DO NOT, WE RISK CONFUSING OUR SIGNALS, FINDING IT HARD TO END OUR ATTACK WITH AN IDENTIFIED TARGET HAVING BEEN ACHIEVED, AND INCREASING THE POSSIBILITY OF JAPANESE COUNTERATTACK. AND IT WOULD, I ASSUME, BE MORE DIFFICULT TO OBTAIN THE AGREEMENT OF BRITISH FIRMS IN ANY PARTICULAR FIELD TO A COURSE WHICH WOULD PUT SOME OF THEIR OWN INTERESTS AT STAKE. THE MOST EFFECTIVE WEAPONS AS SEEN FROM HERE WOULD THEREFORE BE:

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A. A POLICY BY C AND W OF SWITCHING PURCHASES OF TELECOMMUNICATIONS EQUIPMENT FROM JAPANESE TO ALTERNATIVE SOURCES OF SUPPLY. THIS MIGHT BE SUPPLEMENTED BY A POLICY DECISION TO DISCRIMINATE AGAINST JAPANESE TELECOMMUNICATIONS CARRIERS IN ANY FIELD IN WHICH HMG IS THE REGULATORY AUTHORITY OR BY EG WITHHOLDING OR DELAYING JAPANESE TELECOMMUNICATIONS EQUIPMENT (KDD ARE ALSO CONSIDERING A TELE-HOUSING PROJECT IN LONDON). BUT THE IDEAL SOLUTION SET OUT IN PARA 3. ABOVE MAY NOT BE ATTAINABLE AND C AND W MAY ALREADY HAVE EMBARKED ON DISCUSSIONS WHICH MAKE IT CLEAR THAT THEIR BOTTOM LINE IS SOMETOING LESS (MY TELNO OTTER 185)',

B. A CLEAR MESSAGE BY MR HOWARD IN TOKYO NEXT WEEK THAT IF THERE WERE QUALIFIED BRITISH FINANCIAL FIRMS THAT WERE STILL BARRED FROM THE TOKYO STOCK EXCHANGE FROM SUMMER 1988 THEN THE SAME OR A GREATER NUMBER OF JAPANESE SECURITIES COMPANIES WOULD FIND THAT THEIR LICENCES TO OPERATE ON THE STOCK EXCHANGE IN LONDON WOULD BE WHOLLY OR PARTIALLY WITHDRAWN.

C. IF THERE IS SCOPE, SUBSTANTIAL ADMINISTRATIVE DELAY IN ALLOWING INTO THE UK JAPANESE GOODS WHICH ARE COMING TO THE MARKET FOR THE FIRST TIME, SUCH AS DATS. WE ARE NOT FULLY BRIEFED ON THE CURRENT STATE OF DISCUSSION IN EUROPE ABOUT STANDARDS FOR AND EUROPEAN PRODUCTION OF DATS, BUT ACTION AGAINST A PRODUCT FOR WHICH THERE IS YET NO MARKET (AND ON WHICH THE JAPANESE INDUSTRY IS STAKING A GOOD DEAL) IS LIKELY TO RUN INTO LESS CONSUMER OPPOSTION AND HIT THE JAPANESE INDUSTRY HARDER. IF ONE WAS LOOKING FOR SENSITIVE SECTORS WHICH COULD BE SELECTED FOR ANALYSIS, THE AREAS WHERE JAPANESE EXPORTS TO THE UK SHOWED MAJOR GROWTH IN 1986 INCLUDE AUTOMATED DATA PROCESSING (ADP) AND OFFICE MACHINERY, COLOUR TELEVISIONS AND TELECOMMUNICATIONS EQUIPMENT. OTHER AREAS WHICH MIGHT BE WORTH EXAMINATION INCLUDE SERVICES INTO WHICH THE JAPANESE ARE MOVING QUITE RAPIDLY, FOR EXAMPLE CONSTRUCTIONS CONTRACTS AND REAL ESTATE ACQUISITIONS PARTICULARLY IN THE CITY OF LONDON.

7. THERE ARE OTHERCONSIDERATIONS WHEN ONE MOVES AWAY FROM THE SPECIFIC ISSUES OF INTERNATIONAL TELECOMMUNICATIONS AND FINANCIAL SERVICES. WHILE THE TRADE BALANCE WIDENED A LITTLE FURTHER LAST YEAR JAPAN PROVED TO BE ONE OF THE MORE SUCCESSFUL MARKETS FO R BRITISH EXPORTS IN 1986, WITH AN INCREASE IN STERLING TERMS ON BRITISH FIGURES OF OVER 18% ON THE PREVIOUS YEAR. THIS MATCHED THE INCREASE IN JAPANESE EXPORTS TO BRITAIN OVER THE SAME PERIOD, THE FIRST TIME THAT THIS HAS HAPPENED FOR MANY YEARS. 1986 SAW THE SUBSTANTIAL AIRBUS CONTRACT. THE JAPANESE EXPORT FIGURES INCLUDED BOTH THE EXPECTED J-CURVE EFFECTS AND A SUBSTANTIAL INCREASE IN PARTS SHIPMENTS TO COMPANIES SUCH AS NISSAN MANUFACTURING CARS AND VTRS IN THE UK. THE TREND ACCORDING TO JAPANESE FIGURES WAS EVEN MORE FAVOURABLE AND SHOWED FURTHER PMPROVEMENT TOWARDS THE END OF THE YEAR, WHICH SHOULD BODE WELL FOR 1987. EUROPEAN EXPORTS TO JAPAN ARE NOW GROWING MUCH MORE QUICKLY THAN AMERICAN EXPORTS AND THE UK IS DOING BEST AMONG THE EUROPEANS

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EUROPEANS. THE OFFICIAL SERVICES AS WELL AS BRITISH BUSINESSMEN ARE MAKING A MAJOR EFFORT IN THIS MARKET IN 1987. THE GENERAL IMPROVEMENT AS WELL AS OUR PARTICULAR PERFORMANCE HAS BEEN BROUGHT ABOUT NOT SO MUCH BY A CHANGE OF HEART ON THE PART OF THE JAPANESE (ALTHOUGH THEY RECOGNISE THAT THE SORT OF TRADE SURPLUSES WHICH THEY HAVE BEEN AMASSING IN THE LAST 2 OR 3 YEARS CANNOT PERSIST WITHOUT SERIOUS CONSEQUENCES) AS BY THE SHARP APPRECIATION OF THE YEN. THIS APPRECIATION IS STILL CONTINUING AND SEEMS LIKELY TO DO SO AS A RESULT OF PRESSURE IN THE MARKETS, PARTICULARLY IN THE NEXT FEW WEEKS SINCE THE JAPANESE GOVERNMENT HAS ITS HANDS EFFECTIVELY TIED BY A MIXTURE OF POLITICAL DIFFICULTIES AND THEIR INABILITY TO PRODUCE ECONOMIC POLICIES WHICH MIGHT CARRY CONVICTION IN STIMULATING DOMESTIC DEMAND IN THE SHORT TERM. ONE TACTIC WHICH WE AND THE AMERICANS HAVE AVAILABLE IS TO STRENGTHEN THE CONDITIONALITY OF OUR SUPPORT FOR THE YEN IN AGREEMENTS SUCH AS THAT REACHED RECENTLY IN THE G5.

8. THE IDEAS IN 6(A) AND (B) ABOVE AND JUDICIOUS MOVES TO PROMOTE FURTHER APPRECIATION OF THE YEN WOULD NOT REPRESENT A PARTICULARLY HIGH-RISK POLICY PROVIDED THE SIGNALS TO THE JAPANESE ON TELECOMMUNICATIONS AND FINANCIAL SERVICES WERE UNEQUIVOCALLY CLEAR AND THE JAPANESE WERE GIVEN A SUITABLE PERIOD IN WHICH TO REACT. THE MPT POLICY TOWARDS C AND W IS BLATANTLY DISCRIMINATORY. THE DEBATE WITHIN THE TSE MEMBERSHIP ON ENLARGEMENT IN 1988 HAS NOT YET STARTED IN EARNEST AND THERE IS MUCH TO BE SAID FOR STATING OUR POSITION CLEARLY AND FIRMLY AT THIS STAGE FOR THE BENEFIT OF BOTH THE TSE AND MOF. BUT THE EXCUSES SO FAR ADVANCED BY THE JAPANESE FOR MOVING TO ADMIT FOREIGN COMPANIES AT A PACE WHICH WOULD REINFORCE THE ALREADY CONSIDERABLE INEQUALITY OF OPPORTUNITY FOR BRITISH AND JAPANESE FIRMS TO OPERATE IN EACH OTHER'S MARKETS SEEM TO BE NO MORE THAN THAT ;
DESPITE THE VENEER OF PRACTICAL PROBLEMS WITH WHICH THEY ARE COVERED. IT SEEMS HIGHLY UNLIKELY THAT JAPANESE FIRMS WOULD TAKE THEIR BUSINESS IN A CONCERTED MANNER TO ANOTHER EUROPEAN CENTRE SIMPLY FOR THE SAKE OF NOT PERMITTING A COMPARATIVE HANDFUL OF BRITISH AND OTHER FOREIGN FIRMS TO OBTAIN SEATS ON THE TSE.

9. THE LIKELIHOOD OF JAPANESE RETALIATORY ACTION IF WE TAKE SPECIFIC ACTION IN THE GENERAL TRADE FIELD (OTHER THAN TALKING UP THE YEN) IS IN MY VIEW MUCH GREATER. THE JAPANESE ARE MUCH MORE ASSERTIVE NOW THAN THEY WERE EVEN 5 YEARS AGO AND SOME OF THE PROBLEMS WHICH THEY ARE NOW FACING IN THEIR ECONOMY ARE ONES WHICH MANY COMPANIES HAVE NOT HAD TO DEAL WITH INTHE PAST 40 YEARS. WITH SHARPLY FALLING PROFITS, MANY COMPANIES (INCLUDING BIG ONES) TRADING AT A LOSS, INCREASING UNEMPLOYMENT AND A RISING NUMBER OF BANKRUPTCIES, AND FACED WITH GREATER THAN USUAL PRESSURE FROM THE AMERICANS AND A TRADING RELATIONSHIP WITH THE EC WHICH THEY CATEGORISE AS HISTORICALLY BAD, THE TEMPTATION FOR A BELEAGUERED JAPANESE ESTABLISHMENT TO TAKE SHARPLY REATLIATORY ACTION AGAINST ONE MEMBER OF THE EC WHICH THEY JUDGE TO BE TAKING UNWARRANTED OR INDISCRIMINATE MEASURES AGAINST THEM COULD BE GREAT. THIS IS NOT A REASON FOR INACTION: BUT IT SUGGESTS THAT WE SHOULD EXERCISE CARE IN CHOOSING OUR COURSE.

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JAPAN : POLITICAL AND ECONOMIC BACKGROUND

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Foreign and Commonwealth Office

London SW1A 2AH

23 March 1987

Dear Charles

CDP 23/3

UK-Japan 2000 Group: Letter from Mr Nakasone

In your letter of 6 March you asked for advice in due course as to whether the Prime Minister should reply to Mr Nakasone's letter of 20 February about the UK-Japan 2000 Group and the issues raised in the Prime Minister's own letter of 11 January.

We recommend against a reply to this letter. Mr Nakasone has not said anything new on the specific issues raised by the Prime Minister. We could dispute his figure of 25% volume increase in the import of Scotch whisky (DTI figures on the UK export of Scotch whisky to Japan in calendar 1986 show a 13% increase), but we do not consider discussion of statistical comparisons of this type a matter to be raised in Prime Ministerial correspondence, particularly while the whisky problem is before the GATT. We will of course be telling our Embassy at Tokyo to convey to the Japanese our view that their 25% figure seems to be too high.

The Prime Minister has written again to Mr Nakasone about the Cable and Wireless problem, and awaits his reply.

I enclose for the record a copy of a revised translation of Mr Nakasone's letter sent to us by the Japanese Embassy. We spotted in the original translation a phrase about exchange rate adjustment in the second paragraph on page 2 that did not exist in the original Japanese version ("Japan has also played an important role in the policy coordination to realise exchange rates which better reflect economic fundamentals"). This seems to be language inserted after the Paris meeting of G6 over the weekend 21/22 February. The embarrassed Japanese Embassy have apologised.

I am copying this letter and enclosure to Tim Walker (DTI), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

(Translation)

February 20, 1987

Dear Prime Minister,

Thank you very much for writing to me on the occasion of the third UK-Japan 2000 Group Conference.

I was very happy to learn from members of the Group from both countries that fruitful discussions were conducted for the development of UK-Japan relations. It is gratifying to note that the 2000 Group has come to establish itself as a forum for dialogue between our two countries and is engaged in useful activities. With regard in particular to its five recommendations to the two Governments, I will respect their purports and endeavour to have them reflected in Japan's future policies as much as possible. I shall be grateful if I can obtain your cooperation in this matter.

It gives me utmost pleasure that there have been increasing dialogues and exchanges at all levels between our two countries, including this Group. I believe it is vitally important for our two countries to expand further the existing broad scope of cooperation, and especially to have closer political dialogues, in view of the fact that they are charged with an increasing role to play for the peace and stability of the world. In this sense, I shall be very glad to welcome Sir Geoffrey to Japan immediately before the forthcoming Venice Summit.

It is important that the two countries strengthen their collaboration in the economic sphere too. I deem it a common obligation of our two countries, charged with a large responsibility for the management of the world economy, to stem the spread of protectionism in the world, and to maintain and consolidate the open trade system. I am encouraged to know that my view coincides with yours in this respect.

.../

The present world trade system requires a renovation to adapt itself to the needs of the new era. It is a matter for our congratulation that an agreement has been reached recently on the negotiating plans and structures for the Uruguay Round to this end, and that negotiations have begun. I wish to continue our efforts in that direction in cooperation with your country.

With regard to Japan's large trade surplus, let me stress here anew that I am going to tackle it with resolute determination. I have successively adopted measures for the improvement of access to the Japanese market, expansion of domestic demand, exchange rate adjustment and promotion of economic structural adjustment. The effects of those measures have already become visible in the form of fundamental changes in Japan's external economic relations and its domestic economy. Its exports decreased by 1.2% and imports increased by 12.5% last year on a quantitative basis. Similar desirable signs are observable in the imports from the EC.

I am fully aware of your concern about the specific issues. The United Kingdom's reaction towards our decision on the reform of the liquor tax system is known to me, but this decision is the furthest Japan could go after taking into account various domestic difficulties. I wish you would follow the development of the situation for the moment until its effects take shape. I may mention in passing that the import of Scotch whisky increased last year by as much as 25% from the previous year on a quantitative basis, which I believe is a welcome trend.

As for other issues you have raised, I shall maintain close dialogue, in order that we shall solve them one by one within our capability, giving full consideration to the importance of the United Kingdom and Europe. I should like to see that our two countries, through such dialogue, increase concrete cases of their cooperation and thereby develop further the positive side of their relations.

.../

I look forward to seeing you at the forthcoming Summit Meeting in Italy.

With kindest regards,

Yours sincerely,

Yasuhiro Nakasone
Prime Minister of Japan

JAPAN

RELATIONS

PT 6



file DTSAFK

bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 March 1987

Dear Carolyne,

OSAKA AIRPORT AND TAIWAN MASS RAPID TRANSIT SYSTEM

The Prime Minister was grateful for the account of the position on contracts for the Osaka Airport and Taiwan Mass Rapid Transit System, set out in the attachments to your letter to me of 19 March. She has asked to be kept in touch, in particular with progress on the airport at Osaka and how far in practice UK companies are given the opportunity to bid for work on Phases II and III of the project. She would wish to be alerted if problems arise.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office).

Yours,

David.

D R NORGROVE

Miss Carolyne Akers
Department of Trade and Industry

DTI

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
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PS/ *Secretary of State for Trade and Industry*

19 March 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Prime Minister

These were cases of discrimination against the UK mentioned at your recent meeting with Sir Keith Joseph. I suggest you ask to be kept in touch with progress on the airport at Osaka.

DNN
19/3

Yes please / not

Dear David,

OSAKA AIRPORT AND TAIWAN MASS RAPID TRANSIT SYSTEM

Thank you for your letter of 11 March.

I attach separate notes on each of these issues, one of which explains that the contract at issue in Taiwan relates to transportation rather than telecommunications as indicated in your letter.

I am copying this reply to Tony Galsworthy (Foreign and Commonwealth Office).

Yours

Akers

CAROLYNE AKERS
Private Secretary

JG3ATD

999-1

RESTRICTED

TAIWAN: LOSS OF MASS RAPID TRANSIT (MRT) PROJECT TO THE UK

Summary

British Mass Transit Consultants (BMTC) have lost to US competitors business they believed they had won, almost certainly as a result of US pressure. The European Commission have been asked to raise the matter in talks with the Taiwanese next week, and the Embassy in Washington to discuss it with the US authorities. UK equipment manufacturers do not believe their prospects of gaining orders will be significantly affected.

Detail

BMTC were set up to plan, design and supervise the construction of the MRT. Following the initial study BMTC won a contract in 1985 for detailed design studies. In late 1986, after the transfer of responsibility for the MRT to a new Municipal department (DORTS), a new contract was signed by DORTS with BMTC to cover completion of the outstanding work and to carry the project through to completion of the first phase by 1991.

BMTC then believed their position to be secure. Nevertheless, when invited last year to tender to "prequalify" for the work still outstanding, they duly did so assuming this was just a formality. In the event, however, 2 US groups and 1 European prequalified, but BMTC did not. Reasons for their failure were not disclosed, and the Taiwanese letter of advice complimented them fulsomely on their previous performance. BMTC took legal advice, and concluded that they had no legal grounds for protest. DORTS have now opened negotiations with one of the US groups, American Transit Consultants.

US commercial influence in Taiwan is strong, and the US$13.57bn trade imbalance has made them determined to use it. Discrimination in their favour has been recognised in the past, although we of course seize the limited opportunities we have to protest against it. Wider trading concessions won by the USA in recent months, most notably concerning the import of beer, wine and tobacco, have subsequently been made available on an MFN basis, in part because of EC lobbying. The EC were then prepared to reduce textile import quotas if those concessions had not been extended to us.

In this instance it seems almost certain that US pressure has been responsible for the decision, perhaps taken at Presidential level, to remove the business from BMTC. The latter earlier advised the Anglo-Taiwan Trade Committee (ATTC) and the DTI that they did not want representations, hoping they would still salvage some business. This now seems unlikely, and we are asking the Commission to take up the issue. Indirect representations will also be made bilaterally, and through the British Embassy in Washington, despite the lack of specific evidence.

UK equipment manufacturers are very interested in procurement prospects from this contract, and doubt whether these will suffer significantly from the change to an American consultancy

OT2/2
Department of Trade and Industry
17 March 1987

8

OSAKA AIRPORT: PROCUREMENT AND UK INTERESTS

Summary

This project represents a major opportunity for UK interests, and HMG efforts to stimulate involvement by UK companies are now bearing fruit. The Independent article is misleading in its suggestion that UK companies have been excluded from business which they were actively seeking and, although obstacles may be put in their way at a later stage, recent contact with the airport authorities have been encouraging.

Detail

Phase I of this project (more usually known as the Kansai airport from the area in which it will be situated) concerns construction of the artificial island, sea wall and causeway. The Japanese have largely excluded foreign companies from bidding for this work on the grounds that foreign interest has been shown too late and because of their inexperience in working in Japanese conditions. Construction work has in fact already started following planning during the last 20 years or so. From the British point of view the complete lack of interest shown in this phase by our construction companies has left us with no grounds for complaint (although the US may well feel differently because some of their companies have made significant efforts to win business).

UK interest centres on Phases II (the construction of airport buildings and runway etc, 1990-93) and III (purchase of airport equipment, over the same period). Potential UK equipment and services companies first responded reluctantly to promotion of this project by the Exports to Japan Unit of the DTI and by Posts in Japan, largely because of the difficult reputation of the Japanese market, but have recently shown more commitment. Certainly there have so far been no grounds for complaint on their behalf against the Japanese planned approach to procurement. Indeed, companies which attended a briefing seminar given last week by Dr Takeuchi, President of the Kansai Airport Co (during a visit to Heathrow Terminal 4 as a Category I guest) were encouraged by his explanation of how procurement would be organised. For what it is worth, he also assured officials that his Authority would want to select the most competitive tenders, both from Japan and around the world, in respect of the business still to be placed. The DTI are now more hopeful, therefore, that British industry will show the level of enthusiasm and commitment towards the project that this opportunity merits, and will continue with its programme of meetings and information dissemination in order to encourage that commitment. In parallel, Posts will maintain close contact with the Japanese authorities, both to press UK interests and keep a close eye out for the introduction of typically Japanese obstacles to procurement abroad. With that objective in mind we are also strongly supporting the European Commission in its concentration of attention on the development of the Kansai project.

The Independent article is misleading in its confusion between the various phases of the project, drawing from the Japanese near-monopoly of the earth-works stage conclusions which are at least premature and probably erroneous in respect of the equipment and services purchasing stages in which UK companies are actually interested. The designated tender system, to which the article also refers, is normal for a project of this size in other countries including the UK.

OT2/2
Department of Trade and Industry
17 March 1987

JAPAN: Relations; Pt 6.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 March 1987

Thank you for your letter of 6 March to Brian Griffiths.

The Prime Minister has considered carefully your suggestion that she should write to Toyota along the lines of the draft you have proposed. The Prime Minister does not, however, think that it would be appropriate for her to intervene in the way you suggest. As you know, she has written to Mr. Nakasone about 2KDD and she believes that to write to Toyota would both tend to devalue that letter and to draw her into the internal politics of the consortium. She is, however, continuing to follow the discussions closely.

David Norgrove

J. H. Solomon, Esq.

CONFIDENTIAL

SCH

2BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 March 1987

Dear Carolyne,

CABLE AND WIRELESS

Thank you for your letter of 16 March in which you propose that the Prime Minister should send a message to President Reagan about the competition for a licence to compete with KDD.

I have discussed this with the Prime Minister, who has decided against sending a message. However, she would be content, as I told you, for Sir Antony Acland to approach Mr. Baldrige and others, as appropriate, to put it in their minds that the President might send a message.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office) and Tony Kuczys (H M Treasury).

Yours

David.

DAVID NORGROVE

Miss Carolyne Akers,
Department of Trade and Industry

CONFIDENTIAL

ccBG

DEPARTMENT OF TRADE AND INDUSTRY
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PS/ *Secretary of State for Trade and Industry*

CONFIDENTIAL

16 March 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear David,

CABLE AND WIRELESS

The Prime Minister's message to Mr Nakasone about Cable and Wireless was delivered on 5 March. There has been no reply yet.

Mr Watanabe of the Keidanren, whom we believe to be acting under the covert instructions of the Japanese Ministry of Posts and Telecommunications, has meanwhile been seeking to force together the two competing consortia, on terms unacceptable to Cable and Wireless. A meeting of the two groups under his chairmanship took place on 10 March. A further meeting is scheduled for 18 March.

Mr Channon has raised the issue with Mr Baldrige, the US Commerce Secretary and on Friday Mr Baldrige intervened with a letter to the Minister of Posts and Telecoms, Mr Karasawa.

What we need to achieve is intervention by Mr Nakasone to stop the MPT in its tracks. Cable and Wireless's leading Japanese associate, C.Itoh, believe a message from the President to Mr Nakasone, coming on top of the Prime Minister's message, should have that effect.

JG1AVC

There can be no certainty that the President's response will be positive, or indeed sufficiently timely. But in the judgement of Cable and Wireless, the critical juncture has now been reached. This being so, my Secretary of State felt that the Prime Minister might like to consider approaching President Reagan to seek his personal support. I attach a possible draft message.

I am sending copies of this letter to Robert Culshaw (FCO) and Tony Kuczys (HMT).

Yours

CAROLYNE AKERS
Private Secretary

JG1AVC

DRAFT MESSAGE FROM THE PRIME MINISTER TO THE PRESIDENT OF THE UNITED STATES

I have recently ~~contacted our mutual friend~~ written to Yasu Nakasone on a matter of great importance to the United Kingdom and, I believe, to the United States. My purpose in approaching you now is to suggest that you, too, might make similar representations to him.

The Japanese government has ~~declared its readiness~~ said it is ready to ~~introduce~~ allow a new company to set up in business to compete with ~~competition to~~ the company which now ~~provides~~ has a monopoly on international telecommunications services in Japan (KDD). Two consortia have been formed to bid for the new licence. One is composed wholly of Japanese companies. The other includes one of our major corporations, Cable and Wireless, as well as Pacific Telesis and Merrill Lynch from ~~your country~~ the United States.

I wish to see an open competition between these two consortia, in accordance with the undertakings Yasu Nakasone has given both you and me. ~~Regrettably~~ However, the Japanese Ministry of Posts and Telecommunications is ~~seeking~~ trying to force a merger between the two consortia on terms which will reduce participation by foreign ~~telecommunications operators~~ companies to a nominal level. This ~~process~~ is unacceptable to me and to Cable and Wireless. I have been glad to learn that Secretary Baldrige has made it clear to the Minister of Posts and Telecommunications, Mr Karasawa, that it is also unacceptable to ~~your~~ the government ~~too~~ of the United States.

This is to my mind a test case of Japan's willingness to open its markets.

We need to reinforce this joint effort to open Japan's international telecommunications market to our companies.

I believe that an appropriate message from you to Yasu Nakasone might well be swing the decision now would have an important impact on the situation.

There is I am afraid some urgency about this now: it seems likely that a decision will be reached at a meeting tomorrow, 18 March.

I would be grateful for your earliest attention to this matter, as I understand the process of amalgamation is due to be forced forward at a meeting under the chairmanship of Mr Watanabe of the Keidanren on 18 March.

a decision will be reached at a meeting tomorrow, 18 March.


PM87

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

16 March 1987

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Will NOT write

Dear David,

Prime Minister

I very much agree with this advice that you should not write to Toyota, despite the wish of C & W that you should do so.

Agree?

DCW

at flap 16/3

CABLE & WIRELESS/2KDD

You requested by telephone our advice on a letter from Mr Solomon of C&W to Professor Brian Griffiths dated 6 March. Mr Solomon recommended that the Prime Minister send a personal note to the heads of Toyota, welcoming their presence in the International Digital Communications (IDC) consortium.

You are already aware of the background to this issue. Toyota is a major shareholder in IDC, the consortium in which C&W has a 20 per cent stake. Toyota has, however, close links with the rival consortium International Telecoms of Japan (ITJ) and, we understand with the Ministry of Posts and Telecommunications (MPT). Some elements of Toyota clearly favour a merged consortium of IDC and ITJ, with Toyota in the lead and a consequential reduction in C&W's share.

Whilst we appreciate C&W's concern over Toyota's wavering position within the IDC consortium, we recommend that the Prime Minister should not write to Toyota. Our Embassy in Tokyo and the FCO agree that it would be inappropriate for the Prime Minister to be drawn into the internal politics of a commercial consortium. A letter to Toyota, should it become public, would also devalue the letter the Prime Minister has sent to Nakasone.

DW5BJB

999-1

We have explained our reservations to Cable & Wireless. The reply to Mr Solomon should not, therefore, come as a surprise. Cable and Wireless may return to the charge and we should be ready to consider any new argument; but it seems wise for the Prime Minister to draw a clear dividing line between the commercial affairs of the consortium and the legitimate concerns of HMG over the principle of non-discrimination and benefits of foreign participation.

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

Yours

CAROLYNE AKERS
Private Secretary

DW5BJB

DRAFT LETTER FOR PS/PRIME MINISTER TO SEND TO MR SOLOMON

Please type.

J H Solomon Esq
Director of Corporate Strategy
Cable & Wireless PLC
Mercury House
Theobalds Road
LONDON WC1X 8RX

Thank you for your letter of 6 March to Brian Griffiths.

The Prime Minister has
~~We have~~ considered carefully your suggestion that ~~the Prime Minister~~ she should write to Toyota along the lines of the draft you have proposed. The Prime Minister does not, however, think that it would be appropriate for her to intervene in the way you suggest. As you know, ~~the Prime Minister~~ she has ~~now~~ written to Mr Nakasone about 2KDD and she believes that to write to Toyota would both tend to devalue that letter and to draw her into ~~is continuing to follow this issue closely.~~ the internal politics of the consortium. She is however continuing to follow the discussions ~~very~~ closely.

JAPAN Relations PT6



U.K – JAPAN 2000 GROUP

PPS.

Directors:
The Rt Hon Patrick Jenkin MP (Chairman),
Sir Terence Beckett CBE,
Sir Kenneth Berrill KCB,
Lord Boardman MC,
Admiral Sir James Eberle GCB,
Hon William McAlpine,
The Rt Hon Sir Michael Palliser GCMG,
Sir Peter Parker MVO,
The Rt Hon James Prior MP,
Sir Julian Ridsdale CBE MP,
The Rt Hon John Smith QC MP,
Sir Michael Wilford GCMG

From: THE RT. HON. PATRICK JENKIN, M.P.
HOUSE OF COMMONS
LONDON SW1A 0AA
Tel: 01-219 5171

R12/3

Wed, March 11, 1987

~~DW to see~~

17/3

Dear Margaret,

Cable & Wireless

I am very grateful for your letter of yesterday's date, and for being reminded of the actual provisions of the BT privatisation arrangements.

I hope your approach to the Japanese Prime Minister bears fruit!

Yours ever

Patrick

The United Kingdom – Japan 2000 Group is a company limited by guarantee, regd. no. 2042768.
Regd. office: Chatham House, 10 St James's Square, London SW1Y 4LE. The Group is regd. charity no. 295006.

Japan Rels PT6.

CONFIDENTIAL

EL38VA

bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 March 1987

CABLE AND WIRELESS AND JAPAN

Sir Keith Joseph today passed to the Prime Minister the thanks of Sir Eric Sharp for her intervention with Mr. Nakasone. Sir Eric had also said that in his view there would be a need for continuing pressure from the Prime Minister.

Sir Keith passed to the Prime Minister the article attached, taken from today's edition of The Independent. The Prime Minister would be glad to know urgently whether it is true that UK firms are being excluded from bidding for much of the Osaka Airport and if so what is being done about it.

The Prime Minister also understands that within the last few days there have been reports that UK firms have been dropped from a contract consulting on telecommunications in Taiwan, under pressure from the United States. She has asked for a similar assessment of this.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office).

DAVID NORGROVE

Miss Caroline Akers,
Department of Trade and Industry.

CONFIDENTIAL

THE INDEPENDENT - WEDNESDAY 11 MARCH 1987

Japan bars UK firms from £3bn contracts

By Patrick Hosking
Business Reporter

BRITISH companies have been excluded from bidding for 75 per cent of a £4bn project in Japan.

Japan is excluding foreign firms from Y750bn (£3bn) worth of contracts to build the world's most expensive airport near Osaka, the head of the project confirmed yesterday. And most of the remaining £1bn of contracts will come under the designated tender system, which tends to favour Japanese firms.

Dr Yoshio Takeuchi, president of Kansai International Airport Co, said yesterday there was no room for foreign companies in the construction of the artificial island on which the airport will sit, nor in the building of the bridge to it.

Dr Takeuchi is visiting the UK at the invitation of the Foreign Office, which is keen to salvage some business from the project for British companies.

So far 11 UK firms have registered an interest in supplying equipment or services to Kansai. But they are competing with 7,000 Japanese firms and 83 other foreign rivals.

The US, Canada, Korea and the EEC have all complained that foreign suppliers are being unfairly excluded. But Kansai, 66 per cent owned by the Japanese government, refuses to budge.

The designated tender system, by which all but a handful of shortlisted companies are excluded from bidding, would be used throughout the programme, Dr Takeuchi said. Only purchases of ships and other vessels would be open for international tender.

The designated bidding system would save time, which was important if the airport was to be operational by spring 1993.

Foreign suppliers would only be considered for the final stage of the project, the airport facilities, due to be constructed and installed between 1990 and 1993.

Most likely areas for foreign companies to win business were airport machinery, computer equipment — including security, monitoring and information systems — design work, elevators and consultancy services.

Thorn EMI, Racal Avionics, Ferranti, GEC Marconi, forklift truck makers Lansing and Houchin, which makes aircraft starting equipment, are among UK companies interested.

Another prospective supplier is British Airport Services, a subsidiary of BAA, which is due to be privatised this summer.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

10 March 1987

Dear Patrick,

Thank you for your letter of 23 February about Cable & Wireless in Japan. It was helpful to have this personal account of your contacts in Japan on this issue and I know you have been keeping the Department of Trade and Industry informed at all times.

We have been following closely the developments in Japan on this, as you know, and fully support C&W's bid to be involved in the provision of an alternative international telecommunications facility in Japan. In confidence I can tell you that I have now written to the Japanese Prime Minister restating my interest in this case.

As you say in your letter, the privatisation of BT did not place any restrictions on foreign holdings in the Company. Indeed the provisions of the Special Share make no distinction between foreign and UK shareholdings; the limit applied to single shareholdings cover British and foreign persons alike. We are continuing to emphasise the non-discriminatory character of HMG's policy in telecommunications, which has introduced genuine competition in this country.

Yours ever

Margaret

The Right Honourable Patrick Jenkin, M.P.

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PS/ *Secretary of State for Trade and Industry*

9 March 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear David,

C&W/2KDD

Charles Powell wrote to Mike Gilbertson on 24 February, requesting a draft reply to a letter the Prime Minister had received from the Rt Hon Patrick Jenkin MP about C&W and Japan.

Mr Jenkin wrote giving details of his contacts with the Japanese Ministry of Posts and Telecommunications (MPT) and others in Japan during a visit he made as Chairman of the UK-Japan 2000 Group. His letter confirms reports from other sources that the MPT is resisting C&W's participation in the provision of an alternative telecommunications service to the existing Japanese monopoly KDD. Mr Jenkin suggested that the time was fast approaching for the Prime Minister to write to Nakasone in support of C&W.

The draft letter attached confirms, in confidence, that the Prime Minister has now written. It also picks up a slight inaccuracy in Mr Jenkin's letter about the powers of the Special Share in BT. Mr Jenkin states in his letter

> "when we privatised BT ..... we made no restriction on foreign holdings in the Company, reserving only the right to preclude foreign control through the "Golden Share" mechanism".

JG5AQI

The provisions of the Special Share do not, in fact, make any distinction between shares held by foreign and British interests. Both are subject to the same restriction in the Articles of Association that no single shareholding or any one person's interest (regardless of nationality) should exceed 15%. This Article can only be amended with the written permission of the Special Shareholder. The only distinction made on nationality grounds is that the Chief Executive of BT should be British. Since Mr Jenkin has frequent contacts with the Japanese and could cover this issue again, it would be as well to clarify this point. A draft reply is attached.

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

Yours sincerely,

CAROLYNE AKERS
Private Secretary

JG5AQI

Please type.

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE:

The Rt Hon Patrick Jenkin MP
Royal Institute of International Affairs
Chatham House
10 St James's Square
London SW1Y 4LE

Thank you for your letter of 23 February about Cable & Wireless in Japan. It was helpful to have this personal account of your contacts in Japan on this issue and I know you have been keeping the Department of Trade and Industry informed at all times.

We have been following closely the developments in Japan on this, as you know, and fully support C&W's bid to be involved in the provision of an alternative international telecommunications facility in Japan. In confidence I can tell you that I have now written to the Japanese Prime Minister restating my interest in this case.

As you say in your letter, the privatisation of BT did not place any restrictions on foreign holdings in the Company. Indeed the provisions of the Special Share make no distinction between foreign and UK shareholdings; the limit applied to single shareholdings cover British and foreign persons alike. We are continuing to emphasise the non-discriminatory character of HMG's policy in telecommunications, which has introduced genuine competition in this country.

JG5AQK

Lee KG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 March 1987

I enclose a copy of a letter to the Prime Minister from Mr. Nakasone about the meeting of the UK-Japan Two Thousand Group. It seems to contain small comfort. It would be helpful to have advice in due course as to whether the Prime Minister should return to the charge on the issues mentioned.

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

CHARLES POWELL

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

KG

Cable and Wireless
Public Limited Company
Mercury House Theobalds Road London WC1X 8RX
Telephone: International +44 1 242 4433 National 01-242 4433 Telex: 23181 CANDW G

Ref: JHS/JLB/785/0513S

March 6th 1987

Prof. Brian Griffiths
No 10, Downing Street
London SWI

Dear Brian,

First, I would like to thank you for all you have done to enter the Prime Minister in the lists in Japan on our behalf. It was something we needed badly and I sincerely hope and believe it will have a dynamic impact on the situation in Japan.

As you may have gathered, a key to our eventual success is the continued participation of Toyota in IDC. Toyota is a veritable kingdom unto itself - almost a state within a state It has its own city, most of its workers live in dorms; it has 50% of the Japanese can market; one third of its profits come from its financial services - in effect it is its own bank. In turnover it ranks as the 35th country in the world (GDP). There is no doubt that in Japan Toyota is almost god-like and many people walk in fear of it. Its Achilles heel is that with the year appreciation it has to restructure and go overseas - something it has failed to do except in joint venture with GM in USA. Because of its concentration inside Japan, it has little experience overseas and this is its Achilles Heel.

It has been suggested to us that one way of locking Toyota into IDC is a personal message from the Prime Minister. This does not need to make any commitments. But a letter from the Prime Minister would make it very easy for the leaders of Toyota to squash divergent views from below - because Toyota would be honour bound to a wish of someone superior.

I attach a draft and hope can get this signed without needing to refer it to Whitehall. Personal messages are quite common in USA as you know. They can be effective. Can you please let me know how you feel about this.

Best wishes,

pp J H Solomon

for

J H SOLOMON
Director of Corporate Strategy

w/attach

5th March 1987

D R A F T

PERSONAL

Dear Eiji and Shoichiro Toyoda,

As you may know, I have taken a close personal interest in the fortunes of international Digital Communications - a unique forward-looking enterprise combining the best of American and British skills and pointing a collaborative way forward in the interests of both our nations.

Your company is more an industrial kingdom than just a business enterprise and I know that Cable & Wireless believe that Toyota's participation makes IDC acceptable in Japan. By a similar token, I believe that IDC, with Cable & Wireless and its American partners will contribute towards making Toyota's own efforts to restructure its operations abroad more acceptable to the Governments and peoples of the United States and Europe.

As you know, Cable & Wireless shares IDC's global objectives and as we move towards the 21st century, these objectives converge with the requirements of all large companies such as yours looking outwards from their home bases. I look forward, therefore, to Toyota contributing fully to make IDC a success.

Yours sincerely

0357P



EMBASSY OF JAPAN
UNITED KINGDOM

London, 6th March 1987

Dear Prime Minister,

I have been asked by the Prime Minister of Japan, Mr. Yasuhiro Nakasone, to transmit a 20267 letter he has written to you.

I have pleasure in enclosing herewith this letter and an official translation of the text.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

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



SUBJECT
cc MINISTER
OPS

'T' LOR

cc FCO
DTI

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No T 30/87

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

4 March 1987

Dear Prime Minister,

You will remember that I discussed with you last May the interest of Cable and Wireless in participating in a consortium to provide an alternative international telecommunications service to KDD. I was most encouraged by your open and positive response.

I understand that IDC, the consortium of which Cable and Wireless is a member, is now ready to file its application for a licence. They would provide an alternative international telecommunications infrastructure, funded by private sector interests at their own risk. They also expect to offer a service to Japanese and other consumers at 20 per cent below present prices. We have ourselves gained substantially in the UK by providing for competition, in both our national and international services, by an experienced operator providing independent facilities.

I am very concerned to hear, however, that the Japanese Ministry of Posts and Telecommunications has been resisting the participation of Cable and Wireless. Their level of involvement - a 20 per cent share, with a contributory role in management - is firmly within the limit specified in Japanese law for foreign participation. They have no expectation of exercising management control and will be able

ecu

to reassure the MPT in this respect, if given the opportunity.

I am in no doubt that the merits of the bid by the IDC consortium will be apparent if their application is assessed objectively. On the other hand, an enforced merger of the two new competing consortia, of the kind the MPT is evidently seeking to promote, would be tantamount to the effective exclusion of Cable and Wireless from this business, contrary to the commitments made by your Government about the further opening of the Japanese market.

I believe that we have an opportunity to create an outstanding example of Anglo-Japanese industrial co-operation in a high technology field, of the kind we have both sought to encourage. I am confident that you will share my wish to see this opportunity taken, and will be able to reassure me that the considerations in this letter will be given full weight.

With best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone.

CC/PC

Foreign and Commonwealth Office

London SW1A 2AH

4 March 1987

Dear Charles

DN

Let's wait for the draft from Pattie's office CDD

Cable and Wireless

During the past year Government Departments and our Embassy at Tokyo have been actively involved in support for the attempt by Cable and Wireless to secure a share in a new international telecommunications company in Japan. The Japanese had appeared to open up this sector of their economy to a greater degree of competition, including provision for foreign participation. Given the growth of Tokyo as a financial centre on a par with London and New York and the strength of our telecommuncations experience this seemed a natural area for constructive cooperation.

Some Japanese commercial interests, and now the MFA and MITI, have been brought to see things the same way. Government efforts have been extensive. They started with a letter from Sir Geoffrey Howe to the former Foreign Minister, Mr Abe, on 26 February 1986. The Prime Minister drew Mr Nakasone's attention to the subject at her bilateral meeting with the Japanese Prime Minister in Tokyo on 6 May. Sir Geoffrey Howe discussed the case further with Mr Kuranari both in New York on 29 September and in Brussels on 12 December. Meanwhile, Mr Channon took up the issue prominently during his visit to Tokyo last November. Recent developments are described in letters of 9 January and 6 February from Private Secretaries at the Department of Trade and Industry to David Norgrove. Mr Patrick Jenkin has also been active in support of Cable and Wireless in his capacity as Chairman of the UK-2000 Group, and the Prime Minister included a reference to telecommunications in her message to Mr Nakasone about the 2000 Group's call on him in January.

During the last few days we have been in close touch with the Department of Trade and Industry on the timing and content of a letter of intervention from the Prime Minister to Mr Nakasone. I understand that Mr Pattie's Private Secretary is forwarding a draft to you in parallel. This draws on advice from the senior DTI official responsible for telecommunications who has been in Tokyo this week and our Ambassador. Sir Geoffrey Howe agrees that the time has come for a Prime Ministerial message in terms of measured firmness. The

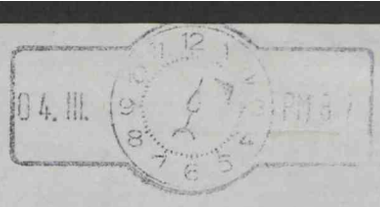
Japanese MFA will want this issue out of the way well before the Summit, and Mr Nakasone himself would probably be ready to see an international solution were it not for his current political weakness at home over tax reform and defence expenditure. It will be a tough struggle (not helped by the lack of involvement by the US Government), but is an important test of Japanese sincerity towards their external partners as well as their domestic electorate.

I am copying this letter to Tim Abraham (DTI) and Alex Allan (HM Treasury).

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street


04. III.

hle ea

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 March 1987

CABLE AND WIRELESS

I now enclose the Prime Minister's letter to Mr. Nakasone about Cable and Wireless and Japan.

I should be grateful if you could arrange for this to be telegraphed to Tokyo with a Deskby of 0800Z.

I am copying this letter and enclosure to Tony Kuczys (H.M. Treasury) and Hugh Saville (Mr. Pattie's office, Department of Trade and Industry).

(David Norgrove)

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

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5147
(Switchboard) 01-215 7877

From the Minister of State
for Industry and Information Technology

RT HON GEOFFREY PATTIE MP

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

3 March 1987

Dear Mr Norgrove

CABLE AND WIRELESS/JAPAN

Carolyne Akers wrote to you on 16 February to report on recent developments in C&W's attempts to be involved in a rival telecommmunications consortium to the existing Japanese monopoly KDD. In her letter, she promised we would advise further when support from the Prime Minister might best be timed.

Since Carolyne's letter, events have moved on. IDC, the consortium in which C&W is participating, have held their shareholders' meeting and publicised an outline of their proposals. These involve a total investment of 63 billion yen (of which 36 billion yen is for the submarine pacific cable PPAC). The alternative service would charge approximately 20% less than the KDD rates and involve a totally alternative infrastructure to that of KDD. IDC have not, however, formally submitted their bid to the Japanese Ministry of Posts and Telecommunications, probably because of clear indications from the MPT that a separate application would be unwelcome.

MR1/MR1ACE

MPT are still pressing for a merger of IDC and ITJ (the all-Japanese rival consortium). The most recent proposals, put together by the Keidanren, propose up to a 5% share in a merged consortium for each Japanese company. Foreign companies (ie Pacific Telesis and Merill Lynch) would be allowed a lower share, and C&W, because of their status as an international telecommunications carrier would only be allowed less than 3% or less than half the largest shareholding - whichever is smaller. Such a proposal is clearly highly unsatisfactory for C&W, and they have declared participation on these terms unacceptable.

IDC members have not yet responded to these proposals and there are signs of different positions being adopted within the group on the best way forward. Toyota, one of the leading shareholders in IDC, have ambitions to lead the merged consortium favoured by MPT. This could be having an unsettling effect on IDC, and is not helpful to C&W, nor C Itoh, the other major shareholder in IDC, who are very supportive of C&W's position.

These inner tensions in IDC may be one of the reasons why IDC has not publicised its own bid in any marked way and it is still not clear that the consortium will withstand MPT pressure and submit their separate proposal. C&W's request for a message is, therefore, not only to strengthen the arguments being put forward in their favour by MITI and the Ministry for Foreign Affairs. The Prime Minister's letter will also be used to try to unite IDC and strengthen C&W's postion in the group.

I have set out these points in some detail, since the Prime Minister should be aware of the complex manoeuvrings both within C&W's consortium, and between IDC, ITJ and the MPT. There is an undeniable risk that, even after the Prime Minister's letter, the IDC consortium may not submit a separate application and that a merger of the two consortia may take place. C&W have made it clear they would not be interested in participating on the current basis proposed for the merger.

Despite these difficulties, we recommend on balance that the Prime Minister now writes to Nakasone on behalf of C&W and IDC. A message this week would be well-timed, since discussions will take place next week on the Keidanren proposals and C&W's case

MR1/MR1ACE

will be strengthened considerably by a letter from the Prime Minister. It is clear that the company needs support in the current power struggles taking place and a letter now should at least help the position, even if not deciding the outcome for C&W. A draft text is attached, which has been cleared with our Embassy in Tokyo, FCO and the Company.

I understand that you will be drafting a reply to Sir Eric Sharp's letter to the Prime Minister of 27 February. We shall supply a draft reply to Patrick Jenkin's letter of 23 February shortly.

I am copying this letter to Robert Culshaw (FCO) and Tony Kuczys (HMT).

HUGH SAVILL
PRIVATE SECRETARY

MR1/MR1ACE

106ACI

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO PRIME MINISTER NAKASONE

You will remember that I raised with you last May the interest of Cable and Wireless in participating in a consortium to provide an alternative international telecommunications service to KDD. I was most encouraged by your open and positive response and have been closely watching subsequent events.

I understand that IDC, the consortium of which Cable and Wireless is a member, is ready and eager to file its application for a licence, the main elements of which have already been made known. These include provision of an alternative international telecommunications infrastructure, funded by private sector interests at their own risk. The consortium anticipate offering a service to Japanese and other consumers at 20% below existing prices. I am sure that your Government, in providing for a competing Japanese international telecoms carrier, recognised the advantages of having such a genuinely alternative system in place, adding considerable resilience to the Japanese network and offering a real choice for consumers. The other potential second operator proposes to remain dependent on the facilities of the existing operator, KDD. We have benefitted in the UK by providing for competition, in both our national and international services, by an experienced operator providing independent facilities.

I have been concerned to hear that the Japanese Ministry of Posts and Telecommunications has been resisting this concept for the provision of international telecommunications services in Japan and, particularly, the 20% participation of Cable and Wireless, with a contributory role in management. This level of involvement is firmly within the limit specified in Japanese law for foreign participation and I am certain that Cable and Wireless has no expectation of exercising management control, that the IDC consortium itself would not allow this to happen, and that Cable and Wireless will be able to reassure the MPT in this respect, if given the opportunity.

HMG is confident that the merits of the bid by the IDC consortium will be apparent if their application is objectively assessed. This could be an outstanding example of Anglo-Japanese industrial co-operation in a high technology field, such as we have both sought to encourage. Cable and Wireless shares IDC's objective of creating in Japan a new hub centre for Pacific telecommunications traffic. It has, moreover, offered Japanese interests a unique opportunity to join in a global partnership on a reciprocal basis covering both the Atlantic and Pacific Basins. These benefits will not be sustained in an enforced merger of the two new competing consortia, such as the MPT is evidently seeking to promote. I view the policy as tantamount to the effective exclusion of Cable and Wireless from this business, contrary to the commitments made by your Government to the further opening of the Japanese market. I would be grateful for an early reassurance that there will be a fair and transparent examination of the licence applications.

10 DOWNING STREET
LONDON SW1A 2AA
From the Private Secretary

3 March, 1987.

Thank you for your letter to the Prime Minister of 27 February.

The Prime Minister is following your discussions in Japan closely, and she has agreed to write to Mr. Nakasone. Her letter will be sent in good time to influence the outcome of the meeting you mention.

David Norgrove

Sir Eric Sharp, C.B.E.

FACSIMILE MESSAGE

TO ..... Mr Brian Griffiths

..... No 10 Downing Street

.....

.....

FROM ..... J SOLOMON

REF ..... CORPORATE STRATEGY C&W London

DATE ..... 2.2.87 ..... COVER + 3 PAGES

Cable & Wireless Plc.

MERCURY HOUSE, THEOBALDS ROAD,
LONDON WC1X 8RX.

TEL: INTERNATIONAL + 44 1 242 4433
NATIONAL 01 242 4433

FAX: INTERNATIONAL + 44 1 831 6617
G3+2a NATIONAL 01 831 6617

TELEX: 23181 CANDW G.

cc Caroline Akers – DTI

C & W are bombarding

Note with letters and message.

This one might be helpful to

you.

DLS

2/3

Please FAX

LDW

SUGGESTED DRAFT LETTER FOR THE PRIME MINISTER

TO SEND TO MR NAKASONE

to Brian Griffiths
No 10

to JAY CHAM C.I. NY

Dear Mr. Nakasone,

You will know that I have been watching the 2nd KDD developments in Japan with interest because they symbolize the hard choice facing us all as we undergo the structural changes necessary to maintain a harmonious international order.

Together with the United States, our two countries have taken the decisions to liberalize and privatise our telecommunications systems and are now embarked on a period of implementation. The strategic consequences of these decisions are significant for the future shape of both National and International Telecommunications in the Atlantic and Pacific Oceans.

It is within this strategic framework that our Government welcomed the Telecommunications Law of Japan of April 1985 and I raised the matter with you last year at the Tokyo Summit.

I understand that the two consortia, you mentioned to me last May, have now completed their feasibility studies and are ready to file their applications for Type 1 carrier licences to the Ministry of Posts and Telecommunications (MoPT).

There are substantial differences in the composition and business objectives of the two consortia - one seeking to provide large user members with international capacity by means of reselling facilities made available by KDD and the other, International Digital Communications Planning Inc. (IDC), seeking to build new facilities with the objective of making Japan an international hub centre in the Pacific.

The British participant in IDC has notified us that their feasibility study, already completed, clearly shows that the market will be large enough to support two new carriers, even when both are licensed at the same time and in addition to KDD. They further indicate that MoPT, without having studied the feasibility studies of either the two groups, are reaffirming the line they have consistently maintained and reiterated to Mr. Channon, our Secretary of State for Trade and Industry, on 25th November 1986 namely,

a) that there is not enough room for two additional carriers in the market,
b) and as such there is no need for the construction of a new transpacific cable.

c) they will not approve the participation in management of the British telecommunications company.

To pre-empt fair and transparent appraisal of the two feasibility studies, the Ministry appears to be supportive of the moves within the Keidanren to pressurize the Japanese members of IDC to amalgamate with ITJ at the expense of their British and American partners in IDC.

I must say that I find this procedure unacceptable, since it makes a mockery of the efforts of the two consortia to produce thorough feasibility studies. I hope very much, therefore, that you will be able to persuade the Ministry of Posts and Telecommunications not to prejudge the issue and to study the two applications equally, giving IDC an opportunity to demonstrate its ability to provide a competitive alternative to the existing monopoly carrier and to contribute towards enhancing the strategic position of Japan in international telecommunications.

I am fully aware of the problems of bringing about the smooth transition from a state monopoly to one of competition and I recognisze that each country has its own way of resolving these problems. Japan is a valued member of the international community and as such values the role of due process and objective criteria in coming to decisions on the matter of international importance. Indeed, Japan is perhaps the leding beneficarary of the application of objective criteria within the industrialised world - both as a trader and an investor. Our UK liberalisation has led to .80 worth of telecommunications goods being imported from Japan for every .1 worth of telecommunications goods being exported to Japan, and Cable and Wireless is the largest single purchaser of Japanese telecommunications equipment in the world.

I understand that the participation of Cable and Wireless as a 20% minority share holder in IDC, well within the Law of Japan, has roused an unprecedented degree of concern in some Government and industrial circles, which has overflowed into a quasi "keep Cable and Wireless out" campaign. We are all accustomed tothis type of occurance and no country is free of an element of Xenophobia. The test is the way we handle decisions which break new ground.

Cable and Wireless shares IDC's objective of creating a new Pacific hub centre in Japan and has offered Japanese interests a unique opportunity to join in a global partnership on a reciprocal basis covering both the Atlantic and Pacific basins. This partnership is fully in accord with the new telecommunications policies initiated by the Governments of Japan, the United States

and the United Kingdom and would make an unprecedented contribution to the creation of choice of international telecommunications facilities for the first time in world history. The benefits to Japan of permitting IDC the freedom to take the risks its business objectives entail and of taking up Cable and Wireless' offer of global partnership more than justify Cable and Wireless modest 20% stake in what must always be a second carrier in Japan.

I sincerely hope that you will be able to guide the Japanese consensus making process in a wise direction, thereby enabling the Japanese people to benefit from greater choice and effective competition in international telecommunications and demonstrating that Japan can make the difficult decisions to maintain international harmony. As you know we have a very busy agenda for the next summit in Venice and I trust you will agree that it would be helpful to have resolved this issue in a satisfactory manner before then.

Given the relatively short time before we meet in Venice, I would be grateful for early reassurance that a fair and transparent examination of the licence applications is under way.

As this affects the interests of the United States, I am copying this to the President.

FACSIMILE MESSAGE

TO ..... Mr Brian Griffiths

..... No 10 Downing Street

.....

.....

FROM ..... J SOLOMON

REF ..... CORPORATE.STRATEGY C&W London

DATE ..... 2.3.87 ..... COVER + 3 PAGES

Cable & Wireless Plc.

MERCURY HOUSE, THEOBALDS ROAD,
LONDON WC1X 8RX.

TEL: INTERNATIONAL + 44 1 242 4433
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cc Caroline Akers – DTI

C & W are bombarding
Nolo with letters and messages.
This one might be helpful to
you.

DLS
2/3

Please FAX

LJW

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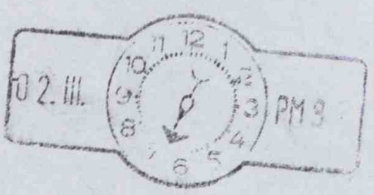
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PM 3

CC BG

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01- 242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

The meeting is on 6th March - we must get letter off by the 3rd

27th February 1987

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

Prime Minister
I have asked for urgent advice and a draft letter to Mr Nalasone.
DRN
27/2

Dear Prime Minister

I know through discussions with Brian Griffiths that you have been kept informed of Cable and Wireless' aims and objectives in Japan and the difficulties we are having with the Japanese Ministry of Posts and Telecommunications.

You will recall that two companies have now prepared their licence applications to run an alternative international telecommunications service for Japan:

International Digital Communications Planning Inc. (IDC) - led by C. Itoh (20 per cent), Toyota (10 per cent) with a number of leading Japanese companies including Fujitsu, NEC, Hitachi, Industrial Bank of Japan, Daichi Kangyo Bank, and Cable and Wireless (20 per cent), Pacific Telesis, USA (10 per cent) and Merrill Lynch, USA (3 per cent).

International Telecoms of Japan (ITJ) - an all Japanese consortium led by Mitsubishi, Mitsui, Sumitomo and Matsushita.

The essential difference between these two rival consortia in competition for an alternative international telecommunications service to the existing monopoly (KDD) is that the IDC consortium represents leading Japanese, British and American companies with extensive expert experience of telecommunications whereas the rival ITJ consortium consists only of Japanese companies which have no telecommunications experience whatsoever. Further, our consortium wishes to construct entirely new facilities including a privately financed cable across the Pacific connecting Japan directly with the West Coast of the USA (PPAC - an initiative of Cable and Wireless and blessed by the Federal Communications Commission) whereas the rival ITJ would merely lease capacity from the monopoly KDD and re-sell it to customers.

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

The Rt. Hon. Margaret Thatcher, MP., 27th February 1987

The Ministry of Posts and Telecommunications (MPT) have vigorously opposed both our consortium and especially the foreign participation. They have carried their opposition beyond the limits normally expected of a Ministry ultimately responsible for licensing. The various forecasts made of the Japanese market including our own feasibility study amply demonstrate an adequate market for both consortia to establish themselves, competing and co-existing with each other and KDD - the current monopoly international carrier. Nevertheless, all this is contemptuously brushed aside by the Ministry which seeks to merge the two consortia so that only one licence is issued and through the merger virtually eliminate or severely reduce the foreign participation. Their particular venom is reserved for Cable and Wireless who they - correctly - identify as the expert and competitive threat to the KDD monopoly position. Disinformation is vigorously publicised covering anxiety about Japanese security to doubts about demand and the 'management' role of Cable and Wireless.

Within the last few weeks our friends have begun to mobilise their forces against the backward-looking attitude of the Ministry and in an unprecedented move the Ministry of Foreign Affairs issued a public statement condemning the Ministry of Posts and Telecommunications attitude (Appendix A). I have just received a cri-de-coeur from our friends (which also includes the Ministry of International Trade (MITI) saying that a critical meeting is being held on 6th March and they think it vital for the Ministry of Foreign Affairs and MITI's support to be buttressed by a firm expression of HMG opinion at the highest political level - and by that Prime Minister they really mean a letter from you to Mr. Nakasone.

The Ministry of Posts and Telecommunications in leading the propaganda battle against Cable and Wireless is exploiting nationalistic sentiment (never far from the surface) by being seen to be fending the foreigner off a precious Japanese asset. When the satellite licence was similarly at issue, they tried to prevent Hughes (a division of General Motors) from participating as to 30 per cent in J.C. Sat - a satellite venture also with C. Itoh. Hughes lobbied hard on the Hill and gained Presidential support against MPT attempts to merge J.C. Sat with a rival group led by Mitsubishi. The Ministry failed but they are clearly repeating the same tactic despite our more modest participation of 20 per cent.

The Rt. Hon. Margaret Thatcher, MP., 27th February 1987

My own attitude, Prime Minister, is that I will not be bullied or pressured by the Ministry to accept a diluted derisory UK participation in a merged consortia which will not be an effective alternative international telecommunications company. Apart from the fact that the UK (in common with the USA) suffers from a huge adverse balance of trade with Japan, the UK suffers a huge adverse balance of trade with Japan in telecommunications equipment. For every £1 worth of telecommunications goods exported to Japan in 1985 there were £80 worth imported from Japan (Appendix B).

The supreme irony is that Cable and Wireless is the largest telecommunications purchaser of Japanese telecommunications equipment - principally for its Far Eastern operations (and these purchases are not included in the preceding UK statistic).

As soon as a UK company can make a competitive contribution (which incidentally will enable Japanese industry to benefit from a more competitive telecommunications service) the obstacles are put in our way. Mr. Patrick Jenkin has put this issue very cogently, in his recent letter to the 'Financial Times' (Appendix C) on the Cable and Wireless venture.

Our Embassy in Tokyo has within the last few days, I understand, confirmed that a major political response is now needed from the UK to stand full square behind the IDC Japanese British and U.S. consortium and in particular Cable and Wireless' inclusion at the modest 20 per cent level which we have always maintained as reflecting our expert contribution and cable initiative.

The Japanese respect only strength and it is against that background that my Tokyo friends have appealed to me to raise this matter with you to seek your personal intervention because of the impending meeting beginning the final stages of this critical battle.

I am copying this to Sir Geoffrey Howe and Mr. Paul Channon.

With all good wishes

Yours sincerely

Encs.

APPENDIX A

"NIHON KEIZAI SHIMBUN" FEB 7 '87

Let the British firm participate in the Second KDD:
Ministry of Foreign Affairs -

The Ministry of Foreign Affairs has indicated its view that the British firm, Cable & Wireless, be approved to participate in the management of the Second KDD. The Ministry of Posts and Telecommunications' disapproval of such participation has met with strong opposition from the British government and is emerging as a new source of bilateral economic friction. Judging it "unwise to let the problem aggravate any further", the Ministry of Foreign Affairs will try to persuade the Postal Ministry open up the international telecommunications business to foreign companies.

Currently, two companies are conducting feasibility study with a view to make entry into the international telecommunciations field. Challenging KDD are IDC and ITJ.

The Postal Ministry, as the competent authority, does not approve foreign management involvement and, further, wants to see the two groups integrated. Its logic is that foreign participation in the management is not advisable from the point of view of national security, while entry by both groups runs the risk of creating a glut.

On the other hand, the Ministry of Foreign Affairs maintains that (1) the telecommunications business law approves up to 1/3 of the management be comprised of directors from foreign businesses, (2) national security consideration can be resolved through use of KDD, and (3) demand factor does not constitute a constraint on the pursuance of the business. Claiming that "basically, license should be granted to the two groups simultaneously, and even if there is to be an integration, foreign participation should still be approved", the Foreign Affairs Ministry gives support to C&W's management participation, the very request of the British government.

APPENDIX B

Telecommunications Equipment - Trade Statistics 1985

(Jan-Dec) Inclusive.

Statistical Code No	Product Description	£ Value UK Exports to Japan.	£ Value UK Imports from Japan.
8513-1110	Line apparatus for long distance communication and speech input equip	18,702	4,541,412
8513-1199	Other apparatus for carrier-current line systems.	34,263	1,211,551
8513-3100	Telephone sets.	271,344	6,734,506
8513-3910	Swithboards and exchanges.	4,949	1,062,629
8513-3999	Other telephonic apparatus.	16,399	10,649,765
8513-5010	Teleprinters; morse transmitter and receivers and morse re-perforators.	15,115	691,540
8513-5099	Other telegraphic apparatus.	17,941	23,210,504
8514-1000 (30%) 8514-5000	Audio frequency electric amplifiers	22,789	63,959
8513-1900	Parts for carrier-current line systems.	3,391	571,404
8513-8100	Parts of telephonic apparatus.	157,543	2,828,946
8513-8500	Parts of telegraphic apparatus.	83,496	1,418,160
TOTAL.....		654,932	52,984,376

Summary :-

For every £1 worth of telecommunications goods exported to Japan in 1985 there were £80 worth imported from Japan.

Telecommunications and Posts Division DTI

August 1986.

Letters to the Editor

F.T. 15.12.86

Testing Japanese commitment

From The Rt Hon P. Jenkin, MP

Sir,—The argument going on in Tokyo about whether Cable and Wireless should be allowed to be an operating partner in a consortium licenced as the second international telecommunications carrier (December 11) is symptomatic of the opposition facing Mr Nakasone in his efforts to implement the Maekawa report.

Last January, the participants, both British and Japanese, in the second meeting of the UK-Japan 2000 Group, in a discussion on the structural Japanese trade surplus, urged "the Japanese Government to take unilateral as well as multilateral action to redress the balance . . . the British members noted that a number of formal and informal barriers to the Japanese markets still remain in areas where the UK has a clear competitive advantage . . . Japanese emphasised the need for British exporters to make greater efforts to penetrate the Japanese market. . . . Both sides welcomed progress in industrial collaboration, and looked for the further development of collaboration through direct investment, joint ventures and technological co-operation."

We could hardly have a better test of Japanese commitment to these aims than the C & W bid. So it is very depressing to read that, despite the clear message of Maekawa, despite the express determination of the Prime Minister to implement Maekawa and despite the encouraging comments I heard in Tokyo last month, there still seem to be "old guard" pressures which may even now frustrate that bid.

The UK-Japan 2000 Group exists to foster better relations between our two countries in the longer term—"2000" refers to the year 2000 AD. The Japanese participants number among them some of the most prominent and respected people in Japanese public and industrial life.

No one could be "trying harder" than C & W. Its expertise is acknowledged by all to be top qaulity. Is this to be yet another instance of old style protectionism defeating Mr Nakasone's admirable commitment to enhance Japan's global role? The year 2000 is not all that far off!

Patrick Jenkin
(UK Chairman,
UK-Japan 2000 Group).
House of Commons, SW1.

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01- 242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

27th February 1987

Professor Brian Griffiths,
Head of Prime Minister's Policy Unit,
10 Downing Street,
LONDON. SW1

Dear Brian

I have heard from Jonathan Solomon, who is in Tokyo, that it is imperative that a firm expression of HMG opinion is forthcoming from the Prime Minister to be sent to Tokyo within the next few days. He tells me that our Embassy agrees with this assessment and has similarly advised. Accordingly, I have sent the attached letter to the Prime Minister and I would be grateful if you would alert the Prime Minster's PPS about the urgency and importance of the Prime Minister's intervention - and, perhaps, if you could also advise the Prime Minister direct, this might be helpful.

You should know that I have not received as of today any reply to my previous letter of 17th February on this matter to Mr. Channon, a copy of which I think you have seen. I understand that Mr. Priddle of the DTI is off to Tokyo tomorrow for discussions with the Ministry of Posts and Telecommunications which will include, of course, the Cable and Wireless venture but I do not regard this as any substitute for effective political action and, indeed, I am sure that the Ministry of Posts and Telecommunications will take full advantage to drag the matter out to our disadvantage.

Jonathan will be back in the office on Monday and so will be available to help if needed in advising on the points to be emphasised in the Prime Minister's response.

With all good wishes

Yours ever

Eric

Enc.

REGISTERED NUMBER 238525 ENGLAND
REGISTERED OFFICE MERCURY HOUSE THEOBALDS ROAD LONDON WC1X 8RX

Cable and Wireless
Public Limited Company
Mercury House Theobalds Road London WC1X 8RX
Telephone: International +44 1 242 4433 National 01-242 4433 Telex: 23181 CANDW G

Prof. Brian Griffiths,
10 Downing Street,
London SW1

25th February 1987

NBPM.

Dear Sir,

Would you please find enclosed the latest version of the draft letter for the Prime Minister to send to the Prime Minister of Japan.

Mr. Jonathan Solomon, who sent us this document from Tokyo, will be back in London on Monday 2nd March.

Yours sincerely.

P. GRAHAM
Corporate Strategy

JS/pg/0351P

PROPOSED DRAFT LETTER FOR HMG PM TO

SEND TO JAPANESE PM

1. We are keenly aware that the annihilation of distance is a fact of life and the role international telecommunications play in the rapid internationalizing world is becoming increasingly important these days. It is no exaggeration to say that the future growth of the entire world is solely contingent upon the extent that each and every nation of the world can successfully internationalize itself. For this reason, we respect the positive decision made by the Japanese Government in April 1985 by passing the new Telecommunications Law which substantially reformed and liberalized the nation's domestic and international telecommunications business.

2. We understand that two groups are currently in the process of filing applications with your Government for type 1 common carrier licenses based on the outcome of their respective feasibility studies. One of the groups, as we understand it, is International Digital Communications Planning Inc. (IDC) with British and American capital participation and they are looking at rendering telecommunications services at a lower cost to the users by utilizing an optical fibre submarine cable across the Pacific.

3. The British participant in IDC tells us that their feasibility study, already completed, clearly shows that the market will be large enough to support two new carriers, even when both are licensed at the same time and in addition to KDD. They further indicate that MoPT, without having studied the feasibility studies of either the two groups, are inclined to conclude;

a) that there is not enough room for two additional carriers in the market,

b) and as such there is no need for the construction of a new transpacific cable, even though it has been anounced in the papers that the exisisting carrier KDD is concidering the need of an additional cable (TPC4) after TPC3, which has yet to be laid.

c) they will not approve the participation in management of the British telecommunications company.

What is even more embarrassing to us is that the MoPT is allegedly taking every possible measure, including the indigenity of spreading false and malicious rumours which boarder on the point of being libelous, to sway public opinion towards unification of the two groups and the exclusion of the British company.

This is particularly difficult to understand when it is the self same Ministry (MoPT) which introduced the law allowing for 33&1/3% foreign participation that is now seeking ways to eliminate this participation.

4. We sincerely hope that you will be able to encourage your Ministry not to prejudge the issue and study the two applications equally, giving IDC a chance as a true alternative to the existing carrier. We have every reason to believe that IDC's project will not only contribute significantly to the development of international telecommunications in Japan, but will also, with the inclusion of the foreign participation, represent an unprecedented example of international cooperation. Once again showing to the rest of the world that Japan is taking its responsibility as the second largest ecomony of the world seriously.

K16

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 February 1987

I am writing on behalf of the Prime Minister to thank you for your letter of 23 February.

This is receiving attention and you will be sent a reply as soon as possible,.

CHARLES POWELL

The Rt. Hon. Patrick Jenkin, M.P.

Patrick JENKIN MP

10/3

4/6

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 February 1987

I enclose a copy of a letter, together with its attachments, which the Prime Minister has received from Patrick Jenkin, M.P.

I should be grateful if you would please let me have a draft reply for the Prime Minister's signature by Tuesday 10 March.

I am copying this correspondence to Lyn Parker (Foreign and Commonwealth Office).

CHARLES POWELL

Mike Gilbertson, Esq.,
Department of Trade and Industry.

CP.

UK – JAPAN 2000 GROUP

R24

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Sir Michael Wilford GCMG

Royal Institute of International Affairs,
Chatham House, 10 St James's Square,
London SW1Y 4LE
Tel. 01-930 2233 (Fax. No. 01-839 3593)

Please reply to:

HOUSE OF COMMONS
LONDON,SW1

23rd February, 1987

Dear Prime Minister,

CABLE AND WIRELESS IN JAPAN

While I was in Tokyo last month for the 2000 Group Meeting, John Whitehead, our new Ambassador, had a message from Geoffrey Howe asking that the 2000 Group might concern itself with the Cable and Wireless issue, with which you are, of course, familiar. As it happens, several of the Japanese team represent companies in the ITJ consortium - the all-Japanese group, which is the alternative contender for the KDD2 licence. While, therefore, I could not involve the Group as such in the issue, I did take it upon myself to have a meeting with Cable and Wireless' partners, C. Itoh Limited, and following that, I addressed a letter to the Minister for Posts and Telecommunications, Mr. Shunjiro Karasawa, of which I attach a copy. He subsequently replied, and I have responded to that reply and copies are also attached. I have, of course, kept in close touch both with Cable and Wireless and with the Department of Trade and Industry.

You, of course, mentioned collaboration in the field of telecommunications in the letter you wrote to Mr. Nakasone and which I conveyed to him when we all saw him after the Gotemba Meeting. I am now writing to you to suggest that the time may be coming quite shortly when it would be right for you to raise the matter with him quite specifically. I say this because it is now clear beyond a peradventure that the Ministry of Posts and Telecommunications is quite determined to thwart Cable and Wireless' ambitions, notwithstanding that Japanese law provides expressly that there may be foreign participation up to one-third in an enterprise engaged in telecommunications in Japan. By contrast, the Ministry of Foreign Affairs in Japan is taking the diametrically opposite view - as is apparent from the attached copy of an article which appeared in NIHON KEIZAI SHIMBUN on 7th February, 1987 under the heading "Let the British firm participate in the second KDD". You may agree that only the Prime Minister can resolve what has now become an open dispute between Japanese

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LONDON,SW1

Government Departments.

From my own discussions both in Japan and in this country, it is clear that many Japanese find it hard to understand how a foreign company can take part in another country's telecommunications. I tell them that when we privatised BT (and you will remember that it was I who first introduced the legislation) we made no restriction on foreign holdings in the Company, reserving only the right to preclude foreign control through the "Golden Share" mechanism. Since then, BT shares are freely traded on several foreign stock exchanges, including Tokyo. I also point out that I agreed a licence for cellular radio telephone to a consortium of which Vodaphone of America was a substantial participant, and that we are perfectly ready to see foreign participation in our cable networks.

Nevertheless, it is clear to me that the Ministry of Posts and Telecommunications see their stand against Cable and Wireless as a gauntlet thrown down by them and their supporters in the Keidanren and ITJ. This is not the first time it has happened. MPT failed to prevent Hughes gaining 30% of a satellite venture called J.C.Sat; Hughes lobbied hard in Washington and, in the end, the American Government persuaded the Japanese to allow them in. Again, MPT waged a long and bitter battle against bringing in Motorola in cellular radio, and, as with the KDD2 issue, tried to use a merger proposal to delay, frustrate and diminish the Motorola position. Again, however, MPT failed and Motorola was allowed to participate (though MPT retaliated by giving the all-Japanese consortium the lion's share of the market!).

I am told that the KDD2 issue is of much greater significance for MPT than those cases - because it affects KDD itself, where many former MPT officials occupy positions of influence. MPT has engaged in a pretty unscrupulous campaign of disinformation against Cable and Wireless around the world, while outwardly treating C & W with the utmost courtesy.

Everyone knows that you raised this issue at the last Summit, and many believe that it is only a matter of time before you have to raise it again with Mr. Nakasone. Moreover, his own staff are clearly expecting this. I have had several meetings over the last two or three months with one of his senior advisers, Mr. Kunihiro,and he paid a courtesy call on me only a few days

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ago. We discussed the Cable and Wireless issue, and I have since had a letter thanking me for seeing him. He ended his letter:-

> "I am looking into the Cable and Wireless case. I am finding the case rather complicated in many ways and trying to present a fair analysis to the Prime Minister".

Clearly, it will be a matter for careful judgment whether and, if so, at what point you intervene. Paul Channon is, I know, continuing his own correspondence with Mr. Karasawa and it may be that you will wish to let this run a little longer. Nevertheless, if I may offer my advice, it is that you may wish to prepare the ground for your own approach to Mr. Nakasone, as I believe that this will in the end be the only way to resolve the matter.

I am copying this letter to Geoffrey Howe and Paul Channon; Eric Sharpe at Cable and Wireless is aware that I am writing to you.

With kind regards

Yours ever

Patrick

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister

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Please reply to: c/o British Embassy
Tokyo

21 January 1987

His Excellency
Mr Shunjiro Karasawa
Minister of Posts
and Telecommunications
3-2 Kasumigaseki 1-chome
Chiyoda-ku
TOKYO 100

Dear Mr Karasawa,

I am sorry that I could not give you more notice of my request for a meeting with you this week to discuss the interests of Cable and Wireless in the 2KDD project. It was only on Monday that I received a message from Sir Geoffrey Howe, the British Secretary of State for Foreign and Commonwealth Affairs, after my return from the meeting of the UK-Japan 2000 Group meeting in Gotemba over the weekend.

Sir Geoffrey asked me, while I was in Japan, to make known his own personal interest in this matter. Since you will be in Osaka, perhaps I may put a few points into this letter which I have asked the British Embassy to deliver to you.

The Rt Hon Paul Channon, the Secretary of State for Trade and Industry, has told me that, when he called on you in November, he stressed the importance which the British Government attaches to the interests of Cable and Wireless in the 2KDD project. Since then, I know that the British Ambassador has called on Mr Okuyama to discuss the matter and that the Embassy has also made approaches to the Ministry of Foreign Affairs. Our Prime Minister, Mrs Thatcher, is following developments in this case closely; she made specific reference to the question of UK-Japan "cooperation in the field of telecommunications" in a recent letter which I personally delivered to Prime Minister Nakasone when he received the 2000 Group participants on Monday.

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I understand that Her Majesty's Government was pleased to receive through the Ministry of Foreign Affairs last week the assurance that the proposals of both consortia competing for the 2KDD project would receive full consideration by the Japanese Government. On many occasions during recent meetings between British and Japanese Ministers, in particular, during the visit of Mr Channon, British Ministers have expressed their strong support for an increase in Anglo-Japanese industrial collaboration. I know that it is the Japanese Government's declared policy to "internationalise" the Japanese economy, as spelt out in the Maekawa Report; there are many areas in which British industry would be interested to participate in this laudable aim. Indeed, next week there will be official talks between the British Department of Trade and Industry and MITI on this very subject.

When I was Secretary of State for Industry in 1981/83, I was closely involved with Cable and Wireless and with the Mercury Company, now a Cable and Wireless subsidiary. They represent a combination of many years' experience in international telecommunications and great technological expertise. The IDC consortium would have access to this which would be of great value in establishing its presence in the international market. IDC would provide facilities competition in international telecommunications, not just service competition and would aim to make Japan a major hub centre - something that you may agree would be very much in Japan's interest. Cable and Wireless has, moreover, indicated that it is prepared to consider offering its partners some share of its international business in other parts of the world to strengthen its links with them. Despite the experience and the resources that Cable and Wireless can bring to IDC, I understand that they have made it clear that they have no wish to become involved in the management or operations of IDC. All they are seeking is a seat on the Board of IDC in accordance with normal international corporate practice when a company holds shares at the level proposed for Cable and Wireless. I am also advised that such participation by Cable and Wireless is entirely in accordance with Japanese law which provides

/....

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21 January 1987

His Excellency
Mr Shunjiro Karasawa
Minister of Posts
and Telecommunications
3-2 Kasumigaseki 1-chome
Chiyoda-ku
TOKYO 100

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Please reply to:

for foreign participation in such telecommunications carriers up to 33 1/3 per cent.

I understand that the proposals of the IDC consortium will be available at the end of January. They will be based on thorough feasibility studies which will include an assessment both of existing traffic levels and of those likely to be generated by the creation of a competitive facility. I might add that it is the experience of such forecasts that they almost invariably under-state the traffic growth - increased competition seems always to lead to increased traffic. Particularly must this be so for Tokyo which is almost daily becoming ever more active as one of the world's three major financial centres.

So, I hope that in the interests of the closer commercial partnership between the UK and Japan which both Governments seek (a general aim endorsed last week by both sides of the 2000 Group), you will think it right to approach the question of a licence for the IDC consortium sympathetically; and that you will take fully into account the merits of their proposals and the valuable contribution that Cable and Wireless, with its Japanese and American partners, can make to the future of Japan's overseas telecommunications network.

Yours ever

Patrick Jenkin

Patrick Jenkin

bc: Mr I Yonekura, President, C Itoh & Co Ltd , Tokyo
J Solomon Esq, Cable & Wireless Ltd, London
Mr A Hayashi, Ministry of Foreign Affairs, Tokyo
R Q Braithwaite Esq, CMG, Foreign & Commonwealth Office, London
R J Priddle Esq, TP1, DTI, London
P Dimond Esq, FED, FCO

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Ministry of Posts and Telecommunications

Tokyo, Japan

February 4, 1987

The Rt. Hon. Patrick Jenkin MP
Chairman
Royal Institute of
International Affairs
Chatham House
10 St. James's Square
London SW1Y 4LE

Dear Mr. Jenkin:

Thank you for your letter of January 21. I have just read it upon returning to Tokyo from a trip to Kyoto and Osaka. Let me say at the outset of this letter how much I respect and admire the efforts you are making to further the close, amicable relations between the United Kingdom and Japan in your capacity as the chairman of the UK-Japan 2000 Group.

I am sorry that I did not have an opportunity to explain the matter of entrance into Japan's international telecommunications business during your visit to Japan. In this letter, which I will ask the British Embassy to deliver to you, I would like to state my views on this subject.

Firstly, I should say that, regarding what is being called the "second KDD issue," an entrance plan is now in the study stage within the private sector, and the Ministry of Posts and Telecommunications, for its part, will, after receiving an application, make an evaluation and a comprehensive judgement of the overall situation on the basis of the Telecommunications Business Law.

It is of cource desirable that the principle of competition function smoothly in Japan's international telecommunications. As you know, however, it would be very difficult, considering the size of Japan's international telecommunications market, to grant approval to two additional international telecommunications carriers besides KDD.

After reading your letter, I am given to wonder if there has been some misunderstanding on this particular point. I would like to make it clear that

- cont'd -

we have no intention of preventing foreign companies from participating in the international telecommunications business in Japan, but I would have to say that the involvement of foreign international carriers in the management of Japan's international telecommunications business would be inappropriate for the following reasons:

1. International telecommunications, needless to say, is the important means to advance the mutual understanding between countries and their people, at the same time, and is the indispensable infrastructure for social, economic and cultural activities in the international society.

   Considering these characteristics of international telecommunications, therefore, I think that countries and their international telecommunications service providers should cooperate in constructing and managing an international telecommunications networks on a fair and equitable basis.

2. For this reason, Japan makes it a principle to conduct its international telecommunications affairs in close, friendly relations maintained universally with foreign international telecommunications carriers. To ensure that these relations remain equal and unbiased, it is important that we not undertake any action that would appear to be showing favoritism to a particular foreign international telecommunications carrier.

3. Moreover, international telecommunications is carried out through cooperative relations among carriers in different countries. These international telecommunications carriers should be equal partners. If a foreign international telecommunications carrier were to become involved in the management of our international telecommunications business, it would be overstepping its partnership role and would be exercising influence over the management and operations of both the international telecommunications carriers concerned. This would damage the equal business relationships of international telecommunications carriers.

- cont'd -

4. There is no precedent among advanced countries of a major international telecommunications carrier allowing participation by a foreign international telecommunications carrier in its management. This suggests that the position expressed above is common practice in the international telecommunications sphere. I think that we must treat very carefully such problem which has a great influence on the international telecommunications principle.

I heartfully hope that you will understand my considerations that this is very important from the standpoint outlined above, for our country orienting further internationalization in future and that to deal with this item on the standpoint outlined above will benefit the close relationship of U.K.-Japan, which should be kept for a long in future.

As concerns trans-Pacific submarine cables, there would appear to be no need for some time for laying additional large-capacity optical fiber cables, considering the international telecommunications supply-and-demand situation in this region.

It is my earnest hope that, in the area of international telecommunications in Japan, the two private groups that are interested in providing such services will arrive at a reasonable solution as they try to coordinate and unify their projects.

With fondest hopes for the further development of Anglo-Japanese relations and with heartfelt appreciation for your contributions to that end, I remain,

Sincerely yours,

Shunjiro Karasawa

Shunjiro Karasawa
Minister of Posts and
Telecommunications

UK – JAPAN 2000 GROUP

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Please reply to:

HOUSE OF COMMONS
LONDON,SW1

19th February, 1987

I am very much obliged to you for your letter of 4th February which reached me a few days ago.

I am grateful to you for the trouble you have taken to spell out your approach to your Government's decision to open up Japan's international telecommunications to competition. I entirely understand and accept that your Government's decision in this regard must have the best interests of Japan at heart, as ensured by Japanese law. I am encouraged by your statement that you have no intention of preventing foreign companies from participating in the international telecommunications business.

At the same time, I am sure that there needs to be much more open discussion about the issues surrounding what you describe as "management". I can only repeat what I said in my earlier letter, namely, that Cable and Wireless are not looking to be the operator under any licence that might be granted to the IDC Consortium.

It does appear to me that these issues might be most usefully examined in the context of the proposals due to be put forward by the IDC and the ITJ Consortia respectively. It may well be that when these are examined in detail, some of the points spelt out in your letter may appear in a somewhat different light. Of course, I am in no position, as UK Chairman of the UK-Japan 2000 Group, to express any view either on behalf of Her Majesty's Government or of Cable and Wireless, though I have, of course, discussed your letter with representatives of both. I think, however, that there would be a general welcome from all those concerned if such an examination could take place in the near future and if there were, thereafter, to be a fully transparent discussion of all the issues involved.

The United Kingdom – Japan 2000 Group is a company limited by guarantee, regd. no. 2042768.
Regd. office: Chatham House, 10 St James's Square, London SW1Y 4LE. The Group is regd. charity no. 295006.

UK – JAPAN 2000 GROUP

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Sir Terence Beckett CBE.
Sir Kenneth Berrill KCB.
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Admiral Sir James Eberle GCB.
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The Rt Hon Sir Michael Palliser GCMG.
Sir Peter Parker MVO.
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Sir Michael Wilford GCMG

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Tel. 01-930 2233 (Fax. No. 01-839 3593)

Please reply to:

HOUSE OF COMMONS
LONDON,SW1

I hope very much that there can be further progress on this important matter in the interests of all those involved.

Mr. Shunjiro Karasawa,
Minister of Posts and Telecommunications,
Ministry of Posts and Telecommunications,
Tokyo,
Japan.

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Regd. office: Chatham House, 10 St James's Square, London SW1Y 4LE. The Group is regd. charity no. 295006.

SUBJECT
cc Master
Ops.

Prime Minister
A reply from Mr. Nakasone to your recent message. It offers little comfort.

CCS/PC (2)

(Translation)

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 22A/87

February 20, 1987

CDP 6/3

Dear Prime Minister,

Thank you very much for writing to me on the occasion of the third UK-Japan 2000 Group Conference.

I was very happy to learn from members of the Group from both countries that fruitful discussions were conducted for the development of UK-Japan relations. It is gratifying to note that the 2000 Group has come to establish itself as a forum for dialogue between our two countries and is engaged in useful activities. With regard in particular to its five recommendations to the two Governments, I will respect their purports and endeavour to have them reflected in Japan's future policies as much as possible. I shall be grateful if I can obtain your cooperation in this matter.

It gives me utmost pleasure that there have been increasing dialogues and exchanges at all levels between our two countries, including this Group. I believe it is vitally important for our two countries to expand further the existing broad scope of cooperation, and especially to have closer political dialogues, in view of the fact that they are charged with an increasing role to play for the peace and stability of the world. In this sense, I shall be very glad to welcome Sir Geoffrey to Japan immediately before the forthcoming Venice Summit.

It is important that the two countries strengthen their collaboration in the economic sphere too. I deem it a common obligation of our two countries, charged with a large responsibility for the management of the world economy, to stem the spread of protectionism in the world, and to maintain and consolidate the open trade system. I am encouraged to know that my view coincides with yours in this respect.

.../

The present world trade system requires a renovation to adapt itself to the needs of the new era. It is a matter for our congratulation that an agreement has been reached recently on the negotiating plans and structures for the Uruguay Round to this end, and that negotiations have begun. I wish to continue our efforts in that direction in cooperation with your country.

With regard to Japan's large trade surplus, let me stress here anew that I am going to tackle it with resolute determination. I have successively adopted measures for the improvement of access to the Japanese market, expansion of domestic demand, and promotion of economic structural adjustment; Japan has also played an important role in the policy coordination to realize exchange rates which better reflect economic fundamentals. The effects of those measures have already become visible in the form of fundamental changes in Japan's external economic relations and its domestic economy. Its exports decreased by 1.2% and imports increased by 12.5% last year on a quantitative basis. Similar desirable signs are observable in the imports from the EC.

I am fully aware of your concern about the specific issues. The United Kingdom's reaction towards our decision on the reform of the liquor tax system is known to me, but this decision is the furthest Japan could go after taking into account various domestic difficulties. I wish you would follow the development of the situation for the moment until its effects take shape. I may mention in passing that the import of Scotch whisky increased last year by as much as 25% from the previous year on a quantitative basis, which I believe is a welcome trend.

As for other issues you have raised, I shall maintain close dialogue, in order that we shall solve them one by one within our capability, giving full consideration to the importance of the United Kingdom and Europe. I should like to see that our two countries, through such dialogue, increase concrete cases of their cooperation and thereby develop further the positive side of their relations.

.../

I look forward to seeing you at the forthcoming Summit Meeting in Italy.

With kindest regards,

Yours sincerely,

Yasuhiro Nakasone
Prime Minister of Japan

拝復

先般の日英二〇〇〇年委員会第三回会議の際には、貴首相より書簡をいただき、有難うございました。右会議の模様については、両国委員から報告を受けておりますが、日英関係の発展にとり実り豊かな議論がなされたとの趣であり、大いに喜んでおります。私は、二〇〇〇年委員会が今や日英間の対話の場として確立し、有益な活動を展開していることを欣快に思つております。特に、今回の両国政府に対する五つの提言については、その趣旨を尊重し、出来る限り今後の政策に反映させるよう努力する所存です。この点で貴首相の御協力を得られれば幸いです。

本委員会を始めとして、近年日英両国間のあらゆるレベルにおいて対話と交流が拡大していることは喜びに堪えません。既に存在する両国間の幅広い協力関係を一層拡充するとともに、今日世界の平和と安定のために日英両国が果す

べき役割が益々増大していることに鑑み、特に、日英間の政治対話を一層緊密なものにしてゆくことが肝要と考えます。この意味でも次回ヴェネチア・サミットの直前の貴国ハウ外相の訪日を歓迎します。

また、日英両国間の協力は、経済面でも強化してゆくことが重要です。世界の保護主義化を阻止し、開放的貿易体制を維持し、強化してゆくことは、世界経済の運営に大きな責任を有する日英両国の共通の責務と考えます。この点につき貴首相と考えを同じくすることに勇気づけられています。

現在の世界の貿易体制は、新しい時代の要請に適合するための刷新を必要としています。それを実施する為のウルグアイ・ラウンドの具体的な取運び方につき、最近合意が得られ、交渉が開始されたことは喜ばしい限りです。今後ともかかる方向への努力を貴国とも協力しつつ進めてゆきたいと思います。

我が国の大幅な貿易黒字問題については、私が断固とした決意で臨んでいる

ことをここで改めて強調しておきたいと思います。私はこれまでも、輸入市場アクセスの改善、内需拡大、為替レートの調整、経済構造調整等の措置を次々と講じてきました。そしてこれらの措置による効果は、既に、我が国の対外経済関係及び国内経済における基本的変化となつて現われてきています。昨年数量ベースで我が国の輸出は一・二％減り、輸入は一二・五％増えました。ＥＣからの輸入にも望ましい徴候が見られます。

個別問題に対する貴国の関心は十分承知しています。アルコール飲料問題については酒税制度改正に関する今回の我が方決定に対する貴国の反応は承知していますが、右決定は種々の国内的困難を勘案した上での最大限の措置です。その効果が現われるまで当面推移を見守つていただきたいと思います。因に、昨年のスコッチ・ウィスキーの輸入は数量ベースでみても前年に比べ二五％も伸びており、かかる傾向は歓迎すべき動きであります。

その他の御指摘の問題については、英国及び欧州の重要性を十分認識し、我が国としてできる範囲内で一つ一つ解決していくよう、今後とも緊密な対話を続ける所存です。かかる対話を通じ、日英協力の実績を積重ねていくことにより二国間関係の積極的な面を一層発展させてゆきたいと思います。

六月のサミットの際に、イタリアにてお目にかかれる事を楽しみにしています。

敬具

昭和六二年二月二十日

日本国内閣総理大臣

中曽根康弘

連合王国首相
マーガレット・サッチャー　閣下

Cable and Wireless
Public Limited Company
Mercury House Theobalds Road London WC1X 8RX
Telephone: International +44 1 242 4433 National 01-242 4433 Telex: 23181 CANDW G

Prof. Brian Griffiths,
No 10, Downing Street,
London SW1.

18th February 1987

Dear Brian,

Sir Eric Sharp has asked me to send you the attached letters and a note to bring you up to date on our Japanese venture and the political blockage put on our progress by the Japanese Ministry of Posts and Telecommunications.

The Paul Channon letter was not copied to No 10 to maintain propriety - so please treat it as personal.

If we are to prevent a Bosphorus, the time has come for a Prime Ministerial intervention. Both the DTI, FCO and our Embassy in Tokyo know that our Japanese allies - some of whom have bravely come out in support of C&W - have requested the intervention of our Prime Minister.

May I suggest that you might care to ask the Prime Minister to copy any note she writes to Mr. Nakasone to President Reagan because of the American interest in the same project.

Please feel free to ask any questions.

Best wishes.

J. SOLOMON
Director of Corporate Strategy

JS/pg/0343P

JAPAN: C&W

THE END GAME

1. The Prime Minister is aware of C&W's aims and objectives and has herself raised the matter with Mr. Nakasone in May 1986.

2. Since then, C&W has established a good base camp position with a 20% equity stake in a Consortium - International Digital Communications Incorporated - together with C.Itoh (20%), Toyota (10%), the Industrial Bank of Japan, Daichi Kangyo Bank, the Long-Term Credit Bank, Fujitsu, NEC, Hitachi, Pacific Telesis (10%-USA), Merrill Lynch (3%-USA). IDC has completed its feasibility study and is ready to file its application for a licence as is a rival Consortium - International Telecoms of Japan, an all Japanese Consortium led by Mitsubishi, Mitsui, Sumitomo and Matsushita. IDC's business plan centres around the construction of new facilities - C&W's global digital highway, whereas ITJ's centres around the resale of existing capacity.

3. The Ministry of Posts and Telecommunications, however, which has consistently opposed both IDC and C&W has invoked the aid of a senior industrialist - Mr. Watanabe - to merge the two groups, thereby increasing the Japanese role at the expense of the foreigner - C&W in particular.

4. The various forecasts and the IDC feasibility study demonstrate an adequate market for both IDC and ITJ to establish themselves, competing and co-existing with each other and KDD, the current monopoly international carrier.

The Merger Tactic

5. The merger tactic is a device to impose a solution and is recognized by all parties both ITJ and IDC as such. However, it is Japanese custom to heed a call for unity in face of "the foreigner" and the merger talks are under way.

6. The MPT tactic is to offer Toyota the bait of leadership of an unified Consortium in return for pushing the foreigner down, if not out, and postponing PPAC until KDD is ready for a new facility across the Pacific.

7. The two conspicuous losers of any merger are Cable & Wireless and C.Itoh, the founder members of IDC.

The Balance of Forces

8. The MPT is ultimately responsible for licensing. However, in an unprecedented way, the Japanese Ministry of Foreign Affairs, long courted by Sir Geoffrey Howe, H.M. Ambassador in Tokyo and C&W, has come out in favour of C&W participation and management of any 2nd KDD. We also know that MITI, the Ministry of Finance, and the Prime Minister's office are on our side. However, given the Japanese sense of "FACE" no-one in Government can be seen to be pressurising MPT who could show that MPT is fending the foreigner off a precious Japanese asset. The Government of Japan will only be moved by EXTERNAL PRESSURE which acts as an umbrella to permit changes in Japanese structure to take place.

./..

9. C.Itoh stands solidly behind C&W and IDC as currently constituted but C.Itoh is fighting a lonely, if brave, battle - isolated from other trading houses in ITJ. As part of the DKB group which includes Fujitsu and Hitachi, C.I. remains a force to be reckoned with.

10. Toyota is the Churchillian enigma wrapped in a riddle. They are close to C.I. and boosted C.I.'s chances of success by joining IDC. They are also close to Mitsui - opposed to C.I. They are currently viewed as the flag-carrier of Japanese industrial excellence and are financially powerful enough to be independent. They are also the perfect mandarins, unwilling or rather pre-disposed not to rock any boats whether in Government or within the industrial community in Japan - eg: Keidanren. They allied with the MPT to knock back Motorola recently in a bitter long-drawn out cellular radio dispute. They are under temptation from MPT to become the leader of a combined group to run the 2nd KDD in return for:

    a) knocking down the foreigner, particularly C&W, to a holding of under 10% and, therefore, with no voice on the Board.

    b) postponing PPAC and thereby disrupting C&W's global digital highway.

11. The media and academic community of Japan have finally seen through the backward looking attitudes of the MPT but are anxiously looking for the quality of the EXTERNAL RESPONSE to the gauntlet thrown down by the MPT and its supporters in the Keidanren and ITJ.

The Significance of Foreign Pressure

12. MPT failed to prevent Hughes gaining 30% of JC Sat - a satellite venture led by C. Itoh 40% - because Hughes lobbied hard on the Hill and gained Presidential support against MPT attempts to merge JC Sat with a rival group led by Mitsubishi.

13. MPT waged a long and bitter battle against bringing in Motorola in cellular radio and again used the merger tactic to delay, frustrate, and diminish the Motorola position. MPT failed but gained sweet vengeance by giving the all Japanese Consortium the lion share of the market.

14. The 2nd KDD issue is a much greater issue for MPT as it affects KDD - a home for MPT officials. MPT has waged a war of disinformation against C&W all around the world together with KDD while always smiling sweetly and behaving with utmost courtesy to C&W.

15. Everyone of influence in Japan knows that the Prime Minister raised this issue at the last Summit and are waiting to see how the Prime Minister proposes to break through the many fences protecting the Japanese ark of the Covenant.

16. The first salvo against the UK and C&W was fired by Mr. Karasawa, the Minister for Posts and Telecommunications in November 1986. This salvo was given massive publicity in Japan and across the world. The UK has responded with an official note lodged by HM Ambassador on 24th December. The Japanese are still waiting for a response from the UK of equivalent political fire power.

./..

17. The sensitivity of the Japanese to adverse public comment is testified by the speed with which the Ambassador of Japan sent an emissary to pacify the Rt Hon Patrick Jenkin following a letter he wrote to the Financial Times rebutting Mr. Karasawa's comments. Unfortunately, an answer from Mr. Channon to an arranged P.Q. on 12 January received no publicity and went unnoticed in Japan. Mr Channon will now be replying to a letter Mr Karasawa sent to Mr Jenkin. This will be helpful.

18. So far the Government machine has done all in its power to persuade and influence the Japanese at official level. However, there is an impasse and this is a POLITICAL IMPASSE.

19. The stakes are high. With strong and public political support, C&W has a good chance of pulling off a major coup for the UK. At the end of the day, the MPT will not be able to achieve its objectives whether directly or indirectly via Toyota unless it FORCES C&W DOWN.

RECOMMENDATION

20. The time has now come for the Prime Minister to initiate a measured political response to the current impasse by taking the following steps:

    i) Writing a letter to Mr. Nakasone reminding him of her interest in this "epoch-making" project and expressing the strong hope that the Anglo-American-Japanese Consortium gets the go-ahead before the next Summit in Venice.

    ii) Instructing the sherpas in the Summit preparatory meetings to raise the issue of IDC in the corridors with their Japanese opposite numbers.

J. SOLOMON
Director of Corporate Strategy
16 February 1987

JS/pg/0324P

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01- 242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

17th February 1987

The Rt. Hon. Paul Channon, MP.,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1-19 Victoria Street,
LONDON. SW1H OET

Dear Paul

You are fully aware of the developing situation in Japan and I welcome your intervention in replying to Mr. Karasawa's letter to Patrick Jenkin.

You also know that the existing monopoly supplier of international telecommunications services - KDD - has been actively supporting the rival consortium - ITJ - because it does not represent any real threat to their monopoly. It is rather as if BTI organised a consortium of banks and financial institutions to compete against itself. For that very reason, it has openly opposed C&W and 'foreign' intervention because it fears the expertise of IDC in general and the international telecoms expertise of C&W in particular.

The Ministry of Posts and Telecommunications has openly sided with the KDD view and has publicly declared its opposition to C&W and the IDC consortium. The Ministry is not an independent regulatory body. It has personal and business commitments to KDD. You met Mr. Karasawa, the Minister for Posts and Telecommunications, in Japan in November and I very much appreciate the firm line you took with him but despite your efforts he has repeated in public his opposition to any significant role for Cable and Wireless in Japanese international telecommunications. You will have seen from the attached press report that the Ministry of Foreign Affairs has come out in support of Cable and Wireless but the forces of darkness are nevertheless mobilising their strength to obstruct C&W by manipulating internal Japanese interests to effect a merger between the rival consortia and thereby reduce C&W's interest from 20 per cent to less than 3 per cent. In effect - as we would certainly not participate at such a derisory level - this is a Japanese device to eliminate C&W.

The Rt. Hon. Paul Channon, MP., 17th February 1987

As your officials know, I lunched with the Ambassador of Japan on 12th February and he had with him a representative of the Ministry of Posts and Telecommunications. The official repeated the line his Minister has taken in public and despite a host of counter-arguments, including the KDD consideration of a new Pacific cable of its own, he seemed unable to budge. In his summary, the Ambassador referred to the merger talks.

From information I have received from our allies in Japan, the Ministry of Foreign Affairs' bold, and indeed unprecedented, intervention needs to be buttressed by a statement of concern from the highest level in the UK in defence of British interests. The Japanese respect strength and determination and therefore the situation now needs a re-affirmation by the Prime Minister to Mr. Nakasone of her previous representation in Tokyo on C&W's behalf.

C&W has battled for nearly two years on this opportunity to identify itself with strong partners in Japan to enable Japan to become a significant player in the Pacific telecommunications network. We have even offered them a place in our Atlantic cable from which they had previously been excluded by established Western interests. I made all this clear to the Ambassador and MPT are well aware of Cable and Wireless' position.

Our allies need strong political support from the UK now if we are to prevail over the strong Japan for the Japanese lobby.

The UK adverse balance of trade with Japan and in particular the UK adverse balance of trade with Japan in telecommunications equipment is evidently discounted or ignored by the Japanese. Some warning of the effect of any dilution of C&W's interest (or manoeuvred elimination) would have on UK/Japan trade relations (following the Scotch Whisky farce) needs to be made loud and clear and I urge you to ask the Prime Minister to convey her concern to Mr. Nakasone.

I am copying this letter to Sir Geoffrey Howe.

With all good wishes

Yours ever

Enc.

NIHON KEIZAI SHIMBUN" FEB 7 '87

Let the British firm participate in the Second KDD:
Ministry of Foreign Affairs —

The Ministry of Foreign Affairs has indicated its view that the British firm, Cable & Wireless, be approved to participate in the management of the Second KDD. The Ministry of Posts and Telecommunications' disapproval of such participation has met with strong opposition from the British government and is emerging as a new source of bilateral economic friction. Judging it "unwise to let the problem aggravate any further", the Ministry of Foreign Affairs will try to persuade the Postal Ministry open up the international telecommunications business to foreign companies.

Currently, two companies are conducting feasibility study with a view to make entry into the international telecommunciations field. Challenging KDD are IDC and ITJ.

The Postal Ministry, as the competent authority, does not approve foreign management involvement and, further, wants to see the two groups integrated. Its logic is that foreign participation in the management is not advisable from the point of view of national security, while entry by both groups runs the risk of creating a glut.

On the other hand, the Ministry of Foreign Affairs maintains that (1) the telecommunications business law approves up to 1/3 of the management be comprised of directors from foreign businesses, (2) national security consideration can be resolved through use of KDD, and (3) demand factor does not constitute a constraint on the pursuance of the business. Claiming that "basically, license should be granted to the two groups simultaneously, and even if there is to be an integration, foreign participation should still be approved", the Foreign Affairs Ministry gives support to C&W's management participation, the very request of the British government.

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

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Sir Eric Sharp C.B.E.
Chairman & Chief Executive

16th February 1987

The Rt. Hon. Patrick Jenkin, MP.,
House of Commons,
LONDON. SW1A 0AA

Dear Patrick

It was good of you to join us in our discussions with the Japanese Ambassador. I believe we gave the Ambassador and his colleagues some food for thought and I am sure a full report will be filed in Tokyo.

Meanwhile, Paul Channon will be replying to Mr. Karasawa's letter to you. This is a necessary step for Paul to take, in light of his November meeting which was in effect the first open political salvo against the UK and Cable and Wireless.

I understand that your initial instinct was to draw in the Prime Minister. The politician's instinct is often right and in this case I think the time has arrived for the Prime Minister to reiterate her interest so that the Japanese can find an external political reason to break the almost self-imposed MPT impasse.

Our allies in Tokyo are calling for a Prime Ministerial input and our Ambassador in Tokyo stands ready to give the signal. As the Secretary of State for Industry who sponsored the Telecommunications Act, and as Chairman of The 2000 Group, you are in a special position to prompt the Prime Minister to do what she wants to do in any case.

I would be grateful, therefore, if you could take the necessary action to see, or write to, the Prime Minister and urge her to write to Mr. Nakasone supporting the line recommended by his own Ministry of Foreign Affairs. You

The Rt. Hon. Patrick Jenkin, MP., 16th February 1987

may care to draw on the attached memorandum which is sent to you on a personal and highly confidential basis and on your discussions in Tokyo and your meeting with the Ambassador in London. The device the Ministry of Posts and Telecommunications is using to frustrate Cable and Wireless is to arrange a merger of the two groups and thereby put Cable and Wireless in an impossible position with a derisory holding of, say, three per cent.

I look forward to lunching with you again on 4th March.

With all good wishes

Yours ever

Eric

Enc.

P.S. You should see also the attached press report on the Ministry of Foreign Affairs' reproof of the M.P.T. You might wish to mention this to the P.M.

CDPC

Foreign and Commonwealth Office

London SW1A 2AH

30 January 1987

CDP 35/1

Dear Charles,

at flap

UK/Japan 2000 Group

As foreshadowed in Colin Budd's letter of 2 January, Sir Geoffrey Howe and Mr Channon saw Mr Patrick Jenkin and other members of the British team on 27 January to hear about the 2000 Group's Conference in Japan.

Mr Jenkin reported that the Conference had been useful, with frank speaking on both sides. The Group had been received by Mr Nakasone and handed over Mrs Thatcher's letter. Mr Nakasone had not commented on the detail, but said that he was doing his "homework". Mr Jenkin concluded that the Japanese team, whose members had been personally approved by Mr Nakasone, clearly expected continued external pressure upon them in the economic field. But he believed that steady, sustained pressure was likely to be the most effective. Sir Geoffrey Howe and Mr Channon agreed, adding that we needed to multiply the ways in which we sustained the pressure, especially in the economic field. We should try to play upon Japanese self-interest in reform and restructuring, not least as consumers. Mr Jenkin concurred and commented that the Japanese team had pointed out that their Government had presented the Maekawa recommendations as a hair shirt rather than a positive opportunity for developing the domestic standard of living. Equally, there was agreement that Japan's housing stock and urban environment needed resources to bring them up to modern standards; but there was little spontaneous demand.

/Mr Jenkin

Mr Jenkin noted that both sides thought that the US was becoming introspective with the consequence that a larger burden of international responsibility rested on Western Europe and Japan. The Group saw the need to deepen the political relationship, alongside the economic problems we faced, and proposed to draw up a list of topics for discussion. Sir Geoffrey Howe reminded the Group of the extent of existing EC/Japan and bilateral UK/Japan political consultation and cautioned Mr Jenkin against spending too much time trying to identify topics which in practice selected themselves without difficulty.

Mr Jenkin recorded his appreciation of Mrs Rumbold's contribution on education. The Group had concluded that policies in the two countries were converging from different directions: the Japanese wanted a system that would help spark the genius that produced Nobel prize winners, while British reforms aimed to produce a system better related to the modern technological era. The Japanese also needed to improve the quality of their oral English teaching; while British students learning Japanese should get out to Japan as part of their course.

The Conference also discussed science and technology exchanges. There was no enthusiasm for a comprehensive Agreement, but the Group recommended that the two Governments should undertake a survey of existing exchanges throughout this field; it was important to identify the gaps before recommending action. Mr Jenkin plans to write to Ministers about the specific areas recommended for follow-up, inviting considered responses.

I am copying this letter and the UK/Japan 2000 Group's communique on their Conference to Timothy Walker at the Department of Trade and Industry.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
No 10 Downing St

Japan: Rels PT6.

010

SK/B32

CC PC

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

Prime Minister

CDP
27/1

Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commenwealth Office
Whitehall
LONDON
SW1

23 January 1987

Dear Secretary.

VISIT TO JAPAN

I visited Japan last week to look at employment issues and in particular at the flexibility of their labour market and their ability to respond to declining employment in heavier industries and as a result of increased competition. After a day in Tokyo, the remainder of my programme was in Kyushu which had a high concentration of coal, shipbuilding and steel. I was unfortunately obliged to curtail my trip, but HM Ambassador, Sir John Whitehead, was able to step in and he accompanied a DE official on the rest of the trip.

In Tokyo I met the Vice-Minister of Labour (the Minister being ill), the Chairman and other senior officials of the Japanese Employers Federation, a senior official of Soyho (the largest of the four trade union federations), and the Chairman of the LDP Special Committee on Employment.

The common message from all these meetings was that Japan had a serious employment problem over the next few years. Though unemployment is only 2.8 per cent, it has been rising and would be a point or so higher if concealed unemployment were taken into account. Some of Japan's heavy industries have been seriously hit by competition from other lower cost Far East countries, and the sharp rise in the value of the Yen was mentioned by everyone I met as a major threat to domestic employment opportunities.

In my meetings I explored the ways in which government and industry were reacting and adjusting to this situation. The Government of course sees the main solution as a continued drive for improved efficiency and competitiveness. But it acknowledges that the Japanese "regions" with a high proportion of declining and heavy industry will have severe difficulties. Industry and commerce tends to want to site in

the Tokyo-Osaka area, and this is a source of much bitterness in the outlying areas. All the politicians I spoke to in Kyushu criticised the over-centralised nature of Japan's industrial base.

The Government has a wide range of incentives and subsidies to investment and employment, applying to specific areas under either national laws or local government ordnances. A major element in this is the "Technopolis" approach which tries to accelerate regional development based on high technology complexes. These designated locations involve links between industry and university and research institutions to promote paticular types of high technology industry. They are backed up by subsidies and tax exemptions for industries locating in the areas.

On the employment front, the Government already has several types of employment subsidies for firms in designated sectors of industry to promote retention of potentially redundant workers, secondments, and retraining. The 1987 budget proposals involve increasing the level of subsidy with the intention of supporting 300,000 employees under an "employment development programme". The level of subsidies is high (eg 100 percent of the cost of outside retraining and two-thirds to four-fifths of the cost of retaining potentially redundant workers). There must be considerable deadweight and displacement involved in these programmes, but the Japanese Government make no estimate of this and do not appear to consider the net cost of programmes as we do in the UK.

On the company side, the companies I visited had a number of adjustment mechanisms, some of them subsidies through the Government Schemes. The mechanisms included:

a) Retraining with a government subsidy.

b) Transfer of workers to other jobs within the group (eg Mitsubishi had transferred workers from shipyards to power generating equipment). These transfers may involve movement to another area, and the provision of housing by the company at the new location is not uncommon.

c) Early retirement which appears to shade into voluntary redundancy. This is usually negotiated with trade unions.

d) Despatching. This is a form of transfer in which potentially redundant individuals are placed within the group or with outside companies. Their parent company continues to pay their salary, and receives a proportion of this either from the recipient company or from the Government in subsidy. In one company I

visited despatching could last for up to three years: in another for up to ten. This kind of scheme obviously has advantages for the recipient company which receives new workers at a discount. The parent companies acknowledged that the cost of despatching was "a burden".

In addition to these employment adjustment devices, companies anticipated a determined attempt to reduce unit labour costs. In part this would be done by increasing efficiency, but they also anticipated a lower rate of increase of pay. They would be looking for as small an overall increase as possible, possibly zero, in the Spring negotiations with trade unions.

I asked them about the variability of the annual bonuses which are a feature of Japanese payment methods. These amounted to four to five-and-a-half months salary in the two large companies I visited. I was interested to hear that much the largest part of these bonuses does not vary with company performance. They are in effect part of normal pay and the twice-yearly payment is a historical legacy. Bonuses are negotiated just as pay is, and I did not find companies anticipating major reductions in bonuses to reflect increasingly difficult circumstances.

I conclude with two general reflections. First, in answer to specific questions, most people felt that the lifetime employment system could be maintained in spite of the difficulties which many industries are currently experiencing. This may be true, but I was struck by the relatively short-term nature of the adjustment mechanisms which companies are currently using. The rise in the Yen has not yet come through to such areas as power generating equipment, where Mitsubishi were working at 80 per cent of capacity, and it may be difficult to accommodate these pressures and the competition from other countries in some of the basic industries. Indeed, in one case this has already happened. A coalmine on an island off the Japanese coast has closed down with the loss of some 1,600 jobs. Mitsubishi own the coalmine, but in spite of repeated representations they feel they cannot move other employment to the island, nor apparently can they offer jobs to most of these workers in their mainland plants. I think the economic pressures on some Japanese industries will lead to a modification of the lifetime employment system. This might happen through a much more extensive use of voluntary redundancy, and this in turn would have an impact on the Japanese unemployment rate.

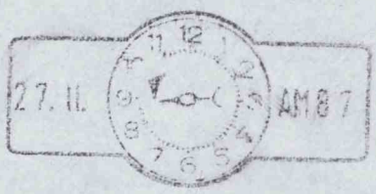
Finally, I found great interest and enthusiasm in all companies for closer contacts with the UK. One of the companies I visited, Matsushita, has set up a factory in Wales which is currently producing on a limited basis and will be in full operation by the end of the year. This location was chosen from a number of European possibilities, and their President observed that they felt the union/management

PAYMASTER GENERAL

situation in the UK was the best in Europe. Indeed, he had found the unions more co-operative than they would have expected in Japan!

I am copying this letter for information, to the Prime Minister, and to Nigel Lawson, Paul Channon, David Young and Sir John Whitehead.

KENNETH CLARKE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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

13 January 1987

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

CDP - 15 Jan
gn

Dear Mark

Thank you for your letter of 31 December enclosing one to the Prime Minister from Mr Saito, Chairman of the Japanese Keidanren, dated 10 December. P+S

Mr Saito's letter is purely a courtesy, thanking the Prime Minister for seeing him during his visit to London on 19 November. Mr Saito raises no substantive points and no response is necessary. My Secretary of State has received a similar letter, and will not be replying.

I am copying this letter, like yours to Alex Allan (Treasury) and Robert Culshaw (FCO).

Yours ever

Paul Steeples

PAUL STEEPLES
Private Secretary

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SRWAPK
CCPC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 January 1987

Thank you for your letter of 9 January, enclosing some additional passages for the Prime Minister's message to Mr. Nakasone. The Prime Minister has now signed the letter and you will find the original enclosed. I should be grateful if:

(a) you would telegraph the text to the Embassy in Tokyo as you propose; and

(b) you would arrange for the original to be given to Mr. Jenkin in the course of 12 January.

I am copying this letter and enclosure to Timothy Walker (Department of Trade and Industry) and Alex Allan (Treasury).

(C. D. POWELL)

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

FCO
CDT
HMT
JD

SUBJECT

cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 5/87

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

11 January 1987

Dear Prime Minister,

I am pleased that my first message to you in 1987 should be about the work of the UK/Japan 2000 Group. I continue to believe in the importance of the Group's work in looking ahead towards the end of the century. There is much that we can learn from each other and much that we can achieve by working together.

I hope that the Group's discussions will underpin the efforts - which I know you appreciate need to be made - to grapple with the problems in the world's trading relationships. These problems actually increased during 1986. It is more than ever vital that Japan should deal with its trade surpluses and help to turn away the protectionism which threatens the world's trading system on which you and we depend. In that context I hope that you will be able to take another look at the question of alcohol taxation, and will decide to meet the European Community's request for the ending of discrimination against imports.

I know that you share our concern to help the US Administration resist protectionist measures. Geoffrey Howe took the opportunity to express this in his recent meeting with George Shultz in Bermuda. It is of crucial importance for the future of the world open trading sytem, and it is in our joint interest to dissuade the US from following this path. We must avoid also the temptation to solve our problems bilaterally at each other's expense: for example, we have been concerned at the worrying implications of the US/Japan Semi-conductors Agreement for the European market.

We, like you, are keen on an early start to substantive negotiations under the New GATT Round and for progress particularly on Services. But in the meantime it is very important to establish a balance of opportunities in this sector: for example, we would like to see UK financial services businesses afforded the same ability to participate in the Tokyo market as their Japanese counterparts in London.

Naturally, I welcome ANA's order for Airbus. I hope too that there will be successful collaboration in the field of telecommunications, where our industries are technical leaders and where our governments pioneered the political initiatives to privatise the service and to increase competition. As you know, we are keen to see more Japanese investment in the United Kingdom. I was very impressed by my visit to the new Nissan plant last autumn. Nissan have made an excellent start, and the quality of the management and the commitment they have won from their employees is a lesson from which many British companies can learn. I am pleased to hear that other Japanese companies intend to expand their existing activities here.

This progress highlights the benefits of tackling together the economic and political problems we face. The work of the 2000 Group in identifying these problems in good time and in suggesting joint approaches to them will be of particular value. I hope that the Group will see that its work and recommendations are made known widely in both countries. I am glad that you will yourself receive the Group, and my colleagues and I for our part look forward with interest to hearing the conclusions of this year's meeting.

With warm regards and best wishes for 1987,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone

Foreign and Commonwealth Office

London SW1A 2AH

9 January 1987

Dear Charles,

Thank you for your letter of 6 January recording the talk between the Prime Minister and British members of the UK-Japan 2000 Group.

In that letter you asked me for some additional points to be included in an expanded draft letter from Mrs Thatcher to Mr Nakasone. I enclose the text of two paragraphs which might be inserted after the second paragraph of the existing letter. These passages have been agreed with officials at the Department of Trade and Industry and HM Treasury.

After talking to Mr Jenkin we propose that we should telegraph the final text of the Prime Minister's letter to the Ambassador at Tokyo early next week, instructing him to pass the text in advance to Mr Nakasone's office and to say that Mr Jenkin will hand over the signed original. We and Mr Jenkin believe that this procedure will allow Mr Nakasone to respond more substantively in his conversation with Mr Jenkin and will lead to a better dialogue with the 2000 Group.

I am copying this letter and enclosure to Timothy Walker at the Department of Trade and Industry and Alex Allan at HM Treasury.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
No 10 Downing St

PASSAGES TO BE ADDED TO THE PRIME MINISTER'S LETTER TO MR NAKASONE

I know that you share our concern to help the US Administration resist protectionist measures. Geoffrey Howe took the opportunity to express this in his recent meeting with George Shultz in Bermuda. It is of crucial importance for the future of the world open trading system and it is in our joint interest to dissuade the US from following this path. We must avoid also the temptation to solve our problems bilaterally at each other's expense: for example we have been concerned at the worrying implications of the US/Japan Semi-conductors Agreement for the European market.

We, like you, are keen on an early start to substantive negotiations under the New GATT Round and for progress particularly on Services. But in the meantime it is very important to establish a balance of opportunities in this sector: for example, we would like to see UK financial services businesses afforded the same ability to participate in the Tokyo market as their Japanese counterparts in London.

Relations : JAPAN Pt 6.



File

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 January 1987

The Prime Minister has asked me to thank you for sending her the paper which you prepared for last year's meeting of the UK-Japan 2000 Group. She looks forward to reading this, as soon as she gets a moment.

(Charles Powell)

Nicolas Wolfers, Esq.

GA

D.I.D. Mtg with Patrick Jenkin recently

Midland Bank plc

Our reference Your reference

International Division

PO Box 181
110 Cannon Street
London EC4N 6AA
Telephone 01 - 260 5297 (Direct Line)

PERSONAL

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

7th January, 1987

R8 pos

Dear Prime Minister,

It was very nice to have the opportunity of seeing you yesterday at Downing Street and I thought that you might be interested in glancing at the paper I presented to last year's meeting of the UK-Japan 2000 Group.

In our discussions with you yesterday education, culture and the media was one subject which did not come up, though problems in this area have a vast and intractable impact on many of the political and economic matters that we did discuss.

It is hard to believe that more than ten years have passed since I prepared for you your first long and detailed brief on Japan soon after you had become Leader of the Opposition. I have remained in close touch with the Far East and for over ten years have been the banking member of the British Overseas Trade Board's committee on Japan and also the CBI's Japan committee.

I look forward to being in touch again after our return from Tokyo.

With every good wish,

Yours ever,

Nicolas

Nicolas Wolfers
Group Adviser,
(Asia & Pacific)

Education, Culture and the Media: UK-Japan 2000 Group

Summary and Conclusions

General

1. "Education, culture and the media" is too often the neglected agenda item at Anglo-Japanese gatherings.

2. Yet, it is in some ways the most fundamental, if misunderstanding is to be tackled at its roots. Cultural differences often lead to misconceptions. In neither Britain nor Japan does the education system do enough to give a general understanding of each other's history, culture and contemporary situation, while the media often reinforce stereotypes.

3. The 2000 Group could urge that greater attention be paid to this item in general and to certain new ideas and proposals in particular. This in no way preempts the function of the Mixed Commission, whose task is to carry out an official and comprehensive review within the framework of the Anglo-Japanese Cultural Agreement of 1961.

4. Much has already been achieved by "The New Cultural and Educational Initiative" of 1977-82, by governments and through the generosity and far-sightedness of a handful of individual companies or other benefactors, but this paper focuses on various ways of reducing the massive culture gap that still remains.

5. Spending on institutions or projects, aimed at reducing the culture gap, is a relatively cost-effective investment. The general public is also more open to cultural initiatives, and the impact should by definition last longer when the younger generation is exposed to them.

6. However, sponsorship in this field is too often insufficient and sometimes fragmented. In particular, there is a need for much broader sponsorship of educational and cultural projects by Japanese and British companies. The main burden has so far fallen on a very small number of shoulders.

7. A major barrier to improved contacts between our peoples would be reduced if substantially lower costs per mile could be achieved in air fares between Britain and Japan, as between Britain and the USA, Hong Kong or Australia. The airlines could make up their earnings through much higher volume sales.

8. Too many of those visitors to each other's country from Britain or Japan come only to the capital city.

9. Greater speed and flexibility should be shown wherever possible by the Governments of the United Kingdom and Japan with regard to the issue of work permits, or visas where applicable. When this is not done, it can act as a constraint both on direct investment and on business, technological and cultural exchange.

10. Sometimes Japanese seem wary of the trend towards internationalization. Improved mutual understanding through education, cultural exchanges and a more accurate portrayal of each other by the media should be seen as an opportunity rather than as any kind of threat to identity or values.

Specific plans or proposals

Education

1. It should be a major aim of each country's education system to make sure that every child passing through the compulsory period of school education ends up with at least some basic knowledge of the other's history, culture, economy and contemporary society. Changes in teacher training as well as the curriculum will be required.

   Further efforts should still be made in teaching each other's language.

2. It would be helpful if an oral examination in English were made compulsory throughout the English language examination system in Japan, and vice versa where exams in Japanese are taken in the United Kingdom. This would motivate teachers and pupils to emphasize the aspect of each other's language as a means of communication in daily life.

3. The Japanese Government's English Teaching Assistant Programme could be usefully expanded in educational insititutions and in companies. More official and private support could be given to the Miura Anjinkai or William Adams Association, which is derived from the Teaching Assistant Programme.

4. Teaching about Japan Workshops for teachers, Sixth Form Conferences and the "Japan Education Journal" could all play an enhanced role, with more budget money available.

5. Essay prizes on Japan, nationally and at individual schools are a good way of getting more study of Japan into extra-curricular activities or for the benefit of generalists at university or beyond.

6. Special schools for the Japanese in the United Kingdom are important so as to enable children to be reintegrated easily into Japan or the Japanese education system. So is the work of the International Children's Bunko Assocation and of Euro-Japanese Education Services.

7. The China-Japan Resource Centre at Atlantic College shows what one school can do not only for its own pupils but its local community as a whole.

8. Teaching materials and techniques need to be updated regularly. The SOAS/TDK Video Letter from Japan is a good example of what can be done.

9. A regular Japan - UK Students' Forum should be supported, modelled on the successful US-Japan Students' Forum or the AIESEC Conference at Oxford this December.

10. The new Cambridge English Schools in Japan, aiming for an eventual student intake of 6000 studying for British examinations, are a very useful step forward.

Culture

1. There should be more emphasis on a broader definition of "culture", to include food, sport, and so-called "low-brow" culture as well as the fine arts and the performing arts etc.

2. The Japan Information Centre and Japan Foundation have a vital role to play. A number of new information leaflets would be helpful, such as "Sources of Funds Available for Anglo-Japanese Projects" and "Ways to Get to Japan".

3. Although the United Kingdom has over 1000 twinning partnerships and Japan over 600, so far the link between Gillingham in Kent and Yokosuka and Ito, based on connections with William Adams, the first Briton to have reached Japan, is the only Anglo-Japanese twinning relationship. More could be done to promote effective and sustainable long-distance twinnings, including a Japan Information Centre leaflet on the Gillingham experience.

4. More local "weeks" should be promoted by the Japanese and British Embassies to focus attention on their countries in a specific town or area. Local Japan societies, such as at Oxford, Cambridge and most recently in Wales, can be supported by the national Japan Society in London and by the William Adams Association, whose membership is widely spread geographically.

5. It would be useful to establish an Anglo-Japanese Commemorative Fund as a focal point for improved local awareness of Anglo-Japanese connections. This could support the kind of projects that have been so successful in Gillingham, linked to the life of William Adams: exhibitions, illustrated books, monuments, small museums, ceremonies, school events etc. Existing monuments such as the Gateway of the Imperial Messenger given to commemorate the 1910 Japan-British Exhibition, could be restored with Fund money or a giant Torii erected next to it in Kew Gardens to commemorate the 1981/82 "Great Japan Exhibition" and "Japan in Britain Programme".

6. The 2000 Group could act as a catalyst for conferences and symposia on general or specialist functional themes to include an address or two relating Japanese experience in the particular subject area. Better understanding of the modern Japanese economy could be achieved by leading Japanese businessmen being asked to address an annual British industry or trade association gathering, also vice versa. More British and Japanese trade unionists should have first-hand exposure to each other's points of view. Japan and the USA have a better established pattern of contacts of this kind.

7. Greater efforts should be made by companies who employ British and Japanese staff to ensure that management and employees are both fully sensitive to the problems of approach and communications that may arise from fundamental cultural and linguistic differences.

8. Closer liaison between Britain's Voluntary Service Overseas and Japan's Overseas Cooperation Volunteers could prove mutually beneficial for the job in hand in the Third World and for future bilateral relationships.

9. The Japan Foundation and the Japan Information Centre should carry out a joint feasibility study, in consultation with bodies such as the Japan Society, to see whether a Japanese Cultural Centre should be set up in London and if so what kind of Centre.

Film and the Media

1. Too often sterotypes are reinforced and cultural differences underlined rather than the affinities between our peoples and the commonality of many of our problems.

2. More joint Anglo-Japanese programmes and coverage should help to redress this.

3. In view of Japan's growing importance to Britain and worldwide a weekly "Letter from Japan" like Alistair Cooke's "Letter from America" would prove increasingly popular with radio listeners. In due course it could be followed by a television series on Japan by the presenter of the "Letter", a personal view of Japan's history & contemporary society, combined with regional differences, an aspect hitherto neglected in media coverage.

4. The better the access to key figures in Japan accorded to foreign correspondents, the better the quality of coverage likely to result.

5. Major efforts should be made to move towards the teaching of Japanese by radio and television. A long television series "Japan: Language and People", including some features of the written language, would be likely to have a marked and beneficial psychological impact.

6. A "Japan Week" on radio and television would also be a useful focal point.

7. Every effort should be made to arrange for Britain's most popular television programmes to undertake filming in Japan. The visit of "Blue Peter" was a model of what could be done, but it took far too many years to arrange. Both children's and adults' programmes should be carefully identified and the scope for a visit to Japan explored. Nor should radio be forgotten; for instance, "Any Questions" from Japan would be both cheap to arrange and highly effective. The "Any Questions" team have sometimes recorded programmes outside the United Kingdom.

8. Film is a very accessible medium and usually emphasises the similarities of the human condition, in spite of differences in culture and language. More efforts should be made to show classic and contemporary Japanese films in film festivals and on television.

Education, Culture and the Media: UK-Japan 2000 Group

Introduction

For nearly two and a half centuries Japan was a country closed to most contacts with the West. It is still less than one and a half centuries since the arrival of Commodore Perry and the reopening of Japan. The "Sakoku" or "closed country" period has had a profound effect on subsequent attitudes inside and outside Japan and exaggerated already present cultural differences. Nor has Japan's complex language facilitated international communication. Moreover, Japan's traditional lower profile approach at international multilateral gatherings has also contributed to the impression that Japan is a partner of the West but a stranger to it, even if Western clothes are normally worn. The extent of Japan's superficial Westernization, especially since World War II, has tended to give a false impression that Japan's political and commercial life is readily understandable, but this is often misleading and can result in unhelpful frustrations on both sides. Yet, modern Japan shares many Western values, structures and goals, and is playing an increasingly significant world role, not only in economic terms. Education, culture and the media provide the means to reduce preconceived ideas and improve the scope for better working relations, friendship and mutual understanding.

A number of major advances have been achieved in the cultural and educational fields within the framework of the 1961 Anglo-Japanese Cultural Agreement and since the 1978 meeting of the Mixed Commission. Taken together they could conveniently be termed "The New Cultural and Educational Initiative", as each project has aimed for a substantial improvement in Anglo-Japanese contacts and mutual understanding in this area, both for their own intrinsic value and in order to benefit the relationship between our two countries as a whole.

Some of the new projects have stengthened and expanded existing foundations, others have broken fresh ground and led in fresh directions. Some have aimed for progress at what might be called "the top of the pyramid" - in the spheres of science, technology and higher education - others at "the base of the pyramid". This latter category would include those projects with a broad popular appeal, such as the Japan Information Centre's Teaching Workshops, the Sponsored English Language Programme in Japan for British Graduates, the possibilities for educational and municipal twinnings, film seasons and television programmes relating to Japan, the modern Japanese design Exhibition in 1980 at the Victoria and Albert Museum, the "Great Japan Exhibition" in 1981/82 at the Royal Academy to show modern Japan's roots in the culture of the Momoyama and Edo Periods, and currently the Barbican's "Toki: Tradition in Japan Today" festival of various aspects of Japanese culture including Nihonga painting and Karakuri-ningyo puppets.

I hope I may be allowed to quote from my paper of July 1977, proposing the Sponsored English Language Programme in Japan, when I stressed the immense scope for both Japan and Britain to gain from a more active and extensive cultural and educational relationship: "Working in partnership the industrialized democracies of North America, Japan and Europe, have it in their power to bring about a return to economic prosperity and social progress, both in their own countries and in the world at large. ....., but in these cases the successful contacts have been at government level.

Yet, of course, it is only with popular consent and support that governments will be able to maintain and deepen the trilateral partnership, all important to so many of our mutual interests. The relationship between the peoples of Europe and North America is naturally very close for historical and geographical reasons. Between the peoples of North America and Japan the geographical distances are not over great, and a major and conscious effort has long been made to bridge them, in both directions. However, contacts between the peoples of Japan and Europe, though usually most beneficial when they have occurred, have taken place too intermittently and on too small a scale.

To concentrate on the example of the United Kingdom, foremost European centre for studies of the Far East and one of Japan's main trading partners, most of our population is relatively unaware of the realities of contemporary Japan, of the strong affection felt for us and our Queen by the Japanese, or of the historical ties between the two countries dating back to the first Elizabethan era. Yet just as a hundred years ago Meiji Japan, with British assistance, learned lessons from the British experience, so the British could now gain by studying the Japanese solutions to many of the major problems confronting industrialized nations today." Moreover, since those words were written nearly nine years ago, the United Kingdom has become the major home for Japanese investment in Europe.

The two years spent at Oxford University by His Imperial Highness Prince Naruhito have done much to spread friendship and to symbolise the benefits of Anglo-Japanese educational exchange.

General Points

The neglected agenda item

In all but the two-yearly Anglo-Japanese Mixed Commission meetings under the Cultural Agreement, "education, culture and the media" is usually relegated to a bottom position on the agenda for high level political talks, after foreign affairs, defence, trade, investment and finance. "Science" has emerged recently as a new agenda item, in a higher position than "education and culture". This is not to say that the order of priority accorded this item is wrong, merely that its low relative position militates against it being taken seriously enough and at times means that it is even left out completely. There are also those in some countries who pride themselves on belonging to the "Philistine" or anti-cultural tradition, and others who feel "culture" to be represented only by rather grand displays or performances, extraneous to more fundamental areas of exchange and contact.

Tackling misunderstanding at its roots

Yet, the first meeting of the UK:Japan 2000 Group was notable for the frequency with which members on both sides highlighted cultural differences as the main reason for misconceptions of one kind or another. Japan's complex and very special culture has sometimes been called the largest of all non-tariff barriers, and in "Misunderstanding Japan" Endymion Wilkinson wrote of Japan's

trade surplus and cultural deficit. Some foreigners assume language to be at the root of the problem, but for those who know Japan it goes much deeper. In neither country does the education system do enough to give a general understanding of each other's history, culture and contemporary situation, while the media often reinforce stereotypes.

A role for the 2000 Group

"Education, culture and the media" is an area where the 2000 Group could act as a useful catalyst for change and further improvement in Anglo-Japanese relations. With members from both the private and public sectors and reporting lines to our respective Prime Ministers, we should urge that greater attention be paid to this item in general and to certain new ideas and proposals in particular. This in no way preempts the function of the Mixed Commission, whose task is to carry out an official and comprehensive review. Much has already been achieved by "The New Cultural and Educational Initiative", by governments and through the generosity and far-sightedness of a handful of individual companies or other benefactors, but this paper will focus on various ways of reducing the massive culture gap that still remains.

A cost-effective investment

Spending on institutions or projects, aimed at reducing the culture gap, is relatively cheap, compared to industrial, let alone defence expenditure. Moreover, it usually carries a significant long-term multiplier effect, as well as the benefits of its immediate impact on target groups. Not least in importance are the facts that the general public is more open to cultural initiatives, as they are usually less controversial, and that educational and cultural initiatives targeted at younger generations are likely to have a more continuing impact.

Too little official and corporate support

At Oiso comment was made this year on the Japanese side that both governments needed to do much more to work for better mutual understanding. In Tokyo, Kyoto and London the British Council's budget, though sizeable, is severely constrained, while its counterpart, the Japan Foundation, is still a far smaller body in overall national terms and with regard to bilateral relations, in spite of Japan's much larger population and economy, coupled with a growing world role.

On the other hand, only a few Japanese and British companies have realised the image benefits from sponsorship of cultural and educational projects or shown a sense of international social responsibility in making commitments in this field. A Japan Information Centre booklet listing those who have would be helpful, though some donations are anonymous. There is a danger for companies to rely overmuch on the "hard sell", illustrated by the vast advertising budgets of many foreign companies selling in Britain, and to neglect the need for more subtle public relations. American companies have so far been much more active in Britain than Japanese in cultivating a "good citizen" image nationally and locally.

Too often the U.K. offices of Japanese corporates are inundated with requests for project support, against the background of Japan's relative prosperity and economic preeminence. Because of local budget constraints, the requests may be passed to Japan, where head offices may be unaware of the local sensitivities at stake. It is a welcome development that two Kyoto-based companies are the main sponsors for the current "Toki festival" in Britain, whereas the corporate sponsorship for the "Great Japan Exhibition" was almost entirely British, the major official financial support having come from the Japan Foundation.

The barrier of air fares

The exchange of people is crucial, with opportunities for individual as well as group contact, through homestays, school visits etc. However, the real problem is not distance per se but cost. Were it not for cost, Japan could be only an overnight flight away, if that, now that faster and more direct routes are being developed. However, the high air fares prevailing between Tokyo and London should be looked at carefully and objectively, not only by the two main carriers. A major barrier would be reduced if substantially lower travel costs per mile could be achieved, as are now available between Britain and the USA, Hong Kong or Australia. As a result the airlines would be likely to benefit from much higher volume sales, in addition to the lasting benefits to relations between our two peoples.

The Tokyo-London syndrome

Too many of those visitors to each other's country from Britain or Japan come only to the capital city. This is particularly true of Japanese tourists on a European package tour or some business visitors, but also applies to many British business visitors to Japan, while for British tourists a visit is unlikely to be much extended outside the three or four best known cultural cities. It is in the interests of better mutual understanding that efforts be made to broaden contact outside its present concentrated focus. Both national tourist agencies are trying to promote such a shift, which would also bring higher value-added to tourism in each country and reduce sometimes excessive pressures in the capitals. Meanwhile, Japanese goods are already marketed nationwide in Britain, while the British approach to the Japanese market is taking in more and more regional centres.

Faster and more flexible work permit and visa procedures

Greater speed and flexibility should be shown wherever possible by the Governments of the United Kingdom and Japan with regard to the issue of work permits, or visas where applicable. When this is not done, it can act as a constraint both on direct investment and on business, technological and cultural exchange. In the latter context it seems most regrettable that a Japanese ballerina should not be allowed to continue her valued role in the North of England, which has several times been shown not to be blocking local talent and equivalent employment. A last example of the work permit problem is that it is even extremely difficult for a British family to have a Japanese au pair, an obvious avenue for cultural and linguistic exchange, on the European model.

Exchange first, internationalization second

Sometimes Japanese seem wary of the trend towards internationalization, concerned not to dilute their strong national identity. This is an understandable reaction, and in many parts of the world "internationalization" has often meant "Americanization". However, given Japan's size and international economic role, it is in the country's interests to promote more two-way exchange of culture and people. Improved mutual understanding through education, cultural exchanges and the media should be seen as an opportunity rather than as any kind of threat to identity or values.

Specific plans or proposals

Education

Major aims in mutual understanding and language

It should be a major aim of each country's education system to make sure that every child passing through the compulsory period of secondary or high school education finishes up with at least some basic knowledge about the other's history, culture, economy and contemporary society. The aim in Japan of improving standards of spoken, as well as written English, is also an important one, as is the aim in Britain of producing an increasing number of people fluent in Japanese. The reform of the Australian education system to reflect the increasingly apparent economic and political importance of relations with Japan is a good example of what can be achieved by the public and private sectors of education within a relatively short time. Changes in teacher training as well as the curriculum will be required. Of course, there is some asymmetry between Japan's present economic importance relative to Britain's and between the world role of the English language relative to that of the Japanese language, but advances are necessary in all the areas mentioned above. It will be interesting to know how far Japan's current educational reform programme is focussing on these issues or including consultation with Japan's friends abroad.

Need for compulsory oral examinations

English language teaching in Japan becomes more motivated and a practical approach to achieving fluency in spoken English becomes essential when the English syllabus and examination includes an oral test. This is far from being compulsory in Japan yet, just as when I took my GCE Ordinary and Advanced Level exams in Britain in the early 1970's I did not need to speak Japanese or learn oral comprehension, since no one was going to test me on these vital aspects of the language. This question is a matter of great importance, and the existence of tapes and videos nowadays, as well as of a large number of native-speakers of each other's language, removes the objection that no means are available to teach the oral language.

The Japanese Government's English Teaching Assistant Programme

This Programme, now in the eighth year, has the dual aims of helping improve standards of spoken English in Japan and of increasing mutual understanding.

The graduates who go out to Japan are supposed to act as a window on to British and European culture and contemporary society, not only for their Japanese pupils and students but for the Japanese teachers with whom they work and often for the local community as a whole. At the same time, during their one or two year postings, they gain immensely valuable insights into Japan and the Japanese way of life. On their return to the United Kingdom they often play an active part as members of their own society, the Miura Anjinkai or William Adams Association, named after the first Briton known to have reached Japan, who thrived there, taught about important aspects of the Britain and Europe of his day and made successful efforts to learn Japanese and about Japan. The William Adams Association produces a Newsletter, has Business, Education and Social Sub-Committees, and has been an active catalyst for a number of successful Anglo-Japanese events or ventures.

In schools, colleges and universities, the Programme is administered by the Japanese Ministry of Education and Prefectures, in companies by the Ministry of Foreign Affairs. In all cases the British Council in Tokyo, Kyoto and London serves a vital supporting role. Young people from every part of the United Kingdom and from every kind of background have been successfully recruited to the Programme, through a careful screening and interview selection process in London, in which the British Council, leading British academics, and others each year assist the Japanese authorities to pick between forty and fifty from an average of nine hundred applicants. Part of the benefit of the Programme comes from its geographical diffusion, from Kyushu to Hokkaido, as well as from the wide variety of institutions to which the young people are posted.

At any one time there are around eighty British graduates teaching in Japan under this Programme. Several years ago there were as many British graduates in Japan through it as under the U.S. Fulbright Programme, but more generous Japanese budgetary provisions for the American Programme have now led to its expansion at a faster rate. On the other hand, though companies such as Suntory and Chugai Pharmaceutical have been long time supporters of the British Programme, the Keidanren has not yet been able to convince very many Japanese companies to join this important scheme for "cultural and educational bridge-building". Most say that their staff are either already fluent in spoken English through their own special language schools, mainly staffed with Americans, or that they have no English language requirement. Perhaps the 2000 Group could help to spread knowledge about the Programme in Japan, with a view to steady and significant expansion in the number of places offered in public and private educational institutions and in companies. There seems to be very active debate in Japan at present about the need for more native-speakers of English, and hopefully this can lead to an expansion of existing programmes rather than to the fragmentation that would come from merely creating new ones.

Teaching about Japan workshops

Both the Teaching about Japan Workshops and related Sixth Form Conferences, organised by Paul Norbury and the Japan Information Centre, are of the greatest value in achieving some awareness of modern Japan among teachers and pupils at secondary school level. The numbers held each year could usefully be increased.

The annual visit to Japan, arranged by the Information Centre for some of the teachers who have been involved in the Workshops is an excellent initiative, as is the "Japan Education Journal", whose circulation should be budgeted to rise over the years.

Essay prizes

The establishment of essay prizes at national and local level in Britain is one good way to spread better general knowledge about Japan. The Japanese Government's Essay Prize for young Europeans is a good idea, as also the British Association for Japanese Studies' Ivan Morris Essay Prize for generalists at British universities or polytechnics and from which specialists on Japan are excluded. Essay prizes or other written projects at secondary schools are also a good way to overcome the constraints of the school time-table, and Eton College, one of Britain's leading public schools, has for some years included a regular extra-curricular course on Japan with the award of a Japan Prize once or twice a year, judged by a former President of the British Assocation for Japanese Studies, (now Professor at the London School of Economics), and by the donor of the prize, who went to school at Eton. Westminster, a well-known London-based public school, apparently now offers some teaching of the Japanese language, another useful pointer to what can be achieved at secondary school level.

Schools for the Japanese

Britain now has the third largest community of overseas Japanese after the USA and Brazil. The part-time or full-time education of their children on Japanese lines and so as to enable the children to be reintegrated easily into Japan or the Japanese education system at a later date is of crucial importance. Several Japanese schools have now been established in Britain, of which Gyosei at Milton Keynes is only the latest but much to be welcomed. Further needs in this area should be monitored carefully and recognised as a significant factor in the choice of locations for inward investment to the United Kingdom. Business and education will move forward hand in hand.

In order to help Japanese children living too far from Japanese schools, or too young to attend them, the International Children's Bunko Association has opened a branch in London to facilitate the establishment of mini-libraries in the Japanese language. Similarly, in Japan there are now 27 mini-libraries in English, French and German under the same Programme, which also includes Japanese mini-libraries in Milan, Toronto and New Delhi.

Since 1984 Euro-Japanese Education Services has provided professional advice to Japanese families on planning their children's education in Britain and other parts of Europe.

United World College of the Atlantic

Atlantic College in Wales has had a number of Japanese pupils and its China-Japan Resource Centre plays a useful part in increasing knowledge about Japan not only at the school itself but in the surrounding area of West Glamorgan as well.

The launch of the new Sony "mini-video" format "Video-8" in which really small and portable combined camera-recorders are available could open the way for a school to school link between Wales and Japan via regular video correspondence. The West Glamorgan Education Authority would welcome this, and the China-Japan Resource Centre could act as guide to the smooth running of the link. Perhaps Sony might itself be interested in such a project, since the company has already done so much to further Welsh-Japanese business relations. Such an approach to school twinning could be a model for other school twinnings in the United Kingdom and Japan as a whole.

SOAS/TDK Video Letter from Japan and other teaching materials

There is a need for regular updating of teaching materials pertaining to each other's country. Some years ago the Japan Information Centre examined British geography text-books to good effect, uncovering an overemphasis on the rickshaw as a significant means of transport in contemporary Japan, as well as many other examples of outdated or misconceived information. Britain is also changing, albeit at a somewhat slower average rate. So a similar watchful eye should be kept on Japanese teaching materials about the United Kingdom.

This year TDK and the External Services Division of the School of Oriental and African Studies at the University of London inaugurated a "Video Letter from Japan" in order to make an accurate and up-to-date picture of life in Japan immediately accessible to children, especially those in the age range of 8-12. At this age range it is often easier to fit Japan into the syllabus than at secondary level. The letters provide a significant new resource for multi-cultural education in the spirit of the Swann Report "Education for All" and fill a gap, in that there are no other current audio-visual materials on Japan aimed specifically at this age range. Pioneered in the USA by TDK in association with the Asia Society, the video letters have now been adapted, in sound and print, for use in the United Kingdom and possibly other English-speaking countries. The first two titles in the Video series are "My Day" and "Tohoku Diary"; other titles will include "Nobles and Samurai", "Making Things", "Summer Holiday" and "My Family". Each tape is supported by detailed Teacher's Notes, with a copy of the script, a background essay and suggestions for classroom activities and further reading.

Other teaching materials on Japan include "The Crowded Islands", an excellent series of Schools TV Programmes. Consideration might now be given to the need to update these programmes, produced around seven years ago by the BBC and NHK. It may also be worth considering a reprint of the child's companion to the "Great Japan Exhibition" "Journey into Japan 1600 - 1868", which was a sell-out.

Japan - UK Students' Forum

For many years there has been a successful US-Japan students' forum, with undergraduates setting their own agenda. The Japanese Miracle Conference at Oxford for a week this December is the first such to take place in Britain and is a model of the kind of very positive student initiative which can help focus increased attention on Japan and bi-lateral links at tertiary education level. The Oxford Conference has been well supported by British and Japanese companies and by leaders of the Anglo-Japanese business and academic communities. It is organized by AIESEC, the Association Internationale des Etudiants en Sciences Economiques et Commerciales, better known as the International Association for Students interested in Economics and Management. AIESEC represents 50,000 students from nearly 500 university campuses across the world and arranges occasional study visits from Britain to Japan or vice versa.

Other new educational initiatives

Those projects or aspects detailed above give only a partial overview of current educational needs in Anglo-Japanese relations or some of the more positive new initiatives. Another encouraging new trend which seems to be just beginning is for Japanese companies and institutions to commission research studies from British universities, though it is reported that the Japanese Ministry of Education is trying to steer back such companies to Japan's own universities. It would seem preferable for the government response to such a trend to be more internationalist and to promote two-way academic exchange linked to the requirements of both Japanese and British companies.

Finally, a 2000 Group review of new educational initiatives should not close without mentioning the immense value of the Nissan Institute at Oxford, the Suntory: Toyota Centre for Comparative Economic Research at the London School of Economics, and a variety of other major educational advances in Britain resulting from the considerable generosity of a handful of Japanese companies. Nor have such Anglo-Japanese initiatives only taken place in the United Kingdom: in Tokyo and Kyoto a total of three new "Cambridge English Schools" will have been opened during 1985 and early 1986, as a joint venture between the British Council, the University of Cambridge Local Examinations Syndicate, International Languages Centres, the BBC and Suntory International. This joint venture, headed by the Japanese Chairman of the 2000 Group, aims eventually for a student intake of 6000 studying for British examinations.

Culture

Emphasis on the broader definition

"Culture" too often denotes only its more intellectual or artistic embodiments. Except for insufficient sponsorship and the dangers of fragmentation of what there is, not too much is in need of improvement in this area of Anglo-Japanese relations, more narrowly defined. It is splendid that the "Pre-Raphaelites" and "Turner" can visit Japan and in Britain the impact of the 1981/82 "Japan in Britain Programme" and the "Great Japan Exhibition" is still being felt. The "Toki Festival" at the Barbican and "DE-AI", organised by the Ikebana Trust in London for this February are useful initiatives, and it is to be hoped that regular exchanges will continue in the performing arts, not only established companies such as the Royal Opera House but also a continuing two-way flow of experimental theatre and dance.

However, "culture" should also comprise all aspects of our national ways of life, food, drink, fireworks and sporting links, bilateral, (and multilateral when Ballasteros wins the Suntory Open at Wentworth). Above all it should include the simple but hard to achieve extension of ordinary human contact between our two peoples. This August in Battersea Park the first ever Anglo-Japanese Festival achieved all this, (organised by the Anjinkai and the Nippon Club).

As well as art exhibitions, Britain might gain from holding an exhibition in the Science Museum tracing Anglo-Japanese scientific collaboration from William Adams, through Meiji, to the present day.

Role of Japan Information Centre

In addition to the excellent role already played by the Japanese Embassy's Information Centre and its wide range of information sheets and other materials, it would be useful if it could produce leaflets on "Sources of Funds Available for Anglo-Japanese Projects", with guidance on how to tap them e.g. The Expo 70 Fund, the Yoshida Foundation, the Sasakawa Foundation to name but a few, or "Ways to Get to Japan", a leaflet which could remind young people that movements such as Rotary, Lions and the Round Table have funds available for overseas study visits. These are mainly used at present, in Britain's case as in Japan's, for travel to North America, but there is no reason why this should continue to the same extent in the future. Programmes such as the very imaginative "Ten Outstanding Young Persons Conference in Osaka", organised by the Osaka Junior Chamber of Commerce, or the Japanese Government's Essay Competition could all be mentioned in such a leaflet.

Twinning

Another Japan Information Centre leaflet could spell out how a British county, town, school or other organization might best approach the possibility of finding an appropriate twinning partner in Japan. Much could be made of the positive experience of those twinnings that have been established. At municipal level Britain has over 1000 twinnings and Japan over 600, but so far only one British town has a partnership agreement with Japan, Gillingham in Kent, birthplace of William Adams, with Yokosuka and Ito, which both hold a festival in his honour each year. The Anjinkai/William Adams Association (see pages 6 & 9), acted as go-between for these links and has helped sustain them, though the major effort in this has come from local organizations and individuals, led by their respective councils.

The aim of a twinning should be to generate friendship and better mutual understanding at grass-roots level. Benefits should go well beyond symbolic contacts between Mayors or signs by approach roads to a town ("Welcome to X, Twin City with Y in Japan"). The partnership could facilitate structured exchanges of teaching materials, art work and correspondence between local schools in Britain and Japan so as to give young people a clearer idea of each other's daily lives and environment and to break down the psychological and distance barriers between Britain and Japan. Local business might help to sponsor exchanges of pupils, sporting teams or local cultural groups. Home stays should be arranged where possible for at least part of the visit and experience pooled about more and less successful initiatives. It would not matter if there were some asymmetry at first in exchanges of people, due to disparities in possibilities for funding.

However, fundamental cultural differences of approach between the British and the Japanese make it advisable for all twinnings to be centrally monitored by the British Council's Joint Twinning Committee and wherever possible a "go-between" should play the traditional role of preparing the ground, ("nemawashi"), and then helping sustain the partnership over the long term. This is especially necessary in the United Kingdom where the role of a Mayor is only partially equivalent to the role of a Mayor in Japan, and where his term of office is much shorter. Twinnings could best be promoted and sustained in places where there is Japanese direct investment or some centre of Japanese studies (e.g. Oxford, Cambridge, Sheffield, Stirling, Colchester etc). Both Britain and Japan have a number of long-distance twinnings with other countries. So distance alone is not the major problem. Budget constraints and an unclear view of what can be gained from the effort are more fundamental problems.

Local weeks and local societies

Both the Japanese and British Embassies have from time to time promoted successful "weeks" to focus attention on their countries in a specific town or area. These programmes could be further expanded. In Britain there has also been a useful trend towards the establishment of local Japan societies, for instance, in Oxford, Cambridge and most recently in Wales. The Japan Society and the William Adams Association can both help to support these local societies with a pooling of ideas and with speakers. If it does not already exist, a Speakers' List for various Japan-related subjects could usefully be maintained at the Japan Information Centre, as is done for European subjects by the European Movement.

Anglo-Japanese Commemorative Fund

Just as the commemoration of William Adams/Miura Anjin has proved an effective basis for the Gillingham/Yokosuka/Ito partnership, so there are a variety of other colourful and interesting individuals from Britain's first or second main periods of friendship with Japan, or later still, who have local connections e.g. John Saris with Fulham, Lafcadio Hearn with Durham, John Milne with the Isle of Wight, Dr. Willis with Glasgow and Edinburgh, Dick Storry with Oxford, Bernard Leach with St. Ives. A fund to the memory of those individuals from both countries, who were the pioneers in Anglo-Japanese relations could be a helpful focal point for improved local awareness of Anglo-Japanese connections. In particular it could be helpful in the local schools or in promoting tourism away from capital cities. Small museums could be set up, with labels in English and Japanese or at the very least plaques put on houses connected to those pioneers. These examples could serve as a necessary reminder of the extent of friendship and cooperation in times past, too much of which is sometimes forgotten.

Restoration or Erection of Anglo-Japanese Monuments

Anglo-Japanese monuments could also be conserved with the help of the Commemorative Fund, for instance the Gateway of the Imperial Messenger, or Chokushi-no-Mon in Kew Gardens, which dates back to the Japan-British Exhibition in London in 1910 and was donated by the Kyoto Traders Association. Nowhere in Britain is there an example of one of the great Torii purification arches to Shinto shrines, which so impress visitors to Japan. A Commemorative Fund could help see to its maintenance in good condition, if ever a Japanese donor is found to present one to Kew Gardens, as was first mooted in 1981/82 to commemorate the "Great Japan Exhibition" and "Japan in Britain Programme".

Conferences and Symposia

As Japan is becoming better known in the United Kingdom, conferences are becoming more focussed and more specific, though occasionally as in Essex University's International Symposium on "Japan in 1985" a great deal can be gained from covering a broad range of topics and bringing together a variety of academics, business people, bankers and politicians (including representatives of each of Japan's six political parties). The British members of the 2000 Group should act as a catalyst for conferences and symposia on specialist themes to include an address or two on Japan where appropriate. The Japanese Members of the 2000 Group could also consider those subjects where Japan might learn from British experience, for instance in town planning.

Wherever possible, a Briton should be invited to speak at an international (or national) conference in Japan and a Japanese in Britain. For example, while bilateral talks between business leaders such as the CBI and Keidanren are essential, better understanding could be achieved by British industry or trade associations inviting a leading Japanese businessman to address their annual conference or dinner. More first-hand exposure of trade unionists from Britain and Japan to each other's points of view and priorities would also help to spread awareness, where it is often much needed.

Understanding at Work

Growing numbers of Britons now work for Japanese companies, and there has also been an increase in numbers of Japanese employed by British companies. In this most important and direct relationship, great efforts should be made by companies of both nationalities to ensure that management and employees are both fully sensitive to the problems of approach and communications that may arise from fundamental, cultural and linguistic differences.

Joint projects in third countries

We should not only think of improving cultural relations and mutual understanding on a bilateral basis in each other's countries. Japan is playing an increasingly important and helpful role in parts of the world with which Britain has long historical links, such as much of Africa. Closer liaison between those on Britain's Voluntary Service Overseas and Japan's Overseas Cooperation Volunteers could prove mutually beneficial for the job in hand and for future bilateral relationships.

Japanese Cultural Centre?

It has long been suggested that Japan establish a Cultural Centre in London and it would seem sensible for the Japan Foundation and Japan Information Centre to carry out a joint feasibility study, in consultation with bodies such as the Japan Society. On the one hand, a well used and centrally located centre would be a valuable focal point for promoting Anglo-Japanese relations, but on the other hand the response to Cultural Centres elsewhere has been mixed. At worst they can be expensive white elephants, unwanted and under-utilized. They can also divert funding from more worthwhile individual projects. There needs to be a full and precise definition of the Centre's aims and means.

It would seem better for Japanese culture to be featured in all the mainstream and most frequented locations in Britain, than in some relative back-water in which more and more Anglo-Japanese cultural events would be concentrated. As for the Centre's information role, that can already be focussed on the Japan Information Centre and Japan Foundation London office, which can be expanded or contracted according to need. However, if funding for a Cultural Centre is available, the best location would probably be in part of London University and including a research capability as well as an organizational team. If an Asia House is ever set up in London on New York lines, then many of the more obvious advantages of a separate Japanese Cultural Centre would be reduced as exhibitions and activities could probably be catered for at a sustainable level perfectly well in the broader context.

Film and the Media

Unevenness of Treatment

There is an unevenness in the treatment of our two countries in the other's media. Much reporting is of high quality and very fair, but on too frequent occasions stereotypes are reinforced or the reporter concentrates on the cultural difference or peculiarity rather than on the affinities between our peoples or the commonality of many of our problems.

Need for more joint programmes and coverage

Joint programmes are one way to reduce the risk of cultural misunderstanding or of being accused of giving outdated or superficial views of British or Japanese society. The BBC and NHK already have a good working relationship, as do other broadcasting channels in both countries and several of the leading newspapers of each country.

Euro-American understanding is enhanced by "the Weekly Guardian", combining the "Guardian" from Britain, "Le Monde" from France and "The Washington Post". "The Times" also produces a periodic joint newspaper with a number of foreign partners. How nice if there were also a Japanese partner in at least one of these occasional publications in Britain, or vice versa in Japan.

A Japanese Column or Letter from Japan

The importance of Japan in economic size and population terms would more than justify a number of leading newspapers printing a regular Japanese column, as well as news and features. A number of papers, including some tabloids, do this periodically for the USA and France. On the other hand, the BBC's excellent radio coverage of Japan could be further enhanced by a weekly "Letter from Japan", modelled on Alistair Cooke's famous "Letter from America". Perhaps a veteran such as Murray Sayle could take this on, though the BBC's Tokyo correspondent, William Horsley, would also do it admirably. In due course a thirteen or twenty-six part television series on Japan, rather like Alistair Cooke's "America", would help explain history and contemporary society, combined with regional differences, an aspect of Japan hitherto neglected in media coverage.

Japan's "Them and Us" bias to foreign correspondents

It is only this year that permanent foreign press and media representatives in Tokyo have felt they were being given anything like approaching equal access with Japanese correspondents to people in the news, such as political and other leaders. This may partly have been due to a lack of confidence in them by the authorities, but trust breeds trust, as the special briefings accorded to the Japanese press and media in Japan have shown. The new guidelines agreed by Mr. Abe are understood to be a helpful step forward and should prove to be in Japan's interests in terms of the quality of coverage that is likely to result.

Japanese by Radio and Television

If the designs on tee-shirts and dresses are anything to go by in Britain, written Japanese (and Chinese) are increasingly popular. Curiosity about the written language has risen appreciably since "the Great Japan Exhibition", and about the spoken language since "Shogun", especially the television series rather than the film. Teaching Japanese by radio is a good idea and should start before too long.

However, infinitely greater impact could be achieved by a long television series "Japan: Language and People", based on "Russia: Language and People", where the written language was more difficult than in the case of French, German, Spanish or Italian. The films could aim to achieve fluency in conversational Japanese and reasonable fluency in the Hiragana and Katakana syllabary. Only a few of the easier Chinese character Kanji could be aimed at, and for these books such as "Origins of Written Japanese" or "Read Japanese Today" might provide an amusing base, (with Tokyo shown to mean Eastern Capital: "To" the sun rising from behind a tree and "Kyo" derived from the shape of a stone lantern). "River", "Mountain" and a good many other words could be similarly explained in pictographic terms.

Such a series could generate enormous excitement, a good cover for the "Radio Times", and an up-to-date set of films about contemporary Japan at the same time. It would do much to remove the psychological barriers which the mystery of the Japanese language and its structure produces in foreigners.

A Japan Week on Radio and Television

There have been "Weeks" to focus attention on a number of leading countries. A Japan Week would serve a similar useful purpose.

Popular Children's Programmes and Others

It took nearly twenty years of repeated requests and at the end some mediation by the Anjinkai for Britain's most popular children's television programme to be invited to visit Japan. With an audience of around 12 million, of all ages, its series on Japan in 1981/82 ran for several months and was both constructive and informative. It will be important for the Japan Information Centre to take the initiative to check whether the producers of any other children's programmes or other programmes of general popularity, which might similarly improve communications between Britain and Japan, could be invited to visit Japan.

Film

Film has the great advantages of both being a very accessible medium and of emphasizing the similarities of the human condition, in spite of differences in culture and language. There has always been immense enthusiasm in Britain for the interwar and post-war masterpieces of Japanese cinema, especially among young people, but these are too rarely available to the public. Long queues form at the National Film Theatre for every Japanese film season, (and John Gillett, the NFT and British Film Institute's Chief Researcher on Japan, has arranged quite a number), but continuing official support is needed to maintain access to film archives and other sources, and to benefit from Japanese film

loans to other European countries. In addition, the Edinburgh Film Festival would be a good focal point for generating a greater awareness of Japanese cinema, though one problem is the general decline in quality since the 1950's, (similar to that which many Western cinema industries have been experiencing).

A final point should be mentioned in relation to the links between film and television: Japanese films are not often enough shown on British television, perhaps because those responsible for deciding on the choice of films are unaware of what is available. This may be due to the problem mentioned above, that films from the golden period of Japanese cinema are in any case all too rarely available for the public, and contemporary Japanese cinema is not so rich a treasure house. One solution would be to show a carefully chosen and publicised series on BBC television of Japanese cinema "Greats". (Barry Norman could be just the right person to present this to the general public).

However, it would be appreciated if the Japanese could show awareness of the marked revival of the British film industry, led some years ago by the film "Chariots of Fire"; on a JAL flight the English language version of this British film was printed as "American Version", as if the credit for the film was due to our Anglo-Saxon cousins!

Conclusion

In conclusion, it should again be stressed that this paper merely attempts to highlight opportunities for achieving greater mutual understanding and areas of the Anglo-Japanese relationship where more effort or funding is needed. It is no kind of comprehensive overview. More emphasis has been placed on the needs of the future rather than to underline the considerable progress that has already been made. More emphasis has been placed on "the base of the pyramid", as this still seems to have been relatively neglected compared to "the top of the pyramid". "The New Cultural and Educational Initiative" and an awareness of the nature and position of modern Japan in the world have already done much to improve the climate of opinion in the United Kingdom, which used to be characterised most of all by ignorance or hostility. However, much still remains to be done, and the UK: Japan 2000 Group can play a valuable role in stimulating further advances.

Nicolas Wolfers

London, December 1985

File

DA

SUBJECT
CC MASTER

cc DTI
HMT

MTG RECORD

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

6 January, 1987.

Dear Colin,

UK/JAPAN 2000 GROUP

The Prime Minister had a talk this evening with the British members of the UK/Japan 2000 Group before they set out for Tokyo. She urged the Group to be relentless in bringing home to the Japanese the need to take action on the trade imbalance. While we wanted to see Japan's position as a member of the democratic comity of nations strengthened, the Japanese should not be allowed to use this wish to ease pressure on them to reduce barriers to trade. It was vitally important also to persuade the European Community to act together effectively in the area of trade relations since we did not have enough muscle on our own to effect Japanese calculations. We should learn from Japanese strengths, particularly in management, design and ability to spot the products of the future. But we should also be ready to exploit Japanese weaknesses: their conformism, their educational system, their agriculture and their service sector. The Prime Minister made clear that she did not favour pressing the Japanese to take on the whole burden of their own defence, although she would now like to see them do more in the area of maritime defence.

The Prime Minister agreed that she would give Mr. Jenkin a message to take to Mr. Nakasone. There was some discussion at the meeting of the points it might make. I enclose a copy of the text agreed by the Prime Minister before the meeting. She would like it amended to add the following points:

(i) the importance of the GATT negotiations;

(ii) the need to allow our companies in the service sector full access to the Japanese market;

GH

(iii) the extent to which both Europe and Japan share a common interest in managing the threat from US protectionism.

I should be grateful if you would propose some amendments to the text to take account of these points and let me have a revised version by the end of this week.

I am copying this letter and enclosure to Timothy Walker (Department of Trade and Industry) and Alex Allan (HM Treasury).

yours sincerely,

Charles Powell

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

January 1987

AJF

I am pleased that my first message to you in 1987 should be about the work of the UK/Japan 2000 Group. I continue to believe in the importance of the Group's work in looking ahead towards the end of the century. There is much that we can learn from each other and much that we can achieve by working together.

I hope that the Group's discussions will underpin the efforts - which I know you appreciate need to be made - to grapple with the problems in the world's trading relationships. These problems actually increased during 1986. It is more than ever vital that Japan should deal with its trade surpluses and help to turn away the protectionism which threatens the world's trading system on which you and we depend. In that context I hope that you will be able to take another look at the question of alcohol taxation, and will decide to meet the European Community's request for the ending of discrimination against imports.

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Naturally, I welcome ANA's order for Airbus. I hope too that there will be successful collaboration in the field of telecommunications, where our industries are technical leaders and where our governments pioneered the political initiatives to privatise the service and to increase competition. As you know, we are keen to see more Japanese investment in the United Kingdom. I was very impressed by my visit to the new Nissan plant last autumn. Nissan have made

an excellent start, and the quality of the management and the commitment they have won from their employees is a lesson from which many British companies can learn. I am pleased to hear that other Japanese companies intend to expand their existing activities here.

This progress highlights the benefits of tackling together the economic and political problems we face. The work of the 2000 Group in identifying these problems in good time and in suggesting joint approaches to them will be of particular value. I hope that the Group will see that its work and recommendations are made known widely in both countries. I am glad that you will yourself receive the Group, and my colleagues and I for our part look forward with interest to hearing the conclusions of this year's meeting.

With warm regards and best wishes for 1987,

His Excellency Mr. Yasuhiro Nakasone

SUBJECT CC MASTER OPS

File JA

CC FCO DTI

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

6 January 1987

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T3A/86

Dear Mr. Nakasone,

I am pleased that my first message to you in 1987 should be about the work of the UK/Japan 2000 Group. I continue to believe in the importance of the Group's work in looking ahead towards the end of the century. There is much that we can learn from each other and much that we can achieve by working together.

I hope that the Group's discussions will underpin the efforts - which I know you appreciate need to be made - to grapple with the problems in the world's trading relationships. These problems actually increased during 1986. It is more than ever vital that Japan should deal with its trade surpluses and help to turn away the protectionism which threatens the world's trading system on which you and we depend. In that context I hope that you will be able to take another look at the question of alcohol taxation, and will decide to meet the European Community's request for the ending of discrimination against imports.

Naturally, I welcome ANA's order for Airbus. I hope too that there will be successful collaboration in the field of telecommunications, where our industries are technical leaders and where our governments pioneered the political initiatives to privatise the service and to increase competition. As you know, we are keen to see more Japanese investment in the United Kingdom. I was very impressed by my visit to the new Nissan plant last autumn. Nissan have made

881

an excellent start, and the quality of the management and the commitment they have won from their employees is a lesson from which many British companies can learn. I am pleased to hear that other Japanese companies intend to expand their existing activities here.

This progress highlights the benefits of tackling together the economic and political problems we face. The work of the 2000 Group in identifying these problems in good time and in suggesting joint approaches to them will be of particular value. I hope that the Group will see that its work and recommendations are made known widely in both countries. I am glad that you will yourself receive the Group, and my colleagues and I for our part look forward with interest to hearing the conclusions of this year's meeting.

With warm regards and best wishes for 1987,

Yours sincerely,

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone

PRIME MINISTER

MEETING WITH MEMBERS OF THE UK-JAPAN 2000 GROUP

The UK-Japan 2000 Group is to hold its third meeting, in Tokyo, in mid-January. Patrick Jenkin is bringing some of the UK members of the Group (list attached at Flag A) to meet you before they go. It is an impressively strong group. They will report to the Foreign Secretary and Mr. Channon on return.

It is also suggested that you should ask the Group to convey a written message to Mr. Nakasone. A text (which I have amended) is attached.

You have already seen Patrick Jenkin's letter about the meeting (Flag B), but may like to refresh your memory. The agenda for the meeting - set out on page 2 of his letter - looks to me like a skilful and successful Japanese attempt to focus the discussion on everything but the crucial issue of the trade imbalance and the reasons for it.

This suggests that you should urge them strongly not to let the Japanese off the hook on this point. While the Group can welcome the improvements which there have been - appreciation of the yen, purchase of Airbus - they need to drive home how much still needs to be done. The Japanese will as always try to fob them off with promises, where we must have action. While the trade imbalance remains so bad, it is bound to overshadow other aspects of relations with Japan and be an obstacle to building up the same quality of relationship with Japan that we enjoy with the European countries and the US.

Two other issues which you might encourage the UK members of the Group to raise are:

(i) inward investment. Your visit to Nissan and the impact which it made.

(ii) Japanese practices in bidding for major contracts in third countries. Specific examples of sharp practice are hard to prove, and it is best to make clear that we are watching them like hawks.

There are also some briefing notes from the FCO (Flag C).

CDP

Charles Powell
5 January 1987

JAlBDO

cc PS

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Foreign and Commonwealth Office

London SW1A 2AH

2 January 1987

Prime Minister

These papers are for your meeting with the 2000 group on Tuesday. You may like to look at them over the w/e. There is also a draft letter to Mr Nakasone for your signature, at 'A'. MEA 2/1

Dear Charles,

UK-Japan 2000 Group

The Prime Minister has agreed to see the British members of the UK-Japan 2000 Group at 1630 on 6 January, before they leave for the third conference of the Group in Japan. Mr Patrick Jenkin's letter to the Prime Minister of 26 November described the background, the themes for this conference and his intentions.

File NEA

I enclose a copy of an updated list of British participants. Those expected to attend on 6 January are marked with an asterisk. We agree with mr Jenkin's assessment that the British team is stronger than before. The number of bankers reflects their strong interest in Japan and their financial support for the Group. But there are also impressive representatives from the business world. Mrs Angela Rumbold will be participating in place of Mr Baker, and Mr Richard Needham will again participate.

The themes of the conference are set out at the end of page 2 and top of page 3 of Mr Jenkin's letter. They indicate the determination of the British group to have constructive and practical discussions as well as an analytical look at the future. They are ready to learn as well as to teach (the CBI's new Under 35 Group is the direct result of the 1986 conference).

Mr Jenkins also has a number of short-term specific objectives. He can be relied on to speak firmly about the need for Japan to restructure along the lines of the Maekawa Report. He is keen to promote cheaper air fares and the interests of the British whisky industry. He will be briefed by Cable & Wireless to speak up about their relecommunications interests.

Sir Geoffrey Howe and Mr Channon have arranged to see the Group on their return to Britain for a debriefing.

/In 1985

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In 1985 the Prime Minister sent a message to Mr Nakasone / (copy enclosed for ease of reference) on the occasion of the first 2000 Group meeting. We recommend that a message should also be sent this year. This will be a good opportunity to get across to the Japanese yet again some of our continuing concerns and to add power to the influence of the 2000 Group's work.

/ I enclose a draft message to Mr Nakasone, speaking notes and background.

I am sending a copy of this letter and enclosures to Timothy Walker (DTI).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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10 DOWNING STREET

THE PRIME MINISTER

29 January 1985

My dear Prime Minister,

When you were in London last year, we agreed on the need to stimulate and develop exchanges between Britain and Japan. We also agreed on the need to arrange non-governmental contacts through the 2000 Group. I am particularly happy therefore that James Prior is able to be the bearer of this message to you on the occasion of his visit to Tokyo for the first meeting of the 2000 Group.

Since our meeting, Ministers and officials of our two governments have been in regular contact in both capitals and elsewhere and you and I were able to have a further talk in New Delhi. I myself greatly look forward to discussion with you at the Economic Summit in Bonn. In addition, Norman Tebbit plans to visit Tokyo in April and Geoffrey Howe is looking forward to greeting your Foreign Minister for a round of talks in London.

Despite these opportunities to concert our positions on many issues, our views differ about some aspects of our trading relationship. The growing deficits in UK/Japan and EC/Japan trade cause us increasing political as well as economic difficulty. I very much hope that your next round of market-opening measures will directly address some of the concerns repeatedly put to you by the European Community and the United Kingdom and will have a measurable effect on the

trade imbalances. I believe that it is vital for Japan, as a major force in the world economy, to accept responsibility for finding solutions to the problems of its trade surpluses, so easing the strain imposed by them on the world open trading system - and never more so than now, as we start to prepare for a new round of multilateral trade negotiations.

To promote our common interests more effectively and to ensure that these problems are tackled more vigorously, we need the sustained support of private enterprise and private sector activity in both countries. Japan's role in the modern world, and the direction of her influence on future world development, need to be better understood in Britain. Equally, Britain's own contribution may not be fully understood in Japan. There are areas of endeavour, of great significance for the future welfare and prosperity of society, in which we need to examine the scope for practical cooperation much more closely. We have a common interest in education, in the arts, and above all in sustaining the values of the democratic way of life.

For these reasons, I greatly welcome the first meeting of the 2000 Group. The Group has a most distinguished membership, both Japanese and British, combining expert knowledge with practical achievement, and covering a very wide range of interests. They are well qualified to explore the territory, to identify the most promising directions for cooperation, and then to spread the word to others on the scope and the advantages of determined action. I attach great importance to the work of the group and am sure that they will put forward constructive initiatives. For my part, I shall study the results of their deliberations with the keenest attention.

With my best wishes.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone

SPEAKING NOTE

PRIME MINISTER'S MEETING WITH MEMBERS OF THE UK-2000 GROUP : 6 JANUARY 1987

- Value the work of the Group. Now well established : third meeting. Hope your Chairman will deliver a message from me to Mr Nakasone.

- Your meeting comes at an important time. The spectre of protectionism begins to take material shape not least with latest US congressional measures and announcement of action against agricultural exports. We must tackle the underlying problems urgently before trade wars threaten the basis of post-war prosperity.

/ EC

- There are opportunities too. Investment in each other's countries leads to a growing inter-dependence and joint interests. This in turn can lead on to joint approaches to problems and opportunities. But the trend needs help.

- We already have interests and values in common with Japan. Striking that a nation that fought all the major powers in the first half of this century has not only been at peace since 1945 but has also been actively on our side in the major political and economic forums.

- But there are tough economic problems that need urgent decisions. The strengthening of the yen in the past year has begun to help. It also begins to pose political problems for Japan. But I hope you will take the opportunity of your discussions to continue to press the need for Japan to re-structure her economy and to increase her imports of goods and services. No doubt you will mention our disappointment over whisky, our legitimate interests in aviation and tele-communications matters and all that we can offer in the financial services sector. We also need a genuine two-way partnership with those Japanese firms that have invested in our country, and vice versa.

- Key is practical and positive ideas for overcoming problems facing us. Must then make sure these ideas are put over forcefully to wide audience. 2000 Groups crucial role in this.

Background

1. Mr Nakasone's premiership likely to end after Venice Summit or next Autumn: still uncertain which of Abe, Miyazawa and Takeshita will succeed.

2. Governor of Bank of Japan expects growth below 3% this year, 3% next year contributed by 3½% from domestic sector and -½% from external sector.

3. Japanese Government has failed to deliver on specifics in Maekawa spirit. As industrial threat Japan will not go away: indeed her competitive advantage in applied technology, skilled management and global marketing is growing in more sophisticated up-market industries under stimulus of stronger yen; her R & D programme (private sector) impressive. CBI have begun longer term strategic thinking to try to make maximum opportunity out of threat, with damage-limitation where essential. £1.2 billion of UK exports to Japan no mean marketing achievement: must build on success.

4. ANA ordered 20 A-320s; Government's liquor tax reform announced on 23 December reduces tax on Scotch but differential with local "second grade" Whisky hardly reduced. UK industry considering effects.

5. Paymaster General visits Japan 8-15 January; Mr John Patten plans to go in March, Mr Howard in April and the Foreign Secretary possibly thereafter.

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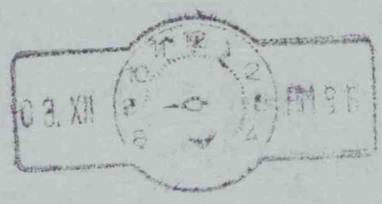
JAPAN: Relations: Part 5





Foreign and Commonwealth Office

London SW1A 2AH

2 January 1987

Dear Timothy,

Thank you for sending me a copy of your letter of 24 December to Charles Powell, about the proposed Japanese tax reform as applied to alcoholic drinks.

Sir Geoffrey Howe fully agrees that the outcome is an inadequate response to the Community's case and that our basic concern has not been met. He therefore agrees that we must ensure that the Community's Article XXIII case is pursued vigorously in the GATT. He notes that we were able to prompt the Commission to make a public statement to that effect.

Sir Geoffrey Howe also considers that the inadequate Japanese response in this test case makes it all the more important that the Commission should bring forward to the January Council, as already agreed, proposals on further sectors in which similar action would be appropriate.

I am sending copies of this letter to Charles Powell and the other recipients of yours.

Yours Sincerely,

Colin Budd

(C R Budd)
Private Secretary

T Walker Esq
PS/Mr Channon

Japan Relations PTS.

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* Nicholas Colchester	Economist
* Sir Hugh Cortazzi	Hill Samuel & Co Ltd
Sir Trevor Holdsworth	GKN
* Graham McCallum	John Swire
Rt Hon Bruce Millan	House of Commons
Sir Jeremy Morse	Lloyds Bank
Richard Needham	House of Commons
* Mark Nicolson	CBI/Barclays Bank
Sir Edwin Nixon	IBM (UK)
* Sir Peter Parker	Rockware Group
* Sir Michael Palliser	Samuel Montagu
* Mrs Angela Rumbold	House of Commons
Viscount Sandon	National Westminster Bank
* Sir Francis Tombs	Rolls-Royce
* Dr William Wallace (Rapporteur)	RIIA
* Nicolas Wolfers	Midland Bank

Observers: Keith McDowall (CBI)
Thorold Masefield (FCO)
Sir John Whitehead (British Embassy, Japan)

Secretariat: Brian Bridges (RIIA)
Stephen Hillier (Private Sec. to Mrs Rumbold)

B.B.
10.12.86

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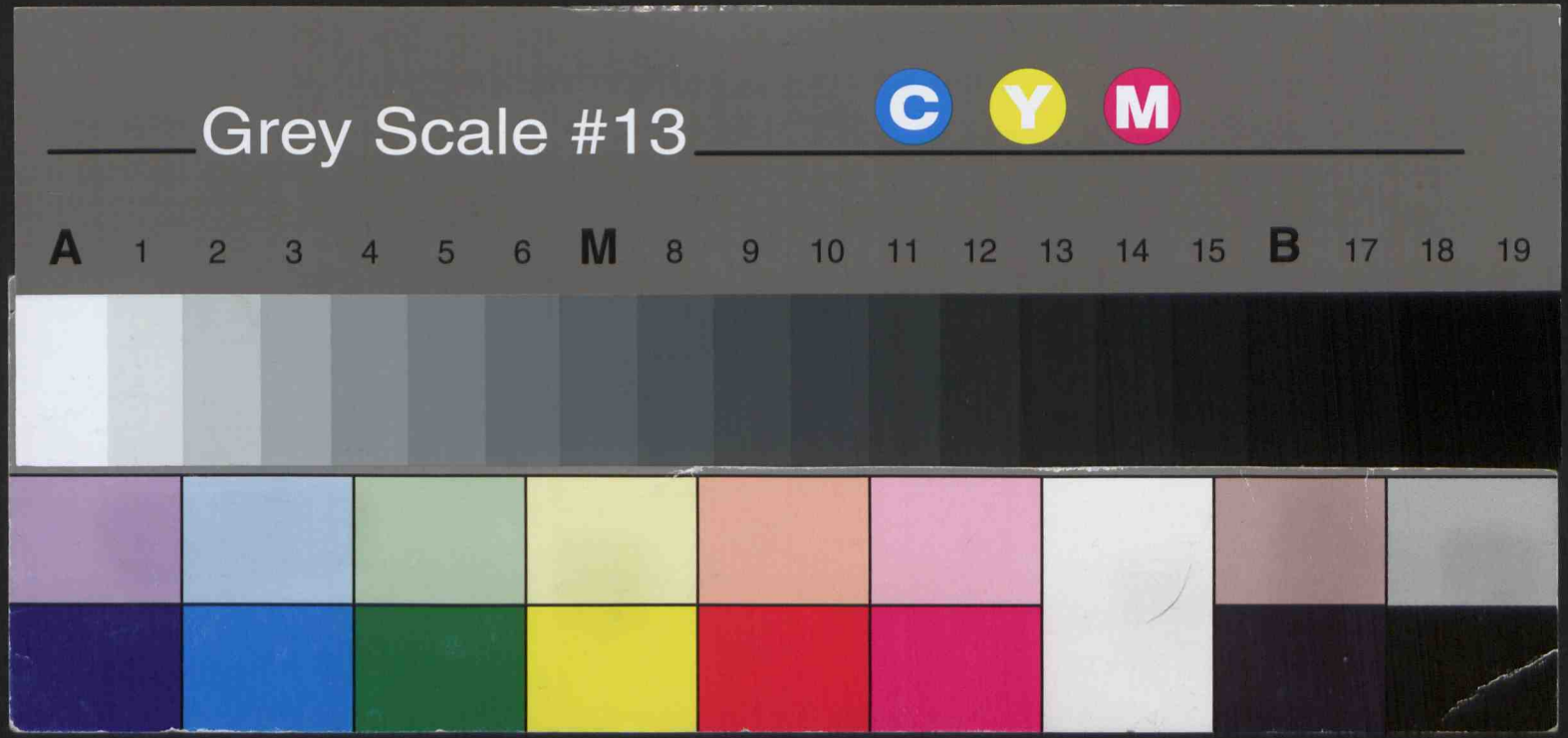
PART 5 ends:-

M6A to DTI 31.12.86

PART 6 begins:-

FCO to DTI 2.1.87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