

2689

CONFIDENTIAL

10 DOWNING STREET

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FILE TITLE: RELATIONS		SERIES
		JAPAN
		PART: 1
PART BEGINS: 8 June 2001	PART ENDS: 1 FEB 2002	CAB ONE:

LABOUR ADMINISTRATION

~~Part closed~~

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PART

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DATE CLOSED	1 FEB 2002
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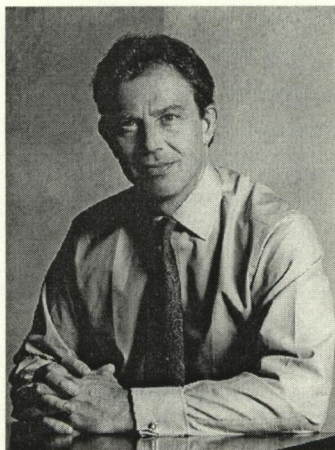
Series : JAPAN

File Title : RELATIONS

Part : 1

Date	From	To	Subject	Class	Secret
08/06/2001	Japan/PM	PM	(H) congratulations on re-election	C	0
11/06/2001		PM	From Yukio Hatoyama;President of Democratic Party-Election Victory	U	0
14/06/2001	Japan/PM	PM	(H) Thank you for your message of condolence on the incident at Ide	U	0
21/06/2001	Cab Off	FA/APS	Koizumi visit - Japanese comments	U	0
23/06/2001		FA/APS	Japan 2001 - A Celebration of Japan	U	0
28/06/2001	FCO	FA/APS	Brief - PM	C	0
28/06/2001	DFID	DFID	Note of meeting with the Japanese ambassador Mr Sadayuki Hayash	C	0
28/06/2001	FCO	FA/APS	Brief PM Koizumi visit 2 July	C	0
29/06/2001	FA/APS	PM	Your talks and lunch with PM Koizumi 2 July	C	0
29/06/2001	FA/APS	PM	UK Japan 21st century group UK chairman	C	0
30/06/2001	Telegram/IN	Telegram/IN	from Wton Tel No 740 US/Japan : Koizumi's visit to Washington	U	0
02/07/2001			from japanese embassy - List of members of Japanese delegation to	C	0
02/07/2001	FCO	FA/APS	PM's meeting with PM Koizumi of Japan	U	0
02/07/2001	FA/APS	FCO	Japan: PM's talk and Lunch with Prime Minister Koizumi	R	0
06/07/2001	FCO	FA/APS	Japanese Language Studies in the UK	R	0
08/07/2001	Japan/HMA	FA/PS	congrats and letter HMA sent to Japanese PM re British-Japanese co	C	0
09/07/2001	FCO	FA/APS	Follow-up to Koizumi Visit - Draft letter from PM to Koizumi	U	0
13/07/2001	Japan/PM	PM	(H) Recent Visit to the UK	U	0
16/07/2001	PM		To Lord David Howell; Stepping down as Chairman of UK-Japan 21st	U	0
19/07/2001	FA/PS	FCO	The PM's talks with President Bush : Chequers : Japan	C	0
24/07/2001	FCO	FA/APS	Draft letter from Pm to Japanese PM	C	0
31/07/2001	PM	Japan/PM	(H) PM's Meetings with the Japanese PM at recent G8 Conference in	U	0
01/08/2001		LC	From Japanese Crown Prince; Letter of Thanks for Recent UK visit	U	0
22/08/2001	Japan/HMA	FA/APS	Visits by Minister for Admin Reform & the Nikkeiren (Japanese CBI)	U	0
06/09/2001	FCO	Cab Off	Call by Nobuteru Ishihara Japanese minister for Administrative refor	C	0
12/09/2001	Japan/HMA	FCO	Yokio Okamoto	R	0
18/09/2001	CDL	FCO	Meeting Between Lord Macdonald and Nobutera Ishihara	U	0
19/09/2001		FA/APS	From Embassy of Japan: Japan's response to terrorist attacks on US	U	0
24/09/2001	FCO	FA/APS	Prime Minister's Conversation with Japanese Prime Ministesr	U	0
25/09/2001	FA/APS	FCO	(T) Terrorist Attacks on the US: Prime Minister's Telephone Call with	C	0
28/09/2001	FA/APS	FCO	(T) US/Terrorism: Prime Minister's Telephone Call with the Japanese	R	0
12/10/2001		FA/APS	From Japan Federation of Employers' Associations: Visit of Nikkeiren	C	
25/10/2001	Japan/HMA	FA/APS	Call by Peter Mandeldon on the Japanese Prime Minister	U	0
29/10/2001	PD(OJ)		To Mr H Yano, Visit of Nikkeiren Delegation to the UK	U	0
06/11/2001	FA/APS		To Kenjiro Monji , Embassy of Japan	U	0
13/11/2001	Japan/HME	FCO	Japans social security system Creaking at the joints	C	
20/11/2001	FCO	FA/APS	Prime Ministers message to Prime Minister Koizumi following the birt	C	
06/12/2001	Japan/PM	PM	(H) Thank you for your message of congratulations on the birth of Im	U	
21/01/2002	FCO	FA/APS	Japan: Reception for the 21st Century Group	R	
22/01/2002	Japan/HME	FA/PS	Possible PM/Koizumi call	C	
23/01/2002	SS/DTI	PM	The importance of Japan & Korea to UK Businesses	R	
29/01/2002	FCO	FA/APS	Japan : Visit by Okinawan Schoolchildren	U	0
01/02/2002	PM		Message to Okinawan Schoolchildren	U	

Added to
In Box



THE PRIME MINISTER



10 DOWNING STREET
LONDON SW1A 2AA

Welcome to the United Kingdom. I hope you will enjoy your stay here as greatly as I enjoyed my own visit to your town in July 2000.

The events of the past few months have shown us all the crucial importance of good international relationships. And Britain and Japan have long been staunch friends. The British and Japanese Governments are now working closely together on a whole range of issues to promote global security and stability while, at the grassroots level, Japan 2001 continues to make a huge contribution to strengthening the ties between our two countries.

The future belongs to your generation. Your visit marks one more chapter in the long history of friendship between the British people and the people of Chatan. I hope that you will build strong links with young people in the United Kingdom and that the special relationship between Chatan and Britain will grow stronger still in the years ahead.

Tony Blair

February 2002

29 January 2002



Foreign &
Commonwealth
Office

London SW1A 2AH

(CDM)
custodian
kk

Dear Anna,

Japan: Visit by Okinawan Schoolchildren

When the Prime Minister visited Okinawa in July 2000 for the G8 Summit, he visited a primary school in the town of Chatan (press release/cuttings enclosed). Chatan was chosen for the visit because of its special historical links with the UK. In 1840, while Japan was still closed to the outside world, the British naval transport ship the "Indian Oak" was shipwrecked off the coast of Chatan. Despite the draconian penalties imposed by the Tokugawa Shogunate for contact with foreigners, the local people welcomed and took care of the crew until they could return home safely.

A group of four Chatan schoolchildren (13-15 years old; slightly older than those the Prime Minister met) are visiting the UK from 3-8 February, accompanied by a teacher and two representatives from Chatan Local Education Council. The Japanese Embassy have requested a call for them on the Prime Minister. We see no case for such a call. But it would be good if No 10 could make a small gesture in return for their hospitality to the Prime Minister in Japan.

We recommend that the Prime Minister send a short message of welcome to the schoolchildren to coincide with their visit. Could the group also be given permission to have their photograph taken in front of No. 10?

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

~~Patrick Davies~~
~~for gov. uk~~

MESSAGE FROM THE PRIME MINISTER TO THE CHILDREN OF CHATAN

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Tony Blair

[Wendy Wyver
NEAPD
Tel: 7270 2956]

4239
0879

Damian Riley

Paul Corrigan's

Mary Tellow

govt of London

fe

MATRIX

29 January 2002

hte



ADM
Custodians
kk

Foreign &
Commonwealth
Office

London SW1A 2AH

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Ms Anna Wechsberg
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Tony Blair

*[Wendy Wyver
NEAPD
Tel: 7270 2956]*



Top: PD(GO)
 SE PD(GN)
 COS
 APS
 FAJPS
 EUJPS
 FAJPS (AW)
 PD(ER)

FILE.

PRIME MINISTER

My visit to Korea and Japan from 6th January to 12th January underlined the importance of both countries to UK businesses. Increasing signs of a buoyant economy in Korea combined with its close links to China make it a high potential trading partner for UK companies, especially in areas such as ICT and e-commerce, creative industries, and biotechnology. Prospects for UK business in Japan are better than press reports of the economic situation would suggest and demand in many areas is holding up strongly. Very positive discussions with Japanese Government and electricity generating companies on nuclear power, with clear signals that they are ready to begin a new partnership with BNFL. Also strong interest in a Prime Minister level joint statement on ICT.

Both Korea and Japan are making rapid progress on broadband take-up, thanks in a large part to huge public investment. We will need to redouble our efforts to ensure the UK is not left behind.

UK policy on euro membership is being watched very closely. Japanese investors in particular are being squeezed hard by the exchange rate. However, while they are certainly likely to source more components outside the UK, no clear indication yet that major automotives manufacturers such as Nissan, Honda and Toyota are contemplating moving their investment to the eurozone - though we shall need to keep a close watch on this.

An early visit from you would do much to consolidate UK-Japan relations.

Detail

I visited Korea and Japan from 6th January to 12th January where I had a series of very constructive, largely trade-related discussions with senior Government figures and business. I thought it might be helpful to report on some of the key issues emerging from the visit.

Korea

As you will be aware from President Kim Dae-jung's visit last December, the Korean economy is large and sophisticated with an exceptionally well developed communications infrastructure. Uniquely among Asian economies, it is also showing promising signs of recovery: Government predictions are for 4% growth in 2002. A number of UK investors including AMEC, Tesco, Shell, Prudential and BP have made significant inroads and while there are still obstacles for inward investors to Korea - notably problems around transparency and corporate governance as well as market access in some areas such as legal and financial services - I believe there are real opportunities here for UK companies. It is right that it is now a Target Market for trade promotion.

JW1081



As well as representing a lucrative market in its own right, Korea also has the potential to act as a regional hub, especially with access to the huge Chinese market especially for those companies capable of forging successful partnerships with Korean companies. Tesco's link-up with Samsung to provide retail services in Korea is an outstanding example of such a collaboration and BTI will continue to help UK companies to develop similar partnerships.

Your meeting with President Kim Dae-jung has made a huge impact in terms of cementing UK-Korea relations. I was able to build on this during my discussions with senior Government figures (including the Ministers for Information and Communication, Culture and Tourism, Commerce Industry and Energy, Trade, and Gender Equality) which I used to underline the message that the UK is a natural partner for Korea in a range of areas where we have complementary strengths notably R&D investment, ICT and e-commerce, creative industries, defence industry, biotechnology, financial and other services, and third country projects.

I believe there is also more we could be doing to promote the educational sector in Korea, both as an important economic sector in its own right but also to boost the image of the UK as a world leader in many high tech fields. Here there is a good opportunity to combine our strength in digital educational content with Korea's advanced electronic infrastructure.

Japan

The Japanese economy is of course much less buoyant. Nevertheless the political and business environment was much more encouraging than press reports would suggest. Prime Minister Koizumi appears to be reasonably secure and remains committed to reform.

On the economic front, consumers are depressed, but still very wealthy and demand is holding up strongly at both the luxury and lower ends of the market. The message I got from the UK companies I met at the British Industry Centre in Yokohama was that this is the best ever time to invest in Japan - demand is holding up in many areas, property and rental prices in Tokyo are dropping sharply and the younger Japanese are increasingly keen to work in foreign companies which offer more exciting career prospects.

Telecoms deregulation, while still behind good international practices, has created substantial business opportunities for us. Vodafone and Cable and Wireless are now amongst the biggest foreign investors in Japan, but they are hampered by regulatory difficulties and the Japanese Government still needs to be persuaded of the still urgent need for future reform. I was pleased therefore that Hiranuma - the influential and impressive Economy, Trade and Industry Minister - was very keen on our suggestion to build on the joint ICT statement I agreed last year in Japan with one at Prime Ministerial level. My officials are hoping to hand over a 'London' draft to the Japanese by the end of this month.



There are a number of new streams of investment coming on line from Japan into the UK (including from Toshiba and Nippon Gohsei) and the vibrant science and technology sector offers excellent prospects for collaboration with UK scientists and high tech companies.

I had particularly useful discussions on nuclear power. I met the Japanese Federation of Electric Power Companies alongside Norman Askew who was also in Tokyo. Many of these companies have been privately supportive of BNFL in recent months and I was able to reassure them about the Government's plans for the future of BNFL including the establishment of the Liabilities Management Agency, and the fact that the management of BNFL has our full support. I repeated these points in discussions with Hiranuma - his response was very positive and signalled that the Japanese Government has reached the point where it is willing to work in partnership with BNFL again. Clearly much will depend on the successful early return of the Takahama fuel and Japanese public acceptance of the MOX programme. But I believe this is a significant step forward: the mood music over BNFL was good.

Euro

The UK's position on euro membership is being closely watched by Korean and Japanese investors.

Extensive coverage in the Korean press of the introduction of euro notes and coins has provoked a lot of interest and there is a perception that trading will become more difficult for Korean investors in the UK (who include Samsung and LDC). I explained our policy on membership and emphasised that the euro has been in operation as a trading currency for three years and that the City of London handles more euro transactions than any other financial centre including Frankfurt.

I had some particularly useful discussions with Japanese automotives and automotives components manufacturers - many of whom of course are major investors in the UK. They are naturally concerned about the impact on their bottom lines of the current exchange rate and pressed hard on UK policy on the euro. We can expect to see more components being sourced from outside the UK, as well as the loss of a number of components manufacturers - though probably to Eastern Europe as much as to other countries within the eurozone. Significantly, however, I did not get the sense that the big investors - Honda, Nissan, Toyota - are contemplating any major withdrawal of investment in the UK at this stage, though we shall need to keep a close watch on this.

Broadband

Korea is the world leader on broadband penetration (around 14% of all Koreans have broadband access) and Japan has set itself ambitious targets for broadband roll-out: Minister Hiranuma outlined plans for increasing the number of broadband connections in Japan to 9 million within two years. In both these countries, large public investment over a long period has been a major factor but there are others at play. For example narrowband access in Korea

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is about the same price as broadband and there has been a strong demand side pull in Korea especially for online games and educational content. Despite this the full capacity is not yet being used and it is unclear that this level of public sector investment would be good value for the UK. However I continue to believe that there are real risks to UK productivity if we fall behind other key economies on broadband; my letter of 12 November set out the measures I believe are needed to achieve our targets in this area.

WTO

Minister Hiranuma was keen to continue to pursue co-operation on WTO talks and shares many of our objectives on capacity building, developing countries and environment. There was also a strong interest in Korea in globalisation and the follow up to Doha.

Conclusion

In conclusion, both Korea and Japan continue to offer significant opportunities for UK business. Despite its current difficulties, Japan in particular remains a key priority for UK trade and investment. An early visit from you would I believe have a major beneficial effect in consolidating UK-Japan relations and highlighting the opportunities which exist for UK business.

A copy of this letter goes to John Prescott, Gordon Brown, Jack Straw, Sir Richard Wilson, Sir Stephen Gommersall and Charles Humfrey.

A handwritten signature in blue ink, appearing to be 'P H' with a long horizontal stroke extending to the right.

P H

23 January 2002

DEPARTMENT OF TRADE AND INDUSTRY

~~David.~~

pass Dis on 25/12

arrived. Naturally we can

submit more formally if that

would help.

Nick Arden
22/1

Rec 22/1



~~Dis~~

~~cc~~

JPO

Aw

MT

Foreign &
Commonwealth
Office

London SW1A 2AP

Telephone: 0171-270 295

Michael J.

North East Asia and Pacific Department
With Compliments

Nick Archer

From: Stuart Jack Tokyo -Conf
Sent: 22 January 2002 09:58
To: Nick Archer
Cc: Colin Roberts Tokyo -Conf; Hugo Shorter
Subject: Possible PM/Koizumi call

Nick

Could you please pass the following message to Sir D Manning at No10 (I cannot get through on his e-mail address).
Thanks.

Dear David

I gather Stephen Gomersall discussed with you a possible call to Koizumi soon after the Afghanistan conference in Tokyo. We would like to recommend a call. The conference has been a great success (Ms Short says it exceeded expectations) and the Japanese organised it well. We want both to acknowledge that and encourage their ongoing engagement.

I have discussed with Clare Short and Robert Cooper the points that the PM might make:

- conference very successful. Excellently organised by the Japanese Government
- important now to continue to work together to implement the pledges

More detail on the conference follows tomorrow.

The PM will also want to thank the Japanese for their logistic support for the RN ships in the coalition (agreement signed last week providing for free Japanese fuel).

If he wants also to mention East Timor he could welcome their despatch of a battalion of Japanese engineers for the UN operation. And say we are prepared to share our peace-keeping experience with Japan.

Regards
Stuart

Michael G. Scott with

Passed you please

This is a good idea on my view
(I would think that - I suggested
it!)

Stuart

Nick Archer

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To: Nick Archer
Cc: Colin Roberts Tokyo -Conf; Hugo Shorter
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If he wants also to mention East Timor he could welcome their despatch of a battalion of Japanese engineers for the UN operation. And say we are prepared to share our peace-keeping experience with Japan.

Regards
Stuart

~~David~~ cc Jeremy, Liz

good idea.
if he does call, he
may also want to
mention Africa.

Anna
22/1

Michael B.

8
RESTRICTED

21 January 2002



Foreign &
Commonwealth
Office

London SW1A 2AH

AW
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AC

Dear Anna,

Japan: Reception for the 21st Century Group

Summary

Recommendation that the Prime Minister meet members of the UK/Japan 21st Century Group (UK Chair, Peter Mandelson) at No 10 on Thursday 21 February, and, if possible, call in, briefly, at the FCO reception for the Group that evening.

Detail

The next meeting of the UK/Japan 21st Century Group will take place at Ditchley Park from 22-24 February.

The Group comprises UK and Japanese opinion formers from politics, business, journalism and academia, who meet annually to discuss matters of importance to the two countries. Established in 1984 by Prime Ministers Thatcher and Nakasone, one of the ideas behind the establishment of the group was to allow key opinion formers from each country access to the UK and Japanese Prime Ministers. Traditionally, the Prime Minister of the country hosting the annual talks has held a meeting with the participants.

The 21st Century Group was given a new lease of life last year, when the Prime Minister appointed Peter Mandelson as UK Chair, and Koizumi appointed Yasuhisa Shiozaki, a relatively young, reform-minded Japanese politician, as Japanese Chair. The new Chairmanship should ensure that the Group's discussions are relevant to the work of the two Governments.

At this year's meeting the Group will discuss:

- redefining the global order post-September 11
- the provision of welfare and public services
- the contribution of science and technology to sustainable development.

We recommend that, if possible, the Prime Minister agree to a short meeting with the Group at No 10 (I understand that 1415 on 21 February might be possible), and

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that he call in briefly on the FCO reception being held for the Group from 1800-1930 that evening. It would be a clear demonstration of the Prime Minister's personal support for the re-launch of the Group and his commitment to a reinvigorated dialogue between UK and Japanese opinion formers. Prime Minister Koizumi expressed his support for the Group when Mr Mandelson called on him in Tokyo in October.

Yours aye,

(Mark Sedwill)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

RECEIVED
MASTER

RECEIVED

Dear Prime Minister,

On behalf of the Government and people of Japan, I wish to convey to you my sincere gratitude for your most kind congratulations on the birth of Her Imperial Highness the Princess expressed in your message of the first of December, 2001.

Yours sincerely,

Junichiro Koizumi
Prime Minister of Japan

The Rt. Hon. Tony Blair, MP,
Prime Minister,
10 Downing Street,
London.

AW
matrix
EMBASSY OF JAPAN

LONDON
file

6th December 2001

Dear Prime Minister,

I have been asked by Prime Minister Koizumi to send a copy of his letter to you, which I have the pleasure to enclose herewith.

Yours sincerely

Masaki Orita

Masaki Orita
Ambassador

The Rt. Hon. Tony Blair, MP,
Prime Minister,
10 Downing Street,
London.

20 November 2001



file

Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Anna, *cf. file*

**Prime Minister's Message to Prime Minister Koizumi Following
the Birth of the Imperial Baby**

The Japanese Crown Princess Masako, is due to give birth to the Imperial couple's first child in late November/early December. The child, if a boy, will be second in line to the Imperial throne behind his father, the Crown Prince. This birth has been long anticipated by the Japanese public since the couple married in 1993.

Given the significance of this event to Japan, we recommend that the Prime Minister send a short message of congratulations to the Japanese Prime Minister. I enclose a draft. If the Prime Minister agrees, we will send the message by telegram to Tokyo for the Ambassador to deliver immediately after the birth.

THIS IS A COPY. THE ORIGINAL IS *Temporarily retained.*
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT. *Yours ever,*

Patrick

(Patrick Davies)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

**DRAFT MESSAGE FROM THE PRIME MINISTER
TO THE JAPANESE PRIME MINISTER**

I was delighted to hear that Her Imperial Highness Crown Princess Masako has given birth to a baby boy/girl [insert name, if known] on x date. Please pass my sincere congratulations to Their Imperial Highness The Crown Prince and Princess on the birth of their child. I would also like to extend my deepest good wishes, and those of the people of the United Kingdom, to you and the people of Japan on this very happy occasion.

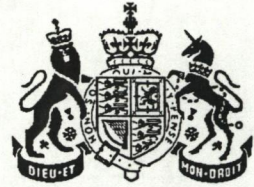
*[Jonathan Thomson
NEAPD, 7 270 5961]*

MATRIX
PR
Japan

13 November 2001

Michael Arthur

RL
cc: DM
AW
CO
EC
JH



British Embassy
Tokyo

Financial Section
No.1, Ichibancho
Chiyoda-ku, Tokyo 102-8381

Tel. +813 5211 1100
Fax. +813 5275 3164
Direct Tel: +813 5211 1212
Direct Fax: +813 5211 1121

JAPAN'S SOCIAL SECURITY SYSTEM: CREAKING AT THE JOINTS

1. As you know, Japan is now embarking on its own version of the structural reforms the UK went through in the 80s and 90s, with the emphasis on deregulation, cleaning up the financial sector, and getting public finances under control. Reform of social security is part of this wide reform agenda. Social security reform involves both improving the safety net to deal with short term problems (particularly unemployment, which hit a post-war high of 5.3% in September) and also taking steps to reduce the growing cost of the system and improve public finances over the longer term. As you probably know, in this last respect the debt to GDP ratio in Japan is a remarkable 130 per cent and set to grow.

2. These are clearly big issues and ones where the choices made are bound to affect Japan's economic performance over the next few years. Japanese policy makers are increasingly looking abroad for ideas and there are some experts' visits to other countries in the pipeline. We therefore thought that it would be timely to look in more detail at how the social security system operates here and what the main policy options and constraints are.

3. Attached are five relatively short annexes that attempt to do this. The first tries to bring the issues together. We have sent a shorter version of this back as a telegram on the FCO system. The other annexes look in turn at the main components of the social security system, namely unemployment insurance, income support, pensions and healthcare.

4. One could of course write a book on each so the information is far from comprehensive. Please do let us know if you or copy recipients would like further information on any aspect of the social security system.

5. Copies of this letter and attachment go to Alastair Clarke at the Bank of England, David Lawton at the Treasury, John Longbottom at the FSA, Roger Liddle at No 10, Paul Gray at DWP and Clive Smee at DOH.

Andrew King
John Murton
Peter Green
British Embassy Tokyo

ANNEX 1: JAPAN'S SOCIAL SECURITY SYSTEM: AN OVERVIEW

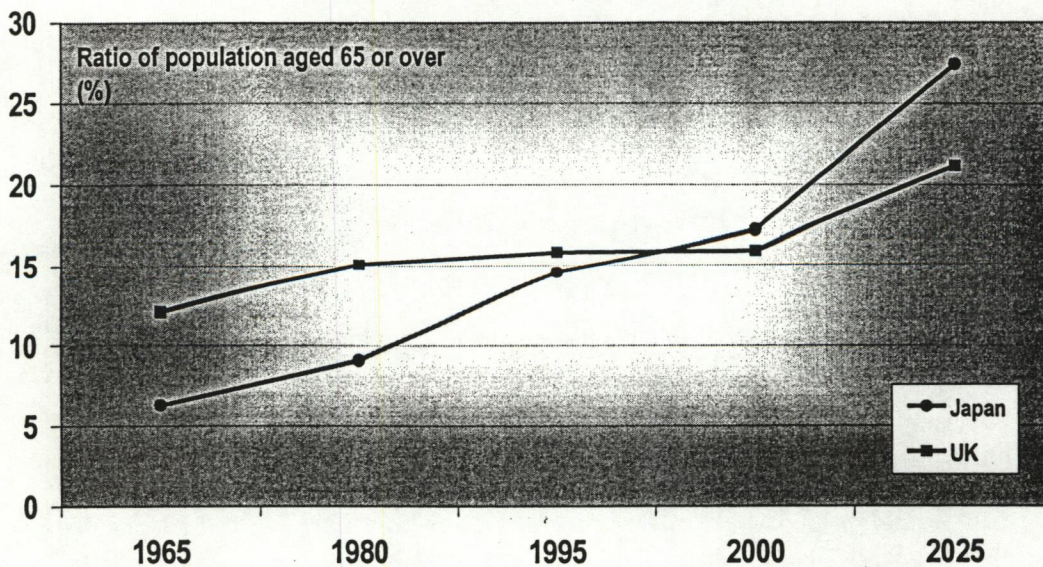
Key points

- Japan's social security and health system has helped to minimise poverty and social exclusion in Japan. In particular there has been a lot of redistribution to the poorer members of the post-war elderly generation.
- But as the population ages and the baby boom generation retires, the system is starting to creak at the joints. The main problem is that it continues to redistribute wealth to the elderly who already have large retirement savings.
- The system is not well designed to cope with a world of increased unemployment, let alone the transitional problems of structural reform.
- As far as long term sustainability is concerned, reforms of the pension system have been made and reforms of the health insurance scheme are planned which will lessen the expected public expenditure burdens. The system is not in much danger of collapsing although the burden on the working population will rise markedly over time.
- As far as short-term support is concerned, the main issue is one of expanding coverage of the employment insurance system and addressing a growing homeless problem.
- Many working people doubt the system's future capacity to provide for them and are saving because of concerns about pension and long term healthcare provision. More recently fears about job security and unemployment insurance provision have reinforced these concerns.
- Clearer explanation by the government of reforms to date and of possible further reform options might help to release any unnecessary precautionary savings. But people may be wise to be saving given economic uncertainties and the difficulty of coping with an ageing population.

Detail

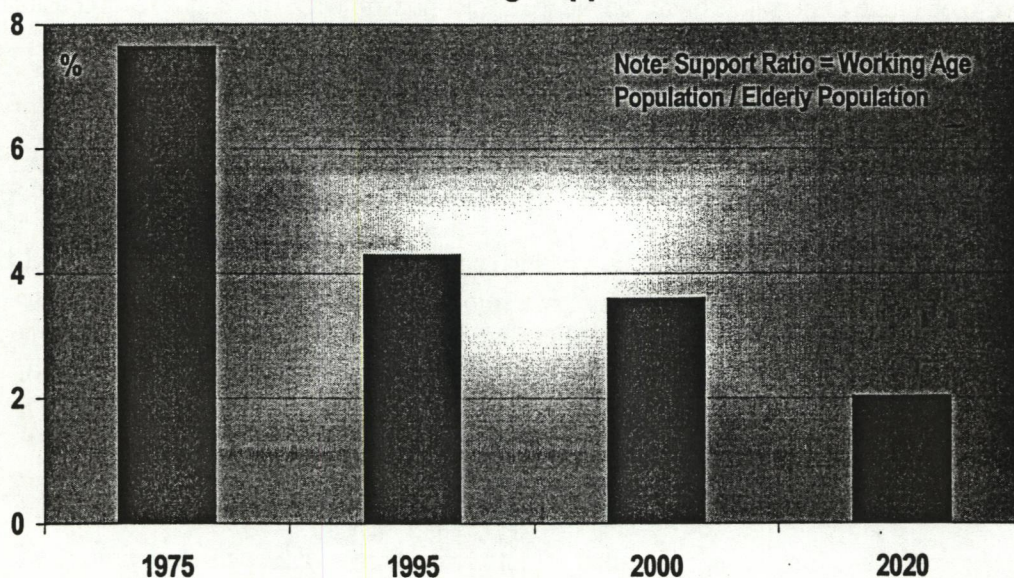
1. Japan's social security system has done a good job of protecting the post-war generation and has helped minimise poverty and social exclusion. Pensioners have a decent standard of living. Public health is good with the world's best set of primary health indicators.
2. Of course some of the credit for this lies with the culture and business model rather than the design of the social security system. People eat healthily. Families tend to look after old people. And businesses, in particular large ones, provide a range of social support for workers and their families.

Chart 1: Rapidly Ageing Population



3. As Japan ages and as the business and family culture changes, some of the flaws in the social security system are showing up. The basic problem is that the system was designed for the post-war environment, with a rapidly growing economy and relatively poor older generation. With Japan now a mature economy in which those about to retire have generally built up substantial savings, much of social security spending is still focussed on pensioners with the result that it is poorly targeted and is placing an increasing burden on current workers. As economic reform continues, the social security system is not well designed to cope with expected further increases in unemployment, especially long term unemployment.

Chart 2: Falling Support Ratio

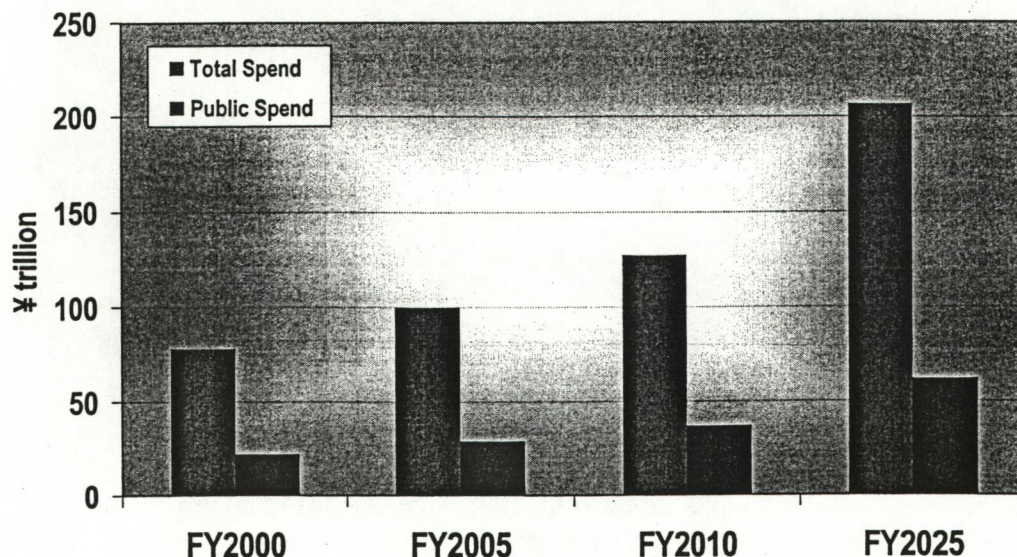


Sustainability

4. The public expenditure costs of social security (including health) are big, but not massive in terms of their share of GDP – around 3.5 per cent. Social security does, however, take up

around 20.5 per cent of the budget (and around 33.5 per cent of revenue) and this is set to rise as the population ages. Overall expenditure, which is mainly funded by contributions, amounts to around 15.6 per cent of GDP at around ¥78 trillion a year.

Chart 3: Social Security Related Spending



5. Attempts are being made to bring costs under greater control, including through some pretty heavy cuts to pensions in the medium term. Although more than tinkering at the margins, these reforms are not fundamental changes to the design of the system. There will still be a big subsidy going towards the old and a consequent heavy burden on the working generation. The key policy issue is whether this design fault can be addressed. This will not be an easy change to achieve. The most obvious consequence of an ageing population is a lot of older voters. It is going to be tough to persuade them to vote for someone who wants to reduce their pensions.

Short-term support

6. As far as unemployment and wider safety net reform is concerned, coverage is the major issue. Official figures show that only half of all employed people are covered by the employment insurance system and an even smaller proportion of the unemployed receive benefits from the system. Extending coverage to the self-employed, part-timers and newly graduated workers will be important. It may also become necessary to shift the emphasis of the system from income replacement to benefits determined by need. At the bottom end, a growing homelessness problem is highlighting the problem of achieving a minimum standard of living when the initial costs of renting accommodation are so high.

Conclusion

7. The social security system in Japan is not unsustainable, although over time it will look increasingly unfair and become increasingly burdensome to the working generation, as they have to support ever-richer pensioners. Wholesale reform is unlikely. Most of the work on debt and deficit reduction will probably have to be on the tax side. In any event, the best way for the

government to improve the prospects of the social security system is to help put in place measures that allow the economy to grow faster – ie the broad structural reform agenda.

8. As for the short-term safety net function of social security, coverage is far from universal. Rising unemployment, particularly youth unemployment, will increase demands for a more effective safety net for all as Japan goes through the traditional pains of structural reform.

ANNEX 2:

THE JAPANESE EMPLOYMENT INSURANCE SYSTEM

Key Points

- Employment insurance in Japan provides income replacement for employees who lose their job after having contributed premiums to the system for at least six months. The duration and level of benefits is dependent on age, length of employment and reason for unemployment. Benefits are calculated as a percentage of final salary.
- Calls for reform are being driven by the rising unemployment rate, now a record 5.3%, but in the longer term reform will probably have to focus on the efficiency and scope of the system.
- The main problem with employment insurance is not the income replacement it offers, but the coverage of the system. In 2000, coverage was little over 50% of all employed people.
- The system is poor at facilitating job search and reskilling.

Description of the Employment Insurance System¹

1. The Japanese system is insurance based in the sense that employees pay 'premiums' whilst in work in exchange for payments if they lose their job. Those who have not paid premiums are not eligible for unemployment benefits – the requirement is to have contributed premiums for at least six months in the preceding year. The premium rate is set at 1.2% of total wages paid, of which 0.6% is borne by the employee. The premium rate was raised from 0.8% as of 1 April reflecting the increased costs of the system during the current severe employment situation. Employers also pay 0.35% of wage costs towards subsidies for hiring from the pool of unemployed.

2. Benefits amount to 60-80% of daily wages up to a maximum daily wage of ¥17,840. Before 1 April 2001, benefits were paid for between 90 and 300 days depending on age and insured period. 14% of these benefits came directly from central government funds. As of 1 April, the maximum period of benefit payment was shortened to 180 days for the voluntarily unemployed irrespective of age, and extended to a maximum of 330 days for the involuntarily unemployed as shown in the table below. The government upped its contribution to 25% of benefits in order to fund these new arrangements.

3. The actual value of the benefits payment can be remarkably high. A middle-aged worker could receive up to ¥10,900 per day in replacement income – around £60! Or, put another way, a 55 year-old salaryman, dismissed through corporate restructuring could be eligible for total benefits of ¥3.6 million (£21,000).

¹ An assessment of labour market issues is available in the British Embassy paper "Unemployment and Uncertainty: Changes in the Japanese Labour Market" – Contact john.murton@fco.gov.uk for copies.

Table: Benefits for qualified standard workers

Age / Insured Period		1-4 years	5-9 years	10-19 years	20 years +
Under 30	Voluntary	90 days -	120 days (+30)	150 days (-30)	180 days -
	Involuntary	90 days -	120 days (+30)	180 days -	210 days -
30-44	Voluntary	90 days -	120 days (-60)	150 days (-60)	180 days (-30)
	Involuntary	90 days -	180 days -	210 days -	240 days (+30)
45-59	Voluntary	90 days (-90)	120 days (-90)	150 days (-90)	180 days (-120)
	Involuntary	180 days -	240 days (+30)	270 days (+30)	330 days (+30)
60-64	Voluntary	90 days (-150)	120 days (-180)	150 days (-150)	180 days (-120)
	Involuntary	150 days (-90)	180 days (-120)	210 days (-90)	240 days (-60)

Notes:

(1) Duration of benefits is 90 days for those who have been insured for less than one year, but more than six months. A similar, though slightly less generous split is applied to temporary workers who have previously paid premiums and have contributed for more than six months in the last year.

(2) In each cell, the upper figures show the duration of benefits under the revised law; the lower figures show the difference in duration between the revised and old law.

4. The impact of this change of system will not be fully felt until next year when all recipients of unemployment benefit will be subject to it (those who started claiming before 1 April did not have their benefits duration adjusted). Currently around 30-40% of claimants are falling into the involuntary category, so the changes should reduce the cost of the system. However, the rising unemployment rate could offset cost savings.

5. Benefit payments are split into a number of different categories aimed at maintaining income, promoting employment and retraining and supporting day labourers. This split is, however, heavily skewed towards maintaining income (97.7% of total benefits) rather than facilitating job search and reskilling the unemployed. Until 10 years ago, the system consisted only of income replacement. Study and training benefits were brought in just three years ago.

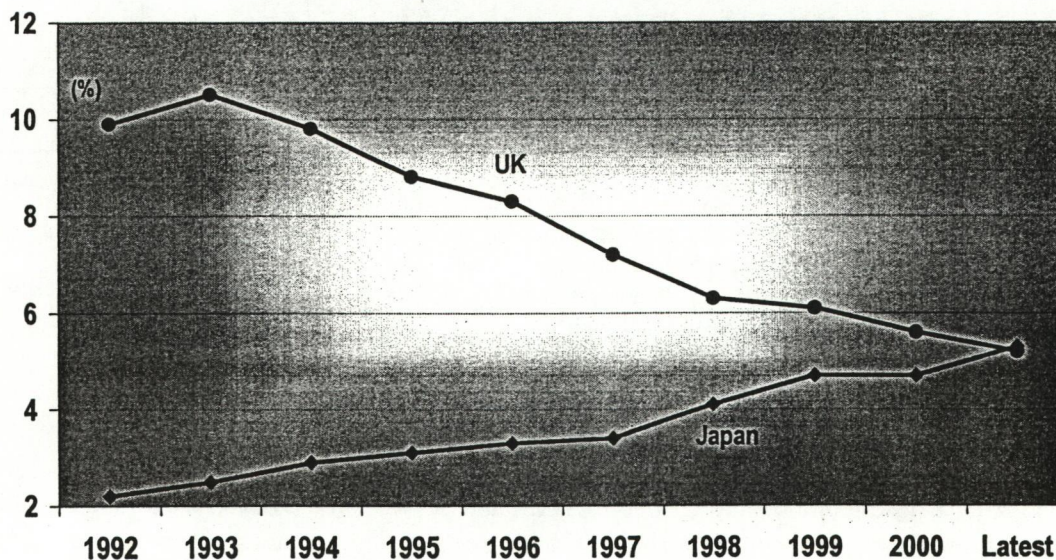
6. As an insurance-based system, expenditure should be financed via revenue². In the past this has been the case: in 1990, employment insurance ran a ¥780 billion surplus due to low unemployment and the high growth of wages. After the bubble burst and unemployment began to rise, revenue no longer met expenditure. The deficit on employment insurance stood at ¥318 billion in 1998, on total expenditure of ¥2.5 trillion. The reserves accumulated by the system during the high growth years peaked at ¥4.7 trillion in 1993, but have since fallen to just ¥580 billion. This year, the MHLW forecasts total outlays to reach ¥2.6 trillion, but reserves are expected to hold steady from now on due to the 50% increase in the premium rate and increase in Treasury contributions.

² Revenue in the Employment Insurance system comes chiefly from three sources: premiums, Treasury charges and income from reserves. In 1998, the split was 75%, 18% and 7% respectively.

Rising Unemployment

7. Japan's unemployment rate has reached 5.3% - a post-war record - and will rise further, pushed by the economic downturn and an acceleration of corporate restructuring. Private sector forecasts range from 5.4%-6.2% by the end of 2002. This has obvious cost implications for the government. The revenue from premiums will fall whilst the expenditure on benefits will rise. However, the net exchequer cost should be manageable. If unemployment were to rise by another million (far above government projections and at the top end of private sector estimates) the net exchequer cost would probably be in the region of ¥1 trillion.³

Unemployment in Japan and the UK



8. One problem that is becoming more apparent due to rising unemployment is the limited coverage of the system. According to government statistics, in 2001 employment insurance covered 34 million people compared to 64.5 million people employed. The coverage gap is partly explained by the self-employed and 'family workers' who total 11.3 million (the rest are part-timers and youths). MHLW figures show that just 1.03 million people are claiming unemployment benefit out of 3.36 million unemployed. The other 2.23 million fall through the unemployment insurance net.

Reform options

9. There have been calls from a number of quarters for the government to enhance the safety net in the face of rising unemployment. The latest reform program announced at the end of September contained two proposals specific to the employment insurance system:

- to expand substantially the benefits paid to the unemployed seeking retraining.
- to introduce a new scheme to cover self-employed and temporary workers who lose their jobs.

³ This is our own estimate and assumes the average period of benefit claims to be three months and the average wage for the unemployed to be the same as that of the employed. Dai-Ichi Life reached a similar conclusion although we have not seen the assumptions on which their estimate is based.

Following the extension of the benefits period for the involuntary unemployed, there have been calls for still further extensions designed at further supporting income in the face of rising unemployment.

10. In the longer term, when rising unemployment is no longer the driving force behind labour market reform, the focus will probably need to shift to the efficiency of the system. The present system is in fact quite generous, both in terms of the level of benefits and their duration. As such, it does not provide older workers with the incentive to price themselves back into the jobs market.

Conclusion

11. The main issue for Japan to address in terms of unemployment benefit is not the level or the duration of those benefits, but rather the coverage of the system. The expenditure implications of expanding coverage mean that the government will have to consider whether Japan wants an expensive, but generous, system that requires either higher taxes or reduced spending in other areas. This is not, however, an immediate concern.

ANNEX 3: THE JAPANESE PUBLIC AID SYSTEM

Key Points

- The public aid system in Japan is similar to the UK's income support system. It supplements the incomes of the poorest households. It also covers medical, housing and other essential costs for those households.
- Within itself, the system functions well and is affordable. There are just over 1 million claimants in total receiving around £7.2 billion a year overall. As the average pensioner becomes wealthier, we can expect expenditure pressures to fall.
- However, the shifting pattern of recipient households demonstrates some of the weaknesses of current pension provision in the short term.
- Work incentives are poor with a 100 per cent withdrawal rate. This is particularly difficult for those who are seeking part time work.
- The system is currently the subject of an internal review at the Ministry of Health, Labour & Welfare.

Description of the Public Aid System

1. The Public Assistance Law requires the government "to provide necessary protection to poverty-stricken people to guarantee the minimum standard of living and to promote their self-sufficiency." Any household whose income falls below a certain level judged necessary to purchase the necessities of life has that income supplemented through the public aid system. These 'livelihood' payments are not a flat rate, but are paid to bring income up to a certain level dependent on family type and location. Some example 'standard' household types are shown in the table below.

Household Type	Minimum Monthly Income: Region 1	Minimum Monthly Income: Region 2	Minimum Monthly Income: Region 3
Retired Couple – man, 72 and woman, 67	¥150,750 (£887)	¥138,570 (£815)	¥121,550 (£715)
Retired Woman, 70	¥108,990 (£641)	¥100,730 (£593)	¥87,460 (£514)
Single Mother, 30 and two children, 9 and 4	¥205,940 (£1,211)	¥189,730 (£1,116)	¥161,330 (£949)
Young Married Couple, 33 and 29, one child, 4	¥163,970 (£965)	¥149,200 (£878)	¥134,460 (£791)

Notes:

Exchange Rate: £1 = ¥170

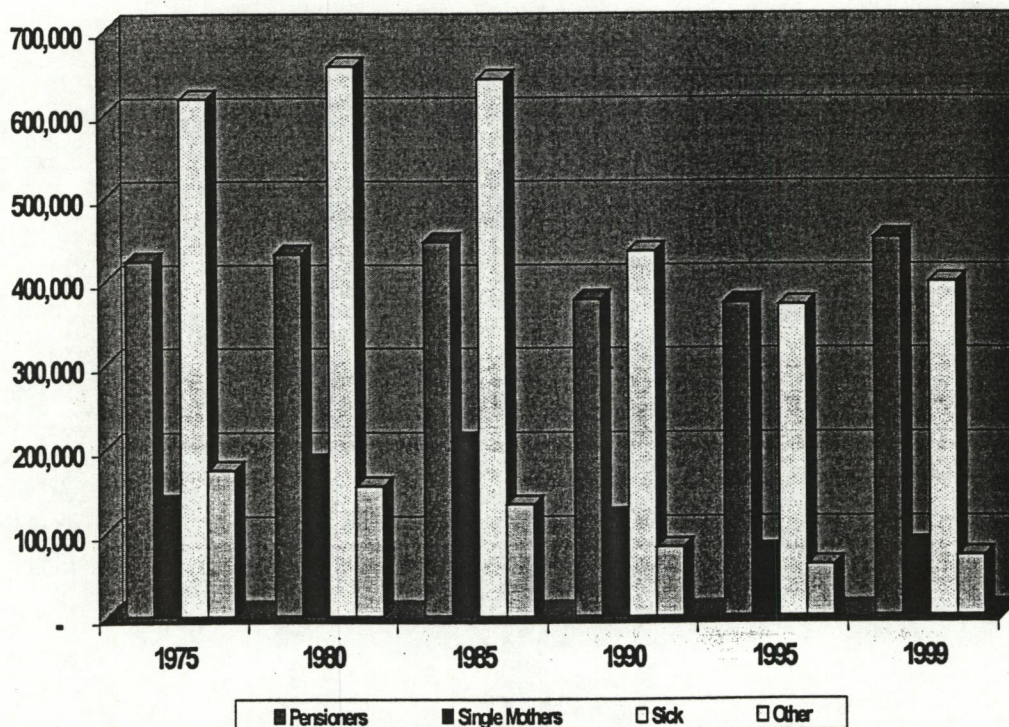
Minimum income is calculated on the basis of the age of household members, the number of household members, supplements for the aged, disabled and single mothers and standardised housing costs.

2. Families receiving Public Livelihood Aid are eligible for further payments in six areas: medical, housing, educational, maternal, occupational and funereal. In practice, more than 97%

of payments fall in three categories: livelihood (32.3%), housing (9.4%) and medical (55.8%). These proportions have remained remarkably stable over the last 15 years – there has not, as some have suggested, been a sharp rise in medical payments. The total cost of the system is relatively small. In 2000, there were just over one million claimants receiving a total of ¥1.23 trillion (about £7.2 billion or 0.24% of GDP). Again, this figure has been fairly stable over the past decade.

3. There has, however, been a shift in the type of households receiving public aid. In the 1970s and 1980s, by far the most common reason for household income falling below the minimum standard was illness or disability. During the last decade that has changed. It is now pensioners who make up the largest proportion of recipients. The trend in the total number of recipients, which had been heading down for thirty years, turned up in 1995. This is mainly a reflection of the ageing population and small basic pension (see Annex 4) which means that the elderly with inadequate pension provisions require public aid to achieve acceptable living standards. The maximum basic pension is ¥67,000 whereas the minimum acceptable income for a single retired person, even in a ‘cheap’ area, is ¥87,460. In this sense there are parallels to the UK system whereby the basic state pension is less than the minimum income guarantee for pensioners.

Number of Welfare Recipients by Household Type



4. Welfare payments are not time-limited. As a result, many people continue to claim benefits for extended periods. In 1999, over 85% of recipients had been claiming for more than one year and over 34% had been claiming for more than 10 years.

5. There are two groups that are not covered by this supposedly universal safety net. The first are the elderly poor with wealthy children. Before paying out to elderly households with

inadequate income, any children the household has are means-tested regardless of whether they live with their parents or not. If the children are wealthy enough, they are deemed under obligation to support the parents and so public aid is not paid. If support is not forthcoming, the welfare system does not step in. The second group is the homeless. There is a growing army of homeless in Japan – mostly middle-aged men – which the public aid system fails to adequately reach (for reasons that are unclear). It is estimated that in both Osaka and Tokyo there are more than 20,000 homeless. Roughly 25% find shelter in official centres where they can receive public aid – the rest must fend for themselves.

6. It has been suggested that the public aid system actually creates an incentive for unemployed men to leave home to improve the welfare of the family they leave behind. The figures do not support this claim. There is a supplementary benefit for single mothers that increases the minimum income per person by 10-20%. Is this incentive enough to force one's husband to leave? It seems not. The number of single mothers claiming public aid has steadily declined despite the rising unemployment rate. The more plausible explanation for homelessness in Japan is twofold. Firstly, the initial costs of renting accommodation are very high⁴. Secondly, public provision of shelter is capacity constrained. It is also suggested that local authorities in metropolitan areas take a hard line towards homeless to prevent an influx from the rest of Japan.

7. Work incentives are probably impaired by the one-for-one removal of benefits when household income increases. This will be particularly true of the decision to search for part-time work.

Prospects for the future

8. As the pension system matures, the trend towards more pensioner households claiming public aid should be reversed – ie more people will be able to claim the maximum basic pension and will have better supplementary pensions. Rising unemployment is likely to exacerbate the homelessness problem. How to improve the welfare of the homeless is already an issue.

9. In itself, the public aid system does not present an issue of affordability for the government. There are relatively few claimants and the total cost is only a small proportion of social security spending. However, there are wider issues concerning how public aid relates to the rest of the system. It has been argued that raising welfare payments further would be the most cost-effective way to provide a better safety net for the growing number of long-term unemployed in Japan. It is also suggested that if the minimum guaranteed incomes were raised then this would unlock some of Japan's precautionary savings and spur economic growth. However, we believe that uncertainty concerning pensions and healthcare are probably more important factors in spurring precautionary saving.

⁴ Typically one month's rent to pay the real estate agent, two month's rent as a deposit and two month's rent 'gratuity' payment to the property owner.

ANNEX4: THE JAPANESE PENSION SYSTEM

Key points

- The public pension system in Japan is similar to the UK. There is a low universal pension supplemented by earnings related pensions.
- The earnings related pensions are similar to SERPS, although there are very limited options to contract out and the scheme is much larger. In addition, there are a large number of occupational schemes. Fully private pension provision is relatively small.
- The public pension system is not in crisis, but given the current fiscal position, contributions will certainly have to be increased over time and benefits may have to be reduced further to cope with the ageing population.
- The system is partially pre-funded and partially pay-as-you-go. The large surpluses in the public pension schemes will probably be drawn down as the population ages. And tax changes are also likely to be needed to shift some of the burden from the working population to the elderly. The elderly are, on average, very well off in Japan. Average income is similar to that of average income of all households yet the elderly have around 1.7 times as much savings as working households.
- Many people no longer have full confidence in the pension system and this is given as a reason for increased savings. It is unclear, however, whether uncertainty over pension reforms is resulting in unnecessary over-saving at present. In terms of savings, far less is invested in pension and insurance funds in Japan (33 per cent of total savings) than in bank deposits (around 50 per cent). (The UK is roughly the opposite.)
- The Ministry of Health, Labour and Welfare has just started a public relations campaign aimed at reassuring people about the state of the pension system.

Description of pension system

1. The Japanese pension system has three tiers, with all contributions tax relieved:

Tier I. A compulsory basic pension for all citizens (the National Pension): The working population between 20 and 60 must contribute to the National Pension scheme⁵. The fixed contribution is ¥13,300 a month, around £80. There is no earnings related payment or benefit and it is a pay-as-you-go scheme, one third subsidised from general taxation. The retirement age is 65 and to receive the maximum pension - ¥67,000 a month, a little under £400 - contributions have to be made for 40 years. The National Pension is not enough to live on by itself. The relatively few who do not have supplementary pensions or other income have to rely on social welfare (see annex 3).

⁵ Those receiving public assistance and disability benefits do not have to pay nor do those on very low incomes. Spouses of the self-employed, however, do pay. As of March 2000 there were around 71 million participants

Tier II. Compulsory supplementary pensions: All private and public sector employees under 60 must also join an earnings related pension scheme⁶. The two schemes are the Employees' Pension Insurance Scheme (EPI) for private sector employees and the Mutual Aid Pension (MAP) for public sector employees⁷. The schemes operate on a pay-as-you-go basis with contributions paid to the government who then pay out current pensions. The contribution rates for the EPI are 17.35 per cent of monthly salary, plus 1 per cent of bonus payments. For the MAP the rates vary between 13 and 20 per cent depending on the scheme. These contributions take into account the ¥13,300 contribution to the basic pension (i.e. they are not additional). In both cases, contributions are split equally between the employer and employee. The pension, payable at 60, is based on the average monthly earnings of the employee over the contribution period rather than his final salary. For someone with a full contribution record and average salary, the pension is about 59 per cent of pre-retirement income (including bonuses).

Tier III Voluntary supplementary pensions: Private insurance products dominate the relatively small personal pension market. On the company side, a large number of companies offer occupational pensions, mainly defined benefit plans⁸. Many of these have guaranteed in the past, and in some cases continue to guarantee, a very high return. These company pensions are not, however, easily transportable (and consequently the ratio of retirees actually receiving such pensions is relatively low) and a new portable defined contribution scheme has just been introduced (modelled on the US 401(k) pension plan). This should help improve labour mobility and will place the funding risk on employees rather than companies. For the self-employed, the main scheme is the National Pension Fund, open to the self-employed between 20 and 60. Few take it up – there are currently around 760,000 participants. Benefits are dependent on the level of contribution, but are fixed rather than investment based.

Ageing population

2. The public pension system, both basic and supplementary pensions, are pay-as-you-go with a pre-funded element. While they have built up huge surpluses in the past⁹, the ageing population will still require further increases in contribution rates down the track, and possibly further reductions in benefits. By 2025 there will be roughly 47 elderly for every 100 people of working age (compared with 36 elderly in the UK, 33 in the US and 41 in France). By 2050, it reaches a peak of around 64 elderly for every 100 workers. The government has taken some steps to prepare for this. The pension reform of March 2000, which made significant cuts in future pension benefits, will reduce the government's unfunded pension liability from around 100 per cent of GDP to 70 per cent¹⁰.

⁶ Such schemes are not compulsory for businesses employing fewer than 5 people.

⁷ There are currently around 32.5 million participants in the MAP scheme. There is also another scheme that is part supplement and part replacement for the EPI (i.e. some contracting out). The funds are held by the company rather than the government. This is called the Employee Pension Fund.

⁸ The most important are Employees Pension Funds and Tax Qualified Pension Plans. Benefits can be taken as annuities or lump sums. Funds are invested with life insurance companies, trust banks or investment advisers.

⁹ The basic pension has a surplus of around ¥12 trillion, compared to current annual expenditure of around ¥4 trillion; the EPI has surpluses of around ¥180 trillion, compared with current annual expenditure of around ¥30 trillion. Surpluses are now invested direct in the market by trustees appointed by the Ministry of Health, Labour and Welfare rather than being passed to the Ministry of Finance for use in public spending programmes.

¹⁰ (IMF estimates) Lifetime benefits will be cut by around 20 per cent for future retirees through a 5 per cent reduction in benefit levels; a gradual increase in the pension age for supplementary pensions from 60 to 65 (to be phased in between 2013 and 2025); and the removal of indexation to average earnings.

3. If benefits are not reduced any further, then it is estimated that contributions to the national pension will have to rise gradually over the next 20 years from ¥13,300 to around ¥20,000 (around an extra £40 a month). At the same time, contributions to the supplementary pension would have to rise from 17.35 per cent to around 28 per cent¹¹. This would represent an increase in deductions for the average employee of around 5 per cent of salary (with an equivalent increase in the employer's matching contribution). Coming on top of increases that will be needed to fund old-age medical costs, this will place a heavy burden on the working population.

Low returns

4. The occupational and private pension system (Tier III) are funded schemes and are not in great shape, mainly because guaranteed returns on policies have been much higher than returns since the end of the bubble and the subsequent fall in stock prices¹². The size of the hole in companies' schemes is unclear. Daiwa Research estimate that the unfunded pension liabilities at Japan's 1401 listed companies is approximately ¥22.3 trillion. Changes to accounting rules which have come in this year should make things more transparent. Companies will generally probably have to divert some profits into pension funds to make up the shortfall and increase contribution rates. We are also likely to see a shift into defined contribution plans, where the risk rests with the employee rather than the employer. (Legislation to make it easier to transfer out of occupational pensions has been passed recently.) Over the next few years we are also likely to see increasing numbers of small and medium sized enterprises liquidating their schemes¹³.

5. Purely private pensions, mainly held through insurance companies, remain a small part of overall pension funding (around 4 per cent). However, the insurance sector remains weak and, unless returns improve, we may see more insolvencies over the next few years, with holders of private pensions policies taking big write-downs¹⁴.

Reform options

6. The public pension system will certainly need to be reformed further. The next regular review is due in 2004 (the system is reviewed every 5 years). If benefit rates are assumed to remain constant then, with an ageing population, funding problems arise, exacerbated by a likely continued national debt problem. There are a number of options for mitigating the funding issue without making drastic changes. The 2000 changes have certainly made the problem smaller. While further reform is not an immediate priority, decisions will have to be

The government is also planning to increase its contribution to the national pension (from taxation) from one third to a half by 2004. This is partly intended to improve the returns on the national pension and reduce the current very large avoidance of payments (around 5 per cent of self-employed people do not pay). The additional cost will be around ¥3 trillion a year, rising to ¥3.7 trillion by 2025.

¹¹ Actuarial revaluation in 1999 (Ministry of Health and Welfare). The increase to ¥20,000 assumes the government will increase its contribution to the basic pension to ½. Otherwise the increase will be to ¥25,000.

¹² Until 1997 the government mandated rate of return was 5.5 per cent. Current actual returns are between 1 and 2 per cent. Occupational schemes also seem to have raised benefits higher during earlier periods leaving them with less surplus to deal with low returns.

¹³ In recent years an average of 3,500 plans ceased.

¹⁴ Most pension contracts in Japan are term insurance with a savings element rather than pension plans.

reached over the next few years given the length of time it takes for changes to have effect¹⁵. Options include:

- raising the pension age further, from 65 to 67 or 70. This is unlikely to be an option in the next review round, but trade union resistance – fierce when the rise from 60 to 65 was decided in 1994 – is likely to more muted now;
- increasing taxation on the elderly. This could be done by reducing tax reliefs on pensions when paid out (politically quite difficult to do unless very gradual); or more widely by increasing the consumption tax (which unlike income tax has to be paid by the elderly as well). The average income of the elderly, from all sources, is close to that of national average income. However, the average pensioner pays no tax on their pension income because of high thresholds and allowances;
- increasing the contribution rate gradually. There is an automatic step-up built in to the legislation (which the Diet can always postpone). The rate for the Employees' Pension Scheme is due to increase to 18.65 per cent in 2005 and by 2.3 per cent every five years until it reaches 25.2 per cent in 2020;
- reducing benefits. This is unlikely in the next review given the deep cuts in 2000, but may well be on the table again at the following review;
- moving slowly to a pre-funded system (the 401(k) pension is a start down this road). A massive switch here would be difficult – and is very unlikely - involving as it would a very heavy double-burden as workers fund current pensions as well as their own;
- drawing down more of the surpluses in the pension system. The maintenance of a continuous high reserve fund does not make much sense after 2050 as support rates are expected to stabilise. Government projections for increases in the contribution rates assume that the surplus will remain at very high levels. Scheduling a drawing down of surpluses may well be one of the main proposals at the next review round.

Conclusion

7. Everyone knows that the pension system needs further changes beyond those made last year. However, drastic changes are not necessary to ensure a sustainable pension system. Quite a few options remain open, the key policy issue being how much burden to place on the working population. Consulting on and making changes early could bring short-term benefits through improved confidence and better informed decision making by current workers, possibly releasing unnecessary precautionary savings. In our view it would almost certainly help and we would see it as an important part of the debate on fiscal reforms more generally.

¹⁵ The Council on Economic and Fiscal Policy, the government's key economic committee, has said that it will consider options to provide a sustainable pension system with burdens spread fairly between generations

ANNEX 5

THE JAPANESE HEALTHCARE SYSTEM

Key points

- The Japanese health care system has delivered the highest set of primary health indicators of all the major industrial economies. Although there is no equivalent to the NHS in Japan, there is a system in place that ensures that virtually everybody is covered by some form of health insurance.
- Total expenditure on medical care has been on a rising trend, reaching over ¥30 trillion this year (£176 billion), around 6 per cent of GDP (below the OECD average of around 8 per cent). This is mostly paid for by contributions to employer and government run insurance schemes. The public expenditure costs total around ¥7.6 trillion.
- Over one-third of the ¥30 trillion spend goes towards caring for the elderly and with the population ageing, the overall cost of the system is projected to rise to ¥81 trillion over the next 25 years.
- Proposed reforms to be introduced next year may be enough to keep the system stable in the short term, but further changes will be needed over time if too big a burden is not to be placed on the working population. With the shape of further reform still unclear, people are wise to be saving.

Description of healthcare system

1. Japan's healthcare system is funded through a complex structure of private insurance, financed mainly by contributions but with around one third overall coming from government subsidy. There is some sharing of treatment costs by patients, subject to caps, with a lower cap for those on low incomes. The elderly and those receiving public welfare generally pay low contributions and share only a small proportion of costs. In more detail:

- Employees of large companies are covered by company schemes; government employees by mutual aid associations; and employees of small and medium sized enterprises by a single government managed (and subsidised) scheme. Contributions are income related, and usually split between employer and employee, with the employee paying around 8 per cent of salary (this covers dependants as well). The insured and dependants pay around 20 per cent of the cost of treatment¹⁶ subject to a cap of ¥63,600 (around £370) a month¹⁷;
- the self-employed are covered by schemes run by municipalities. Each municipality sets its own rate, with monthly contributions averaging 9 percent of salary. The self-employed pay 30 per cent of treatment costs with the same caps as for employees;

¹⁶ Prescription costs are negligible.

¹⁷ For low income, the cap is around half this amount; and is double for high income. There is also a small additional contribution of 1 per cent of costs over ¥319,000 a month (effectively, a small levy on the costs of operations).

- there is a special health scheme for the elderly¹⁸, run by municipalities but financed by transfers from employee and civil service health insurance schemes as well as from central and local government¹⁹. The elderly pay low contributions and pick up around 10 per cent of costs, subject to a monthly cap of ¥37,200 (around £220); and
- there is also a new and separate long-term care insurance system for the elderly²⁰ who need non-hospital based nursing care (introduced April 2000). Income related premiums (set by the municipality) are paid by the elderly to an insurance scheme. 50 per cent of the cost of long term care is borne by the government, 10 per cent by the patient (if they have sufficient wealth) and the remainder by the insurer.

Problems of the ageing society

2. The amount Japan spends on healthcare has been rising fast (see the graph below). As in other countries, the rate of medical inflation in Japan has been consistently higher than normal inflation. It has also remained consistently higher than the rate of Japanese economic growth in recent years. As the population ages, the system has started to show signs of strain. Most of the insurance schemes are in the red, and have had to raise premiums. The key problem has been the increase in the transfers that employee schemes have to make to schemes for the elderly to pay for the cost of healthcare for pensioners. These are up from around 28 per cent of overall expenditure in 1993 to around 35 per cent today.

3. Demographic changes are taking place at a faster rate in Japan than most other countries. By 2050 the ratio of people over 65 is projected to reach a little over 30 per cent of the population, while the ratio of very old people over 75 is projected to reach around 19 per cent. Obviously per capita health care costs for the elderly are far higher than those of younger people²¹.

4. Without change overall expenditure is therefore projected to rise to ¥46 trillion by 2010 and ¥81 trillion by 2025 (Ministry of Health, Labour & Welfare figures) as the population ages.

Reform options

5. The government is proposing to make a number of changes next year to start reining in costs:

- introduction of a management system to control the expansion of medical costs related to the elderly;
- patient's contribution towards their own healthcare bills will be increased: it will rise to 30 per cent for all employees and to 20 per cent for the elderly between 70 and 75;
- the cap on total monthly expenditure will increase by around 14 per cent to ¥72,300 for most people (around £425);
- there will be a small increase in the insurance premiums (the magnitude of which is not yet decided);

¹⁸ Those over 70 and the bedridden between 65 and 70.

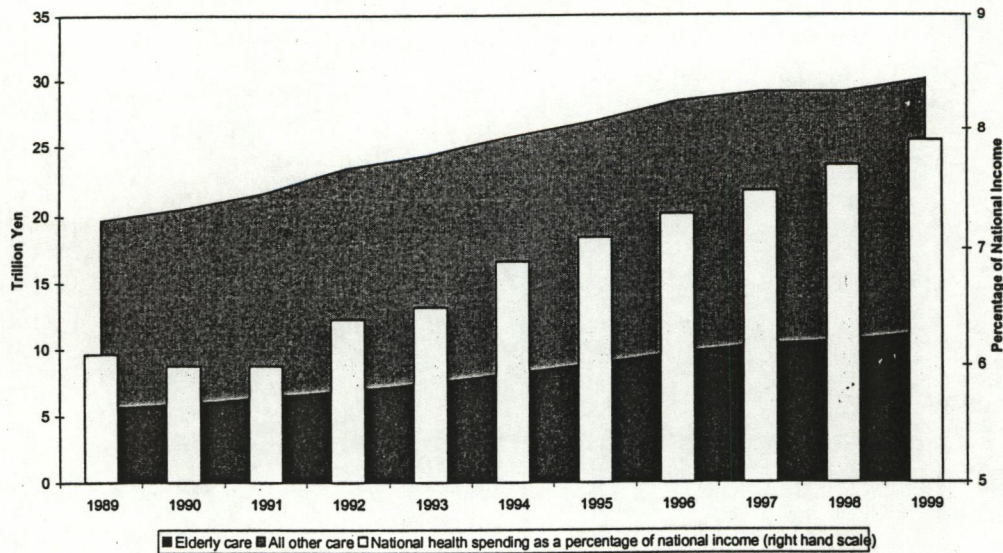
¹⁹ Insurers pay around 70%, government 30%.

²⁰ For those of working age, premiums for long-term care are part and parcel of their general healthcare premiums.

²¹ The MOHLW estimate that over half of all a person's medical costs are incurred after the age of 70.

- and there will be a revision of medical fees. This will involve changes to the medical fees for long term care beds, rationalisation of drug prices and expansion of the flat-sum payment scheme, limiting payments to doctors.

Chart 1: National Spending on Health Care in Japan



6. According to Ministry of Health, Labour and Welfare estimates, the introduction of a management system to control healthcare costs should reduce the expected costs of the system by ¥2.1 trillion by 2007. A breakdown of the savings is not available as yet, but the most significant appears to be the revision of medical fees.

7. In addition, there are undoubtedly further efficiency savings that can be made. Japanese doctors' basic consultation fees are relatively low, but they can increase their income by extending patients' stay in hospital or over-prescribing drugs. As a result, stays in Japanese hospitals are the longest in the world, some four times longer than in the UK²². The government is also working to cut the length of time that patients, particularly elderly patients, spend in hospital. The creation of the 'Kaigo' system of nursing care is aimed at moving elderly patients, who cannot manage at home alone, but do not need to be in hospital, out of hospital beds and back into their houses or local care centres where they can be looked after more cheaply.

Conclusion

8. Reform will be tough since Doctors' Associations are a powerful interest group, amongst the largest contributors to the ruling LDP. The current set of Health & Welfare Ministers are all ex-medical staff. But even if the recently proposed measures get through unscathed, this will not be enough to contain the expected rise in expenditures over the medium term as the population ages. The key policy issue is how much more of the burden of paying for care of the elderly should rest with the elderly, who on average are quite wealthy in Japan.

²² Average hospital stays in Japan in 1997 were 33.5 days, compared with 7.8 for the US and 9.8 for the UK.

File

DO ping?



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 November 2001

Dear Mr Monji

Thank you for writing to tell me of your departure from London and of your new assignment in Brussels.

I would like to pass on to you my best wishes for your new position and for the future.

With very best wishes,
Anne.

ANNA WECHSBERG

Mr Kenjiro Monji

020-7465 6500

GR
can you do
a nice farewell
reply from me
please? thanks

Anne
6/11

EMBASSY OF JAPAN
101-104 PICCADILLY
LONDON
W1J 7JT

31 October 2001

Dear Ms Wechsberg,

I am writing to inform you that I shall be leaving London in early November. I will take up a new assignment in Brussels as Minister and Deputy Chief of Mission in the Japanese Mission to the European Union.

During my two and a half years stay in London, I have thoroughly enjoyed both my professional and private life. It has been a most memorable and exciting period for me. I am very pleased to be able to continue to follow political and economic developments in Europe and to work for the furtherance of relations between Japan and Europe.

I would like to take this opportunity to express my sincere appreciation for all the support and co-operation you have kindly extended to me during my stay. I would be most grateful if you could extend the same courtesy and assistance to my successor Mr Kazuyoshi Umemoto who is to arrive here in mid December.

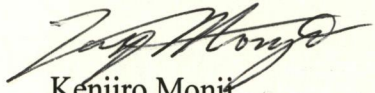
Although it is with regret that we leave London, all my family are delighted to go to Brussels because it is the city in which we once lived in the early nineties and liked so much. Since it is so close to London, I hope to continue to see you from time to time.

Please accept my best wishes for your continued success and good health.

My address from 9th November will be:

The Japanese Mission to the European Union
Square de Meeus 5-6
1000 Burxelles, Belgium
Tel: 32(0)2/500 77 11 Fax: 32(0)2/513 32 41
E-mail: kenjiro.monji@mofa.go.jp

Yours sincerely,


Kenjiro Monji
Minister (Political)

Ms Anna Wechsberg
Private Secretary to the Prime Minister
for Foreign Affairs
Prime Minister's Office
10 Downing Street
London SW1A 2AA

Hope to see you in Brussels!



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

From the Policy Adviser

29 October 2001

Dear Mr Yano,

VISIT OF NIKKEIREN DELEGATION TO THE UK

Thank you very much for your letters, dated 5 and 12 October, to my colleague Anna Wechsburg, concerning a visit by the Nikkeiren Delegation to the UK.

I am sorry to hear that you have decided to postpone your planned visit. I can fully understand why it is difficult to organise a delegation composed of top management in the current circumstances.

I hope that it proves possible to organise a visit to the UK in the future. If it does prove possible, then please do contact me and we will try to arrange a time for the delegation to meet with the Prime Minister.

I am copying this letter to Tom Goodwin and John Murton at the British Embassy.

Yours sincerely,

OLY JONES

Mr Hironori Yano
Deputy Director-General

81352111111



UK NOW
www.uknow.or.jp



British Embassy
Tokyo

From the Ambassador
Sir Stephen Gomersall
No. 1, Ichibancho
Chiyoda-ku, Tokyo 102-8381
Office Tel. +813 5211 1100
Office Fax. +813 5211 1111

BY FAX

25 October 2001

Ms Anna Wechsberg
No 10 Downing Street

Dear Anna.

CALL BY PETER MANDELSON ON THE JAPANESE PRIME MINISTER

1. Peter Mandelson called on the Japanese Prime Minister today in the course of his reconnaissance visit as Chairman-designate of the UK-Japan 21st Century Group. Koizumi said he had been made to feel very welcome in London last July and enjoyed several meetings and conversations with the Prime Minister since. He felt very close to Mr Blair. He also expressed his very high regard for the Prime Minister's diplomatic skill in the weeks since September 11. There could be no stronger relationship in the world than that between the UK and the United States. Although Japan had limits to its ability to act militarily, the same spirit existed in Japan-US relations. He just wished that his own opposition parties would be as supportive as those in Westminster.
2. Mr Mandelson expressed in turn the Prime Minister's best wishes and appreciation to the Japanese leadership in helping to underpin international support for the US-UK military action. He asked what feedback the Japanese had had from the envoys they had sent to the region. Koizumi said that Saudi Arabia and Iran were in a very difficult position because of the importance of Islam. Among the Asians, Malaysia and Indonesia, while condemning terrorism, found it difficult positively to support military action. Even though we might like them to say more, we should understand their position. Koizumi thought President Bush understood this very well. Japan saw its role as helping politically and with financial assistance in areas where the US could not be as active. It was very important to help the neighbour countries such as Uzbekistan and Tajikistan. He would be asking Prime Minister Mori to travel to India next week. While Japan maintained its opposition to nuclear testing, it had decided to lift the ban on economic assistance to India and Pakistan because of the change in the international situation.
3. On military support, Koizumi expected the Bill to clear through the Diet on 29 October, following which they would be ready to send military equipment in support of the US, or further humanitarian assistance, though JMSF personnel would not enter a combat zone. They would decide precisely what in the light of requests yet to be received from the United States.

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4. Peter Mandelson agreed that President Bush's approach had been sensitive and realistic. The UK shared Japan's concerns about supporting Gen. Musharraf. Would Japan be willing to take a lead, for example, in hosting a conference on post-conflict re-habilitation as the Americans had suggested at the G8? Koizumi had said at the APEC meeting he had conveyed Japan's willingness to do whatever it could either in the area of piecing together a successor government, or of re-construction. He had emphasised to President Bush the need to think about these issues while conducting the military campaign. Mr Mandelson said that our Prime Minister fully understood the limitations on Japan's military action, but was nonetheless a firm supporter of Japan's political and diplomatic role.

5. He continued that he admired Koizumi's efforts to get the Japanese economy back on track. This was very important, and there was much international anticipation of the results of his reforms. He hoped that the 21st Century Group meeting in February would focus, among other things, on the challenges of domestic and economic reform which both governments faced. Koizumi said that his main task continued to be the revival of the Japanese economy. He would not relent on this, however important other current issues. The opposition parties were accusing him of having achieved very little, but in fact reform continued at a steady pace. He, Koizumi, thrived on resistance, and interpreted it as a good sign that his efforts on reform were in fact being felt. He commended to

Mr Mandelson his new Japanese counterpart, Mr Yasuhisa Shiozaki. Although still young, he had cabinet potential and was an expert in the financial reform area. Mr Mandelson said he had been asked many times why he had taken on responsibility for the 21st Century Group. The reason was very simply that he admired Japan and the Japanese people. Koizumi said that he had spoken warmly about the UK when questioned in the Diet yesterday. He looked forward very much to seeing Mr Blair again.

Yours ever
Stephen Gomersall

Stephen Gomersall

cc: Mr Archer, NEAPD, FCO
Mr Evans, SAD, FCO
PS/PUS
Chancery, Washington

R18/10

MATRIX

e

NIKKEIREN

Japan Federation of Employers' Associations

ADDRESS : PALACE BLDG., 1-1, MARUNOUCHI 1-CHOME, CHIYODA-KU, TOKYO 100-0005, JAPAN
 DIRECT : Telephone 03-3213- Telefax 03-3213-
 INTERNATIONAL DIVISION : Telephone 03-3213-4454 Telefax 03-3213-4455

12 October 2001

Ms. Anna Wechsberg
 No 10 Downing Street
 London SW1A2AA
 United Kingdom

Dear Ms. Wechsberg,

Visit of Nikkeiren Delegation to U.K

Following my letter dated 5 October, requesting your cooperation in seeking our appointment with your Prime Minister, we regret to inform you that we have decided to postpone sending the delegation headed by Chairman Okuda. This is because it becomes actually difficult to organize the delegation composed of top management of various companies under unforeseen circumstances in the global actions against terrorism. We also think we had better refrain from asking your Prime Minister to spare for us his precious time, which is to be devoted to address very many issues brought by changing situations.

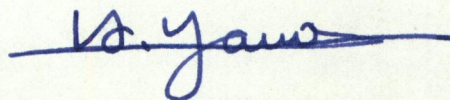
We sincerely hope further progress will provide us with another opportunity to move toward implementation of this delegation in the not too distant future.

We know this matter has caused you some inconvenience but hope you could understand the circumstances.

Chadwick Bond
 25% Cotton

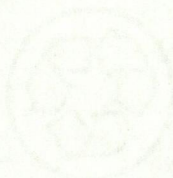
Thanking you in advance for your kind understanding and with best regards.

Sincerely yours,



Hironori Yano
Deputy Director-General

CC: Mr. Tom Goodwin, British Embassy
Mr. John Murton, British Embassy



528 00100
CHIBUMICK BOND

RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

RESTRICTED
MASTER

file
FAXED

To all

From the Private Secretary

28 September 2001

Dear Patrick

**US/TERRORISM: PRIME MINISTER'S TELEPHONE CALL WITH THE
JAPANESE PRIME MINISTER**

Koizumi telephoned the Prime Minister this morning, to report back on his discussions in Washington. They also touched on humanitarian issues.

Koizumi said it had been very helpful for him to have spoken to the Prime Minister before his meeting with President Bush. He had told Bush about the phonecall, and that the UK and Japan had agreed to maintain close coordination in the international effort to tackle terrorism. He had said to Bush that Japan would take up these issues "as if they were our own".

Koizumi said he was fully aware that the UK/US relationship was the "firmest relationship that existed". The Prime Minister's presence during Bush's speech had impressed on the world the strength of that relationship. Koizumi had told Bush that while Japan could not take part in combat, spiritually the US/Japan relationship was on a par with the UK/US relationship. He had assured him that Japan would take action where it could, including preventing disruption to the international economic system, and diplomatic action. Bush and he had agreed that they would cooperate closely in the fight against terrorism, including in stopping sources of finance for terrorism, and in providing emergency assistance to refugees in the region.

Koizumi said the extraordinary session of the Diet had started yesterday. In his speech he had explained Japan's position just as he had set it out now. As part of Japan's diplomatic effort he had already sent his Deputy Foreign Minister to Pakistan, with a commitment of emergency economic aid. Koizumi said he was keen to underline that this was a fight against terrorism, not against the Arab or Muslim world. He was therefore sending former Foreign Minister Koumura to Saudi Arabia and Iran; and former Prime Minister Hashimoto to Egypt. He knew the Prime Minister had been in touch with the leaders of Iran, Syria and Israel. How were they perceiving things?

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- 2 -

The Prime Minister said he thought Koizumi's visit to Washington had gone very well, and had been deeply appreciated by Bush. For Japan to take such a strong position right from the outset of the crisis was a great comfort and source of support. On the Middle East, the Prime Minister said he had found a lot of concern in Israel, understandably; but the Israelis now realised that there was real pressure to move forward with the MEPP, and that they could not treat Arafat as their own UBL. This was a welcome development. The Prime Minister had great sympathy with Israel; but it was vital that the MEPP was kept going.

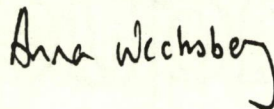
On Iran and Syria, the Prime Minister said he thought both had been far more supportive than we might have expected. A new relationship with these countries might now be possible, but they would need to look carefully at the activities of Hizbollah. Basically, he believed we would keep their support - at least their tacit support - provided we made clear this was not a battle between the West and Islam, and that any military action was targeted.

The Prime Minister said there was one vital area we needed to watch, where Japan had a very important role: the possibility of a humanitarian crisis. He welcomed the help Japan was giving to Pakistan. We were trying to do the same. But he thought it was essential that we put together a strong package, properly coordinated, both for refugees in neighbouring countries and for those displaced inside Afghanistan. A major humanitarian crisis could undermine all our efforts in other areas. Koizumi said he fully agreed. On refugees, he had received the UNHCR appeal, and was considering how Japan could respond.

Koizumi ended by reiterating that he wanted to maintain close contact with the UK, as the US's strongest ally. The Prime Minister agreed that they should keep in close touch.

I am copying this to Peter Watkins (MOD), Anna Bewes (DFID), Andrew Allberry (Cabinet Office), Sir Stephen Gomersall (Tokyo) and Sir Christopher Meyer (Washington).

Yours ever



ANNA WECHSBERG

Patrick Davies
FCO

CONFIDENTIAL

file



10 DOWNING STREET
LONDON SW1A 2AA

MAILED
14 SEP 2001

cc Japan file

From the Private Secretary

25 September 2001

Dear Patrick

**TERRORIST ATTACKS ON THE US: PRIME MINISTER'S TELEPHONE
CALL WITH THE PRIME MINISTER OF JAPAN**

The Prime Minister rang Prime Minister Koizumi early this afternoon (9am Washington time). Koizumi was in Washington, preparing for his meeting with President Bush later in the day.

The Prime Minister opened by saying how much everyone had admired Koizumi's strong support for the US at this time – and indeed for all those who had lost people in the attacks. Koizumi's 19 September statement had sent an important message of support across the world.

Koizumi expressed his admiration, in turn, for the Prime Minister's clear stance against the attacks and in support of the US. He knew the Prime Minister had been present during Bush's speech to Congress, and he had been impressed by the very warm welcome the Prime Minister had received in Congress and from the American people. The UK was clearly the US's most valued ally.

Koizumi said the terrorist attacks were not just attacks on the US, but on liberty and peace throughout the world. They were a serious challenge for all of us. Japan could not see this as someone else's problem. He was determined that Japan should take a strong stand against the attacks. Japan could not participate in military operations, as the US and UK could. But in every other way he would offer all the support he could – diplomatically, on dealing with the refugee crisis, on international economic policy. Koizumi said he knew the Prime Minister had spoken to many world leaders. How were people feeling about the crisis?

The Prime Minister repeated his sincere appreciation for the stance Koizumi was taking. He entirely understood Japanese constraints on the use of

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- 2 -

force. But the help Japan was giving in other ways, including the package of assistance for Pakistan, was extremely important, and showed Japan's real leadership internationally. On other world leaders, the Prime Minister said he had found them unanimous in their support for the fight against terrorism, both in response to this attack and in the longer term. We had a real opportunity now to tackle the growing terrorist threat.

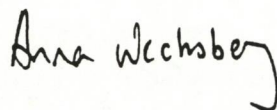
Koizumi, picking up on the Pakistan point, said Japan's post-nuclear sanctions prevented them from offering Pakistan any new programme of development assistance. But he had agreed to provide \$40 million in emergency aid; and he was sending one of his Deputy Ministers to Pakistan. We had to make clear that this was a fight against terrorism, not against the Arab or Muslim world; and we needed to build the broadest possible coalition. He knew he and the Prime Minister agreed on this. We were both following the same strategy diplomatically. The Foreign Secretary was visiting Iran; in the same way Japanese envoys were going to Saudi Arabia, Egypt and Qatar.

Koizumi said he had made clear to the people of Japan and the US, and to the international community, that he would support the US in responding to the attacks. Japan and the US could not fight together as the US and UK could. But the spiritual bonds between the US and Japan were strong. He wanted Japan's alliance with the US to be as strong as the UK/US relationship.

Koizumi ended by hoping he and the Prime Minister could keep in close touch. The Prime Minister warmly agreed.

I am copying this to Peter Watkins (MOD), Tom Scholar (HMT), Anna Bewes (DFID), Andrew Alberry (Cabinet Office), Sir Stephen Gomersall (Tokyo) and Sir Christopher Meyer (Washington).

Yours ever



ANNA WECHSBERG

Patrick Davies
FCO



Foreign &
Commonwealth
Office

London SW1A 2AH

24 September 2001

by fax.
Dear Anna,

Prime Ministers Telephone Conversation with Japanese Prime Minister

The Prime Minister plans to telephone the Japanese Prime Minister, Junichiro Koizumi, at 1400 on 25 September. Koizumi is in Washington on 25 September for a meeting with President Bush, following a visit to New York on 24 September. The Prime Minister's conversation will take place two hours prior to Koizumi's meeting with the President.

The Prime Minister may wish to explain UK thinking on possible action following the terrorist attack in the United States; to express support for Koizumi's recent announcement of his government's response; and to thank the Japanese for their generous assistance to the region, in particular to Pakistan.

Koizumi's televised announcement on 19 September has been a marked contrast to the usual ponderous Japanese reaction to international crises. The main elements of Koizumi's announcement are:

- to take measures to enable the Self Defence Forces (SDF) to provide logistic support (transport, medical services and supplies) to US forces involved in anti-terrorist operations. Koizumi has gone out on a limb on this. It is likely that it will be necessary to introduce new legislation to allow this to happen, and Koizumi's focus will be on getting legislation through the Diet when it reconvenes on 27 September. The Prime Minister may wish to express support and encourage Koizumi to push ahead in taking the necessary steps to allow greater participation by Japan in the international arena;
- possible despatch of maritime SDF vessels to gather information. A small fleet of maritime self-defence ships are now heading towards the Indian Ocean (one Aegis- class cruiser and two escort/supply ships). Again, this goes beyond what would normally be allowed by the constitution. As yet there is no clear mission, but the fact that the ships have been despatched are a clear sign of Koizumi's wish to contribute to any action;



- humanitarian and economic assistance to affected countries, including emergency economic assistance to Pakistan. Japan by-passed its own nuclear sanctions on Pakistan to provide \$40 million in emergency assistance. The Prime Minister may wish to outline the UK's plans for assistance, and to thank Japan for its support for the region.

Koizumi has gone out of his way to show support for the United States. There is much detail to be filled in, and eventual Japanese action (and public support for it) will depend heavily on the nature, timing, and perceived legality of the US response. Some words of encouragement from the Prime Minister, and an offer to stay in touch, will help to stiffen Koizumi's resolve to do what is necessary to allow a Japanese participation in any unified response.

The Prime Minister may also wish to be aware that in the past week, Koizumi has spoken on the telephone to Bush, Chirac, Schroeder, and Chretien. The Foreign Secretary plans to visit Japan from 10-11 October.

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

19. SEP. 2001 14:04

EMBASSY OF JAPAN (LONDON)
EMBASSY OF JAPAN

NO. 8597

P. 1

020-7465 6500

EMBASSY OF JAPAN
101-104 PICCADILLY
LONDON
W1V 9FN

FAX

To: Ms. Anna Wechsberg *press*
Fax: 020-7839-9044
From: Mr. Kenjiro MONJI
Tel: 020-7465-6727 / FAX 020-7491-1641

This message consists of 3 page(s) including this cover page.
Please contact me if any, or all, of the following message fails to reach you.

MESSAGE

Please find attached "Japan's measures in response to the simultaneous terrorist attacks in the U.S." which was announced by Prime Minister Koizumi at 19:30 on Sept. 19th (London time at 11:30, Sept 19th)

We notified the FCO already.

1. cc David Manning L, + JJH

2 file.

Amy
19/9

[Signature]

(Provisional translation)

**Japan's measures in response to
the simultaneous terrorist attacks in the United States**

1. Basic Policy

- (1) Japan will actively engage itself in the combat against terrorism, which it regards as Japan's own security issue.
- (2) Japan strongly supports the United States, its ally, and will act in concert with the United States and other countries around the world.
- (3) Japan will take concrete and effective measures which will clearly demonstrate its firm determination. These measures will be implemented in a swift and comprehensive manner.

2. Immediate measures

- (1) The Government of Japan (GOJ) will promptly take measures necessary for dispatching the Self-Defence Force (SDF) for providing support, including medical services, transportation and supply, to the US forces and others taking measures related to the terrorist attacks, which have been recognized as a threat to international peace and security in the United Nations Security Council resolution 1368.
- (2) GOJ will promptly take measures necessary for further strengthening protection of facilities and areas of the US forces and important facilities in Japan.
- (3) GOJ will swiftly dispatch SDF vessels to gather information.
- (4) GOJ will strengthen international co-operation, including information sharing, in areas such as immigration control.
- (5) GOJ will extend humanitarian, economic and other necessary assistance to surrounding and affected countries. As a part of this assistance, GOJ will extend

emergency economic assistance to Pakistan and India, which are co-operating with the United States in this emergency situation.

- (6) GOJ will provide assistance to the displaced persons as necessary. This will include the possibility of humanitarian assistance by SDF.
- (7) GOJ, in co-operation with other countries, will take appropriate measures in response to the changing situation to avoid confusion in the international and domestic economic systems.



CABINET OFFICE
70 Whitehall
London
SW1A 2AS

The Rt Hon Lord Macdonald of Tradeston CBE

**Minister for the Cabinet Office &
 Chancellor of the Duchy of Lancaster**

Tel: 020 7270 1250
Fax: 020 7270 1257

Mark Sedwill
 PS/Foreign Secretary
 Foreign & Commonwealth Office
 King Charles Street
 London
 SW1A 2AH

1. EC also AA, RL, FC, GN
 for info
 2. Hre. *Amey*
 19/9

AW
C: J/S
DM
JJM

18 September 2001

Dear Mark

MEETING BETWEEN LORD MACDONALD AND NOBUTERA ISHIHARA

Lord Macdonald met Nobuteru Ishihara, the Japanese Minister of State for Administrative Reform, on 7 September in the Cabinet Office. Minister Ishihara was accompanied by Kenjiro Monji (Political Minister), Hiroaki Hara (Secretary to the Minister) and Kazue Aizawa (interpreter). Alongside Lord Macdonald were Stuart Jack (Embassy, Tokyo), Steve O'Leary (Head of the Modernising Public Services Group) and myself.

In welcoming Minister Ishihara, Lord Macdonald said that the UK and Japan could learn from each other in tackling common problems in public service delivery and reform. The recently re-elected Labour administration was placing great emphasis on delivering major improvements in health, education, transport and tackling crime. He had day-to-day responsibility for the Prime Minister's newly created Delivery Unit which would be working with the departments concerned to deliver improvements in these four key areas. He also had responsibility for better regulation and e-government issues.

Minister Ishihara agreed that both countries would benefit from close co-operation, building on the relationship forged between Prime Ministers Koizumi and Blair. He was particularly interested to learn from the UK's experience of privatisation. Japan had over 150 public corporations involved in a wide range of services such as road-building and housing loans. The Government was considering the abolition of 77 such organisations and the privatisation of others.

Lord Macdonald said that the UK's experience of privatisation had on the whole, and with the notable exception of the railways, been a very positive one. Effective regulation was important, and needed to be kept under review as the privatised companies matured. Central government had built up considerable expertise in developing financial models which other parts of the public sector could adopt for privatisations, rather than have to re-invent them for themselves. He hoped that Partnerships UK could provide Japan with advice in that area.



Minister Ishihara said that Japan's earlier attempts to privatise, with the exception of telecoms, railways and tobacco, had failed. Although he believed that Prime Minister Koizumi's reforming administration was now building sufficient momentum to succeed this time around, there were considerable obstacles to be overcome. The public corporations had borrowed a total of Y257 trn and had massive debts, the true extent of which had not been fully established. They were currently being asked to submit plans detailing their true financial position and exposure. There were appalling examples of inefficiency – for example in road-building – and public corporations had intruded into areas where the private sector was clearly capable of delivering the service, such as banking. The organisations were often focussed on their own interests, rather than those of the citizen. However, politically the Government faced opposition even from within the LDP.

Lord Macdonald commented that the UK's biggest problem in its public services had been years of inadequate public investment. Whilst that had clearly not been the case in Japan, both countries faced the same challenge in seeking value for money in their public services. One of the ways in which the UK Government was trying to achieve this was the Public Finance Initiative. Public-private partnerships were providing a stimulus to public sector reform. In addition, the Government had created a framework of targets through Public Service Agreements as part of a more managerial approach to delivering public services.

Stuart Jack said that the Embassy in Tokyo had agreed to provide a series of articles on the UK experience of public service reform for the LDP newsletter.

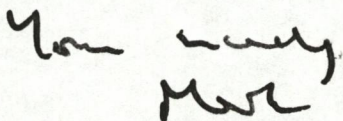
Lord Macdonald said that there was cultural and political opposition to reform in all countries. The Prime Minister's policy was non ideological, believing instead in what works. Japan, the UK and other countries could build a progressive alliance to make the case for reform.

Minister Ishihara agreed, saying that reform should not be confined to the G7 countries. The UK had an interest in promoting reform, for example, in Eastern Europe, in the same way that Japan hoped to see progress in other Asian countries.

Lord Macdonald said that the UK Government would seek to provide whatever advice and assistance the Japanese Government might find helpful in pursuing its own public service reforms. Stuart Jack added that the Embassy hoped to put together a conference in the near future on the UK's experience of privatisation.

Minister Ishihara welcomed this offer, saying that his discussions with BAA, UBS Warburg, Partnerships UK and Lord Macdonald had all been valuable. He hoped that such discussions would continue in the future.

I am copying this letter to Anna Wechsberg (No10), Tom Scholar (HMT), Ashley Ibbett (Cabinet Secretary's Office), Paul Fisher (Bank of England), Esther Gray (FSA).



MARK LANGDALE
Private Secretary



COVERING
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British Embassy
Tokyo

From the Ambassador
Sir Stephen Gomersall
No. 1, Ichibancho
Chiyoda-ku, Tokyo 102-8381
Office Tel. +813 5211 1100
Office Fax. +813 5211 1111

12 September 2001

Mr Robert Cooper
c/o NEAPD
FCO

Dear Robert

DM
JJM
AW

YUKIO OKAMOTO

1. Many thanks for your letter of 7 September about Yukio Okamoto. He was obviously very appreciative of his chat with you, which he mentioned when, as it happens, he came to lunch yesterday. He was a good contact when we were First Secretaries in our respective missions in Washington in the early eighties. He has been visible in journals for quite some time but has only recently risen to prominence on TV, and now in the Prime Minister's advisory role.
2. Okamoto will be the leader of a think tank of six diplomats and academics making regular input into Koizumi through periodic briefings. He said that far from distrustful, his MFA colleagues were offering him every sort of cooperation (obviously as a route round Mrs T). All signs of the time, though he thought that Mrs T now realised that she might one day be dispensable, and was therefore toning down her act.
3. Chris Trott's note attached records the substance. Okamoto was not particularly iconoclastic, but was strikingly concerned about the relapse in Japan/China (and to a lesser extent Japan/Korea) relations. He recognised that diplomacy directed at these countries would not get very far if domestic opinion still did not want to face up to the past. He was positive and moderate on PKO/constitutional reform and very pro the US/Japan Security Treaty, though he thought they would have to find way of lightening the proportional load of the US bases on the population of Okinawa.
4. At the end he said he thought the UK was a very important partner and interlocutor for Japan, and that he would like to bring his group of Koizumi advisors to London to meet appropriate counterparts in No 10. I said we would be delighted to arrange something. The ball is still in his court but it would be excellent if we could. You may be able to help when the time comes. I am also copying this to David Manning, as well as to the recipients of your letter.

Yours are
Stephen

Stephen Gomersall

cc: Nigel Cox, Peking
Tony Brenton, Washington
Rosalind Marsden, Director Asia Pacific

Erica please cc to all (incl. M Cooper)
Nick Archer, Head, NEAPD
Sir D. Manning - Noted
NSA/HIS

RESTRICTED

RESTRICTED

From: Chris Trott, Political
Date: 12 September 2001
cc: PS/HMA
Jonathan Thomson

Colin Roberts

LUNCH WITH YUKIO OKAMOTO, FOREIGN POLICY ADVISER TO KOIZUMI

1. The Ambassador had lunch today with Yukio Okamoto, President of Okamoto Associates and recently appointed Foreign Policy Adviser to Koizumi. We had a wide-ranging discussion, the highlights of which were:

a) Foreign Policy Advisory Group

Okamoto said this would be made up of 6 to 8 people. So far they have identified: Ambassador Tanino (ex-China), Prof Masao Okonogi (Keio Uni, a Korea expert), Osamu Watanabe (ex Vice Minister, MITI), Prof Shinichi Kitaoka (Todai) plus a couple of others. It will meet regularly. Okamoto plus whoever is most expert on the subject in question will then brief the Prime Minister. The MFA have welcomed the formation of this group, believing that it will help them get policy approved. The JDA likewise.

b) Japan/China

Okamoto said Koizumi had got the worst of all worlds over the Yasukuni visit. He had lost the support of China, by reneging on an agreement to go on 17 August, so they wanted an apology. But he had lost the support of the right wing by going on 13 August, so they would not now agree to such an apology. He would therefore go to Shanghai unable to offer what the Chinese wanted, and the meeting with Jiang would be difficult. This was awkward, particularly as his reception by Jiang (a one-handed, formal handshake) would be contrasted with the welcome for Bush (two-hands) and Kim Jong Il (a hug)! The MFA hoped, however, that Okamoto's group would at least prevail on Koizumi to back down on the "stupid" safeguards.

c) PKO

Okamoto thought Japan should take part in PKOs. But until the law was changed to allow eg Japanese troops to defend other people/buildings/equipment as well as themselves the UN would not want them. He confirmed that Hayashi (MFA on secondment to the PUS's office) was conducting a one-man campaign on this. He said the JDA were very positive about this.

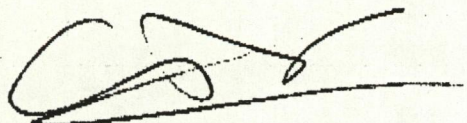
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RESTRICTED**d) Japan/US Alliance**

Okamoto was not sure if the alliance would survive another 50 years. But he emphasised its continuing importance. The bases issue clearly frustrates him - in particular talk of a time limit, which both the Japanese and US Governments know is unworkable. His implication was that Tokyo should stand up to Okinawa. He also pointed out that even if bases in Okinawa were reduced by 20%, Okinawa's share of the burden would remain over 70% of the total.

e) UK/Japan dialogue on Foreign Policy

The Ambassador described the growing political cooperation between the UK and Japan. Okamoto said he would be very interested in a dialogue with his counterparts in the Cabinet Office.



Chris Trott
Tokyo
Tel: 5211 1229
Fax: 5211 1344

NO. OF ATTACHMENTS: 0

RESTRICTED

6 September 2001



Foreign &
Commonwealth
Office

London SW1A 2AH

Top: FAJARS
FAJARS (AW)
FAJARS (RL)
FAJARS (FC)

**Call by Nobuteru Ishihara, Japanese Minister for Administrative Reform on
Lord MacDonald, 7 September**

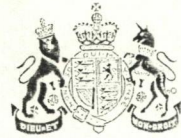
I attach briefing for 7 September meeting between Lord MacDonald and Nobuteru Ishihara, Japanese Minister of State for Administrative Reform, who is visiting the UK 6-8 September.

Under the new Japanese Prime Minister, Japan is embarking on a huge programme of administrative, political, and economic reform. Ishihara's main task is to reform - essentially to privatise - Japan's huge network of "Special Public Corporations" - semi-governmental organisations which play a large role in implementing government policy. Overhaul of these inefficient and unaccountable bodies will be important in reducing the pressure on public finances and in stimulating the economy. Politically, this will be a key test for Koizumi's reform ambitions. Ishihara faces resistance from the bureaucracy and his own party, who have vested interests in maintaining the status quo, but he is young, able, reform-minded and optimistic about his ability to bring about change.

Ishihara's objective in visiting the UK is to seek ideas and advice on agencies and privatisation. His visit will be an important opportunity to establish our credentials as a source of expertise. Ishihara has also expressed interest in civil service reform, so it will be worth explaining our experience in this area, including objective setting, performance assessment, promotion and pay policy.

The Prime Minister agreed with Koizumi on 2 July to intensify contacts on administrative reform, service delivery, and other areas of government activity in which the Cabinet Office is involved. We want to promote awareness in Japan of British values, achievements and expertise. And we want to promote British firms' privatisation services. Ishihara's office have had close contact with UBS Warburg, who have been involved in setting up some of his private sector meetings in London.

SKP 6/9/01



The Prime Minister wrote to Koizumi on 31 July to invite his advisers to the UK to exchange ideas on new approaches to public finance including privatisation, reform of public services, competition and deregulation including in financial services, and more effective government. We have agreed with the Japanese that Ishihara's visit should be seen as a first step (despite the Japanese bureaucracy's worries about distinctions between Ministers and Advisers). It would be helpful if Lord Macdonald could mention to Ishihara our continuing interest in a visit to London by Koizumi's policy advisers and encourage him to support the idea on his return.

In addition to the call on Lord Macdonald, who is his opposite number, Ishihara will call on Sir Richard Wilson and Tim Diamond (Head of Agency Policy Team, Cabinet Office) on 7 September. On 6 September he has various private sector meetings. Before coming to the UK he will have visited France and Italy.

Lord Macdonald might wish to be aware of the following recent and forthcoming inward and outward visits. Inward: Ms Mayumi Moriyama, Justice Minister, (to see the Lord Chancellor's Department and the Home Office on 31 August) and Mr Hakuo Yanagisawa, Minister for Financial Reconstruction (to see the FSA and the Bank of England on 3 September). Outward: Brian Wilson, Henry McLeish, and the Foreign Secretary. All in October.

...

I enclose:

- Ishihara's CV;
- Outline programme for his visit;
- Note on Ishihara's plans for Privatisation and Reform of "Special Public Corporations;"
- Note on PFI in Japan;
- Note on Deregulation in Japan;
- Political background brief on Japan;
- Prime Minister's letter of 31 July to Japanese Prime Minister Koizumi
Note on the Japanese Economy.



I am copying this letter to Paul Fisher (Bank of England), Tom Scholar (Treasury), Esther Gray (FSA) and Anna Wechsberg (No 10).

Yours eye,
C. Sedwill

(Mark Sedwill)
Private Secretary

Mark Langdale Esq
PS/Minister for the Cabinet Office

MR NOBUTERU ISHIHARA
MINISTER OF STATE FOR ADMINISTRATIVE REFORM

Appointed Minister of State for Administrative Reform in April 2001 in the first Cabinet of Prime Minister Koizumi (the second youngest member of this Cabinet). This is his first Cabinet appointment. He served as junior Minister at the old Ministry of International Trade and Industry (MITI) in the second Hashimoto Cabinet. Expertise on financial issues. Eldest son of out-spoken Governor of Tokyo Shintaro Ishihara. He is a leading member of the LDP's "Building an LDP for tomorrow", a group of younger LDP members who are seeking to reform the party. He is not a member of any faction.

Born in 1957, age 44. Ishihara graduated from Keio University Faculty of Literature. Before entering politics he studied at Elmira College in New York and worked as a political journalist for Nippon Television Network Corp, a national television company. He was first elected to the House of Representatives as an independent in 1990 and subsequently joined the LDP. He has since been re-elected 4 times. He represents Tokyo's number 8 constituency. He has served on a number of Diet and LDP committees, including as Director of the Environment, Trade and Industry, and Financial Stability Standing Committees of the House of Representatives, and as Chairman of the LDP's Fiscal Affairs Division. He takes a close interest in financial, tax, labour and employment issues. During his time as junior Minister at MITI from 1996-7 he met Mrs Beckett and Lord Henley.

Ishihara is known as a young reform-minded member of the LDP, not least as one of the founding members of the "Building an LDP for tomorrow" group. He is quite out-spoken and has distanced himself recently from the LDP's traditional faction structure.

Ishihara speaks some English but not fluently. He visited the UK in 1997 to lobby for EXPO 2005 which will be held in Aichi prefecture. A member of the UK/Japan Parliamentary League in the Diet. His wife is a former correspondent for CNN in Japan. She lived in the UK for 10 years and speaks fluent English. Ishihara's hobbies include reading, martial arts (he is a third-level black belt and instructor in Shorinji Kempo, a Japanese martial art). He is married with one daughter and one son.

May 2001

Visit to London by Nobuteru Ishihara, Japanese Minister of State for Administrative Reform

Thursday 6 September

- 1140 Arrival, Heathrow airport
- View facilities at Heathrow airport (to be confirmed)
- 1330 Private lunch
- 1530 Mike Hodgkinson, Chief Executive, BAA (location: Victoria)
- 1630-1730 James Stewart, Chief Executive, Partnerships UK
- 1800 Dinner hosted by UBS Warburg and Steve Robson, Non-Executive Director of Partnerships UK and Royal Bank of Scotland (and former Second Permanent Secretary and Managing Director for Finance, Regulation and Industry, Treasury)

Friday 7 September

- 1000 Sir Richard Wilson, Cabinet Secretary
- 1115 Alastair Clark, Bank of England
- 1330 Lord Macdonald, Minister for the Cabinet Office
- 1515 Tim Diamond, Head of Agency Policy Team, Cabinet Office

Saturday 8 September

- am Visit to London Docklands
- 1545 Depart from Heathrow airport

PRIVATISATION AND REFORM OF PUBLIC CORPORATIONS IN JAPAN

Japan is some way behind the UK. While some companies like the national airline, JAL, have been fully privatised, a vast network of semi-governmental organisations exists. One of the key elements of Koizumi's seven part structural reform programme is to reform this network and maximise use of the private sector.

There are over 150 public corporations (semi-governmental organisations) involved in delivering services ranging from road building, through low cost business and housing loans to oil extraction. The Japanese government spends 5.3 trillion yen through them each year and Koizumi has pledged to reduce this by 1 trillion yen this year. The fight over where the axe should fall will be a major test.

On 10 August the Administrative Reform Promotion Headquarters, chaired by Koizumi, outlined its initial proposals which will be finalised by the end of the year. In general he wants to abolish or privatise as many corporations as possible. The pain will mainly be felt by

- Highway corporations. Created to build road infrastructure – they are supposed to be self financing through toll revenue eventually. These may have to scale down operations, including freezing ongoing projects. This would save around 300 billion yen.
- Loan corporations. The Housing Loan Corporation provides low cost loans for house purchase by individuals. This costs the Japanese taxpayer 440 billion yen each year. There are also low cost loan schemes for SMEs under scrutiny.

The privatisation of the nation's airports is also high on Koizumi's agenda. Unlike in the UK, where airports are owned by a public limited company, BAA, and subject to limited government interference (the Civil Aviation Authority mainly serves to cap passenger fare increases), in Japan, the airports are run as public corporations. However, as part of the reforms to Japan's fiscal and investment loan programme, the New Tokyo International Airport Authority, which operates Narita Airport, has recently begun issuing bonds without government guarantees, the first step, perhaps, on the road to privatisation. The opening next May of the long-awaited 2nd runway at Narita Airport, should give a much-needed boost to its diminishing status as the region's hub airport. International Air Transport Association (IATA) predict that China will supplant Japan as Asia's largest commercial air-travel market in 2014, so some form of privatisation is seen as imperative to keep the airports competitive. Koizumi's coalition panel led by LDP Secretary General, Taku Yamasaki, recommended at the end of June that long-term leasing of the airports to private companies would be the most practical way to maximise receipts to the government and rejuvenate operations.

An overhaul of public corporations is central to delivery of one of Koizumi's best known pledges – the privatisation of the postal services. Public corporations are largely funded

by the massive state-owned postal savings and insurance systems. Cutting the flow of funds into public corporations would make it easier to deliver on this promise.

The corporations are widely criticised for being wasteful and inefficient as well as having little accountability or transparency. They are also a source of employment for retired senior officials who regularly take up well paid "advisory" positions.

There is widespread opposition within Ministries and some quarters of the ruling LDP party to this plan. This is not wholly unjustified, but smacks of self interest. Highway construction, for example, has been a major source of wealth creation in rural (LDP) constituencies. Ministries are now bringing forward a range of plausible reasons why the corporations for which they are responsible provide essential services in the most efficient and cost effective manner. Even fairly reformist Ministries such as METI are vigorously defending the status quo.

The end of September is the critical point at which Ishihara must decide where the pain will be felt. Battle will then be joined in earnest as the 2002 budget is agreed in November/December. This will coincide with bad news on the economy generally including poor second quarter GDP figures and high unemployment figures.

This is likely to be the fiercest and most critical battle in Koizumi's reform campaign. Success will help not only unburden public finances and improve efficiency in service delivery but also to build Koizumi's credibility as a reformer on which much of his popular support is based. As yet he has promised much but delivered little – a point which he recognises and wants to change. Failure will have knock on effects and make delivering other key pledges to limit new bond issues and to privatise postal services much more tricky.

PFI IN JAPAN

In July 1999, the Japanese Government passed the PFI Promotion Law. During the following eighteen months, Prime Ministers Obuchi and Mori continued massive deficit financed public works projects in an attempt to support the economy and at the expense of PFI. The new Prime Minister, Koizumi, has stated that the Government should leave to the private sector whatever can be left to the private sector. The Budget Guidelines for FY2002 contain a commitment to "plan active utilisation of PFI projects". It is against this background that Minister Ishihara is working.

Public investment in Japan amounts to 7% of GDP (much higher than the 1-2% in the UK). Of this, around 2/3 is administered by local authorities. It is therefore no surprise that local authorities have been the driving force behind PFI in Japan so far. However, projects to date have tended to be relatively small, central government support limited and divergence between authorities has been great. There are a number of reasons for this, and a number of areas Koizumi's Government needs to address:

- Lack of coordination – until the recent Budget Guidelines were issued, central government support for PFI was limited. In particular, those authorities looking to adopt PFI had no single central body to approach for advice. A body such as the UK's former Treasury Taskforce would greatly assist local government.
- Conflicting laws – despite the PFI Promotion Law, it is still very difficult to set up PFI projects. The legal framework, particularly the Public Building Management Laws, restricts private sector operations, thereby reducing the benefits to be gained from their expertise. These barriers are currently overcome using case-by-case consultations with central government officials, an inefficient and uncertain approach. Revising such laws will take much effort, but will be necessary to the success of PFI.
- Lack of expertise – with no central resource, local authorities have been going it alone. However, their awareness of PFI is restricted to the literature and seminars, whilst very few have any experience of PFI projects in action. Lack of coordination probably contributes to much wasted effort reinventing the wheel.
- Pre-qualification of consultants – officials require the expertise of consultants, but the pre-qualification requirements present international consultants with a Catch 22 situation. They cannot be awarded a contract without business experience in the local market, and cannot get that experience without a contract. Also, the present arrangements require consultants to register with each local authority separately, rather than once for all.
- Closed market for public works contracts – by using public investment to support employment, local authorities have often developed a closed market for contracts. Construction firms take it in turns to receive contracts, thereby supporting the economy evenly, but without reference to value for money. This will have to be overcome in order for PFI to succeed.

Overall though, it should be recognised that there is a great deal of enthusiasm for PFI in Japan, especially amongst local authorities looking to maintain service provision despite their weak financial positions. A British Embassy survey of fifteen local authorities, undertaken earlier this year concluded there was a real desire to achieve success where previous initiatives had failed.

DEREGULATION IN JAPAN

The debate has moved on considerably since the 1980s when regulation was systematically used by the Japanese as a market access barrier. British exporters now say that regulation is "different" but not "worse" or "more burdensome" than, say, the US.

Concerns have moved on from specific regulations that discriminate against foreigners, to systemic issues that discriminate between incumbents and new entrants. It is not therefore just foreigners who are complaining: the Keidanren (CBI equivalent) annually submit a document to the government on deregulation, voicing the concerns of Japanese industry. The problem is a failure of competition policy and is particularly acute in the telecommunications sector.

Deregulation has been rising on the political agenda. The Deregulation Council's recently published three year plan is more strategic and less detailed than previous editions. It is firm on financial services but weak on telecoms, agriculture and Narita slots. Following the arrival of Prime Minister Koizumi, the status of the Council has been formally bolstered and given greater political credibility with his personal involvement.

The new Council will work to an accelerated timetable. It will focus on six sectors: medical devices; welfare services; education; environment; urban revitalisation; and the labour market. While these do not reflect EU regulatory concerns (which are investment, environment, competition policy, and telecommunications), they do reflect the strong personal influence of Koizumi. Working groups chaired by Vice Ministers in the Land, Health, Education and Environment Ministries will draw up preliminary proposals in the autumn. Given that these Ministries have somewhat conservative reputations it will be interesting to see what results from this process. The report is due at the end of December.

The European Commission plan a High Level meeting in the second half of October to make their annual deregulation submission and to coincide with the publication of the European Business Community's White Paper on Deregulation.

JAPAN: BACKGROUND

POLITICS AND KOIZUMI'S REFORM PLANS

1. Junichiro Koizumi was elected Prime Minister on 26 April 2001, following the resignation of Mori, whose public popularity rating had fallen to 6% during a tenure characterised by gaffes and sleaze scandals. Koizumi is regarded as a maverick and is popular with the public – his popularity rating currently stands at around 70%. Koizumi is a member of the conservative Liberal Democratic Party (LDP) which has been the dominant party in Japan since 1955. The LDP had one year out of power in 1993-94 but since then has been the major party in a series of coalition governments.
2. Under Koizumi's leadership, the LDP performed strongly in the Upper House elections on 29 July 2001. This support for Koizumi is seen as a vote for change. He is committed to **reform**. Although ongoing reform in Japan has been slow in the past, Koizumi's reform agenda is different - he is showing real leadership and has injected a new sense of urgency into the process. He is pushing reform in hitherto taboo areas and he is doing so with public support. The overall agenda is huge, covering most aspects of society and the economy. But there are obstacles: the LDP old guard, vested interests in business and local government and, in due course, those who see their livelihood threatened.
3. In the month since Koizumi's victory in the Upper House elections, Ministers, politicians and officials have been hard at work developing the detail of economic structural reform policies. Cabinet agreed the outline of the new government's first "reform" budget for FY 2002. The key elements are an overall 2% reduction in the general (policy related) expenditures, together with a reallocation of spending. There will be an across the board cut of 10% on discretionary spending, together with an up to 20% increase permitted for seven strategic areas: IT, urban redevelopment, environment, ageing population, revitalisation of local communities, science and technology (for which 50 billion yen has been ring-fenced), and human resources development.
4. Koizumi still has the support of most political commentators in pressing ahead with the reform agenda. He is also bolstered within his party by his unopposed re-election as LDP President for the next two years. He has a solid public mandate, with support ratings as high as 70%. But the going will get much tougher as he joins battle with the Ministries and LDP over meeting specific targets for cut-backs. He is not helped by the poor economic situation - production, export and employment indicators continue to weaken.

ECONOMY

5. After two years of mild recovery, the **Japanese economy** has slowed down in 2001 to the verge of recession. Exports to the US and Asia fell in the first quarter of the year. Consumer confidence remains low as deflation worsens. Industrial production was down 3.7% in the first quarter of the year, and business confidence has dropped. Share prices

have fallen significantly over the last year. For the last ten years successive Japanese governments have tried to stimulate the economy through large-scale government spending on infrastructure projects. These have slowly led to a national deficit of 130% of GDP. The prospects are, in the short-term, bad. But Koizumi's commitment to reform provides hope that there will be fundamental economic restructuring in the corporate and financial sectors. This will result in short term rises in unemployment, but the Japanese public appear, at present, to be prepared to put up with some pain so that badly needed reform can be achieved.

BILATERAL

6. **UK/Japan relations** are in good shape and problem-free. The Prime Minister attaches priority to developing relations with the new Japanese Government. He had talks and lunch with Koizumi in London on 2 July, focusing mainly on the US and Missile Defence, Climate Change, and the Japanese economy and structural reform. The Foreign Secretary met Foreign Minister Tanaka on 18 July in the margins of the G8 Foreign Ministers' Meeting.

OTHER

7. Despite his popularity, Koizumi has attracted widespread criticism following his visit to the **Yasukuni Shrine** on 13 August to pay his respects to Japan's war dead. This has not helped Japan's relations with China and South Korea, which were already strained following the recent publication of a school textbook which plays down the atrocities committed by Japan in Asia in the 1930s and 40s.

Mr Archer ^{MMI} ~~Lyons~~ ~~McCabe~~
indeed. /s.

136703/01 (32)

I'm delighted to see that
this letter eventually issued.



~~DEAPD~~ for onward transfer please.

Ry 6/8

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14 AUG 2001	
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PRIORITY	

THE PRIME MINISTER

PS/Mr MacShane
 PS/PUS
 Mr Westmacott cc: JS
 Mr Arthur
 Mr Marden
 Ms O'Donnell, Navs Dept
 Mr Archer, DEAPD.

31 July 2001

TS
31/7

Dear Prime Minister,

Thank you for your letter of 13 July. I, too, enjoyed our talks on 2 July and it was good to see you again in Genoa. I was interested to hear on both occasions about your plans for Japan. I have been struck by how many challenges are common to Britain and Japan. I believe there is much we can learn from each other.

I am keen to follow up on the proposal, which we discussed in London, that policy advisers from both our offices meet to exchange ideas. We might focus initially on some of the priority areas you identified during our meeting: new approaches to public finance, including privatisation; reform of public services; competition and deregulation, including in financial services; and simpler and more effective government. We would be delighted to welcome your team to London later in the year, if that suits you.

The UK-Japan 21st Century Group has a significant role to play in strengthening our relations, and I am delighted that Peter Mandelson will take the lead at the UK end. I believe we need to re-energise the group so that it can focus its agenda on issues of interest to us both. I look forward to hearing about your plans for the Japanese side.

We touched briefly on trade and investment between our two countries. New communications technologies are transforming the environment for business and government globally. Japanese and British companies are world leaders in this field. We share an interest in working together to reap the maximum benefits from these new technologies. The Secretary of State for Trade and Industry, Patricia Hewitt, established a good foundation for co-operation when she met Mr Hiranuma and Mr Katayama earlier this year. I would like to build on this. If you agree, I suggest we should work together to develop our vision for how we see new information and communications technologies transforming the way business operates, and therefore how we should transform our industrial policies.

I hope that you will be able to visit the UK again soon, and stay longer next time. I would be delighted to welcome you to Chequers.

Yours ever
Tony

His Excellency Mr Junichiro Koizumi

NOTE ON THE JAPANESE ECONOMY

In recent weeks, there have been almost daily reports in the press of bad economic news from Japan. **The purpose of this note** is to clarify the current situation and assess the impact on the UK and the wider global economy.

SUMMARY

- After years of stagnation, Koizumi promised rejuvenation through economic reform. Four months on and the reform progress has barely begun, whilst the Japanese economy has plunged into a severe recession. The recession will make significant reforms more painful and thus politically more difficult.
- An economic collapse is highly unlikely, but the longer reform is postponed the greater the dangers of a major crisis. The UK economy has some exposure to Japan, but the risks are much greater for other Asian economies.

DETAIL

1. Following Koizumi's victory in the LDP leadership elections in April this year, there was widespread optimism that Koizumi's rhetoric of economic and political reform could be turned into reality, lifting Japan out of a decade of economic stagnation (GDP growth averaged just 1.3% a year over the last ten years).

Reform progress

2. Koizumi has, in recent months, put some flesh on the bones of his economic reform programme. The reform programme has many elements but the most significant economically are reducing bad debts in the financial system and fiscal consolidation. These are discussed briefly below.
3. **Reducing bad debts:** Probably the key economic reform issue in Japan is the disposal of bad debts at Japanese banks. The exact amount outstanding is the subject of intense debate – the government claims there are bad debts of 33.5 trillion yen (\$280bn), defined as loans to firms that are in, or close to, bankruptcy. Independent estimates are in the range of ¥60 trn to ¥120 trn (\$1,000bn). Much of this amount is covered by collateral, but most of that collateral is in the form of property, the value of which has fallen by 50-70% since Japan's property bubble burst in 1990. As a result, the banks must record losses when writing off these debts, and yet the annual profits of the entire banking sector are only around ¥3trn.
4. The Yanagisawa Plan, which pre-dated Koizumi's election but was adopted by him, required banks to write off existing and new bad debts against profits over the next two to three years. This week, however, Yanagisawa (Head of Japan's Financial Services Agency) warned that rising levels of new bad debts mean that the problem

- may not be resolved until 2007 (which may be optimistic as the recession could create additional bad debts of ¥10trn to ¥20trn).
5. Resolving the bad debt issue quickly is widely seen as the most important element of the economic reform programme. The official admission that it will not be resolved before 2007 has led to calls for the government, calls to inject public money, but this would be very unpopular with the taxpaying public. It would also threaten one of Koizumi's key reform pledges to contain the fiscal deficit (see below).
 6. Reformers hope that reducing bad debts will not only restore the financial sector to health, but will also facilitate broader corporate restructuring – the banks will have to liquidate the debtors to claim the collateral, unproductive firms will go bust, allowing workers to move into healthier firms, helping the economy to grow. This obviously has a significant social cost in terms of transitional unemployment, with estimates of job losses ranging from 120,000 to 1 million.
 7. **Fiscal consolidation:** One of Koizumi's key reform pledges is to limit new government bond issues (ie, limit the fiscal deficit) to ¥30 trn (\$250bn) from next financial year (2001/02). The Japanese response to previous episodes of slowing growth has been to increase public spending, often spent on unnecessary infrastructure (the construction industry is a major supporter of the LDP). This has proved increasingly ineffective at generating sustainable economic growth, but has led to large fiscal deficits and a rapidly rising debt burden – with gross government debt equal to 120% of GDP, the Japanese government now has the highest gross debt in the OECD (as % of GDP). There is even some suggestion that the rising government debt is actually reducing growth because consumers realise that, as taxpayers, the government's debt is ultimately their own, and are thus spending less and saving more to compensate.
 8. Koizumi realises he cannot reverse this situation overnight, but his bond issue pledge is signalling his intention not to let the problem escalate uncontrolled. With the economy slowing, there is growing pressure for a supplementary budget, but Koizumi is hoping to adopt the bond limit this financial year as well, thereby limiting his scope for extra spending.
 9. In August, Koizumi announced a provisional budget for FY 2002, with 10% cuts in public works, overseas aid, defence, and other discretionary programmes, but re-allocating most of the savings to seven key policy priorities: education, the environment, IT, the ageing population, S&T, urban renewal and local development. The net reduction in government spending was ¥900 bn, but a further ¥2,400 bn will need to be found if the ¥30 trn limit is to be met, and more if the recession slows tax revenues more than expected.
 10. These **reforms are likely to weaken the economy**, at least in the short term. They would be challenging in a normal country in normal times, but they are being attempted in the middle of a severe recession, in a country with strong institutional inertia, where powerful factions within the ruling party are opposed to major elements of the reform programme.

The struggling economy

11. The Japanese economy registered no growth in the first quarter and figures due out soon are likely to show a significant fall in the second quarter. Overall growth this year is expected to be negative, even by the perennially optimistic IMF (forecasting a contraction of 0.2%). The **recession** is due to a combination of weak domestic demand and the global slowdown. Exports and industrial production are both down about 8% on a year earlier, with industrial output now at its lowest level for seven years. Unemployment reached a record 5% in August, as the construction sector contracts and corporate restructuring gets underway. Real unemployment is thought to be much higher due to widespread unregistered unemployment.
12. **Rising unemployment** and the lack of a comprehensive style safety net (one of Koizumi's reform projects) have contributed to consumer spending falling 2.7% in the year to July, to its lowest level for six years. Consumer sentiment has not been helped by Koizumi's frequent commitment to pursue his programme even if it causes short term pain.
13. **The stock exchange** has fallen over 40% since the beginning of 2000, reaching 17 year lows in recent days. This threatens further problems in the financial sector as a large proportion of Japanese banks' capital consists of shares. To make matters worse, from this September, banks will have to 'mark to market', using market prices when stating their assets in their accounts. Given the current low levels of property and share prices, this could have a devastating effect on their balance sheets.
14. Finally, **deflation** is continuing, with consumer prices falling 0.9% in year to August. Deflation has a number of negative effects:
 - the value of debts rises in real terms making debt repayment an increasing burden over time;
 - with prices falling, consumers postpone consumption expecting prices to be lower in the future; and
 - as nominal interest rates cannot fall below zero, negative inflation ensures that real interest rates cannot go below zero, thus constraining monetary policy.
15. Normally, a country in this situation would be frantically loosening macroeconomic policy to restore growth. But Japan's ability to relax policy is severely constrained. **Fiscal policy** is constrained by the rapidly escalating public debt and by Koizumi's pledge to limit new government bond issues.
16. **Monetary policy** is constrained by the independence of the Bank of Japan. The Bank has been resisting pressure to loosen policy, saying there is no point loosening policy until there has been significant progress on structural reform. This reflects concerns that monetary policy is no longer effective – interest rates are already at zero so cannot fall any further, and banks do not lack liquidity, they lack willing low-risk borrowers (new lending has fallen for the last three years).

17. The Bank of Japan did significantly loosen policy in August, most notably increasing by 50% its purchases of government bonds, financed by printing money. But this policy move only came when the Bank was faced with desperately bad economic figures and a rising chorus of calls for it to lose its independence. And, as discussed above, it may be of only limited effectiveness.
18. The sole remaining macroeconomic tool that can be utilised is **the exchange rate**. A major fall in the yen would help eliminate deflation (import prices would rise) and would help the competitiveness and profitability of the export sector. But the yen has remained remarkably stable in recent months and has even appreciated slightly against the dollar in recent weeks. Recent announcements from the Japanese government suggest they would like to see the yen weaken slightly, but they fear the financial consequences of a large depreciation – by increasing inflation, it could trigger a rise in market interest rates which could substantially worsen the debt burden for Japan's debtors, the largest of which is the Japanese government. It would also generate howls of protest from Japan's industrial competitors in the US and the rest of Asia.
19. In summary, the economic situation is dire and there is no easy way out.

What does it all mean?

20. Japan is clearly headed for a rough ride in the next year or so. A worst case scenario would involve a further economic deterioration, a surge in bankruptcies, the government forced to rescue the banking system, Koizumi breaks his pledge to curb the fiscal deficit, his opponents prevent major reform, and his popularity plummets. But a complete collapse is highly unlikely. The Japanese have enormous financial wealth which the government could tap if it needed to rescue the financial system.
21. A more likely outcome is that Koizumi will make some progress on reforms, the economy will stabilise (assuming recovery in the US), and Japan will continue to stumble from reform effort to recession and back again, failing to reach its economic potential.

Impact on the UK and wider

22. Japan is significant for the **UK economy**, but our exposure is limited. Japan is the UK's 10th largest export market, taking roughly \$5bn of our exports, 2% of the total. Japan is also an important investor in UK manufacturing which have already started to suffer from the global downturn.
23. The more significant impact is likely to be on the **rest of Asia**. Japan is a major export market for most Asian countries, and is also a major competitor with some of them. Weak demand and/or a weak yen will add to the problems facing these economies. Cuts in Japanese aid will also harm some of the poorer countries in the region.

24. Ultimately, Japan is the **world's second largest economy**, some countries are more exposed than others, but weak growth in Japan essentially constrains growth almost everywhere.

COMMENT

25. There are some parallels with the UK in the early 1980s – global economic recession combined with a weak domestic economy generates a recession. Unemployment soars to record levels amidst fears of a hollowing out of manufacturing as traditional industries decline and production moves to cheaper locations. In the face of all this, Thatcher tightened both fiscal and monetary policy and pushed forward with a radical domestic reform agenda. Will Koizumi do the same? Japan is very different from the UK – the barriers to change in the Japanese bureaucracy and political system are arguably more difficult to overcome than were the unions for Thatcher.
26. An important lesson from this analogy is that, even with a determined and powerful leader, it took the UK at least ten years to transform the economy, at the short term cost of massive economic pain. The Japanese people realise the need for change, and even seem ready to accept some degree of pain, but will they support Koizumi for the long haul?
27. Should Koizumi push his reforms in spite of the slowing economy? He probably should. He currently has massive popular support (70% ratings in the polls) which will help him to overcome the serious barriers he faces, but these ratings are surely unlikely to last through a severe recession. Waiting will condemn Japan to more years of economic underperformance, and the longer they wait, the harder it will get – government debt is rising inexorably, the population is rapidly ageing, and the competition (primarily from China) is getting more intense.

Japan economic factsheet

Year 2000 data	JAPAN	UK
Nominal GDP (billion USD)	4,753	1,415
Population (millions)	126.6	59.5
Nominal GDP per head (US\$)	37,558	23,800
GDP per head (\$ at PPP)	26,447	24,100
Exports of goods & services (% of GDP)	10.8	27.2
Agriculture (% of GDP)	1.5	1.1
Industry (% of GDP)	28.4	28.1
Services (% of GDP)	70.1	70.8

Source: EIU country data for 2000

Note: where actual figures are not available, we have used the latest estimates

1999 Main Exports (% share)	1999 Main trading partners (% share)
1. Motor vehicles (16.1)	1. US (31.0)
2. Integrated circuits (7.7)	2. China (5.6)
3. Office Machinery (7.6)	3. South Korea (5.5)
4. Chemicals (7.3)	4. Hong Kong (5.3)

Source: EIU country data

Indicator	1996	1997	1998	1999	2000	2001(f)
GDP (% change pa)	3.3	1.9	-1.1	0.8	1.5	-0.6
Budget balance (% of GDP)	-4.9	-3.8	-5.5	-7.0	-6.3	-7.6
Exchange rate JPY:US\$ (av)	108.781	120.9920	130.905	113.908	107.766	123.000
Real exchange rate (% change)	-16	-5	-2	13	7	-14
Inflation rate (%)	0.1	1.7	0.6	-0.3	-0.7	-0.4
Recorded unemployment (%)	3.4	3.4	4.1	4.7	4.7	4.8
Current account (% of GDP)	1.4	2.2	3.1	2.4	2.5	1.9
Inward direct investment (\$b)	0	3	3	12	8	7
Debt-service (% of exports)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deposit interest rate (%)	0.3	0.3	0.3	0.1	0.1	0.1.

Source: EIU country data

UK Bilateral Interests

	Amount	% of total UK
UK exports of goods and services (1999) <i>Source: IMF Direction of Trade Statistics</i>	\$5,341m	2.0%
UK commercial creditors liabilities (2001) <i>Source: BIS, Bank of England website</i>	\$17,285m	3.0%
UK stock of FDI in country (1999) <i>Source: ONS, MA4 tables</i>	£1,996m	1.6%



British Embassy
Tokyo

From the Ambassador
Sir Stephen Gomersall
No. 1, Ichibancho
Chiyoda-ku, Tokyo 102-8381
Office Tel. +813 5211 1100
Office Fax. +813 5211 1111

22 August 2001

Ms Anna Wechsberg
No 10 Downing Street

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cc: AW
LL
Mo

Dear Anna,

It was good to see you again in London last month. We are incidentally pursuing as hard as we can the proposals in the Prime Minister's letter to Koizumi. The visit of the Minister for Administrative Reform in September will be an opportunity for a policy exchange.

As you may know, the Japanese Nikkeiren (roughly the equivalent of the CBI) are planning a study tour to the UK and Ireland in November this year. The tour will be led by its Chairman, Mr Hiroshi Okuda, also Chairman of Toyota and the leading businessman in Japan who is a fairly forthright character with whom we had dealings last year when one of Toyota's Directors made threatening noises about the UK and the Euro. Mr Okuda is also one of the four private sector members of the new Council on Economic and Fiscal Policy which is setting the economic policy agenda in Japan, and therefore a very influential figure.

Mr Okuda will be accompanied by the Chairmen of several major Japanese companies including Fujitsu (a leading investor in the UK), Fuji Bank, Nippon Steel etc. The group will be investigating several issues including economic and education policy, the Euro and UK immigration policy.

The Nikkeiren have requested a short meeting with the Prime Minister and if he can find the time, I would recommend that he do it. What the Prime Minister can say on the importance of inward investment, the strengths of UK economic and education policy and in response to Japanese concerns about the Euro, will be guaranteed to get back into the Japanese press and business circles.

The team hope to be in the UK from the 14-17 November but are willing to be flexible in their timing in order to be able to meet with the PM. *They are also requesting calls on the Chancellor and Governor of the Bank of England.*

Yours ever
Stephen Gomersall
Stephen Gomersall

MP
15/8/01
EMBASSY OF JAPAN

LONDON

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seen, or file.

Amey
6/8

1st August 2001

Dear Lord Chancellor,

I am asked by Mr. Hiroshi Kitamura, Head of the Official Suite of The Crown Prince, on the occasion of the visit of His Imperial Highness to the United Kingdom, to forward to you his letter, together with a translation, which I have the pleasure to enclose herewith.

Yours sincerely,



Sadayuki Hayashi
Ambassador

The Rt. Hon. The Lord Irvine of Lairg,
Lord Chancellor,
London.

THE CROWN PRINCE'S HOUSEHOLD

MOTOAKASAKA, MINATO-KU
TOKYO, JAPAN

拝啓

5月の皇太子殿下の英国ご訪問に際しましては、エリザベス女王陛下、チャールズ皇太子殿下及び貴大法官をはじめ貴国の皆様から格別のご配慮を頂き、首席随員として心より感謝申し上げます。

さらに、貴大法官におかれては、ご多忙にもかかわらず、英国政府を代表して夕食会を主催いただき、殿下を暖かくもてなして下さいました。殿下は、貴大法官とともに和やかに過ごした夕食のひとつときを楽しまれておりました。

また、私は、殿下が英国の王室や政府の方々との親交に加え、レセプションでの民間各界の方々との出合いや、ハイドパークでの「祭」等で一般の人々との温かい交流を大切にされる殿下のご様子を近くで拝見しました。今回のご訪英は過去400年の間に培われた両国の友好の歴史を礎とし、新世紀に一層強化されるであろう両国の親善関係の将来に大きな期待を抱かせる素晴らしい機会となったと確信しています。ここに、ご訪英の成功に貢献された英国の全ての方々に改めて御礼申し上げたいと思います。

貴大法官の益々のご健勝とご活躍をお祈り申し上げます。

敬具

THE CROWN PRINCE'S HOUSEHOLD
MOTOAKASAKA, MINATO-KU
TOKYO, JAPAN

平成13年7月1日

皇太子殿下御訪英首席随員

北村 汎

連合王国大法官

アーヴィン・オブ・レアーグ卿 閣下

(Translation)

1 July, 2001

Dear Lord Chancellor,

As Head of the Official Suite on the occasion of the visit of His Imperial Highness The Crown Prince of Japan to the United Kingdom in May, I should like to express my heartfelt gratitude for the exceptional consideration given by Her Majesty The Queen, His Royal Highness The Prince of Wales, and by the government and people of the United Kingdom.

His Imperial Highness was most appreciative of your kindness and courtesy in hosting the dinner on behalf of the British government at Lancaster House, even though your schedule was very crowded. He greatly enjoyed your very kind hospitality, and the warm and amicable atmosphere of the occasion.

I was honoured to observe that His Imperial Highness cherished not only His friendship with the members of the Royal Family and with your government but also the heart-warming encounters with people from every walk of life at both the receptions and at the 'Matsuri' in Hyde Park. I believe that this truly remarkable visit will ensure that our friendship will be further enhanced in the new century, building on the friendship which began four hundred years ago. Let me thank again those in the United Kingdom who contributed to the success of the visit.

I wish you great success in your future endeavours.

Yours sincerely,

/s/

Hiroshi Kitamura
Head of the Official Suite of
The Crown Prince

The Rt. Hon. The Lord Irvine of Lairg,
Lord Chancellor,
London.

24 July 2001



file

London SW1A 2AH

AW
C: JB
JS

Dear Anna,

I wrote to you on 9 July suggesting that the Prime Minister write to the Japanese Prime Minister Koizumi to follow up their talks in London on 2 July. Since then Koizumi has written a note of thanks to the Prime Minister.

... I recommend that the Prime Minister still write to Koizumi, and enclose a slightly amended draft. The substance remains the same: a meeting between policy advisers; the 21st Century Group; and a Prime Ministerial statement on information and communications technology. We have dropped the reference, now overtaken, to the Deputy Prime-Minister's visit to Japan. You will want to determine the possible dates for policy adviser talks; there are no particular constraints on the Japanese side after the summer break.

I am copying this letter to Bernadette Kelly, PPS/Ms Hewitt.

Yan ever,
Patrick

(Patrick Davies)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

Draft Letter from the Prime Minister to Japanese Prime Minister

Thank you for your letter of 13 July. I, too, enjoyed our talks on 2 July, and it was good to see you again in Genoa. I was interested to hear on both occasions about your plans for Japan. I have been struck by how many challenges are common to Britain and Japan and believe there is much we can learn from each other.

As I said when we met in London, I do hope that policy advisers from both our offices might meet to exchange ideas. We might focus initially on some of the priority areas you identified during our meeting: new approaches to public finance, including privatisation; reform of public services; competition and deregulation, including in financial services; and simpler and more effective government. On my side I could make a team available in November [?] who would be delighted to welcome their opposite numbers to London. Do let me know whether this might suit you and, a little nearer the time, whom you might like to send to the UK and what areas they would like to cover.

The UK-Japan 21st Century Group has a significant role to play in strengthening our relations. We agreed at our meeting that we need to re-energise the group so that it can focus its agenda on issues of interest to us both. I am confident that Peter Mandelson, a close and trusted friend, will be successful in doing this at the UK end, and look forward to hearing from you about your plans for the Japanese side.

We touched briefly on trade and investment between our two countries. New communications technologies are transforming the environment for business

and government. Japanese and British companies are world leaders in this field. We share an interest in working together to reap the maximum benefits from these new technologies. My new Secretary of State for Trade and Industry, Patricia Hewitt, established a good foundation for cooperation when she met Mr Hiranuma and Mr Katayama earlier this year. I would like to build on this. If you agree, I suggest we should work together to agree a joint statement setting out a vision for how we see new information and communications technologies transforming the way business operates, and therefore how we should transform our industrial policies.

I hope that you will be able to visit the UK again soon, and stay longer next time. I would be delighted to welcome you to Chequers.

Jonathan Thomson
NEAPD
Tel : 7270 2956

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

A
 doc: JPo
 JJH
 AW
 MT
 Press

From the Private Secretary

20 July 2001

Dear Simon,

**THE PRIME MINISTER'S TALKS WITH PRESIDENT BUSH,
CHEQUERS 19 JULY**

JAPAN

President Bush asked the Prime Minister about his impressions of the new Japanese Prime Minister, pulling a quizzical face as he did so. The Prime Minister agreed that Koizumi was a character. But the real test was whether he would be able to deliver reform. He would need a lot of support after the Japanese elections, if he was to do that. Bush agreed. The US estimated that bad debts in Japan amounted to some \$10 trillion, ten times the Japanese estimate. If Koizumi did the right thing, his popularity levels would fall from 85 per cent to 5 per cent before recovering. The US Treasury Secretary Paul O'Neill, had told the Japanese in his usual blunt manner that they should identify and write off all their bad debt and open their doors to the US, UK and other foreign investment. Bush cited the experience of banks in Texas which used to be all locally owned. Now none of them were, but the Texas economy was booming and no-one much cared who owned the banks.

I am copying this letter to Tom Scholar (HMT), Christopher Meyer (Washington), Steven Gomersall (Tokyo), and Richard Abel (Cabinet Office).

Yours ever,

JOHN SAWERS

Simon McDonald
FCO

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

He
bc Nicki Archer,
FCO.

16 July 2001

THE PRIME MINISTER

Dear David,

I understand that, after eleven years, you are stepping down as Chairman of the UK-Japan 21st Century Group. I wanted to thank you for all you have done for the Group. Your enthusiasm and energy have played an important role in strengthening non-governmental links between Japan and the UK.

I am delighted that Peter Mandelson has agreed to chair the Group as your successor and to continue your work in developing closer ties with Japan across the whole range of our shared interests. I took the opportunity of Prime Minister Koizumi's visit to mention this to him, and he agreed to look for a good new Chairman for the Japanese Group, which I know has recently been the weak link.

I know I speak for many when I say that you will be missed as Chairman of the 21st Century Group. But I hope that you will continue to be involved in the Group's activities. Thank you again for all you have done.

Yours ever
Tony

The Right Honourable The Lord Howell of Guildford

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Copy in DCO
In Box
SUPER
MASTER
Red 275



cc JTH

10 DOWNING STREET
LONDON SW1A 2AA

31 July 2001

THE PRIME MINISTER

Dear Prime Minister,

Thank you for your letter of 13 July. I, too, enjoyed our talks on 2 July and it was good to see you again in Genoa. I was interested to hear on both occasions about your plans for Japan. I have been struck by how many challenges are common to Britain and Japan. I believe there is much we can learn from each other.

I am keen to follow up on the proposal, which we discussed in London, that policy advisers from both our offices meet to exchange ideas. We might focus initially on some of the priority areas you identified during our meeting: new approaches to public finance, including privatisation; reform of public services; competition and deregulation, including in financial services; and simpler and more effective government. We would be delighted to welcome your team to London later in the year, if that suits you.

The UK-Japan 21st Century Group has a significant role to play in strengthening our relations, and I am delighted that Peter Mandelson will take the lead at the UK end. I believe we need to re-energise the group so that it can focus its agenda on issues of interest to us both. I look forward to hearing about your plans for the Japanese side.

eu

We touched briefly on trade and investment between our two countries. New communications technologies are transforming the environment for business and government globally. Japanese and British companies are world leaders in this field. We share an interest in working together to reap the maximum benefits from these new technologies. The Secretary of State for Trade and Industry, Patricia Hewitt, established a good foundation for co-operation when she met Mr Hiranuma and Mr Katayama earlier this year. I would like to build on this. If you agree, I suggest we should work together to develop our vision for how we see new information and communications technologies transforming the way business operates, and therefore how we should transform our industrial policies.

I hope that you will be able to visit the UK again soon, and stay longer next time. I would be delighted to welcome you to Chequers.

Yours ever
Tony

His Excellency Mr Junichiro Koizumi

**Top papers with the
Prime Minister**

Date 26-7-01

KOIZUMI

DW PPS

GR
Ⓣ please. A 25/7

Draft Letter from the Prime Minister to Japanese Prime Minister

Thank you for your letter of 13 July. I, too, enjoyed our talks on 2 July, and it was good to see you again in Genoa. I was interested to hear on both occasions about your plans for Japan. I have been struck by how many challenges are common to Britain and Japan, ^I and believe there is much we can learn from each other.

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~~As I said when we met in London, I do hope that policy advisers from both our offices might meet to exchange ideas. We might focus initially on some of the priority areas you identified during our meeting: new approaches to public finance, including privatisation; reform of public services; competition and deregulation, including in financial services; and simpler and more effective government. On my side I could make a team available in November [?] who would be delighted to welcome their opposite numbers to London. Do let me know whether this might suit you and, a little nearer the time, whom you might like to send to the UK and what areas they would like to cover.~~

We would be delighted to welcome your team in London late in the year, if that suits you.

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Jonathan Thomson
NEAPD
Tel : 7270 2956

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Jonathan Thomson
NEAPD
Tel : 7270 2956

EMBASSY OF JAPAN
LONDON

PRIME MINISTER
CORRESPONDENCE
19 JUL 2001

18th July 2001

cc Patrick Davies

This came in before the PM had a chance to write. If you think he needs to reply (eg picking up on the policy advisers point), we'll need a draft by Wednesday at the latest.

Amey
23/7

Dear Prime Minister,

I have been asked by Prime Minister Junichiro Koizumi to forward to you the text of his letter, together with a translation, which I have pleasure in enclosing herewith.

Yours sincerely,

Sadayuki Hayashi
Ambassador

Dr ^{SKP} 25/7/01 See attached

ph check with Patrick on Weds whether he does have a draft letter for us, + bf to me.

Amey
24/7

The Rt. Hon. Tony Blair, MP,
Prime Minister, First Lord of the Treasury,
and Minister for the Civil Service,
LONDON.

GR

to go with
the draft PM
letter.

Amey
25/7

JS
GAW
Jb
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Jm

✓ Jh

拝啓

先日、たいへん懐かしい英国を訪問し、貴首相との間で、会談とワーキング・ランチを通じ、たいへん暖かい雰囲気の中で様々な問題について意見を交換し、個人的な関係を築くことができたことは、私にとって極めて有意義でありました。貴首相に心より感謝申し上げます。

会談でもお伝えしましたように、私の最大の役割は日本経済を再生させることです。その関連で、今回貴首相から英国自身の改革についての経験や今後の取り組みを紹介いただくとともに、私の改革への支持をいただいたことは、私のこれからの改革への取り組みにとって参考になるとともに、大いに勇気づけられるものでした。

私は、今回の英国訪問で、貴首相と率直な意見交換を行い、日本が国際社会の中でふさわしい貢献ができる道を模索したいと考えておりました。京都議定

書やミサイル防衛計画をはじめとする重要な国際問題について、貴首相と意見交換を行い、今後とも両国が協力していくことで意見の一致をみたことは、一つの主要な成果であります。

また同時に、JETプログラムの関係者とも会う機会を得て、自分が一議員として立ち上げに尽力したこの制度が、両国の若い世代の交流の活発化という良い成果を生んでいるのを確認することができ、大変嬉しく思いました。さらに、現在貴国で開催されているJapan 2001をはじめとする様々な事業を通じて、今後とも日英両国の関係が強化されていくものと確信しております。

今月のジェノヴァ・サミットやその他の機会においても貴首相とお会いし、共に関心を有する課題の解決のために一緒に働くことができる機会を心待ちにしております。

敬具

平成十三年七月十三日

日本国内閣総理大臣

小泉純一郎

連合王国首相

トニー・ブレア 閣下

RECEIVED
MASTER

(translation)

13 July, 2001

Dear Prime Minister,

It was a great joy for me to visit your country, of which I have such fond memories, to discuss various issues with you during our meeting and working lunch, held in a very hospitable atmosphere, and to build our personal relationship. I would like to express my heartfelt appreciation to you.

As I explained to you at the meeting, my top priority is to revitalize the Japanese economy. In this context, your explanation of the United Kingdom's experience of reform and its future plans in this regard was very helpful, and your support for my reforms was most encouraging.

I was looking forward to seeking ways in which Japan can make its due contribution to the international community through a candid exchange of views with you during my visit. One of our major achievements was that, following our discussions of such important international issues as the Kyoto Protocol and the Missile Defense Programme, we agreed on our cooperation.

I also had an opportunity to meet some people involved in the JET Programme and was delighted to see that this Programme, which, as a parliamentarian, I made efforts to initiate, is achieving good results of active exchange between the young generations of our two countries. Moreover, I am convinced that the relationship between Japan and the United Kingdom will be further strengthened through such initiatives as "Japan 2001" which is now being held in your country.

I look forward to meeting and working with you at the forthcoming G8 Summit and on other occasions, to tackle issues of mutual interest.

Yours sincerely,

/s/

Junichiro Koizumi
Prime Minister of Japan

The Rt Hon Tony Blair, MP
Prime Minister, First Lord of the Treasury
and Minister for the Civil Service

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MASTER

Rec'd by fax ✓
file

MT
cc AW

EMBASSY OF JAPAN

LONDON

PRIME MINISTER
RESPECTIVE
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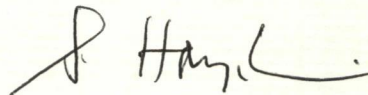
01 AUG 2001

1st August 2001

Dear Prime Minister,

I have been asked by Prime Minister Junichiro Koizumi to forward to you the original of his letter, a copy of which was sent to you on 18th July 2001, which I have pleasure in enclosing herewith.

Yours sincerely,



Sadayuki Hayashi
Ambassador

The Rt. Hon. Tony Blair, MP,
Prime Minister, First Lord of the Treasury,
and Minister for the Civil Service,
LONDON.

(translation)

13 July, 2001

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/s/

Junichiro Koizumi
Prime Minister of Japan

The Rt Hon Tony Blair, MP
Prime Minister, First Lord of the Treasury
and Minister for the Civil Service

の中でふさわしい貢献ができてくる道を模索したいと考えておりまして。京都議定
私は今回の英国訪問で、貴首相と率直な意見交換を行い、日本が国際社会
からこれからの改革への取り組みにとつて参考になるものも大いに勇気づ
けられるものでした。

取り組みをご紹介いたしたく、私の改革への支持をいただいたことには、
私のお伝えしましたように、私の最大の役割は日本経済を再生させること
とです。その関連で、今回貴首相から英国自身のことについて経験や今後の
会談でもお伝えしましたように、私の最大の役割は日本経済を再生させること
に上りたいと思えます。

個人間的な関係を楽しむ、個人的な関係を楽しむ、個人間的な関係を楽しむ、
グ・ラッチを通じて、たいへん暖かい雰囲気の中で様々な問題について意見を交
先日、たいへん懐かしい英国を訪問し、貴首相との間で、会談とワーカーキ

拜啓

敬具

しております。

共に関心を有する課題の解決のための一緒に働くことができ、機会を心待ちに
今月（ジュネーブ・サミット）の他の機会においても貴首相と機会をお会いし、
す。

業を通じて、今後とも日英両国の関係が強化されていくものと確信しております
に、現在貴国で開催されるJAPAN 2001をはじめとする様々な事
良い成果を生んでいるのを確認するところですが、大変嬉しく思いました。さら
として立ち上げに尽力したこの制度が、両国の若い世代の交流の活性化とい
また同時に、JETP、プログラムの関係者とも会う機会を得て、自分が一議員
一つの主要な成果であります。

交換を行い、今後とも両国が協力していくことで意見の一致をみたことは、
書やサミット、防衛計画をはじめとする重要な国際問題について、貴首相と意見

小背純一郎

日本国内閣総理大臣

平成十三年七月十三日

連合王国首相
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9 July 2001



Foreign &
Commonwealth
Office

London SW1A 2AH

Handwritten initials: "C" inside a circle.

Handwritten notes: "Amad", "(1.2)", "Slo", "u".

Dear Anna,

Thank you for your letter of 2 July recording the Prime Minister's talks and lunch with Japanese Prime Minister Koizumi on the same day.

Several areas for follow up require further work on the Japanese side. A short letter from the Prime Minister to Koizumi may be the best way to give this a push: Koizumi will be preoccupied on his return to Japan with the Upper House elections on 29 July; an early letter would give his officials something to focus on. The letter could be delivered when the Deputy Prime Minister calls on Koizumi in Tokyo on 11 July. I enclose a draft, covering the following points:

- meeting between policy advisers: Koizumi has undertaken to think about who would be best on his side. An indication of participants on the UK side would help to pin this down if you can give it; if not, the letter will work as drafted. We suggest we focus initially on the priority areas identified by Koizumi: new approaches to public finance; social safety nets; and competition and regulation.
- 21st Century Group: Koizumi will be thinking of a candidate on the Japanese side; a mention of Peter Mandelson's acceptance on the UK side will help focus his attention on this.
- invitation to Chequers: the Prime Minister may wish to confirm this invitation, and if agreed, mention the possibility of a visit to Japan next year.
- climate change.

The letter also includes one final area not directly mentioned by Prime Ministers during the meeting, but which the DTI are keen to take forward: the idea for a Prime Ministerial statement on information and communications technology (ICT), to be announced either later this year, or during a visit next year if the Prime Minister visits Japan. Patricia Hewitt wrote to the Prime Minister in April proposing this, following her visit to Japan as e-commerce Minister in January. The Prime Minister agreed that we should pursue this. The joint statement would



set out how both Prime Ministers saw the new communication technologies – the internet, 3G mobile communications, and digital TV – transforming the environment for business, consumers and citizens, and how both governments are incorporating this dimension into their policies for structural economic reform. The statement would help develop our overall relationship with the Japanese at political level; position us as a key economic and political partner in Europe in ICT and e-commerce; give a strong signal of support for Koizumi's reforming efforts; and help focus more of Koizumi's reforming zeal on to this important underpinning sector of the economy, which so far has been a bit lacking.

I am copying this letter to PS/Deputy Prime Minister and PS/Ms Hewitt.

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms A Wechsberg
10 Downing Street



Foreign & Commonwealth Office

London SW1A 2AH

9 July 2001

file - spoke to
Pawelch - said can't
be signed tomorrow -
his check; we've
it's really necessary to
send this anyway.

AJ
7/7

AW
CJB
JS
RK
JJH

Dear Anna,

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I am copying this letter to PS/Deputy Prime Minister and PS/Ms Hewitt.

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms A Wechsberg
10 Downing Street

Draft Letter from the Prime Minister to Japanese Prime Minister

I wanted to say how much I enjoyed our talks on 2 July and hearing about your plans for Japan. I was struck by how many challenges are common to Britain and Japan and believe there is much we can learn from each other.

As I said when we met, I do hope that policy advisers from both our offices might meet to exchange ideas. ^{they} ~~We~~ might focus initially on some of the priority areas you identified during our meeting: new approaches to public finance, including privatisation; reform of public services; competition and deregulation, including in financial services; and simpler and more effective government. My team would be delighted to welcome their opposite numbers to London ~~in~~ ^{later in the year.} ~~November~~ (2). Do let me know whether this might suit you and, a little nearer the time, whom you might like to send over and what areas they would like to cover.

We agreed at our meeting that we need to re-energise the UK-Japan 21st Century Group so that it can focus its agenda on issues of interest to us both. I am confident that Peter Mandelson, a close and trusted friend, will be successful in doing this at the UK end, and look forward to hearing from you about your plans for the Japanese side.

We touched briefly on trade and investment. New communications technologies are transforming the environment for business and government. Japanese and British companies are world leaders in this field. We share an interest in working together to reap the maximum benefits from these new technologies. My Secretary of State for Trade and Industry, Patricia Hewitt, established a good foundation for cooperation when she met Mr Hiranuma and Mr Katayama earlier this year. I would like to build on this. If you agree, I suggest we should work together to agree a joint statement setting out a vision for how we see

new information and communications technologies transforming the way business operates, and therefore how we should transform our industrial policies.

I am delighted that you will see John Prescott during his visit to Tokyo on 11 July to take forward our exchange on climate change. As I said when we met, I fully appreciate Japan's key role on this issue. I hope the efforts you are making to explore common ground with the US will bear fruit. At the same time, it is important that momentum is maintained in the international negotiations and that real progress is made at the forthcoming talks in Bonn. I know that John will wish to discuss what we can do to achieve this, including by making use of the G8 Summit in Genoa.

I hope that you will be able to visit the UK again soon, and stay longer next time. I would be delighted to welcome you to Chequers. In the meantime, I look forward to seeing you in Genoa.

Beverley Darkin
EPD
Tel: 7270 3917

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4.55
JB
LC

Foreign &
Commonwealth
Office

London SW1A 2AH

134369
6 July 2001

Dear Anna,

Japanese Language Studies in the UK

Summary

Japanese language studies increasing in secondary schools. Declining popularity at university level likely to be reversed when Japan emerges from its years of economic stagnation. JET programme and e-links project give our young people a better knowledge of Japan than ever before. The Youth Exchange Scheme will also help develop knowledge and language skills.

Detail

In your letter of 22 May recording the Crown Prince of Japan's call on the Prime Minister, you asked for a note on Japanese language studies in Britain.

Secondary Education

Japanese is now a National Curriculum foreign language option. **300 secondary schools** in the UK teach Japanese to around **8,000 pupils** (the figure has doubled in three years). There are close to **300 teachers** of Japanese at secondary level, a third of whom are native speakers. The school with the largest number of pupils taking Japanese is Tavistock College in Devon with 1,034 pupils; the second is Penrice School in Cornwall with 570; the third, Sir John Colfox School in Dorset with 407 (it is not clear why they are clustered in the South West). A further seven schools have over 100 students learning Japanese.

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Higher and Further Education

3,500 students are studying Japanese at **53 higher education institutions** in the UK - about **500** of these as part of a degree course (80 as a single major, 210 as a minor, 210 as part of a joint degree). Our main higher education centres of Japanese studies are at Cambridge, Oxford, SOAS, Leeds and Sheffield. There are **around 200 teachers** of Japanese in the higher education system, of whom over half are native Japanese speakers. There are another **4,500 students** of Japanese at **126 further education and specialist colleges** throughout the UK.

Japanese language studies at higher education level have lost some of their appeal, according to those running the courses. Not all the contributory factors are Japan-specific. But the cost of undertaking a study tour, or third year abroad, in Japan is high. And Japan is not as exciting or fashionable as it was in the 1980s. Japan's long period of economic, and political, stagnation is partly to blame. Sustained economic recovery may reverse the trend; the Koizumi effect, too, may help. The Japan 2001 Festival is also raising awareness of contemporary Japanese culture throughout the UK.

There are a number of other schemes to encourage young people to get to know Japan which help to develop language skills:

JET Programme

The Japanese Government's Japan Exchange and Teaching (JET) programme has been a great success. This allows graduates to work as language teaching assistants in schools the length and breadth of Japan for up to three years. There are currently over **1,300** Britons participating in the JET programme, making it the largest single employer of British graduates in the world. This number has doubled in five years and continues to grow. Former JETs tend to be high achieving and find employment across the private and public sectors in Britain and Japan, spreading a knowledge of, and enthusiasm for, Japan in many different ways and fields. The FCO employs a growing number of JET graduates. JETs would typically end up with good spoken Japanese.

E-links

This British project brings together electronically **65 secondary schools in Japan and 65 in the UK**. It was established by the FCO and British Council, in April 2000, to put secondary school pupils into direct contact with one another. It provides participants with direct insights into each other's countries and everyday lives, challenging stereotypes and creating sustainable partnerships and indeed

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friendships. Through the scheme, young people have been able regularly to exchange information about their lives and culture. Two e-linked schools are now looking into the possibility of an exchange visit. Another 20 schools in each country should be e-linked by the summer and an e-link website will be launched in the autumn to provide up-to-date information on the activities of e-link schools for both pupils and teachers. We hope that this will stimulate interest in Japanese language studies.

Youth Exchange Scheme

A new Youth Exchange Scheme came into effect in April 2001. The Scheme allows 400 young people from Britain, and 400 from Japan, to spend up to a year in each other's country on a "working holiday".

Teacher Exchanges

From this autumn, the British Council and DfES are to start teacher exchanges between the UK and Japan under the Teachers International Development Programme. Teachers from the UK will be encouraged to look at areas such as the teaching of literacy and numeracy. Japanese teachers are likely, when in the UK, to concentrate on issues such as school management, bullying and truancy, and the teaching of citizenship.

Comment

There is much more going on now than ever before. Much of this activity was stimulated by the economic achievements of Japan in the 1980s. The real benefits should be felt when the Japanese economy picks up again; we shall be much better placed to take advantage of future opportunities. In the meantime, we shall continue our support for all these activities and to look for new opportunities to increase familiarity with Japan in Britain, so that people increasingly think of it as a country with which to interact and do business.

I am copying this letter to Bernadette Kelly (Department of Trade and Industry) and Mike Wardle (Department of Education and Skills).

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms Anna Wechsberg
10 Downing Street

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Tomiko Ichikawa

First Secretary

Embassy of Japan
101-104 Piccadilly
London W1J 7JT

Tel: (44-20)7465-6725(direct)
Fax: (44-20)7491-9348
e-mail: tomiko.ichikawa@mofa.go.jp

在連合王国日本国大使館

一等書記官 市川とみ子

電話:(44-20)7465-6725(直通)

FAX:(44-20)7491-9348

e-mail:tomiko.ichikawa@mofa.go.jp



Daisuke Tsuchiya

SECOND SECRETARY
POLITICAL SECTION

EMBASSY OF JAPAN
101-104 PICCADILLY
LONDON W1J 7JT

Tel. 020-7465-6682

Fax. 020-7491-1641

e-mail: daisuke.tsuchiya@mofa.go.jp

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上

一等書記官

在連合王國日本國大使館



DLO
 ph cc to
 storm 206
 HQ,
 + bkm.

Amey
 28/6

10 DOWNING STREET

cc: Fiana Miller
 DC
 custodians.

Anna

koizumi visit 2 July

Ray, Marcus to I met the ¹²³⁰⁻₁₄₀₀
 recee team today & let them
 view photo op's locations,
 white room & SDR as requested.
 I attach the lists of names
 they provided for the
 meeting & the lunch. Also
 details of the extras
 accompanying.

The two principle contacts
 are per business cards attached.
 Fiana - They would appreciate
 sight of the table plan prior
 to 2 July if this is
 possible.

Ros
 28/6

List of Members of the Japanese Delegation to Attend

Meeting with Prime Minister Blair on 2 July

H.E. Mr. Junichiro KOIZUMI Prime Minister

The Hon. Shinzo ABE Deputy Chief Cabinet Secretary

H.E. Mr Sadayuki HAYASHI Ambassador, Embassy of Japan

Mr. Yoshiji NOGAMI Deputy Minister for Foreign Affairs

+ Interpreter - Yutaka, ARIMA Official, Ministry of Foreign Affairs

Handwritten signature

List of Members of the Japanese Delegation to Attend

Working Lunch with Prime Minister Blair on 2 July

H.E. Mr. Junichiro KOIZUMI Prime Minister

The Hon. Shinzo ABE Deputy Chief Cabinet Secretary

H.E. Mr Sadayuki HAYASHI Ambassador, Embassy of Japan

Mr. Ryozo KATO Deputy Minister for Foreign Affairs

Mr. Yoshiji NOGAMI Deputy Minister for Foreign Affairs

Mr. Kazuyoshi URABE Assistant Cabinet Secretary

+ Interpreter.

**List of Members in the Japanese Delegation to be on
Standby Inside 10 Downing Street on 2 July**

Mr. Kyoji KOMACHI **Director-General, European Affairs Bureau,
Ministry of Foreign Affairs**

Mr. Koro BESSHO **Executive Assistant to the Prime Minister**

Mr. Tsutomu HIMENO **Director, Second West Europe Division,
European Affairs Bureau, Ministry of Foreign Affairs**

Mr. Shinichi ASAZUMA **Executive Assistant to the Deputy Chief
Cabinet Secretary**

Mr. Masashi MIZOBUCHI **Cabinet Official**

Mr. Akira SEKIOKA **Security Police/ Police Inspector**

Mr. Takashi MOROKI **Security Police/ Police Inspector**

Ms Tomiko ICHIKAWA **First Secretary, Embassy of Japan**

Miss Noriko KOMIYA Official Photographer

27. JUN. 2001 12:37

JAPANESE EMBASSY

NO. 8147 P. 1

Duty clerk

Embassy of Japan, 101-104 Piccadilly, London W1V 9FN

c: Custodians

FACSIMILE COVERING PAGE

AW

OUR FAX NO. +44-(0)20-7491-9348

No. of Pages
Incl. Covering Page : URGENT: YES/NO
Date : 27 June 2001
To Fax No : 020-7839-9044
For the Attention of: Ms Anna Wechsberg

From : Daisuke Tsuchiya
020-7465-6682
Email: daisuke.tsuchiya@mofa.go.jp
RE : Ms Anna Wechsberg

AW
could you give
the team a answer a
X, + advise someone
from the press side
(+ security ??) is
here tomorrow too
Leave the Japanese
have questions?

Dear Ms Wechsberg,

Thank you very much for giving us an opportunity to visit 10 Downing Street tomorrow at 14:00, in preparation for the Japanese Prime Minister Junichiro Koizumi's visit on 2 July. On instructions of our Political Minister, Kenjiro Monji, I am sending you a list of Japanese Embassy staff who would like to visit.

Anna
27/6

- Tomiko Ichikawa, First Secretary, Political Section
- Tomohisa Kondo, First Secretary, Political Section (Security)
- Masako Iso, Second Secretary, Culture and Information Section (Press)
- Daisuke Tsuchiya, Second Secretary, Political Section

In addition, if the following personnel could also join us, we should be grateful. But if there is any concern, we will fully respect it, so please do not hesitate to let us know.

X | Seiji Onodera, Deputy Director of Protection Division, Tokyo Metropolitan Police Department (Security)

I would be most grateful if you could give me a call to confirm that you have received this list.

Thank you for your consideration,


Daisuke Tsuchiya

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 July 2001

Dear Patrick

**JAPAN: PRIME MINISTER'S TALKS AND LUNCH WITH PRIME
MINISTER KOIZUMI**

The Prime Minister had talks and lunch with Prime Minister Koizumi here today. Koizumi was accompanied by Abe (Deputy Chief Cabinet Secretary), Hayashi (Ambassador) and Nogami (G8 Sherpa). Kato (Deputy Minister for Foreign Affairs) and Urabe (Assistant Cabinet Secretary) joined us for lunch. Jeremy Heywood, John Sawers, Stephen Gomersall and I were also there.

Japan, the US and Missile Defence

After enquiring about Leo and reflecting on the importance of parental love in the case of his own children, Koizumi began by expressing the deep trust he felt in the UK/Japan relationship. Japan's relationships with the UK and the US were both tremendously important; and good relationships between all three countries were important for the world as a whole. Japan could not act militarily alongside the US, as the UK could; but in all other ways the UK and Japan saw the US in the same light. Looking back over recent history, Koizumi said no good could ever come from undermining Japan's friendship with the US and UK.

Against this background, Koizumi described Japan's position on Missile Defence. Japan understood the US's desire to undertake research on MD. But deployment was quite a different question. He asked the Prime Minister for his views.

The Prime Minister said he absolutely agreed with Koizumi's analysis of the importance of good relationships between the UK, US and Japan. If these three countries stayed close, we could work most problems out between us. Being a strong player in Europe and bringing Europe and the US closer together were two key planks of UK foreign policy. Our relationship with Japan was the third plank. The Prime Minister emphasised how highly he valued the UK/Japan

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relationship. There was great goodwill towards Japan in Britain. Positive Japanese leadership could have a really positive impact on the world. That was one of the reasons why Britain supported a permanent Security Council seat for Japan.

On Missile Defence, the Prime Minister said we saw our role as helping the debate develop in a way which did not damage these important relationships. The US were right to raise WMD concerns, and it was sensible for them to develop defensive systems. But MD had to be taken forward in a way which was acceptable to the US's friends and allies.

Climate Change

Koizumi said the Kyoto Protocol was another key issue for the EU, Japan and the US. He very much wanted the US to participate in international action on climate change. He asked whether the Prime Minister believed there was any chance of President Bush accepting Kyoto? The Prime Minister said he thought it was now near impossible politically for Bush to accept the Kyoto Protocol. We needed to find a different way of engaging the US on the substance. But the UK position remained that we would ratify Kyoto.

Koizumi agreed there was little chance of the US participating in the Protocol as it stood. But he believed we could come up with something "within the spirit of Kyoto" in which the US, Japan and EU could all participate. We still had time to work up something like this, between COP6 and COP7. He had therefore agreed with Bush that their two Environment Ministers would meet to try to find a way forward. Koizumi said there was a strong feeling in Japan that if the US rejected Kyoto, the rest of the world should go ahead and ratify anyway. But Koizumi was not sure what that would achieve, and did not believe it was yet the right time to take such a decision.

The Prime Minister agreed. There was no point in doing something which would satisfy public opinion in the short term but do nothing to tackle the substantive problem. The Prime Minister's own assessment was that Bush himself wanted to take a more constructive line on climate change; but he would need to do a lot of political management to get there. So for now we should continue to affirm our support for the Kyoto process; keep up communications with the US; and gradually move towards a consensus on how to tackle climate change. There was already consensus on the objectives: the US had accepted that something needed to be done.

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Japanese economy and structural reforms

Koizumi said the greatest task he faced was revival of the Japanese economy. Japan in 2001 was suffering from the "British disease" of the 1970s/80s. People said they believed in a market economy, but in practice nothing had been done to tackle inefficient state-run organisations. The problem was that there were too many vested interests at stake. Koizumi's predecessors had been unwilling to take these interest groups on. But he himself had always looked towards the interests of the general public, not those of a handful of party members.

Koizumi said the majority of LDP members had initially opposed his proposed reforms. But once the ordinary public had made clear their support for reform, the LDP rank and file had come along too; and once they were supportive the LDP Diet members followed. In the end Koizumi believed all of the LDP would have to support his reforms. And if he faced too much opposition from within the party, he still had the power to dissolve the House of Representatives.

Koizumi's aim was to create simple, effective government. He wanted to privatise the three post office businesses, reform public services and redirect Government funds to more productive sectors. In the financial sector he would eliminate non-performing loans, improve disclosure and insist on proper provisioning. He was not asking for anything more from the public sector than he expected from the private sector. Koizumi recognised there would be short term pain for some people. But, he said (in English): no pain, no gain.

Discussion continued over lunch. The Prime Minister and Koizumi had an animated discussion about the challenges of pushing reforms through in the face of those who preferred the status quo. Koizumi described the difficulties of making policy under the old system of government: policy-making was bottom-up, and if anyone in the party was opposed to what was proposed they could block it. The Cabinet just couldn't get anything done. Under Koizumi's new system the Cabinet itself had made decisions on basic macroeconomic policy. There had been some resistance to this kind of top-down approach - but when people complained he pointed to the UK as an example of successful government with strong leadership from the top.

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The Prime Minister said we had much to learn from each other. Stephen Gomersall proposed that policy advisers in both Prime Ministers' offices might meet, perhaps in the Autumn, to take forward these discussions. Koizumi said this was an excellent idea. He would start thinking right away about who would be the best people on his side.

UK/Japan relations

As lunch continued, Koizumi waxed increasingly lyrical about his love for the UK. Britain was his second home. He remembered his student days in London with great affection: it was here that he had first discovered love, holding hands in Hyde Park (this prompted much laughter round the lunch table. The Prime Minister asked where Koizumi's girl was now. He said she was safely married). And it was here that he had first developed his political skills. His two years in the UK were the foundation of his political life. He was a huge admirer of Churchill – of his foresight and his determination to keep fighting when others were ready to give up. These were qualities Koizumi thought he would need himself when his 80% approval ratings inevitably started to fall!

The Prime Minister said Japan and the UK already had a very strong trade and investment relationship. But he was really keen for our relationship to be a strong political one too. Koizumi agreed, illustrating the point with a complicated anecdote about British-trained medics correctly identifying the cause of a common illness in Japan, and thus helping Japan win the Russo-Japanese war.

Koizumi spoke very warmly of the JET programme. The Prime Minister recalled meeting some JET participants – they were great young people. The Prime Minister mentioned also his proposal that Peter Mandelson should take over as UK chair of the UK-Japan 21st Century Group. Koizumi welcomed this, and said he would find someone of equal stature to chair the Japanese side. Koizumi also paid tribute on several occasions to Stephen Gomersall: Stephen's was the only Ambassadorial dinner invitation he had accepted after his election as LDP leader.

The Prime Minister said he hoped Koizumi would visit the UK again soon, and stay longer next time: he would be delighted to welcome him to Chequers – a house with many memories of Churchill. Koizumi said he would very pleased to do this.

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Comment

This was a genuinely warm meeting, with Koizumi on fine form: loquacious, animated, increasingly amusing as the lunch went on. On policy issues he and the Prime Minister found common ground – from tactics for pushing through reform to the importance of engaging the US on climate change. And Koizumi's genuine enthusiasm for Britain came through strongly – he was at pains to stress the UK's importance in both his personal and professional development.

The Prime Minister commented afterwards that the G8 would be a much livelier occasion with Koizumi around.

I am copying this to David Prout (DPM's office), Tom Scholar (HMT), Julian Miller (MOD), Andrew Slade (DEFRA), Bernadette Kelly (DTI), Richard Abel (Cabinet Office) and Sir Stephen Gomersall (Tokyo).

Yours ever

ANNA WECHSBERG

Patrick Davies
FCO

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01712705961



AW
cc: JS
✓ JB
Press
byp

FOREIGN & COMMONWEALTH OFFICE

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SW1A 2AH

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Tel: 7270 2956

Fax: 7270 5961

Email: jonathan.thomson@fco.gov.uk

IMMEDIATE ←

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cc DN.
file: not
raised.

Amey
2/7

To: Anna Wechler

Fax Number: 7839 9044

From: Jonathan Thomson,

Japan Section, NEAPD, FCO

Date: 2/7/01

Pages to follow: 3

Message: Anna - we have just received the attached
from DEFRA. Whaling is not on the agenda but
(attach link to take and background in case the PM

wants to raise this.

MB International Whaling Commission takes place in London later this month

Signed:

So there may be queries on whether this was raised -

Jonathan

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PRIME MINISTER'S MEETING WITH PRIME MINISTER KOIZUMI OF JAPAN – 2 JULY 2001 – WHALING ISSUES**Points to make**

- To impress upon Japan that its whaling activities are of great concern to UK public and Government and this issue will continue to be a source of conflict and a barrier to closer co-operation with the UK.
- UK is disappointed that Japan continues to disregard clear international opinion and opposition to its "scientific whaling" programme.
- ~~□ Concerned over rumours that aid is being directly linked to support for Japanese policies.~~

Background

1. UK strongly supports the moratorium on commercial whaling introduced in 1985/6. We believe that whaling does not serve any genuine need and involves unacceptable cruelty; we would like to see all whaling ended, apart from some subsistence whaling by indigenous people.
2. Prime Minister wrote, on behalf of President Clinton and PM Helen Clark, to PM Mori criticising expansion of Japanese scientific whaling in July 2000. The PM emphasised the UK's strong commitment to whale conservation in his speech on 6th March 2001 on "Environment – The Next Steps", when he said, "we will continue to be in the forefront in the campaign to save whales".
3. The next International Whaling Commission (IWC) annual meeting is in London from 23-27 July, when there will be strong pressure from Japan and Norway to adopt the Revised Management Scheme (RMS) and to lift the current moratorium which is binding on Japan but not on Norway. The IWC convention enables members to object to majority decisions and Japan may lodge an objection to the RMS if it concludes that management controls are too strict or would be uneconomically viable for its industry.
4. Japan carries out large-scale whaling by exploiting a loophole which permits so-called "scientific whaling" under the guise of research. Japan sells the whale meat on its domestic market, which is allowed under IWC rules. We do not accept Japan's simplistic arguments that further lethal research is needed in order provide data on the wider impact of whales on fisheries.
5. The Japanese Fisheries Ministry has welcomed Norway's decision in January to export whale products (mainly blubber) to Japan. This is permitted under CITES rules (as both countries have objections in CITES) but runs counter to decisions taken as recently as April 2000. The move aims to increase the pressure on the IWC to compromise and agree to a resumption of commercial whaling.
- ~~6. There is evidence that Japan is using its development aid programme to ensure support for its voting position within the IWC among the Caribbean and some other member countries, and is successfully using similar tactics to recruit additional members (including Morocco, Guinea and Panama) in order to gain a simple voting majority in the IWC.~~

01712705961



Taking action for a living planet

WWF-UK

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 t: +44 (0)1483 426444
 f: +44 (0)1483 426409
 www.wwf-uk.org

Reference: LS/IWC/TB1

26 June 2001

Rt Hon Tony Blair MP
 Prime Minister
 Prime Minister's Office
 10 Downing Street
 London
 SW1A 2AA

I am writing to ask you to ensure that Japan's whaling policy is on the agenda at the forthcoming meeting between yourself and Prime Minister Koizumi early next month. We know this is an issue of concern to you, as you mentioned the importance of whale conservation in your speech in March 2001 and we believe Mr. Koizumi offers the first real hope of Japan reassessing its current position. This can only happen if the UK and other Governments send a strong signal at the highest levels that they remain keenly interested in seeing this happen.

Short of Japan's open renunciation of whaling, which few believe likely at this point, there are three main strategic points that we would urge you to raise, each aimed at getting key accommodations which together could re-shape the whaling debate. Simply put, they seek to ensure that Japan play much closer to the rules in international whaling matters.

Firstly, we would seek a commitment from Japan to phase out so-called "scientific" whaling, beginning with whaling in the IWC-sanctioned whale sanctuary in the Antarctic. The Japanese whalers' abuse of the scientific exemption exposes the country to criticism generally, and whaling inside sanctuaries doubly so. If Japan agrees to respect the boundaries of the Antarctic Sanctuary, it will radically reduce commercial prospects for large-scale whaling.

A second point is to seek Japan's assurance that it will not file a legal objection to a Revised Management Scheme if one is agreed within the IWC. Having complained for years about IWC failure to adopt an RMS, Japan is currently seeking to block inclusion of essential safeguards and controls. Japan has said privately that if it fails to weaken the RMS, it will lodge a legal objection and thereby evade its controls. It is critical that Japan commit to stay within the RMS.

Finally, the entire fabric of international whale protections is at risk because of Japan's steadily accumulating control of votes in the IWC—mainly of small island states—in exchange for foreign aid. Japan pursues its vote acquisition strategy so overtly that the very credibility of the forum is undermined. New votes are brought in every year such that Japan is now perilously close to controlling a simple majority. Other governments have shied from making this an issue, but it is past time for us to speak up. Every other whaling issue depends on this one.

We hope that you will feel able to pursue this important issue and that a conversation between yourself and Prime Minister Koizumi might truly open a new era in whale conservation.

Robert Napier
 Chief Executive

c.c David North

WWF: the global environment network



President: HRH Princess Alexandra,
 the Hon Lady Ogilvy QCVO
 Chairman: the Hon Sara Morrison
 Chief Executive: Robert Napier

A company limited by guarantee registered
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 INFO ROUTINE EU POSTS, LOS ANGELES

CABINET OFFICE FOR SAWERS, WECHSBERG

SUBJECT: US/JAPAN: KOIZUMI'S VISIT TO WASHINGTON, 30 JUNE

SUMMARY

1. BUSH AND KOIZUMI HIT IT OFF. THEIR SUMMIT EMPHASISES ECONOMIC ISSUES. BUSH STRESSES HIS UNRESERVED SUPPORT FOR KOIZUMI'S ECONOMIC REFORMS.

DETAIL

2. BUSH MET KOIZUMI AT CAMP DAVID ON 30 JUNE. WE ARE REPORTING SEPARATELY ON THEIR DISCUSSION ON THE ENVIRONMENT.

3. KOIZUMI WAS THE FIRST JAPANESE PRIME MINISTER TO GO BE INVITED TO CAMP DAVID IN MORE THAN A DECADE. ADMINISTRATION SPOKESMEN HAVE STRESSED THAT THIS WAS A SIGN OF THE IMPORTANCE THE NEW ADMINISTRATION ATTACHED TO JAPAN.

4. IN A JOINT STATEMENT, KOIZUMI PLEDGED VIGOUROUS AND COMPREHENSIVE ECONOMIC REFORM. JAPAN WELCOMED BUSH'S INTENTION TO PROMOTE STRONG ECONOMIC GROWTH IN THE US. THERE WOULD BE CLOSE US/JAPAN ECONOMIC DIALOGUE THROUGH A NEW US-JAPAN ECONOMIC PARTNERSHIP FOR GROWTH. THE STATEMENT REITERATED SUPPORT FOR THE US/JAPAN SECURITY ALLIANCE, AND FOR AN ENHANCED STRATEGIC DIALOGUE. THE US AND JAPAN WOULD CONTINUE TO CONSULT CLOSELY ON MISSILE DEFENCE, INCLUDING THROUGH COOPERATIVE TECHNOLOGY RESEARCH. THE US AND JAPAN HAD A SHARED UNDERSTANDING OF THE CHALLENGE OF CLIMATE CHANGE, ON WHICH THERE WOULD BE HIGH-LEVEL US/JAPAN CONSULTATIONS.

5. AT A PRESS CONFERENCE, BUSH PRAISED KOIZUMI AS COURAGEOUS AND DYNAMIC. HE CLAIMED US/JAPAN RELATIONS WOULD NEVER BE STRONGER THAN THEY WERE NOW. KOIZUMI SAID HE HAD ESTABLISHED A RELATIONSHIP OF TRUST WITH BUSH.

6. GREEN (NSC DIRECTOR FOR JAPAN) AND KELLY (ASSISTANT SECRETARY FOR EAST ASIA, STATE) GAVE US AN INITIAL READ-OUT. THE US HAD BEEN VERY PLEASED WITH THE MEETING. THEY HAD FULLY ACHIEVED THEIR MAIN OBJECTIVE OF CREATING A STRONG PERSONAL RELATIONSHIP BETWEEN BUSH AND KOIZUMI. THE CHEMISTRY BETWEEN BUSH AND KOIZUMI WAS BETTER THAN THAT BETWEEN ANY US AND JAPANESE LEADERS SINCE REAGAN AND NAKASONE. THE JAPANESE HAD APPRECIATED THE SYMBOLISM THAT KOIZUMI WAS ONLY THE SECOND WORLD LEADER TO SEE BUSH AT CAMP DAVID. KOIZUMI HAD DONE THE

MAJORITY OF THE TALKING, INCLUDING EMPHASISING HIS PERSONAL AFFECTION FOR AMERICA (HE TOLD BUSH HIS FAVOURITE FILM WAS 'HIGH NOON').

7. THE JAPANESE TOO HAD ACHIEVED THEIR MAIN OBJECTIVE: A CLEAR STATEMENT OF BUSH'S SUPPORT FOR ECONOMIC REFORM. BUSH, DRAWING ON TEXAS' EXPERIENCE AFTER THE SAVINGS AND LOAN COLLAPSE, HAD STRESSED THE NEED FOR JAPAN'S BANKS TO DISPOSE OF THEIR BAD DEBTS. GREEN COMMENTED THAT PRIVATELY US ANALYSTS WERE NOT CONVINCED BY THE DETAIL OF ALL KOIZUMI'S PLANS: THE NEW ECONOMIC TALKS WERE A VEHICLE TO GET US CONCERNS ACROSS IN PRIVATE.

8. ON MISSILE DEFENCE, KOIZUMI HAD ECHOED THE LANGUAGE OF THE JOINT STATEMENT, EXPRESSING UNDERSTANDING FOR US CONCERNS, BUT NOT SUPPORT. GREEN CLAIMED THAT THE WESTERN PRESS WERE OVER-PLAYING THIS. JAPAN, BECAUSE OF ITS CONSTITUTION, COULD NOT EXPRESS SUPPORT FOR THE US' OWN PLANS. BUT KOIZUMI HAD RE-STATED JAPAN'S WISH FOR CONTINUING TECHNICAL CONSULTATIONS ON THEATRE DEFENCE. KELLY WAS FRANKER: MD HAD BEEN THE HARDEST PART OF THE COMMUNIQUE TO AGREE. KOIZUMI'S LINE WITH BUSH HAD BEEN THAT HE COULD UNDERSTAND THE US DESIRE FOR A DEFENSIVE SYSTEM, BUT MORE CONSULTATION WAS NEEDED.

9. KOIZUMI HAD STRESSED HIS STRONG PERSONAL SUPPORT FOR THE US/JAPAN DEFENCE ALLIANCE. KOIZUMI'S FATHER (AS A MEMBER OF THE DIET) HAD BEEN A FIRM SUPPORTER OF THE ALLIANCE FROM ITS INCEPTION, DESPITE PUBLIC OPPOSITION IN JAPAN. KOIZUMI HAD INHERITED HIS FATHER'S VIEW. BUSH HAD AS SOON AS APOLOGISED FOR THE BEHAVIOUR OF SOME US FORCES IN OKINAWA (SUCH AS THE RAPE REPORTED ON FRIDAY): HE HAD TOLD STATE AND DOD TO FIND A WAY TO REDUCE THE NUMBER OF SUCH INCIDENTS.

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FCO FOR ENVPD, CABINET OFFICE FOR SAWERS, HEYWOOD, LLOYD AND
WECHSBERG,
DEFRA FOR GA

SUBJECT: US/JAPAN: KOIZUMI'S VISIT TO WASHINGTON, 30 JUNE: KYOTO

SUMMARY

1. KOIZUMI /BUSH JOINT STATEMENT INCLUDES AGREED, BUT VAGUE, LANGUAGE ON CLIMATE CHANGE. THEY SAY THEY WILL KEEP TALKING ABOUT KYOTO, WITH EARLY HIGH-LEVEL US/JAPAN TALKS. KOIZUMI DOES NOT APPEAR TO HAVE MADE ANY SUBSTANTIVE PROPOSAL FOR US-FRIENDLY CHANGES TO KYOTO BUT, IN THE CLOSING PRESS CONFERENCE, GOES A LONG WAY TO EMPHASIZE THE IMPORTANCE OF COOPERATION WITH THE US ON ACTION TO COMBAT CLIMATE CHANGE.

DETAIL

2. WE ARE REPORTING SEPARATELY OTHER ASPECTS OF THE BUSH/KOIZUMI SUMMIT.

3. BUSH AND KOIZUMI ISSUED A LENGTHY JOINT STATEMENT ON US/JAPAN RELATIONS (BY FAX TO NO. 10) ON KYOTO, IT EXPRESSED 'THEIR SHARED UNDERSTANDING OF THE SERIOUSNESS OF THE CHALLENGE POSED BY CLIMATE CHANGE...THE PRESIDENT AND PRIME MINISTER RECOGNIZE THAT CLIMATE CHANGE IS A PRESSING GLOBAL PROBLEM REQUIRING A GLOBAL APPROACH,' THE STATEMENT SAID BUSH WELCOMED KOIZUMI'S OFFER TO INITIATE HIGH LEVEL U.S.-JAPAN CONSULTATIONS TO EXPLORE COMMON GROUND AND AREAS FOR COMMON ACTION ON CLIMATE CHANGE. (COMMENT: THE ANNOUNCEMENT OF THIS HIGH-LEVEL JAPAN / US CONSULTATION MADE NO REFERENCE TO THE TROIKA / US HIGH-LEVEL GROUP ANNOUNCED AFTER GOTHENBURG). THESE WOULD TAKE PLACE BEFORE COP6 BIS. A TEAM LED BY AMBASSADOR MARK HAMBLEY WOULD VISIT TOKYO ON JULY 9. FOLLOWING THAT VISIT, THE JAPANESE ENVIRONMENT MINISTER MS. KAWAGUCHI WOULD VISIT WASHINGTON ON HER WAY TO BONN, JULY 12-15.

4. GREEN (JAPAN DIRECTOR AT THE NSC), CHARACTERIZED THE TONE OF THEIR DISCUSSION ON KYOTO AS POSITIVE AND FOCUSING ON THE TECHNOLOGICAL INNOVATIONS NEEDED TO ADDRESS CLIMATE CHANGE. KELLY (ASSISTANT SECRETARY OF STATE FOR EAST ASIA) ECHOED THIS. THE CLIMATE CHANGE DISCUSSION HAD BEEN PARTICULARLY ENCOURAGING FROM THE US POINT OF VIEW. UNLIKE OTHERS KOIZUMI HAD NOT LEAPT TO CRITICISE. INDEED WHEN ASKED BY JOURNALISTS IF HE WAS DISAPPOINTED BY BUSH'S STAND ON KYOTO, KOIZUMI SAID NO. THE US AND JAPAN NEEDED TO KEEP TALKING, AND JAPAN DID NOT INTEND TO PROCEED WITHOUT THE

COOPERATION OF THE US. KELLY STRESSED WE SHOULD NOT READ TOO MUCH INTO THE LAST REMARK, BUT IT SHOWED KOIZUMI WAS PREPARED TO DO HIS OUTMOST TO KEEP THE US ENGAGED.

5. THE JAPANESE PRESS ON FRIDAY ANNOUNCED PM KOIZUMI WOULD PRESENT BUSH WITH A DRAFT OF POSSIBLE REVISIONS TO THE KYOTO TREATY. THE JAPANESE EMBASSY HERE, HOWEVER, STRONGLY DENIED TO US THAT ANY SUCH SUBSTANTIVE PROPOSAL WAS FLOATED AT CAMP DAVID. NOR DID OUR US INTERLOCUTORS REFER TO ONE.

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YYYY

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From: Anna Wechsberg
Date: 29 June 2001

PRIME MINISTER

*Ann
✓
Approved by M.
JL*

UK-JAPAN 21ST CENTURY GROUP: UK CHAIRMAN

FCO are proposing that you invite Peter Mandelson to take over from Lord Howell as Chairman of this group (see attached). Peter has indicated informally that he would be interested in taking this on. Jonathan, Anji and John all think it is a good idea.

Are you happy for Peter to be invited to do this?

If so, you could tell Koizumi yourself when you see him on Monday – but we would expect to keep it low key, ie no public announcement.

Anne.

ANNA WECHSBERG

26 June 2001

~~John / Jaapan~~
what do you want
me to do on this?
Anna
26/6



Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Anna, ^{see JPD}
^{JS}
GSI/TK

UK-Japan 21st Century Group: UK Chairman

Summary

Recommendation that the Prime Minister invite Peter Mandelson to take over from Lord Howell as Chairman of the UK-Japan 21st Century Group.

Detail

My letter to John Sawyer of 3 May suggested ideas for engaging with Prime Minister Koizumi and his new Government (copy enclosed). One of the proposals was to re-energise the UK-Japan 21st Century Group – a potentially influential grouping of businessmen and politicians with a commitment to working to develop relations between the UK and Japan in support of the government's own efforts.

The 21st Century Group was set up in 1984 by the then Prime Ministers to strengthen bilateral non-governmental links. Its original Chairmen had the ear of their Prime Ministers, and for a time the Group acted as a highly effective lobby in business and other circles for closer ties with Japan. However, the Group now needs re-energising. With new strong Chairmen and younger members it could again play a significant role in the bilateral relationship. The Group also needs to refocus its agenda on issues of current interest to both governments.

Koizumi's arrival provides a chance to overhaul the Group. But it is clear that we shall have to take the lead. I therefore recommend that the Prime Minister nominate a new UK Chairman. The present incumbent, Lord Howell, is keen to stand down. Ideally, the Chairman should have the confidence of the Prime Minister if the Group is to work. From the soundings we have taken of the Japanese, Peter Mandelson might be an ideal candidate on the UK side. I understand that Roger Liddle has already mentioned this to Mr Mandelson informally who has indicated his interest. I therefore recommend the Prime Minister write to Mr Mandelson on the lines of the enclosed draft.

Ms Anna Wechsberg
10 Downing Street



Koizumi will visit the UK on 1-3 July. This would be an ideal opportunity to inform Koizumi of our decision to nominate a new UK Chair and to encourage him to appoint a correspondingly high-calibre Japanese Chairman. We also hope the Prime Minister would be willing to signal his readiness, in principle, to see the Group when it meets in Britain in March 2002. This would help us get the most out of this under-used asset.

... I also enclose a draft letter from the Prime Minister to Lord Howell, to be used should the Prime Minister agree to ask Mr Mandelson to take over as UK Chairman.

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

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From: Anna Wechsberg
Date: 29 June 2001

PRIME MINISTER

cc: Jonathan Powell
Jeremy Heywood
John Sawers
Geoffrey Norris
Roger Liddle
Liz Lloyd
Tim Livesey

**JAPAN: YOUR TALKS AND LUNCH WITH PRIME MINISTER KOIZUMI,
MONDAY 2 JULY**

You are seeing Junichiro Koizumi on Monday. He will have come from meetings with Bush in Washington this weekend, and will be going on to Paris. He is bringing a small team of advisers with him, including Nogami (the Japanese Sherpa) and Ambassador Hayashi here. You have talks scheduled from 12:30 to 1:15, followed by a small working lunch. Stephen Gomersall, Jeremy, John and I will join you. There will be cameras on arrival and at the start of the meeting.

You should call Koizumi "Prime Minister" to start with, and then move on to "Koizumi-san". Apparently you have to know Japanese people for at least a year before using their first name.

Koizumi's personal style is very different from his predecessors'. He is dynamic, sincere, often emotional, direct (more detailed personality note attached). He has his own email magazine (see attached - worth a glance: he calls himself "the one with hair like a lion's mane"). He is quickly becoming a cult figure in Japan.

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Koizumi and reform

Koizumi's main preoccupation will be getting international support to secure his position at home, as the Japanese economy goes into recession (see Stephen Gomersall's excellent scene-setter, attached). Koizumi took over from Mori in April on a platform of economic and political reform, and seems genuinely committed to seeing reform through. He will need to tackle difficult areas – labour market reforms, social security reform, privatisation – many of which will bring short-term pain before the benefits start to feed through. He has a parallel agenda on political reform, the centrepiece of which is bringing control of the policy process into the Cabinet and the Prime Minister's Office. He will be interested in the UK experience in all these areas. This will be the main thrust of what he wants to talk about on Monday.

One specific proposal you may want to make is for a programme of follow-up exchanges between No10 Policy Advisers and Koizumi's policy team – learning from each other on the many economic and social reform issues which Britain and Japan have in common.

G8/International issues

You should touch on some of the key issues for Genoa, including climate change – the key issue for Koizumi's talks with Bush.

Japan shares the EU's goal of launching a new trade Round at Doha in November. Like the EU, Japan needs a broad-based Round to ensure there are sufficient gains to offset any losses through liberalisation of agricultural trade. You might underline your own commitment to getting a Round launched at Doha, and your intention to give this an additional push at Genoa.

You may also want to mention your personal support for the new Global Health Fund (covering HIV/AIDS, malaria and TB), to be launched later this year; and your hope that G8 countries will come up with substantial commitments to the Fund at Genoa (the initial G8 target is \$1billion).

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- 3 -

Koizumi will have discussed climate change in Washington. The Japanese are keen to find a way of bridging the gap with the US. Like us, they want to retain the principles of Kyoto, including targets for national emissions; but unlike the EU they have not yet said that they are ready to ratify without the US. You should welcome Koizumi's efforts to engage the US on the issues; but you might ask him where he thinks this leaves the Kyoto Protocol itself?

JP is visiting India, China and Japan in mid-July as your emissary on climate change. You should ask Koizumi to see him in Tokyo if he can.

Other issues which may come up are the Balkans, where you should express warm appreciation for Japan's financial support (\$10bn over the last decade) and urge Koizumi to continue to stay engaged, despite the scepticism he will face at home; North Korea, where we expect to establish permanent representation in July (the Japanese support US efforts to resume talks with North Korea but still have a very difficult relationship with the North Koreans themselves); China, where relations are being strained by a tit for tat trade spat; and Missile Defence - you might ask Koizumi how he views the debate.

Bilateral issues - trade/investment

You should welcome the Japan 2001 festival, showcasing Japanese culture in the UK, which kicked off in May and lasts until May 2002. You should also recall your recent meeting with the Crown Prince, who came over to open the festival.

Japanese investment in the UK is now shifting to higher value, knowledge intensive operations. And British investment in Japan is rising, particularly in telecoms, finance and retail. You can welcome the fact that our two economies are becoming more knowledge-based, and express your enthusiasm for working together on ICT and the promotion of e-commerce.

You might want to touch on two defence sales issues. The Japanese Maritime Self Defence Forces (JMSDF) are considering buying Rolls Royce gas turbine

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engines. The sales could be worth \$480m over 15 years. Agusta Westland are also keen to sell JMSDF some EH101 helicopters, again with a potential sale value of up to \$500m. You might want to mention both of these in passing, as an example of our continuing trade relationship.

Anne .

ANNA WECHSBERG

Checklist:

- Support for Japan's economic reform programme
- Follow-up exchanges between Policy Advisers

- New WTO Round – giving impetus at Genoa
- Climate Change, incl JP's visit in mid-July
- Support for the new Global Health Fund

- Japan 2001 Festival and the Crown Prince's recent visit
- Knowledge economy partnerships, including ICT/e-commerce
- Defence sales: Rolls Royce Turbines and Westland Helicopters

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JAPAN: KOIZUMI'S VISIT TO LONDON, 1-3 JULY: SCENE-SETTER
From: TOKYO

TO IMMEDIATE FCO
TELNO 215
OF 290759Z JUNE 01
INFO IMMEDIATE TO CABINET OFFICE, NO 10, G8 POSTS, SEOUL, PEKING
INFO IMMEDIATE TO HM TREASURY, ASEAN POSTS, EU POSTS, DTI
INFO IMMEDIATE BANK OF ENGLAND

NO 10 FOR SAWERS

MY TELNO 188
SUMMARY

1. Koizumi's main concern is to secure his position and gain a clear mandate for his reforms from a good showing in the Upper House elections on 29 July. He will be looking for international support in his summit meetings in Washington, London and Paris. But he knows bad economic figures will be published in the weeks ahead confirming that Japan is in recession.
2. This is his first test in foreign policy. Relations with the US are key; the trickiest issue on this trip is likely to be the Kyoto Protocol.
3. The department briefing flags up the significant opportunities for the UK in engaging supportively with Koizumi.

DETAIL

4. Koizumi leaves Japan today for Summit meetings in Washington, London and Paris still with record popularity ratings of over 80%. He knows that "Koizumi fever" can't last. His main concern is to ensure sufficient public support to give the LDP, with its coalition partners, a majority in the Upper House elections on 29 July. This is the necessary, but not sufficient, condition for implementing his reform programme, in particular measures which will require legislation.
5. He is not worried by the political opposition. He has occupied most of their policy ground. He is worried by resistance from the old guard within the LDP, the fragility of the rural vote (which will be hit by his plans to cut wasteful public works) and the unemployment consequences of structural reform.
6. In the next few weeks, figures will be released confirming that Japan is entering into genuine recession. He has signalled this clearly to the public, but cannot be sure how long or how severe the recession will be. He is therefore likely to be keenly interested in the prospects for the US and European economies.
7. This three-capital tour will be the first real test of his diplomacy. So far he has only had a few brief meetings with African and south-east Asian leaders visiting Japan. He has steered clear of the tussle between his Foreign Minister and her officials, intervening on occasion to calm things down and reaffirm his confidence in her. Relations with China and Korea are strained. Relations with the US are key and are now on a steadier footing. The ground is prepared for his meeting with Bush. There should be no real problems or surprises on the security and economic agenda. But handling the Kyoto Protocol issue will be a litmus test for his administration. Japanese hearts are for ratifying Kyoto. But

Koizumi will need reassurance that this won't damage the relationship with the US.

8. He will be hoping of course that this trip will enhance his political stature at home, and generate political support for his reform programme. We have described elsewhere how his agenda parallels our own over recent years, and creates opportunities for promoting British interests. He has, I believe, a genuine sense of mission to change his party and the economy for the better. We should support, and be seen to support him.

9. Koizumi will be taking some time for relaxation in London and Paris. It is in the nature of what he is trying to do that a tremendous burden falls on him personally. Once he gets back to Japan he faces a month's run-up to the Upper House elections, punctuated only by Genoa and brief visits to other European capitals.

GOMERSALL

Sent by TOKYO on 29-06-2001 07:59
Received by No10 on 29-06-2001 10:22

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KOIZUMI: PERSONALITY NOTE

Koizumi, 59, became Prime Minister on 26 April this year. He is altogether a different kind of operator from his predecessors.

Koizumi's public style is dynamic, sincere - often emotional - and direct. A slight figure, he nevertheless stands out in the conformist world of Japanese politics, and has a certain charisma. His penchant for light suits and his trademark hairstyle (nickname "Beethoven") help. He has developed a distinctive way of speaking, whether joking with the press corps or orating passionately with clenched fists in the Diet. He has dropped the convoluted and deliberately opaque style of most Japanese politicians and speaks in short, abrupt, simple Japanese reinforced with striking hand gestures which he seems to have learned from his study of the theatre (western and Kabuki). The public love it. His appearances on question time are attracting record viewing. There are moments when this shades into demagoguery. And there are plenty of commentators quick to highlight the risks of populist leadership.

The media too, for the moment, are also lapping it up. Koizumi is more accessible than any previous Prime Minister and his commitment to make Japanese government more transparent offers them a bonanza.

According to his Private Secretary, in working meetings Koizumi's style is decisive and focussed. He likes to get to the heart of an issue quickly. He is not a man for details, but looks for agreement on the broad policy, delegating follow-up to others. He absorbs, but does not depend on his brief and is likely to stray from any formal agenda.

Koizumi is a maverick, but a carefully judged one. He has a keen sense of the public mood and has taken the huge gamble of rejecting many of the LDP's unwritten rules of loyalty, seniority and obligation to build a powerbase in the electorate. He is not afraid of controversy, is strongly determined and ready to stick to his principles even if this attracts criticism. For example:

- he went against official (and legal) advice in offering government compensation to leprosy victims who had been subject to forcible segregation and other abuses in the 50s and 60s;

- he has not backed down from his commitment to visit the Yasukuni shrine (to Japan's war dead) on 15 August, despite fierce Chinese and South Korean criticism.

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Russia has undertaken to try to make its repayments in full, but this could be tricky in 2003, when repayments will peak.

2. The Japanese agenda rarely goes beyond these territorial and economic issues. They do not see Russia as a serious player in Asia. Nor do they engage Russia seriously on human rights, Chechnya, or proliferation, except in the G8, although they share our concerns. It would be useful to impress upon Koizumi the importance the UK attaches to critical engagement with Russia and to encourage him to take a broader view.

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He does not have many close aides or advisers. Key figures appear to be Economics Minister Takenaka, former Prime Ministers Nakasone and Mori, Tokyo Governor Ishihara and Chief Cabinet Secretary Fukuda, whose father, former Prime Minister Fukuda employed Koizumi as a political secretary in the 1970s. He has a small network of business, academic and artistic contacts, although it is not yet clear to what extent these are sources of policy advice. On the key economic reform issues, the generation of policy is primarily through the advisory councils and committees which Koizumi chairs, such as the Council on Economic and Fiscal Policy. The difference with him is that policy is now being driven from the top, and that the party committees, where most of the backwoodsmen lurk, have a much smaller influence.

Koizumi has made economic recovery through structural reform the test of his administration. It is still early days, but he appears to have won public acceptance of the idea that this will not be achieved immediately or without pain. There is no doubt about his sincerity and seriousness, and the speed at which he and Takenaka have introduced reform proposals into the public domain is impressive. If the LDP does as well in the Upper House elections as it did in the Tokyo Assembly elections this week, he should be re-elected as LDP President in September and then have a solid two-year mandate to implement his proposals. His critics will take advantage of any major downturn in the economy unless he can show that he also cares about the safety-net for the victims of restructuring. But he has grown up within the LDP and has a good nose for the public mood.

There are obviously tremendous strains on Koizumi. But he is tough. Insiders say this strength comes from what seems to have been a long and very difficult divorce. He is a very private man, often spending his spare time alone listening to music or reading. Music and theatre are his main interests, especially opera and classical music although he professes a liking for rock music and heavy metal. He has not seen his wife and youngest son since his divorce, but has custody over his two older sons.

Koizumi's main links with the UK are his time spent studying economics at University College London in the late 1960s and his work as Secretary-General of the UK/Japan Parliamentary League. In this capacity he helped develop the JET programme (now the top employer of British graduates). He speaks some English, but will need the support of interpreters.

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Education

Graduated from Keio University Faculty of Economics. Studied as an exchange student at UCL in the 1960s, but returned early to Japan due to the unexpected death of his father.

Career

First elected to the House of Representatives in 1972. He served as Secretary-General of the cross party UK/Japan Parliamentary group in the 1970s.

Has served as junior Minister for Finance and in the Cabinet as Minister for Health and Welfare and Minister for Posts and Telecommunications. This was his third attempt at the LDP leadership, having run before in 1995 and 1998. He has often called for political reform, including breaking down the factional structure of the LDP.

His standing in the LDP is mixed. As, until recently, a key member of one of the LDP's biggest factions, he is a mainstream party establishment figure, but his calls for shaking up the LDP have made him unpopular with some parts of the party. His relationship with the LDP's current coalition partners is also uncertain. He has shrewdly offset his relative lack of support in the LDP by appealing directly to the LDP rank and file and the wider public. He said little on international affairs during the election campaign, but in the past has spoken against Japan becoming a permanent member of the Security Council.

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From: koizumi-junichiro@kantei.go.jp
Sent: 29 June 2001 07:51
To: 'awechsberg@no10.x.gsi.gov.uk'
Subject: The Koizumi Cabinet Email Magazine: Special Edition

> **The Koizumi Cabinet Email Magazine: Special Edition**

For skimming only!

> June 29, 2001

> On May 7, soon after becoming Prime Minister, I gave a
> speech outlining my goals. In the speech, I promised to create an
> Email Magazine to express my thoughts and learn what my
> compatriots are thinking. The "Koizumi Cabinet Email Magazine"
> fulfills that promise. It is electronically sent every week to those
> who wish to receive my comments.
> I was delighted to learn that the reaction to this email
> magazine was instantaneous and that in a brief space of time 2
> million people signed up for it.
> In this magazine I say what's on my mind in a column named
> "The Lionheart." Also, two or three members of my Cabinet
> contribute their thoughts.
> In this special edition, I have assembled all the "Lionheart"
> columns since the launching of the magazine. I'd be happy if you
> would take a look at them. Of course, I welcome your comments.

> Junichiro

> Koizumi

> For the original Japanese version of this magazine, please
> go to <http://www.kantei.go.jp/jp/m-magazine>.

> (1) Launching an Email Magazine \May 29,
> 2001 \

> I am Junichiro Koizumi. I'm sure many of you know me only as
> "The Henjin" or the one with hair like a lion's mane. I hope the "Koizumi
> Cabinet Email Magazine" will help you understand my Cabinet as it really
> is.

> Mine is a cabinet determined to carry out reform. Dialogue with
> you is vital to its success. Through this email magazine, I'd like to
> convey
> to you my thoughts and the thoughts of my Cabinet members. In turn, I'd
> like to learn what you think. What should Japan be like? What must we do
> to earn the respect of other nations? To make Japan a country our children
> can be proud of? To turn it into a pleasant place to live and work, where
> we
> can enjoy peace and comfort?
> I'd like us to consider these questions together. I want us to build a
> better nation by changing those things that must be changed and by
> preserving what must be preserved. That's the goal of my Cabinet.

- > I wish to create a "government of trust" by explaining the processes of reforms to you, by reaching broad understandings with you, by
- > discussing with you what is important, what must be done.
- > I will send you as much relevant information as I can. I welcome
- > your responses with ideas and proposals. Let us build a country every one of us can truly feel good about.
- > This email magazine is a new venture for me, and it can't be perfect from the outset. My idea is to start from where we can, and to keep
- > improving it by listening to you. The policies of my Cabinet can't be
- > perfect from the beginning, either. We can only try to improve them by
- > understanding your ideas and wishes.
- > I hope you will participate in this process.

> (2) On the Go 24 Hours a Day, Seven Days a Week \June 14, 2001 \

- > I am Junichiro ("the Lionheart") Koizumi, I am delighted that we
- > have finally been able to get the first official edition of the "Koizumi
- > Cabinet Email Magazine" off the ground. In this informal space, I'd like
- > to
- > discuss not only my policies but also my ideas, who I really am, and so
- > on.
- > I'll try to answer your questions as much as I can. I hope you will enjoy
- > this email magazine.
- > Before we started this magazine, we received a lot of
- > encouragements, suggestions, and comments at the Prime Minister's Home
- > Page. I thank you all for that.
- > Many people asked, "What has changed the most since you became
- > Prime Minister?" My answer: I've lost all my freedom. I'm now like a
- > caged bird 24 hours a day.
- > Before I became Prime Minister I used to be able to go to a
- > convenience store by myself or just stroll about as I please. Now,
- > wherever
- > I go, security guards go with me, sometimes dozens of them. If I want to
- > see a movie now, I may have to reserve a large number of tickets. I just
- > can't go out casually as I used to be able to.
- > Also, during the day I must meet a great many people from all
- > walks of life, attend meetings to discuss such issues as the economy and
- > IT,
- > and of course debate in the National Diet. All of which leaves me with
- > very
- > little time to relax.
- > The Prime Minister, in my opinion, is a public servant who must be
- > accessible 24 hours a day, seven days a week, ready to respond to any
- > contingency whenever it arises. This is of course vital from the point of
- > view of crisis management. However, though I may not have the freedom I
- > used to enjoy, I am putting heart and soul into this job 24 hours a day,
- > seven
- > days a week. That's why I value your encouragement and support.

> (3) Sports That Touch Your Heart \June 21, 2001 \

- > Hello, Junichiro Koizumi here.
- > I greatly enjoy all kinds of sports. I once played baseball and I still
- > ski. I am also very fond of swimming. While playing sports is a joy, it is
- > also
- > enjoyable to watch them. Sporting events sometimes unfold like a drama

> before your very eyes. And that's what's so attractive about them.
> baseball, you are particularly thrilled when the tables are turned
> at the last moment with a homerun in the final innings. The ballplayer
> Daisuke Matsuzaka, of Seibu Lions, remains so popular because we all
> remember the national high school ballgame in which he kept pitching in
> the extended innings, under the blazing sun, until he won.
> In sumo, Takanohana's victory in the final bout of the recent
> summer tournament was truly astonishing. On the previous day he had
> injured himself, and as we saw him leave the arena supported by his
> assistants, I'm sure everyone thought he wouldn't be able to show up on
> the
> final day of the tournament. When he did show up for the final bout, a
> strange feeling that lay somewhere between tension and compassion
> pervaded the Kokugikan stadium. Nevertheless, despite his injury,
> Takanohana threw down his opponent spectacularly and won. That's what
> moved us ? perseverance honed in the tough competitive world of
> professional sports.
> When handing the Prime Minister's Cup to the grand champion
> Takanohana, I wanted to convey this sentiment. Luckily, my words came
> out naturally. The trophy was enormous, but the significance of that
> victory was even more enormous.
> It is important to be moved by such things. It fills us with strength. I
> hope to maintain this ability to be moved ? and the ability to move you,
> if
> possible ? as long as I serve as Prime Minister.

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> (4) What is this Henjin Stuff all About? \June 28, 2001 \

>
>
>

> Hello! Junichiro Koizumi here.
>
> One of the mottos I live by is an old Chinese adage meaning,
> "Avoiding non-essentials is best." I'm also partial to another Chinese
> dictum, "Vie for things vital. Ignore things trivial."
> A politician's job is meeting many, many people, and it's difficult to
> leave anybody, anything, out. So a politician saying something like
> "Avoiding non-essentials is best" ends up being called a henjin, though I
> must confess I love to be called that.
> The English word for henjin is "eccentric" or "oddball." But I
> wouldn't want to be thought of as a cuckoo. I asked a foreign
> correspondent and he suggested that "extraordinary" might be a good
> translation of henjin. Well, I liked that. If "extraordinary" means
> "surpassing the mundane," that suits me fine.
> Since then, I've flattered myself by thinking that people are
> complimenting me when they call me a henjin. I also hear that there's a
> pun
> involved: henjin can be abbreviated version of henkaku no hito, "a
> reform-minded person."
> On June 26, my Cabinet adopted broad-stroke guidelines for the
> rejuvenation of the Japanese economy. There can be no growth without
> reform. This reform-minded henjin is getting into his stride. Watch how I
> implement reforms.
> Beginning on June 29, I'll be visiting the United States, the United
> Kingdom, and France. I look forward to creating good personal
> relationships with the heads of state of these countries.

>
>
>

28 June 2001



Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Anna,

AW
e. JB
JS
AC
TK
GS.
BUP

Japan: Visit of Prime Minister

... The Prime Minister is meeting the Japanese Prime Minister, Junichiro Koizumi for talks followed by lunch on 2 July. I enclose briefing.

This is Koizumi's first foreign trip since he became Prime Minister in April 2001. He arrives from Washington late on 1 July. On Monday he has a free morning. Following meetings and lunch with the Prime Minister he will give an interview with the Financial Times and go to the theatre. On 3 July, he will meet retired MP Sir Julian Ridsdale, an old friend from Koizumi's time as Chair of the UK/Japan Parliamentary Group. He then leaves for Paris.

Our main objective is for the two Prime Ministers to establish a close personal relationship. This will be particularly useful before the G8 Summit on 20-22 July, and as we look for ways to strengthen the relationship with Japan on foreign policy and shared domestic challenges. Koizumi looks increasingly likely to remain in power after next month's Upper House elections and to have a crucial role in determining Japan's future political and economic profile.

Koizumi's style is unlike that of his predecessors. He has asked personally that the agenda be kept flexible so that there can be a free flowing discussion. But we know he wants to focus on domestic reform issues, G8 global issues, and bilateral relations. We suggest that the Prime Minister start with G8 issues, allowing for a freer discussion over lunch of the rest of the agenda.

On domestic reform, Koizumi will want to explain, and gain support for, his reform agenda. Our public support will be valuable to him, and he will be looking for ideas. Apart from cleaning up the banking system, his main challenges are:

- how to control government expenditure and reduce subsidy without stalling the economy; and
- how government can help people deal with the inevitable shakeout of labour.



... He will be keen to learn from the Prime Minister. We hope the Prime Minister can offer to continue to help with the Japanese policy development process by suggesting follow up by expert advisers later this year. A suggested public line on this for use after the meeting is enclosed.

The Prime Ministers will want to compare notes on G8 issues in the run up to the Genoa Summit on 20-22 July. Key issues for the UK are: climate change: Koizumi will have discussed this with Bush; we should convince him to press ahead with Kyoto ratification, without the US if necessary. WTO: the Prime Minister might encourage Koizumi to support a broad based new Round in Doha. Global Health Fund: we should persuade the Japanese of the urgency of establishing it quickly.

Other global issues to raise are UN Security Council reform: the PM will want to emphasise UK support for a permanent seat for Japan and explore Koizumi's still opaque personal views; and missile defence: we want Japan to maintain its helpful public stance towards US missile defence and the consultation process.

On regional issues, Koizumi may raise Korea, Russia, and the Balkans. On Korea, the Prime Minister might explain our policy of engagement. On Russia, we should encourage Japan to follow our policy of critical engagement. The Prime Minister might also encourage greater Japanese engagement in the Balkans, and highlight our interest in Lord Ashdown becoming the next Bosnian High Representative.

Our bilateral relations with Japan are excellent and problem-free. The Crown Prince paid a successful visit to the UK in May for the start of the Japan 2001 Festival, which runs until May 2002. We continue to welcome Japanese investment in manufacturing and hi-tech sectors. With our drive on ICT we want to remain the preferred partner for Japanese business in Europe. UK investment to Japan is also growing fast, especially in telecomms (C&W, Vodafone) where we have strong interest in pro-competitive measures to encourage new players. The Prime Minister might agree with Koizumi to step up existing joint initiatives on ICT and Science and Technology. The Prime Minister might also note that the Action Agenda is still the blueprint for the bilateral relationship.

The Prime Minister might explain (if agreed by then) that his appointment of Peter Mandelson as Chair of the Anglo Japanese 21st Century Group shows his wish to strengthen the Group's role as a private high-level network and source of advice to both governments on the development of UK-Japan relations.

There are two major potential defence sales worth raising – Rolls Royce WR21 Marine Engines, and Agusta Westland EH101 Helicopters.



The Prime Minister might mention our energy policy review and reiterate our wish to maintain strong relations with Japan on nuclear fuels and technology. The decision on whether to license the Sellafield MOX plant, which is currently under review, has considerable importance for Japan. We have undertaken to take back the defective British fuel from Takahama.

Washington will be sending an account of Koizumi's talks with Bush to arrive on the morning of 2 July. You may also wish to hear things first hand from your opposite number in Washington. (The key issue will be Bush's reaction to any new Japanese proposals made on climate change.) You might also touch base with Nogami on Monday morning for his perspective.

For the meeting Koizumi will be accompanied by Shinzo Abe, Deputy Chief Cabinet Secretary; Yoshiji Nogami, G8 Sherpa; and Ambassador Sadayuki Hayashi. They will be joined at lunch by Ryoza Kato, Deputy Minister for Foreign Affairs, and Kazuyoshi Urabe, Assistant Cabinet Secretary.

The Prime Minister spoke by telephone to Koizumi on 27 April.

Yours ever,

Patrick

(Patrick Davies)
Private Secretary

Ms A Wechsberg
10 Downing Street

CHECKLIST

Domestic Reform

- plans and prospects for the Japanese economy?
- policy advisers' meeting by end of the year.

Global Issues

G8

- Okinawa initiatives – DOT Force and Task Force on Renewable Energy – should reach fruition at Genoa.
- need as many outcomes at Genoa as possible, particularly on the development agenda.

Climate Change

- Bush's position? Hope Japan will join EU in ratifying.
- Can you meet Deputy Prime Minister in Japan on 11 July?

WTO

- need an ambitious Round launched at November WTO Ministerial at Doha.
- welcome your efforts to address concerns of developing countries; but we must also work closely with the US.

Global Health Fund

- Fund should be operational by 1 January 2002.
- needs a clear focus on HIV/AIDS, tuberculosis and malaria and on helping developing countries purchase key commodities and strengthen systems to use them well.
- UN has an important role to play in the new Fund, but how?

UN Security Council Reform

- UK supports seats for both Japan and Germany.
- to make progress on reform, we need a strong lead from a group of interested states, including aspirants for permanent membership. Work together?
- Bush Administration's approach?
- (if raised) participation in frontline military peacekeeping activities not a precondition for permanent membership
- (if raised) prepared to consider your idea of a high-level political meeting on Security Council Reform. But not clear how this would help our cause. 1?

Missile Defence

- agree with US that there is a role for missile defence in countering proliferation threat. Your difficulties with China?

Bilateral

General

- "Action Agenda" has been a stimulus to all kinds of joint activity.
- Japan 2001 Festival and Crown Prince visit extremely successful.

UK/Japan 21st Century Group

- Peter Mandelson to be new Chairman of this group [NB if agreed by 2 July] Need correspondingly high-calibre Japanese Chairman.
- happy in principle to see the Group when it meets in Britain in March 2002.

Business and Technology

- grateful for Japanese investment. Pleased we are now investing in Japan.
- partnership by government an essential framework/stimulus.
- should work together on:
 - issuing a joint statement on collaboration on ICT and promoting the knowledge economy; will write separately about this
 - nanotechnology, climate modelling and post-genomics, as agreed between Lord Sainsbury, David King, and Professor Imura earlier this year.

Defence Sales

- Rolls-Royce WR21 Marine Engine and Agusta Westland EH101

Nuclear Energy

- value our relationship on nuclear energy; decision on Sellafield MOX Plant later in the summer

EU-Japan

- hope you can agree a date soon for this year's EU/Japan Summit.

Regional Issues

Korean Peninsula

- committed to supporting rapprochement between the two Koreas; and to coordinating our policies with you

Balkans

- value Japanese engagement to date, particularly in Bosnia and Kosovo. Encourage continued engagement, including in FRY. Parallel with our engagement in Asia.
- Lord Ashdown as next Bosnian High Representative. Hope Japan can support.

Russia

- Prospects for settling territorial dispute with Russia?
- UK policy is of critical engagement with Russia. Increased chance of influencing if engaged. They should be aware of our concerns eg over proliferation or Chechnya.

BackgroundKOIZUMI'S REFORM AGENDA

1. Koizumi took over from the unpopular Mori as Prime Minister in April 2001 on a platform of economic and political reform. There have been previous attempts at reform, but Koizumi's agenda is different because he is exercising leadership; he has injected a new sense of urgency; he is pushing reform into hitherto taboo areas; and he has won overwhelming public support.
2. His agenda covers most aspects of society and the economy. But the key areas needing reform are economic policy, inflexible labour market and inadequate social security arrangements, and the political system.

Economic Policy

3. Since the collapse of the bubble economy in the early 1990s, the government has used fiscal spending to stimulate the economy. The cost has been a huge public sector debt, now around 130 per cent of GDP. With the scope for further fiscal stimulus very limited and with consumers saving for the inevitable tax hikes and spending cuts, Koizumi has switched the focus to supply-side reforms and greater efficiency. This is popular, but will be painful. The government has accepted that it will result in two to three years of low growth before benefits come. Detailed policy proposals and implementation timetables will follow after the 29 July Upper House elections. But the thrust is clear: disposal of non-performing loans (an estimated £74 billion pounds); reallocation of the budget away from low return public works and towards strategic spending with greater economic/social payback; and supply-side reforms aimed at raising the long-term growth rate. These supply-side reforms include privatisation and deregulation; encouraging entrepreneurship; social security reforms; incentives to encourage training and education; and increased participation in the labour force for women and the elderly. In all of these areas Koizumi will be interested in the UK experience. We hope that the Prime Minister will propose that policy advisers on both sides meet by the end of the year to share ideas.

Political Reform

4. Koizumi's key aim is to bring control of the policy process into the Cabinet and the Prime Minister's Office – until now the Japanese Prime Minister and Cabinet has more often than not been a rubber stamp for policies formulated within the Liberal Democratic Party's faction system. He has had some success but there is resistance from the LDP old guard. Again, he will be interested in the Prime Minister's insights.

Defence and Foreign Policy

5. These are not priority areas for Koizumi. But his unprecedented readiness to open up for debate the taboo areas of the constitution and defence could lead to a less constrained defence policy and greater involvement in international peacekeeping. Even if only a by-product of the Koizumi reforms, these would be of particular value to the UK, and are a priority area as we engage with Koizumi's government on the overall reform agenda.

GLOBAL ISSUESG8

1. The **Genoa Summit** will take place on **20–22 July**. Foreign Ministers will meet 18–19 July in Rome.
2. The Italian Presidency are making **Poverty Reduction** the core theme of the Summit – strongly supported by us and other G8 countries. The aim is to move from a narrow focus on debt relief to a broader based strategy encompassing trade, investment, health and education. We are pressing the Italians to make sure the Summit produces as many practical outcomes as possible. Task Forces on **Renewable Energy** and **Information Technology** (*Dot Force*) were launched at Okinawa. Both processes have now produced some potentially useful work after initial teething problems.
3. Italian preparations have been fairly shambolic. The Japanese, who ran an efficient Presidency last year, have been deeply irritated by this, and have tried to be back-seat drivers of the process. Media attention is likely to focus on Koizumi, like Berlusconi and Bush a newcomer to the group, and on potentially serious anti-globalisation street protests.

Climate Change

1. The Sixth Conference of the Parties (COP6) to the UN Framework Convention on Climate Change ended without agreement in The Hague last November. The aim of the Conference was to agree detailed rules for the implementation of the Kyoto Protocol. COP6 will resume in Bonn 16 - 27 July.
2. The Bush Administration publicly opposes the Kyoto Protocol on the grounds that it does not require sufficient action by developing countries and that it would seriously harm the US economy. Uncertainty remains over Japan's position. It appears that Japan remains committed to entry into force of the Protocol by 2002, but is ducking the issue of ratification without the US. Japan might be more comfortable with this prospect if we made it clear that we wish to leave the door open to the US, and recognise that the US will have to be included in a deal in the long-run.
3. Koizumi will have raised this with Bush on 30 June, and may have some news. Our aim should be to persuade the Japanese to ratify without the US, a task which may be easier if Bush has not shown any new flexibility. DEFRA will brief separately on 2 July.
4. The DPM will be travelling to China, India and Japan (11 July) to discuss climate change. It would be useful if the Prime Minister were to ask Koizumi to receive the DPM while in Japan.

WTO

1. Our primary trade policy goal is to launch a **new round** of trade negotiations this November at the WTO Ministerial in Doha. Japan is a strong ally of the EU in supporting a broad agenda, and provides an important indicator of Asia Pacific views through involvement in APEC, ASEM and ASEAN+3.
2. Though significant differences remain with certain other WTO members on the **breadth of the agenda**, recent developments have given more ground for optimism. Recent meetings: OECD Ministerial and ASEM Foreign Ministers' meeting in May; APEC Trade Ministers and the EU/US Summit in June, all produced positive language on the launch of a new Round. Gaps between those wanting a broad agenda (EU/Japan) and those seeking a narrow agenda (US / developing countries) are closing. The next major international Ministerial-level event will be the 22-23 July **Genoa G8 Summit**. This will be followed by a further WTO General Council meeting at the end of July. We hope that progress at these events will leave the WTO with a manageable list of issues for resolution in the run-up to Doha.
3. At Genoa, the Japanese share our wish to see a positive statement aimed at bringing in **developing countries**. In particular, we agree with the Japanese that implementation issues (relating to the Uruguay Round) and capacity building are two essential elements to engage developing countries. But the Japanese need to take account of **US sensitivities** as well as developing country concerns. Anti-dumping, which the Japanese could well push at Genoa, could pose particular difficulties for the US, given its influential steel sector.
4. In recent meetings some Japanese officials have given the impression they may be scaling down their ambitions on a new Round agenda. An assurance of Japan's commitment to a broad agenda would be welcome. In particular, eliciting Japanese support on issues of key concern to the EU, such as the clarification of the relationship between trade rules and environmental regulation (making clear that this is not for protectionist reasons) would be a useful outcome. Like the EU, the Japanese advocate a broad agenda largely for domestic reasons: they need to offset any losses in agriculture with gains in other areas. Japan's proposals to the on-going agriculture negotiations in Geneva have shown little willingness to liberalise, which indicates that they will fight hard against any concessions. Recent developments in Japan's trade relations with China show the strength of the Japanese agricultural lobby. Protectionist anti-dumping duties placed on Chinese agricultural imports have prompted tit for tat retaliation from China.

Global Health Fund

1. There is slow movement towards consensus about the **focus of the Fund**. There is agreement on HIV/AIDS, TB and malaria. We support the view that the Fund should focus on key commodities and the strengthening of health systems in developing countries. This would be complementary to existing bilateral and multilateral development assistance.
2. **Role of UN and UN Secretary General**. At meetings on 21 June with the Prime Minister and the Secretary of State for International Development, Kofi Annan

- expressed the view that the Global Health Fund should not be a UN Fund and that he wished to convene the next steps to keep the process moving forwards. In G8 preparatory discussions Japan has opposed strong UN engagement in the fund,
3. **Japan** has stressed the need for urgent work to establish the Fund but privately in the G8 context tends to slow the process down.
 4. At the UN Aids Conference in New York Japan announced that it will be contributing 'a substantial amount' to the Fund. Koizumi may announce a contribution of \$100 million during his visit to Washington. This would match our own contribution of \$100 million (not yet announced).

UN Security Council Reform

1. Security Council reform remains a sensitive issue at the United Nations. While there is broad agreement among UN Member States that the Council needs to be made more representative of the UN membership, views differ on what the size and structure of the expanded Council should be. A vocal minority (the so-called "Coffee Club", which includes South Korea, Italy, Pakistan, Canada, Argentina and others), which is opposed to any new permanent members on the Council, has been blocking progress.
2. There was widespread support at the UN Millennium Summit in September 2000 for early reform, but the momentum is waning. And with next year's GA Presidency being held by Korea, a core Coffee Club member, there is little likelihood of substantial progress in the coming year.

The UK's Position

3. We are one of a number of countries supporting Council enlargement to 24, through expansion in both the permanent and non-permanent membership. This would provide a balance between effectiveness and making the Council more representative. Any less than 24 would not be negotiable with the wider membership. A strong and authoritative Council would also enhance Britain's position as a permanent member. We would like to see five new permanent seats: for Japan, Germany, and one each for Asia, Africa and Latin America respectively; and four new non-permanent seats for each of Asia, Africa, Latin America and Eastern Europe.

The Japanese Position

4. Japanese policy has been the same as our own. However, Koizumi has previously made public statements questioning whether permanent membership of the Security Council would be in Japan's best interests. This may be the result of his erroneous belief that Japan cannot become a permanent member until it commits to frontline military peacekeeping activities, which in turn cannot happen without amendment of Article 9 of Japan's Constitution. This is not the case; combat peacekeeping is not a pre-condition for permanent membership. The Prime Minister can help develop Koizumi's understanding.

5. Japanese officials see the US position as key, and have been working hard to persuade the new US administration to endorse Japan's candidature more enthusiastically and to accept a Security Council of more than 21.
6. Koizumi is briefed to raise UNSC reform during his visit to Washington. He might float the idea of a high-level political meeting, perhaps in 2003, to reinject momentum into the process and possibly resolve some of the issues. We will need to consider carefully whether this is likely to advance the reform cause.

Missile Defence

1. Japan is in a difficult position on missile defence. In public it takes a similar line to our own. In private things are more complicated.
2. Japan is concerned about its own vulnerability to missile attack, not least from North Korea, which launched a missile over Japan in 1998. As a result the Japanese are seeking to develop a theatre missile defence system with the US; they have a collaborative research agreement which helps underpin the security relationship. For both constitutional and political reasons any Japanese missile defence system would need to be operated by Japan and solely for the territorial defence of Japan.
3. Nevertheless, while recognising the threat posed by the proliferation of weapons of mass destruction and their means of delivery Japan remains concerned about the possible impact of US Missile Defence on China, particularly if the US deploy a system which negates China's nuclear deterrent. Given the small size of China's nuclear arsenal this seems possible, although China is already modernising and expanding its nuclear arsenal. (The US believe that China will expand their arsenal sufficiently to overcome the limited systems the US envisages deploying.) Chinese nuclear build-up, with tacit US acceptance, may also create domestic difficulties in Japan. Some fear too that US Missile Defence could result in the decoupling of the US from Japan. There is also concern over the wider impact on arms control and non-proliferation regimes.

BILATERALAction Agenda

1. This was agreed during the Foreign Secretary's visit to Japan in September 1999 and has proved markedly effective in stimulating and broadening the relationship.

Japan 2001 Festival and Crown Prince visit

2. Japan 2001 is a year-long festival showcasing Japan's contemporary culture and lifestyle throughout the UK from May 2001-May 2002. The Prince of Wales and the Crown Prince are Joint Patrons. The Crown Prince visited Britain in May to attend the opening events of the festival and enjoyed himself greatly.

UK/Japan 21st Century Group

3. The 21st Century Group was set up in 1984 by the then Prime Ministers to strengthen bilateral non-governmental links. Its original Chairmen had the ear of their Prime Ministers, and for a time the Group acted as a highly effective lobby in business and other circles for closer ties with Japan. However, the Group now needs re-invigorating. Koizumi's arrival provides an opportunity.
4. If agreed by then, the Prime Minister might tell Koizumi that Peter Mandelson will be the new Chairman of the Group, taking over from Lord Howell who is keen to stand down. He might also indicate his willingness in principle to receive the Group during their annual meeting next year. The Prime Minister might encourage Koizumi to appoint a high-calibre Chairman on his side too.

Business and Technology

5. The Japan-UK business relationship has matured. Japanese investment into the UK in the 1980s and 1990s helped reinvigorate the British industrial base and provided much needed employment and hope for depressed areas. Investment is now shifting to higher value, more knowledge intensive operations. Existing operations are moving up the value chain. In the last six months, Canon, Fujitsu, NEC, and Toshiba, have decided on higher value operations. The car manufacturers, Nissan, Honda, and Toyota, have all opted for new injections of capital and activity into their operations. NSK and Komatsu have converted operations into higher value production while shipping out low cost production to Eastern Europe. Electronics and pharmaceuticals companies are tapping into UK research and development at universities.
6. At the same time, British business with Japan has grown steadily, as the Japanese market has opened. Exports are increasing by 12% so far this year, and UK investment in Japan is rising rapidly, particularly in telecomms (more than 5 billion pounds in the last two years from Vodafone, BT and Cable & Wireless), finance (3i etc) and retailing (Virgin, HMV, and Boots). The problems faced by exporters to Japan of the 1980s have largely evaporated.

7. The relationship is more equal. Both countries are promoting a knowledge driven economy. Both see globalisation as more opportunity than threat. The Ministry of Economy and Industry of Japan, in its May 2001 White Paper, advocated meeting international competition by moving up the value chain rather than bringing down trade barriers. Japan has moved a long way. h
8. There are many opportunities for the UK to work with the substantial Japanese Government S&T effort (£140 billion over the next five years) in order to promote the interests of both UK science and business.
9. In the area of Information and Communications Technology (ICT), we must build on Patricia Hewitt's visit to Japan in January, in which she agreed a declaration with three Japanese Cabinet Ministers on the promotion of e-commerce and e-government. This has since been consolidated by working level exchanges on e-commerce standards and next generation telephony technology. We have some concerns about the competitiveness of the communications sector in Japan (which is extremely important to UK firms who have invested over \$10 billion in the market over the last 5 years) and would like to see Koizumi focus some of his reforming zeal on really turning Japan into a knowledge economy. A joint statement by the Prime Minister and Koizumi on the promotion of ICT and the importance of creating a knowledge economy may help him focus in this direction and would help promote the image of the UK as Japan's referred partner in Europe. We will arrange for the Prime Minister to write to Koizumi on this following the meeting.
10. The agreement between Lord Sainsbury and the Japanese Chief Scientific Advisor in March 2001 identified opportunities for collaboration in areas including **post-genome research**. Progress in this area will reinforce our image as the European leader in biotechnology. On **climate change modeling**, the Japanese new super computer (the Earth Simulator) – the fastest supercomputer in the world - will be running in 2002. The UK has world class expertise in climate modelling. An agreement on bilateral cooperation in this area could be valuable in its own right and in other areas such as education and awareness raising in the UK and Japan. It would position the UK well as Japan's natural environmental technology partner.

Defence Sales

(i) Rolls-Royce Marine Power – WR21 Marine Engines

11. The Japanese Maritime Self Defence Forces are considering buying Rolls Royce WR21 marine gas turbine engines. The main competition is from the US: General Electric's LM2500 engine. Rolls Royce estimate that sales have a value of \$480 over 15 years. A push from the Prime Minister would be very welcome.

(ii) Agusta Westland – EH101 Helicopter

12. Agusta Westland see strong prospects for sale of their EH101 helicopter to the Japanese Maritime Self Defence Forces. Prospects include 3 helicopters in support of Antarctic research, 11 for minesweeping, and 21 for Search and Rescue. The

total value of the potential sale is approximately £500 million. Again, a push from the Prime Minister would be useful.

Nuclear Energy

13. The UK has substantial commercial and strategic interests in Japan's nuclear energy programme. BNFL provides reprocessing services for Japan's spent nuclear fuel, worth over £2.5 billion over the last 30 years. There is scope for further reprocessing business, although competition with the French will be tough.
14. To complete its nuclear fuel cycle, Japan needs MOX fuel, produced using the plutonium arising from spent fuel reprocessing. Until it can produce its own MOX (its plant will not come on-stream until at least 2010), Japan will remain dependent on supplies from the UK and France. Without access to these, Japan faces a serious problem of how to dispose of its considerable stocks of accumulated plutonium. BNFL hopes to supply MOX to Japan from the Sellafield MOX Plant (SMP). Final operating approval for SMP, based on the economic justification for its operation, is currently under consideration in DEFRA. BNFL needs orders from its Japanese customers to make the SMP viable. Unfortunately the first MOX supplied to Japan, made by BNFL at its pilot manufacturing facility (MDF), suffered from serious quality control failures. This had a strongly negative impact on public acceptability of the nuclear industry in Japan, and on BNFL's immediate business prospects. BNFL have agreed to take the defective fuel back, and this is likely to happen in Spring 2002.
15. The Japanese see SMP as essential to their nuclear programme. They continue to be concerned by the delays in the approvals process. It is important that we bear their concerns in mind as the final stages of the approvals process are reached. They will not wish to be taken by surprise in the case of a negative decision, which will create serious policy dilemmas for them, both domestically (national energy security, economic impact etc) and internationally (plutonium holdings).

EU-Japan relations

16. Fixing the timing of this year's EU/Japan Summit in Brussels has proved difficult. Chirac is likely to encourage Koizumi to fix a date for the EU/Japan Summit soon, to keep up the momentum in EU/Japan relations. It will be helpful in our relations with the Belgian Presidency to be able to say we did the same.

REGIONAL ISSUES

North Korea

UK/North Korea

1. The UK established diplomatic relations with the North Korea in December 2000 in support of President Kim Dae-Jung's (South Korea) policy of engagement with the North. We hope to establish permanent representation in Pyongyang in July. Our relations are conditional upon North Korean progress on human rights issues, nuclear and ballistic non-proliferation, continuation of inter-Korean rapprochement and economic reform. Our main instrument of policy is to expose senior North Korean officials to UK values and principles through English language training programmes, scholarships, and sponsored visits. We are conscious that there is little sign yet of the DPRK meeting EU benchmarks. It is important that UK and EU policy should move forward in tandem with Japan, South Korea and the US.

Japan/North Korea

2. Japan has not yet normalised relations with North Korea. There are long-standing bilateral problems: North Korea's demand for war reparations; the disappearance of Japanese citizens in the 1970s and 1980, believed to be abducted by North Korean agents; and missile proliferation in North Korea, particularly following the test launch of a DPRK Taepodon missile which passed over Japan in 1998. Informal exploratory talks aimed at a greater normalisation of the relationship, the last round in October 2000, have gone nowhere. But Japan has recently provided food aid to North Korea.

US/North Korea

3. President Bush announced on 6 June that his review of US policy toward the DPRK had been completed and that negotiations with the DPRK would resume. US priorities would be: strengthening the 1994 Agreed Framework to end the DPRK's nuclear weapons programme; halting the DPRK's missile exports while ensuring through verification that its missile development is curbed; enhancing North-South reconciliation; and reducing the threat posed by the DPRK's conventional forces. Sanctions would be eased and efforts to help the North Korean people expanded if the DPRK responded positively. Japan endorsed the US policy's comprehensive approach and expects Japan/DPRK and RoK/DPRK talks to resume once Washington and Pyongyang have begun a substantive dialogue. After initial low-level talks-about-talks at the UN in New York, the DPRK's first response was that work on building new nuclear reactors should be given priority and that the US should pay compensation for delays in providing energy.

BalkansJapanese engagement in Balkans

1. The Japanese have been politically active in the Bosnia Peace Implementation Conference (PIC) Steering Board and the G8, particularly on Kosovo. Their economic and financial contribution to the Balkans in the past decade has been substantial (US \$10 billion) and sustained against a background of downward pressure on budgets and decreasing political and public support. Neither Koizumi nor Tanaka, the new Foreign Minister know anything about the region. But the Balkans will feature at the forthcoming G8 meeting in Genoa and, more generally, ministerial leadership will be vital in explaining to the Japanese parliament and public why Japan should be contributing in the Balkans. While the Balkans is viewed by Tokyo as largely an EU/Japan issue, we try bilaterally to keep the Japanese engaged and briefed. The Prime Minister can underline our message.

Lord Ashdown's Succession to Wolfgang Petritsch

2. Wolfgang Petritsch steps down as High Representative in July 2002 and the EU supports Lord Ashdown as his successor. We now need to work for formal Steering Board agreement to the Ashdown succession and to capture its non-EU members, including the Japanese. The Japanese said at the Steering Board that they were not ready to decide on Ashdown yet, but they did not appear to have any real objections. We will be pursuing at official level. Although Koizumi is unlikely to be briefed, this would be a good opportunity to highlight Lord Ashdown's candidature.

EC/World Bank FRY Donors' Conference

3. This is going ahead on June 29. It may not be clear until the last minute whether the US will judge FRY cooperation with the ICTY to be insufficient to allow them to attend. Japan is likely to follow any US example. The EU will contribute one half of the \$1.2 bn aid package. The UK will cover about 16% of this as part of its contribution to EC funds and is pledging another £15m in bilateral aid.

Russia

1. Russo-Japanese relations are dominated by the dispute over the four Kurile Islands (north of Japan) occupied by Russia at the end of WWII. This must be settled before they can sign a Peace Treaty. Some limited progress seemed to have been made during Putin's visit to Tokyo in September 2000 and at a summit in Irkutsk, Siberia on 25 March this year. But there is no prospect of an early settlement.
1. Japan has a strategic interest in developing oil and gas in the Russian far east. But Japanese investors are cautious. Trade in 2000 amounted to only US\$ 2.2bn, 80% of which was Russian exports of raw materials to Japan. This is less than 0.6% of Japanese external trade and the figure is falling. Like other G7 partners, the Japanese are very concerned about Russian debt and regularly raise the issue.

Draft public line for use on reform issues: -

“I expressed our strong support for Prime Minister Koizumi’s efforts to strengthen the Japanese economy through structural reform. Our agendas with regard to public expenditure and social provision for people in a rapidly changing economic environment have a great deal in common and there is much we can learn from each other. We have agreed to hold an exchange at expert level to follow up our discussion today”

Johathan Thomson
NEAPD
Tel: 7270 2956

My
cc: OTH
JS
OPs
LL
FC

To:

PS/MINISTER FOR INTERNATIONAL TRADE
AND INVESTMENT

ci:

Anna Wechsberg No 10
Richard Carden DGTP
Sir David Wright
Charles Bridge TP1
Rachel Jenkinson TP1a
James Farmer TP1d
Georgina Kemp TP1d
Vincent Fean Dir IG2
David Foskett IG2
Gillian Baker IG2
Gerry Moran INUK
Tony Collingridge INUK
Graham Horry FCO EUDE
Jonathan Thomson FCO
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From:

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Date: 28 June 2001

**NOTE OF MEETING WITH THE JAPANESE AMBASSADOR MR SADAYUKI
HAYASHI 29 JUNE at 11.00**

1. You met with Ambassador Hayashi today. The main message he delivered of relevance to the Prime Minister's meeting with Prime Minister Koizumi on Monday 2 July concerned the Euro. Asked what the attitude of Japanese entrepreneurs was towards the Euro he replied that they would like us to go into the Euro "at some time" but not now - the present exchange rate was too high. Exchange rate stability is more important to them than early entry. If we entered at the current Sterling : Euro rate, it would be a "disaster" for Japanese companies as well as UK exporters. As a parting shot, however, he did warn that it would be difficult for Japanese companies *if we say that we will not be joining the Euro for a "long time"*. He also remarked that London's role as the banking centre of Europe was a key factor for Japanese investors. He was confident that London would remain a dominant city in terms of the banking sector.
2. His was generally upbeat about the **Japan/UK trade and investment relationship**. He was particularly pleased to see our increased investment into Japan, as well as the work of JETRO on import as well as export promotion. Whilst some manufacturing capability was locating out of the UK, this was part of a global restructuring process, and these firms were being replaced by new high-tech ventures. Although not mentioned in this meeting, Gerry Moran, Invest UK, has sent up a submission today regarding Sanyo's closure in the PM's constituency.

3. Regarding the **Japanese economy**, he admitted that they were entering another stage of recession. PM Koizumi is aiming to bring in sweeping structural reform which the Ambassador warned would lead to short term redundancies, low or even negative growth rates, and will test Koizumi's support base. You were sure that our Prime Minister would want to encourage PM Koizumi with his reform plans.

4. On a new **WTO Round**, the Ambassador outlined their support for a comprehensive agenda. They were willing to talk about agriculture, but needed to have a complementary discussion with the aim of strengthening rules in new areas. He felt that developing countries "held the key to success at Doha" - developed countries had to implement more of their commitments from the Uruguay Round. You stressed our sensitivity to developing country concerns and how important we felt it was to maintain our dialogue with them and our NGO network in the run up to Doha.

28 June 2001

MATRIX



Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Anna,

AW

C: JB

JS

AC

TK

GS.

BU

Japan: Visit of Prime Minister

... The Prime Minister is meeting the Japanese Prime Minister, Junichiro Koizumi for talks followed by lunch on 2 July. I enclose briefing.

This is Koizumi's first foreign trip since he became Prime Minister in April 2001. He arrives from Washington late on 1 July. On Monday he has a free morning. Following meetings and lunch with the Prime Minister he will give an interview with the Financial Times and go to the theatre. On 3 July, he will meet retired MP Sir Julian Ridsdale, an old friend from Koizumi's time as Chair of the UK/Japan Parliamentary Group. He then leaves for Paris.

Our main objective is for the two Prime Ministers to establish a close personal relationship. This will be particularly useful before the G8 Summit on 20-22 July, and as we look for ways to strengthen the relationship with Japan on foreign policy and shared domestic challenges. Koizumi looks increasingly likely to remain in power after next month's Upper House elections and to have a crucial role in determining Japan's future political and economic profile.

Koizumi's style is unlike that of his predecessors. He has asked personally that the agenda be kept flexible so that there can be a free flowing discussion. But we know he wants to focus on domestic reform issues, G8 global issues, and bilateral relations. We suggest that the Prime Minister start with G8 issues, allowing for a freer discussion over lunch of the rest of the agenda.

On domestic reform, Koizumi will want to explain, and gain support for, his reform agenda. Our public support will be valuable to him, and he will be looking for ideas. Apart from cleaning up the banking system, his main challenges are:

- how to control government expenditure and reduce subsidy without stalling the economy; and
- how government can help people deal with the inevitable shakeout of labour.



He will be keen to learn from the Prime Minister. We hope the Prime Minister can offer to continue to help with the Japanese policy development process by suggesting follow up by expert advisers later this year. A suggested public line on this for use after the meeting is enclosed.

The Prime Ministers will want to compare notes on G8 issues in the run up to the Genoa Summit on 20-22 July. Key issues for the UK are: climate change: Koizumi will have discussed this with Bush; we should convince him to press ahead with Kyoto ratification, without the US if necessary. WTO: the Prime Minister might encourage Koizumi to support a broad based new Round in Doha. Global Health Fund: we should persuade the Japanese of the urgency of establishing it quickly.

Other global issues to raise are UN Security Council reform: the PM will want to emphasise UK support for a permanent seat for Japan and explore Koizumi's still opaque personal views; and missile defence: we want Japan to maintain its helpful public stance towards US missile defence and the consultation process.

On regional issues, Koizumi may raise Korea, Russia, and the Balkans. On Korea, the Prime Minister might explain our policy of engagement. On Russia, we should encourage Japan to follow our policy of critical engagement. The Prime Minister might also encourage greater Japanese engagement in the Balkans, and highlight our interest in Lord Ashdown becoming the next Bosnian High Representative.

Our bilateral relations with Japan are excellent and problem-free. The Crown Prince paid a successful visit to the UK in May for the start of the Japan 2001 Festival, which runs until May 2002. We continue to welcome Japanese investment in manufacturing and hi-tech sectors. With our drive on ICT we want to remain the preferred partner for Japanese business in Europe. UK investment to Japan is also growing fast, especially in telecomms (C&W, Vodafone) where we have strong interest in pro-competitive measures to encourage new players. The Prime Minister might agree with Koizumi to step up existing joint initiatives on ICT and Science and Technology. The Prime Minister might also note that the Action Agenda is still the blueprint for the bilateral relationship.

The Prime Minister might explain (if agreed by then) that his appointment of Peter Mandelson as Chair of the Anglo Japanese 21st Century Group shows his wish to strengthen the Group's role as a private high-level network and source of advice to both governments on the development of UK-Japan relations.

There are two major potential defence sales worth raising – Rolls Royce WR21 Marine Engines, and Agusta Westland EH101 Helicopters.



The Prime Minister might mention our energy policy review and reiterate our wish to maintain strong relations with Japan on nuclear fuels and technology. The decision on whether to license the Sellafield MOX plant, which is currently under review, has considerable importance for Japan. We have undertaken to take back the defective British fuel from Takahama.

Washington will be sending an account of Koizumi's talks with Bush to arrive on the morning of 2 July. You may also wish to hear things first hand from your opposite number in Washington. (The key issue will be Bush's reaction to any new Japanese proposals made on climate change.) You might also touch base with Nogami on Monday morning for his perspective.

For the meeting Koizumi will be accompanied by Shinzo Abe, Deputy Chief Cabinet Secretary; Yoshiji Nogami, G8 Sherpa; and Ambassador Sadayuki Hayashi. They will be joined at lunch by Ryozi Kato, Deputy Minister for Foreign Affairs, and Kazuyoshi Urabe, Assistant Cabinet Secretary.

The Prime Minister spoke by telephone to Koizumi on 27 April.

Yours ever,
Patrick

(Patrick Davies)
Private Secretary

Ms A Wechsberg
10 Downing Street

CHECKLIST

Domestic Reform

- plans and prospects for the Japanese economy?
- policy advisers' meeting by end of the year.

Global Issues

G8

- Okinawa initiatives – DOT Force and Task Force on Renewable Energy – should reach fruition at Genoa.
- need as many outcomes at Genoa as possible, particularly on the development agenda.

Climate Change

- Bush's position? Hope Japan will join EU in ratifying.
- Can you meet Deputy Prime Minister in Japan on 11 July?

WTO

- need an ambitious Round launched at November WTO Ministerial at Doha.
- welcome your efforts to address concerns of developing countries; but we must also work closely with the US.

Global Health Fund

- Fund should be operational by 1 January 2002.
- needs a clear focus on HIV/AIDS, tuberculosis and malaria and on helping developing countries purchase key commodities and strengthen systems to use them well.
- UN has an important role to play in the new Fund, but how?

UN Security Council Reform

- UK supports seats for both Japan and Germany.
- to make progress on reform, we need a strong lead from a group of interested states, including aspirants for permanent membership. Work together?
- Bush Administration's approach?
- (if raised) participation in frontline military peacekeeping activities not a precondition for permanent membership
- (if raised) prepared to consider your idea of a high-level political meeting on Security Council Reform. But not clear how this would help our cause.

Missile Defence

- agree with US that there is a role for missile defence in countering proliferation threat. Your difficulties with China?

Bilateral

General

- "Action Agenda" has been a stimulus to all kinds of joint activity.
- Japan 2001 Festival and Crown Prince visit extremely successful.

UK/Japan 21st Century Group

- Peter Mandelson to be new Chairman of this group [NB if agreed by 2 July] Need correspondingly high-calibre Japanese Chairman.
- happy in principle to see the Group when it meets in Britain in March 2002.

Business and Technology

- grateful for Japanese investment. Pleased we are now investing in Japan.
- partnership by government an essential framework/stimulus.
- should work together on:
 - issuing a joint statement on collaboration on ICT and promoting the knowledge economy; will write separately about this
 - nanotechnology, climate modelling and post-genomics, as agreed between Lord Sainsbury, David King, and Professor Imura earlier this year.

Defence Sales

- Rolls-Royce WR21 Marine Engine and Agusta Westland EH101

Nuclear Energy

- value our relationship on nuclear energy; decision on Sellafield MOX Plant later in the summer

EU-Japan

- hope you can agree a date soon for this year's EU/Japan Summit.

Regional Issues

Korean Peninsula

- committed to supporting rapprochement between the two Koreas; and to coordinating our policies with you

Balkans

- value Japanese engagement to date, particularly in Bosnia and Kosovo. Encourage continued engagement, including in FRY. Parallel with our engagement in Asia.
- Lord Ashdown as next Bosnian High Representative. Hope Japan can support.

Russia

- Prospects for settling territorial dispute with Russia?
- UK policy is of critical engagement with Russia. Increased chance of influencing if engaged. They should be aware of our concerns eg over proliferation or Chechnya.

Background

KOIZUMI'S REFORM AGENDA

1. Koizumi took over from the unpopular Mori as Prime Minister in April 2001 on a platform of economic and political reform. There have been previous attempts at reform, but Koizumi's agenda is different because he is exercising leadership; he has injected a new sense of urgency; he is pushing reform into hitherto taboo areas; and he has won overwhelming public support.
2. His agenda covers most aspects of society and the economy. But the key areas needing reform are economic policy, inflexible labour market and inadequate social security arrangements, and the political system.

Economic Policy

3. Since the collapse of the bubble economy in the early 1990s, the government has used fiscal spending to stimulate the economy. The cost has been a huge public sector debt, now around 130 per cent of GDP. With the scope for further fiscal stimulus very limited and with consumers saving for the inevitable tax hikes and spending cuts, Koizumi has switched the focus to supply-side reforms and greater efficiency. This is popular, but will be painful. The government has accepted that it will result in two to three years of low growth before benefits come. Detailed policy proposals and implementation timetables will follow after the 29 July Upper House elections. But the thrust is clear: disposal of non-performing loans (an estimated £74 billion pounds); reallocation of the budget away from low return public works and towards strategic spending with greater economic/social payback; and supply-side reforms aimed at raising the long-term growth rate. These supply-side reforms include privatisation and deregulation; encouraging entrepreneurship; social security reforms; incentives to encourage training and education; and increased participation in the labour force for women and the elderly. In all of these areas Koizumi will be interested in the UK experience. We hope that the Prime Minister will propose that policy advisers on both sides meet by the end of the year to share ideas.

Political Reform

4. Koizumi's key aim is to bring control of the policy process into the Cabinet and the Prime Minister's Office – until now the Japanese Prime Minister and Cabinet has more often than not been a rubber stamp for policies formulated within the Liberal Democratic Party's faction system. He has had some success but there is resistance from the LDP old guard. Again, he will be interested in the Prime Minister's insights.

Defence and Foreign Policy

5. These are not priority areas for Koizumi. But his unprecedented readiness to open up for debate the taboo areas of the constitution and defence could lead to a less constrained defence policy and greater involvement in international peacekeeping. Even if only a by-product of the Koizumi reforms, these would be of particular value to the UK, and are a priority area as we engage with Koizumi's government on the overall reform agenda.

GLOBAL ISSUESG8

1. The **Genoa Summit** will take place on **20–22 July**. Foreign Ministers will meet 18–19 July in Rome.
2. The Italian Presidency are making **Poverty Reduction** the core theme of the Summit – strongly supported by us and other G8 countries. The aim is to move from a narrow focus on debt relief to a broader based strategy encompassing trade, investment, health and education. We are pressing the Italians to make sure the Summit produces as many practical outcomes as possible. Task Forces on **Renewable Energy** and **Information Technology** (*Dot Force*) were launched at Okinawa. Both processes have now produced some potentially useful work after initial teething problems.
3. Italian preparations have been fairly shambolic. The Japanese, who ran an efficient Presidency last year, have been deeply irritated by this, and have tried to be back-seat drivers of the process. Media attention is likely to focus on Koizumi, like Berlusconi and Bush a newcomer to the group, and on potentially serious anti-globalisation street protests.

Climate Change

1. The Sixth Conference of the Parties (COP6) to the UN Framework Convention on Climate Change ended without agreement in The Hague last November. The aim of the Conference was to agree detailed rules for the implementation of the Kyoto Protocol. COP6 will resume in Bonn 16 - 27 July.
2. The Bush Administration publicly opposes the Kyoto Protocol on the grounds that it does not require sufficient action by developing countries and that it would seriously harm the US economy. Uncertainty remains over Japan's position. It appears that Japan remains committed to entry into force of the Protocol by 2002, but is ducking the issue of ratification without the US. Japan might be more comfortable with this prospect if we made it clear that we wish to leave the door open to the US, and recognise that the US will have to be included in a deal in the long-run.
3. Koizumi will have raised this with Bush on 30 June, and may have some news. Our aim should be to persuade the Japanese to ratify without the US, a task which may be easier if Bush has not shown any new flexibility. DEFRA will brief separately on 2 July.
4. The DPM will be travelling to China, India and Japan (11 July) to discuss climate change. It would be useful if the Prime Minister were to ask Koizumi to receive the DPM while in Japan.

WTO

1. Our primary trade policy goal is to launch a **new round** of trade negotiations this November at the WTO Ministerial in Doha. Japan is a strong ally of the EU in supporting a broad agenda, and provides an important indicator of Asia Pacific views through involvement in APEC, ASEM and ASEAN+3.
2. Though significant differences remain with certain other WTO members on the **breadth of the agenda**, recent developments have given more ground for optimism. Recent meetings: OECD Ministerial and ASEM Foreign Ministers' meeting in May; APEC Trade Ministers and the EU/US Summit in June, all produced positive language on the launch of a new Round. Gaps between those wanting a broad agenda (EU/Japan) and those seeking a narrow agenda (US / developing countries) are closing. The next major international Ministerial-level event will be the 22-23 July **Genoa G8 Summit**. This will be followed by a further WTO General Council meeting at the end of July. We hope that progress at these events will leave the WTO with a manageable list of issues for resolution in the run-up to Doha.
3. At Genoa, the Japanese share our wish to see a positive statement aimed at bringing in **developing countries**. In particular, we agree with the Japanese that implementation issues (relating to the Uruguay Round) and capacity building are two essential elements to engage developing countries. But the Japanese need to take account of **US sensitivities** as well as developing country concerns. Anti-dumping, which the Japanese could well push at Genoa, could pose particular difficulties for the US, given its influential steel sector.
4. In recent meetings some Japanese officials have given the impression they may be scaling down their ambitions on a new Round agenda. An assurance of Japan's commitment to a broad agenda would be welcome. In particular, eliciting Japanese support on issues of key concern to the EU, such as the clarification of the relationship between trade rules and environmental regulation (making clear that this is not for protectionist reasons) would be a useful outcome. Like the EU, the Japanese advocate a broad agenda largely for domestic reasons: they need to offset any losses in agriculture with gains in other areas. Japan's proposals to the on-going agriculture negotiations in Geneva have shown little willingness to liberalise, which indicates that they will fight hard against any concessions. Recent developments in Japan's trade relations with China show the strength of the Japanese agricultural lobby. Protectionist anti-dumping duties placed on Chinese agricultural imports have prompted tit for tat retaliation from China.

Global Health Fund

1. There is slow movement towards consensus about the **focus of the Fund**. There is agreement on HIV/AIDS, TB and malaria. We support the view that the Fund should focus on key commodities and the strengthening of health systems in developing countries. This would be complementary to existing bilateral and multilateral development assistance.
2. **Role of UN and UN Secretary General**. At meetings on 21 June with the Prime Minister and the Secretary of State for International Development, Kofi Annan

expressed the view that the Global Health Fund should not be a UN Fund and that he wished to convene the next steps to keep the process moving forwards. In G8 preparatory discussions **Japan** has opposed strong UN engagement in the fund.

3. **Japan** has stressed the need for urgent work to establish the Fund but privately in the G8 context tends to slow the process down.
4. At the UN Aids Conference in New York Japan announced that it will be contributing 'a substantial amount' to the Fund. Koizumi may announce a contribution of \$100 million during his visit to Washington. This would match our own contribution of \$100 million (not yet announced).

UN Security Council Reform

1. Security Council reform remains a sensitive issue at the United Nations. While there is broad agreement among UN Member States that the Council needs to be made more representative of the UN membership, views differ on what the size and structure of the expanded Council should be. A vocal minority (the so-called "Coffee Club", which includes South Korea, Italy, Pakistan, Canada, Argentina and others), which is opposed to any new permanent members on the Council, has been blocking progress.
2. There was widespread support at the UN Millennium Summit in September 2000 for early reform, but the momentum is waning. And with next year's GA Presidency being held by Korea, a core Coffee Club member, there is little likelihood of substantial progress in the coming year.

The UK's Position

3. We are one of a number of countries supporting Council enlargement to 24, through expansion in both the permanent and non-permanent membership. This would provide a balance between effectiveness and making the Council more representative. Any less than 24 would not be negotiable with the wider membership. A strong and authoritative Council would also enhance Britain's position as a permanent member. We would like to see five new permanent seats: for Japan, Germany, and one each for Asia, Africa and Latin America respectively; and four new non-permanent seats for each of Asia, Africa, Latin America and Eastern Europe.

The Japanese Position

4. Japanese policy has been the same as our own. However, Koizumi has previously made public statements questioning whether permanent membership of the Security Council would be in Japan's best interests. This may be the result of his erroneous belief that Japan cannot become a permanent member until it commits to frontline military peacekeeping activities, which in turn cannot happen without amendment of Article 9 of Japan's Constitution. This is not the case; combat peacekeeping is not a pre-condition for permanent membership. The Prime Minister can help develop Koizumi's understanding.

5. Japanese officials see the US position as key, and have been working hard to persuade the new US administration to endorse Japan's candidature more enthusiastically and to accept a Security Council of more than 21.
6. Koizumi is briefed to raise UNSC reform during his visit to Washington. He might float the idea of a high-level political meeting, perhaps in 2003, to reinject momentum into the process and possibly resolve some of the issues. We will need to consider carefully whether this is likely to advance the reform cause.

Missile Defence

1. Japan is in a difficult position on missile defence. In public it takes a similar line to our own. In private things are more complicated.
2. Japan is concerned about its own vulnerability to missile attack, not least from North Korea, which launched a missile over Japan in 1998. As a result the Japanese are seeking to develop a theatre missile defence system with the US; they have a collaborative research agreement which helps underpin the security relationship. For both constitutional and political reasons any Japanese missile defence system would need to be operated by Japan and solely for the territorial defence of Japan.
3. Nevertheless, while recognising the threat posed by the proliferation of weapons of mass destruction and their means of delivery Japan remains concerned about the possible impact of US Missile Defence on China, particularly if the US deploy a system which negates China's nuclear deterrent. Given the small size of China's nuclear arsenal this seems possible, although China is already modernising and expanding its nuclear arsenal. (The US believe that China will expand their arsenal sufficiently to overcome the limited systems the US envisages deploying.) Chinese nuclear build-up, with tacit US acceptance, may also create domestic difficulties in Japan. Some fear too that US Missile Defence could result in the decoupling of the US from Japan. There is also concern over the wider impact on arms control and non-proliferation regimes.

BILATERAL

Action Agenda

1. This was agreed during the Foreign Secretary's visit to Japan in September 1999 and has proved markedly effective in stimulating and broadening the relationship.

Japan 2001 Festival and Crown Prince visit

2. Japan 2001 is a year-long festival showcasing Japan's contemporary culture and lifestyle throughout the UK from May 2001-May 2002. The Prince of Wales and the Crown Prince are Joint Patrons. The Crown Prince visited Britain in May to attend the opening events of the festival and enjoyed himself greatly.

UK/Japan 21st Century Group

3. The 21st Century Group was set up in 1984 by the then Prime Ministers to strengthen bilateral non-governmental links. Its original Chairmen had the ear of their Prime Ministers, and for a time the Group acted as a highly effective lobby in business and other circles for closer ties with Japan. However, the Group now needs re-invigorating. Koizumi's arrival provides an opportunity.
4. If agreed by then, the Prime Minister might tell Koizumi that Peter Mandelson will be the new Chairman of the Group, taking over from Lord Howell who is keen to stand down. He might also indicate his willingness in principle to receive the Group during their annual meeting next year. The Prime Minister might encourage Koizumi to appoint a high-calibre Chairman on his side too.

Business and Technology

5. The Japan-UK business relationship has matured. Japanese investment into the UK in the 1980s and 1990s helped reinvigorate the British industrial base and provided much needed employment and hope for depressed areas. Investment is now shifting to higher value, more knowledge intensive operations. Existing operations are moving up the value chain. In the last six months, Canon, Fujitsu, NEC, and Toshiba, have decided on higher value operations. The car manufacturers, Nissan, Honda, and Toyota, have all opted for new injections of capital and activity into their operations. NSK and Komatsu have converted operations into higher value production while shipping out low cost production to Eastern Europe. Electronics and pharmaceuticals companies are tapping into UK research and development at universities.
6. At the same time, British business with Japan has grown steadily, as the Japanese market has opened. Exports are increasing by 12% so far this year, and UK investment in Japan is rising rapidly, particularly in telecomms (more than 5 billion pounds in the last two years from Vodafone, BT and Cable & Wireless), finance (3i etc) and retailing (Virgin, HMV, and Boots). The problems faced by exporters to Japan of the 1980s have largely evaporated.

7. The relationship is more equal. Both countries are promoting a knowledge driven economy. Both see globalisation as more opportunity than threat. The Ministry of Economy and Industry of Japan, in its May 2001 White Paper, advocated meeting international competition by moving up the value chain rather than bringing down trade barriers. Japan has moved a long way.
8. There are many opportunities for the UK to work with the substantial Japanese Government S&T effort (£140 billion over the next five years) in order to promote the interests of both UK science and business.
9. In the area of Information and Communications Technology (ICT), we must build on Patricia Hewitt's visit to Japan in January, in which she agreed a declaration with three Japanese Cabinet Ministers on the promotion of e-commerce and e-government. This has since been consolidated by working level exchanges on e-commerce standards and next generation telephony technology. We have some concerns about the competitiveness of the communications sector in Japan (which is extremely important to UK firms who have invested over \$10 billion in the market over the last 5 years) and would like to see Koizumi focus some of his reforming zeal on really turning Japan into a knowledge economy. A joint statement by the Prime Minister and Koizumi on the promotion of ICT and the importance of creating a knowledge economy may help him focus in this direction and would help promote the image of the UK as Japan's referred partner in Europe. We will arrange for the Prime Minister to write to Koizumi on this following the meeting.
10. The agreement between Lord Sainsbury and the Japanese Chief Scientific Advisor in March 2001 identified opportunities for collaboration in areas including **post-genome research**. Progress in this area will reinforce our image as the European leader in biotechnology. On **climate change modeling**, the Japanese new super computer (the Earth Simulator) – the fastest supercomputer in the world - will be running in 2002. The UK has world class expertise in climate modelling. An agreement on bilateral cooperation in this area could be valuable in its own right and in other areas such as education and awareness raising in the UK and Japan. It would position the UK well as Japan's natural environmental technology partner.

Defence Sales

(i) Rolls-Royce Marine Power – WR21 Marine Engines

11. The Japanese Maritime Self Defence Forces are considering buying Rolls Royce WR21 marine gas turbine engines. The main competition is from the US: General Electric's LM2500 engine. Rolls Royce estimate that sales have a value of \$480 over 15 years. A push from the Prime Minister would be very welcome.

(ii) Agusta Westland – EH101 Helicopter

12. Agusta Westland see strong prospects for sale of their EH101 helicopter to the Japanese Maritime Self Defence Forces. Prospects include 3 helicopters in support of Antarctic research, 11 for minesweeping, and 21 for Search and Rescue. The

total value of the potential sale is approximately £500 million. Again, a push from the Prime Minister would be useful.

Nuclear Energy

13. The UK has substantial commercial and strategic interests in Japan's nuclear energy programme. BNFL provides reprocessing services for Japan's spent nuclear fuel, worth over £2.5 billion over the last 30 years. There is scope for further reprocessing business, although competition with the French will be tough.
14. To complete its nuclear fuel cycle, Japan needs MOX fuel, produced using the plutonium arising from spent fuel reprocessing. Until it can produce its own MOX (its plant will not come on-stream until at least 2010), Japan will remain dependent on supplies from the UK and France. Without access to these, Japan faces a serious problem of how to dispose of its considerable stocks of accumulated plutonium. BNFL hopes to supply MOX to Japan from the Sellafield MOX Plant (SMP). Final operating approval for SMP, based on the economic justification for its operation, is currently under consideration in DEFRA. BNFL needs orders from its Japanese customers to make the SMP viable. Unfortunately the first MOX supplied to Japan, made by BNFL at its pilot manufacturing facility (MDF), suffered from serious quality control failures. This had a strongly negative impact on public acceptability of the nuclear industry in Japan, and on BNFL's immediate business prospects. BNFL have agreed to take the defective fuel back, and this is likely to happen in Spring 2002.
15. The Japanese see SMP as essential to their nuclear programme. They continue to be concerned by the delays in the approvals process. It is important that we bear their concerns in mind as the final stages of the approvals process are reached. They will not wish to be taken by surprise in the case of a negative decision, which will create serious policy dilemmas for them, both domestically (national energy security, economic impact etc) and internationally (plutonium holdings).

EU-Japan relations

16. Fixing the timing of this year's EU/Japan Summit in Brussels has proved difficult. Chirac is likely to encourage Koizumi to fix a date for the EU/Japan Summit soon, to keep up the momentum in EU/Japan relations. It will be helpful in our relations with the Belgian Presidency to be able to say we did the same.

REGIONAL ISSUES

North Korea

UK/North Korea

1. The UK established diplomatic relations with the North Korea in December 2000 in support of President Kim Dae-Jung's (South Korea) policy of engagement with the North. We hope to establish permanent representation in Pyongyang in July. Our relations are conditional upon North Korean progress on human rights issues, nuclear and ballistic non-proliferation, continuation of inter-Korean rapprochement and economic reform. Our main instrument of policy is to expose senior North Korean officials to UK values and principles through English language training programmes, scholarships, and sponsored visits. We are conscious that there is little sign yet of the DPRK meeting EU benchmarks. It is important that UK and EU policy should move forward in tandem with Japan, South Korea and the US.

Japan/North Korea

2. Japan has not yet normalised relations with North Korea. There are long-standing bilateral problems: North Korea's demand for war reparations; the disappearance of Japanese citizens in the 1970s and 1980, believed to be abducted by North Korean agents; and missile proliferation in North Korea, particularly following the test launch of a DPRK Taepodon missile which passed over Japan in 1998. Informal exploratory talks aimed at a greater normalisation of the relationship, the last round in October 2000, have gone nowhere. But Japan has recently provided food aid to North Korea.

US/North Korea

3. President Bush announced on 6 June that his review of US policy toward the DPRK had been completed and that negotiations with the DPRK would resume. US priorities would be: strengthening the 1994 Agreed Framework to end the DPRK's nuclear weapons programme; halting the DPRK's missile exports while ensuring through verification that its missile development is curbed; enhancing North-South reconciliation; and reducing the threat posed by the DPRK's conventional forces. Sanctions would be eased and efforts to help the North Korean people expanded if the DPRK responded positively. Japan endorsed the US policy's comprehensive approach and expects Japan/DPRK and RoK/DPRK talks to resume once Washington and Pyongyang have begun a substantive dialogue. After initial low-level talks-about-talks at the UN in New York, the DPRK's first response was that work on building new nuclear reactors should be given priority and that the US should pay compensation for delays in providing energy.

Balkans

Japanese engagement in Balkans

1. The Japanese have been politically active in the Bosnia Peace Implementation Conference (PIC) Steering Board and the G8, particularly on Kosovo. Their economic and financial contribution to the Balkans in the past decade has been substantial (US \$10 billion) and sustained against a background of downward pressure on budgets and decreasing political and public support. Neither Koizumi nor Tanaka, the new Foreign Minister know anything about the region. But the Balkans will feature at the forthcoming G8 meeting in Genoa and, more generally, ministerial leadership will be vital in explaining to the Japanese parliament and public why Japan should be contributing in the Balkans. While the Balkans is viewed by Tokyo as largely an EU/Japan issue, we try bilaterally to keep the Japanese engaged and briefed. The Prime Minister can underline our message.

Lord Ashdown's Succession to Wolfgang Petritsch

2. Wolfgang Petritsch steps down as High Representative in July 2002 and the EU supports Lord Ashdown as his successor. We now need to work for formal Steering Board agreement to the Ashdown succession and to capture its non-EU members, including the Japanese. The Japanese said at the Steering Board that they were not ready to decide on Ashdown yet, but they did not appear to have any real objections. We will be pursuing at official level. Although Koizumi is unlikely to be briefed, this would be a good opportunity to highlight Lord Ashdown's candidature.

EC/World Bank FRY Donors' Conference

3. This is going ahead on June 29. It may not be clear until the last minute whether the US will judge FRY cooperation with the ICTY to be insufficient to allow them to attend. Japan is likely to follow any US example. The EU will contribute one half of the \$1.2 bn aid package. The UK will cover about 16% of this as part of its contribution to EC funds and is pledging another £15m in bilateral aid.

Russia

1. Russo-Japanese relations are dominated by the dispute over the four Kurile Islands (north of Japan) occupied by Russia at the end of WWII. This must be settled before they can sign a Peace Treaty. Some limited progress seemed to have been made during Putin's visit to Tokyo in September 2000 and at a summit in Irkutsk, Siberia on 25 March this year. But there is no prospect of an early settlement.
1. Japan has a strategic interest in developing oil and gas in the Russian far east. But Japanese investors are cautious. Trade in 2000 amounted to only US\$ 2.2bn, 80% of which was Russian exports of raw materials to Japan. This is less than 0.6% of Japanese external trade and the figure is falling. Like other G7 partners, the Japanese are very concerned about Russian debt and regularly raise the issue.

Russia has undertaken to try to make its repayments in full, but this could be tricky in 2003, when repayments will peak.

2. The Japanese agenda rarely goes beyond these territorial and economic issues. They do not see Russia as a serious player in Asia. Nor do they engage Russia seriously on human rights, Chechnya, or proliferation, except in the G8, although they share our concerns. It would be useful to impress upon Koizumi the importance the UK attaches to critical engagement with Russia and to encourage him to take a broader view.

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KOIZUMI: PERSONALITY NOTE

Koizumi, 59, became Prime Minister on 26 April this year. He is altogether a different kind of operator from his predecessors.

Koizumi's public style is dynamic, sincere - often emotional - and direct. A slight figure, he nevertheless stands out in the conformist world of Japanese politics, and has a certain charisma. His penchant for light suits and his trademark hairstyle (nickname "Beethoven") help. He has developed a distinctive way of speaking, whether joking with the press corps or orating passionately with clenched fists in the Diet. He has dropped the convoluted and deliberately opaque style of most Japanese politicians and speaks in short, abrupt, simple Japanese reinforced with striking hand gestures which he seems to have learned from his study of the theatre (western and Kabuki). The public love it. His appearances on question time are attracting record viewing. There are moments when this shades into demagoguery. And there are plenty of commentators quick to highlight the risks of populist leadership.

The media too, for the moment, are also lapping it up. Koizumi is more accessible than any previous Prime Minister and his commitment to make Japanese government more transparent offers them a bonanza.

According to his Private Secretary, in working meetings Koizumi's style is decisive and focussed. He likes to get to the heart of an issue quickly. He is not a man for details, but looks for agreement on the broad policy, delegating follow-up to others. He absorbs, but does not depend on his brief and is likely to stray from any formal agenda.

Koizumi is a maverick, but a carefully judged one. He has a keen sense of the public mood and has taken the huge gamble of rejecting many of the LDP's unwritten rules of loyalty, seniority and obligation to build a powerbase in the electorate. He is not afraid of controversy, is strongly determined and ready to stick to his principles even if this attracts criticism. For example:

- he went against official (and legal) advice in offering government compensation to leprosy victims who had been subject to forcible segregation and other abuses in the 50s and 60s;
- he has not backed down from his commitment to visit the Yasukuni shrine (to Japan's war dead) on 15 August, despite fierce Chinese and South Korean criticism.

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He does not have many close aides or advisers. Key figures appear to be Economics Minister Takenaka, former Prime Ministers Nakasone and Mori, Tokyo Governor Ishihara and Chief Cabinet Secretary Fukuda, whose father, former Prime Minister Fukuda employed Koizumi as a political secretary in the 1970s. He has a small network of business, academic and artistic contacts, although it is not yet clear to what extent these are sources of policy advice. On the key economic reform issues, the generation of policy is primarily through the advisory councils and committees which Koizumi chairs, such as the Council on Economic and Fiscal Policy. The difference with him is that policy is now being driven from the top, and that the party committees, where most of the backwoodsmen lurk, have a much smaller influence.

Koizumi has made economic recovery through structural reform the test of his administration. It is still early days, but he appears to have won public acceptance of the idea that this will not be achieved immediately or without pain. There is no doubt about his sincerity and seriousness, and the speed at which he and Takenaka have introduced reform proposals into the public domain is impressive. If the LDP does as well in the Upper House elections as it did in the Tokyo Assembly elections this week, he should be re-elected as LDP President in September and then have a solid two-year mandate to implement his proposals. His critics will take advantage of any major downturn in the economy unless he can show that he also cares about the safety-net for the victims of restructuring. But he has grown up within the LDP and has a good nose for the public mood.

There are obviously tremendous strains on Koizumi. But he is tough. Insiders say this strength comes from what seems to have been a long and very difficult divorce. He is a very private man, often spending his spare time alone listening to music or reading. Music and theatre are his main interests, especially opera and classical music although he professes a liking for rock music and heavy metal. He has not seen his wife and youngest son since his divorce, but has custody over his two older sons.

Koizumi's main links with the UK are his time spent studying economics at University College London in the late 1960s and his work as Secretary-General of the UK/Japan Parliamentary League. In this capacity he helped develop the JET programme (now the top employer of British graduates). He speaks some English, but will need the support of interpreters.

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Education

Graduated from Keio University Faculty of Economics. Studied as an exchange student at UCL in the 1960s, but returned early to Japan due to the unexpected death of his father.

Career

First elected to the House of Representatives in 1972. He served as Secretary-General of the cross party UK/Japan Parliamentary group in the 1970s.

Has served as junior Minister for Finance and in the Cabinet as Minister for Health and Welfare and Minister for Posts and Telecommunications. This was his third attempt at the LDP leadership, having run before in 1995 and 1998. He has often called for political reform, including breaking down the factional structure of the LDP.

His standing in the LDP is mixed. As, until recently, a key member of one of the LDP's biggest factions, he is a mainstream party establishment figure, but his calls for shaking up the LDP have made him unpopular with some parts of the party. His relationship with the LDP's current coalition partners is also uncertain. He has shrewdly offset his relative lack of support in the LDP by appealing directly to the LDP rank and file and the wider public. He said little on international affairs during the election campaign, but in the past has spoken against Japan becoming a permanent member of the Security Council.

Draft public line for use on reform issues: -

“I expressed our strong support for Prime Minister Koizumi’s efforts to strengthen the Japanese economy through structural reform. Our agendas with regard to public expenditure and social provision for people in a rapidly changing economic environment have a great deal in common and there is much we can learn from each other. We have agreed to hold an exchange at expert level to follow up our discussion today”

Johathan Thomson
NEAPD
Tel: 7270 2956

BO.1004

ANNA WECHSBERG

cc: Jim Drummond
Nick Archer, NENAD, FCO

1. You will probably hear all this from the Foreign Office in due course but for good order I record what a visiting Japanese (Mr Shinyo) told me about the Koizumi visit.
2. Koizumi is in Washington 30 June, in London on 2 July and then back to Japan via Chirac and Jospin in Paris. The tour is part of his build up towards Genoa.
3. He would want to talk about:
 - Domestic reform;
 - UK/bilateral relations (Crown Prince, investment etc);
 - New WTO round;
 - Poverty reduction (massive aid programme; we used to do quite a lot together in Africa);
 - COP6 and Kyoto;
 - Missile defence;
 - Korea and the Balkans (the regional issue that matters most to Japan and the one that matters most to us. The Japanese contribute in the Balkans and the more we thank them the more they contribute. They welcome our engagement in Korea);
 - And, of course, Security Council Reform.

4. I urged them to encourage Koizumi to go for informality and focus on the things he was most interested in, notably domestic reform which I thought would interest the Prime Minister. One thing we had in common was that we were the closest people of our respective continents to the USA. There was a lot to be said for discussing US related topics like missile defence and Kyoto.

R Cooper.

ROBERT COOPER

21 June 2001

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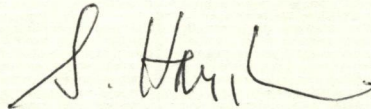
**EMBASSY OF JAPAN
LONDON**

14th June 2001

Dear Prime Minister,

I have been asked by Prime Minister Junichiro Koizumi to forward to you the text of his letter, together with a translation, which I have pleasure in enclosing herewith.

Yours sincerely,



Sadayuki Hayashi
Ambassador

The Rt. Hon. Tony Blair, MP,
Prime Minister, First Lord of the Treasury,
and Minister for the Civil Service,
LONDON.

拝啓

池田小学校で起きた痛ましい事件について、丁重な弔意を頂き、心より感謝致します。

貴首相が貴国の経験からご存知であるとおり、同地域関係者は非常に強い衝撃を受けています。

しかしながら、貴首相の温かいお心遣いと、悲しみを我々と共有して下さるお気持ちは、関係者にとって大きな慰めとなりましょう。

私も、近く貴首相とお会いできることを楽しみにしております。

敬具

小泉純一郎
日本国総理大臣

SUBJECT
WASTEE

(Translation)

Excellency,

I should like to convey my deep gratitude for your kind message of condolence on the heartrending incident at Ikeda Elementary School.

As you understand from your past experience, the community is indeed deeply affected by the incident.

However, your kind thought and readiness to share the grief with us will be of great comfort to those concerned.

I, too, look forward to seeing you soon.

Sincerely,

Junichiro Koizumi
Prim Minister of Japan



The Democratic Party of Japan

1-1, Nagata-cho, Chiyoda-ku, Tokyo 100-0014, Japan ● telephone +81-3-3595-9969・9904 telefax +81-3-3595-7318

民主党

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TEL03-3595-9988 FAX03-3595-9991 URL <http://www.dpj.or.jp/>

June 11, 2001

MATRIX

MT
—
AW

Dr. Yukio Hatoyama
President
Democratic Party of Japan
Party Head Quarters
1-11-1 Nagata-cho
Chiyoda-ku, Tokyo 〒100-0014
Japan

The Rt. Hon. Tony Blair MP
Prime Minister, First Lord of the Treasury and Minister for the Civil Service
10 Downing Street
London SW1
United Kingdom

Prime Minister,

On behalf of the Democratic Party of Japan, may I take this opportunity to congratulate you on your historic victory in the General Election of 7 July.

I remember well our meeting in Japan back in 1997. I would like to congratulate you on the numerous successes and achievements of your Party and of your Government since then. I of course hope that the Democratic Party of Japan will be able to learn from your example and achieve a similar result in the Election for the Japanese House of Councillors in July.

As you are aware, the Democratic Party of Japan has been a proud advocate of the concept of the Third Way. I swear that the Democratic Party of Japan will continue to carry out structural reform.

May I take this opportunity to wish you every success in your second term in office.

Yours sincerely,

Dr. Yukio Hatoyama
President, Democratic Party of Japan

cc: Ana Neeshberg, NSW

From: Margaret McCole, NEAPD
Date: 26 June 2001

Rance Dave
26/6

cc: Ms Marsden
Mr Archer

PS

LETTER FROM PRESIDENT OF DEMOCRATIC PARTY OF JAPAN TO THE
PRIME MINISTER

1. We have received the attached letter from Dr Hatoyama, President of the Democratic Party of Japan (the main opposition party there). I should be grateful if you would arrange for this letter to be forwarded to the Prime Minister's office.

Margaret McCole

Margaret McCole
NEAPD
WH223 7270 2957

Top: FAJEARS
FAJRS

EMBASSY OF JAPAN
LONDON

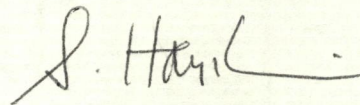
8th June 2001

Dear Prime Minister,

I have been asked by Prime Minister Junichiro Koizumi to forward a copy of his letter to you, together with a translation, which I have much pleasure in enclosing.

May I take this opportunity to express my heartfelt congratulations to you on the victory of the Labour Party in the General Election. I very much look forward to continuing to work closely with you and your government in developing further the existing excellent partnership between our two countries.

Yours sincerely,

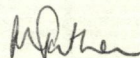


Sadayuki Hayashi
Ambassador

The Rt. Hon. Tony Blair, MP,
Prime Minister, First Lord of the Treasury
and Minister for the Civil Service,
LONDON.

FILED
1. ✓ cc. Shepard Gwper-Gus PCO
8/6. No reply needed.

2. file



(Translation)

8 June 2001

Many congratulations on your victory in the general election.

I am sure that the close cooperative relations between our countries which you have helped foster will be further strengthened under your continued leadership.

I would like to take this opportunity to express my sincere gratitude for the heart-warming welcome that His Imperial Highness the Crown Prince received from Her Majesty The Queen and other members of the royal family, from you and your colleagues in government, and from the British people during his recent visit to the United Kingdom. I am happy to note that, through this successful visit of His Imperial Highness, mutual understanding and friendship between the peoples of Japan and the United Kingdom was further promoted and that 'Japan 2001' was successfully launched.

In line with what we agreed during our last telephone conversation, I am keen to work with you in pursuit of closer bilateral relations and the well-being of the world. In this spirit, I would like to continue cooperating with you as we prepare for the Genoa Summit of next month.

I look forward to seeing you soon and to discussing various issues with you.

Yours sincerely,

/s/

Junichiro Koizumi

Prime Minister of Japan

The Rt. Hon.

Tony Blair, M.P.,

Prime Minister of the United Kingdom
of Great Britain and Northern Ireland

拜啓

このたびの総選挙の勝利、誠におめでとうございます。

貴首相のご尽力によって、これまでに築かれてきた我々両国の緊密な協力関係が、貴首相が引き続き任に当たられることにより、一層強化されていくことを確信しております。

この機会に、先般のご訪英の際に、皇太子殿下が女王陛下をはじめとする英王室、貴首相をはじめとする貴国政府関係者及び英国国民から心温まる歓迎をいただいたことに心より感謝申し上げます。皇太子殿下のご訪英の成功により、両国国民の相互理解と友好が一層促進され、「Japan 2001」の素晴らしい幕開けとなったことを喜ばしく思っています。

先に我々が電話会談で確認したように、貴首相とともに更なる両国関係の緊密化と世界の繁栄のために共同作業を行っていただけることを楽しみにしております。来月のジェノバ・サミットに向けても、引き続き協力していきたいと考えております。

近く貴首相とお目にかかり、様々な課題について話し合えることを楽しみにしております。

敬具

平成13年6月8日

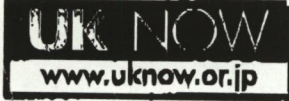
日本国総理大臣

小泉純一郎

連合王国首相

トニー・ブレア閣下

BRITISH EMBASSY



BY FAX: 00 44 20 7839 9044

British Embassy
Tokyo

From the Ambassador
Sir Stephen Gomersall
No. 1, Ichibancho
Chiyoda-ku, Tokyo 102-8381
Office Tel. +813 5211 1103
Office Fax. +813 5211 1111

PERSONAL

8 June 2001

John Sawers Esq CMG
Private Secretary
No 10 Downing Street

✓ PW

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please.
Anney
12/6*

Dear John.

1. If you get a chance, I would be grateful if you would convey my **warmest** congratulations to the Prime Minister.
2. I enclose a copy of a letter I have sent to the Japanese Prime Minister. He is heads down, working hard and still very high in the polls. We are feeding our thoughts on points for the meeting to the FCO. I imagine your FCO offices may be in touch directly, but if there are further points you would like us to feed to Koizumi in preparation for the meeting, please let me know.

*Yours ever
Stephen*

Sir Stephen Gomersall



BRITISH EMBASSY

**PERSONAL**

8 June 2001

His Excellency
Mr Junichiro Koizumi
Prime Minister
Prime Minister's Residence
1-6-1 Nagata-cho
Chiyoda-ku
Tokyo 100-0014

British Embassy
Tokyo
From the Ambassador
Sir Stephen Gomersall
No. 1, Ichibancho
Chiyoda-ku, Tokyo 102-8381
Office Tel. +813 5211 1100
Office Fax. +813 5211 1111

Dear Prime Minister

Forgive me for writing to you personally rather than through official channels. The Crown Prince's visit and Japan 2001 have raised the profile of Japan in Britain, and your visit to London on 2 July will equally set the tone for what I hope will be a very fruitful period of cooperation between your government and the new government of Mr Blair.

When I visited his office last week there was a great admiration for, and interest in, the reform agenda which you are setting out. Mr Blair said in his post-election speech today that he has ambitious ideas for the further reform and modernisation of British government and public services, and I have no doubt that there will be much to learn from each other's policies and experience. I know he would like to discuss with you how we could get your respective reform policy advisers in this area of domestic reform together for a discussion. He is greatly looking forward to seeing you.

If you had the time I would be very happy to visit you at your convenience to brief you on the new government's programme and discuss anything we could do to make your programme in London as fruitful and enjoyable as possible. I hope we can be of help and that we can keep personally in touch.

There are also a number of British musical events coming up in the Autumn, to which you would be very welcome, if relaxation remains on your schedule.

Yours, with respect,

Stephen Gomersall

Sir Stephen Gomersall