

04-DEC-1998 13:16 FROM JAPAN SECTION NEAPD

TO

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FM TOKYO

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TO JSKBY 041000Z FCO

TELNO 672

OF 040946Z DECEMBER 98

AND TO IMMEDIATE CABINET OFFICE, DSS, HM TREASURY, DTI

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FCO FOR PS/MR FATCHETT, SHEPHERD, DUS, SHARP, NEAPD  
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SUBJECT: FUJITSU, ICL AND PROJECT HORIZON: CALL ON AMBASSADOR BY  
VICE CHAIRMAN OF FUJITSU

## SUMMARY

1. Call by Naruto to discuss problems of Project Horizon. Increase in cost of project due to delays. Potential problems for ICL and Fujitsu if Project fails. Serious situation against 9 December deadline requiring early action

## DETAIL

2. Naruto, Vice Chairman of Fujitsu and Chairman of ICL, called on me today to present me with a letter outlining the serious financial difficulties surrounding Project Horizon and the problems for ICL/Fujitsu. Copy of letter by fax. Sakai, Senior Vice President of Fujitsu and Yurino, Director of ICL UK also attended.

3. Mr Naruto stressed the difficult and serious crisis Project Horizon faced:

- Cost of Project had increased from 185 million pounds to 600 million pounds. To date, ICL, supported by Fujitsu, had spent over 200 million pounds on the project. ICL and Fujitsu would have to raise the remaining funds through bank loans. Due to delays in setting up the project, ICL risked losing 500 million pounds by the year 2000. Loss of this scale against an outlay of 600 million pounds was unsustainable.

- Naruto and Fujitsu were worried that HMG did not fully understand the seriousness of the situation. From the very outset, the Project had not been given the attention it deserved. Fujitsu were particularly frustrated that the Benefits Agency (BA) had failed to provide ICL with the necessary data to implement Project Horizon. They believed BA were now dragging their feet over this and appeared to want to stop the project altogether since they wished to switch the delivery system from the Post Office (POCL) to the banking system.

- Fujitsu and ICL believed that the project was crucial to the modernisation and future health of POCL. They could not understand why the BA were not making more effort to resolve current problems.

- Attention in Japan to PFI had led to 2 seminars organised by the LDP, portraying Project Horizon in the UK as a model for Japan. Naruto feared for Fujitsu's domestic reputation if the Project failed.

- Naruto repeatedly stressed that failure of the Project will have

serious repercussions for Fujitsu's international standing, lead to major internal difficulties within Fujitsu and the collapse of ICL.

4. On the reference in Naruto's letter to a deadline of 9 December, he said that ICL had advanced 3 proposals in London to find a way forward:

- a) to delay roll-out from 2005 to 2010 (DTI idea) or 2008 (DSS idea);
- b) to reduce unit costs;
- c) because of the inflation in the overall price, to secure some Government guarantee for the extra funding needed.

5. As well as the letter which is being faxed, Naruto showed me internal communications from ICL in London. These addressed Fujitsu's views of the reasons for a delay of three and a half years:

- a) BA had been opposed to the Pathway approach, and POCL had been unable to exert sufficient control in ensuring BA stuck to the original Pathway solution.
- b) Both BA and POCL had tried to interfere in the Pathway design in a manner infringing normal PFI procedures.
- c) BA no longer wanted the POCL solution and wanted delivery through the Banks.

6. I emphasised to Naruto that I was not (not) personally involved in the extensive dealings over Project Horizon, which were now at Cabinet Minister level. But I undertook to report his letter and his comments to London. Given the current 9 December deadline, I would be available at home over the weekend to speak to him if necessary.

#### CONCLUSION

7. The contents of the letter and the tone of Naruto's approach make it quite clear that we have a major and potentially damaging problem on our hands. I do not (not) think he was simply trying to make our flesh creep, by warning of the threat to ICL's future viability. Fujitsu and Naruto in particular, have worked for 18 years first to prop up and then to put ICL on a healthy footing. Naruto certainly meant what he said when he warned of this now being under threat.

8. Failure of Project Horizon and of ICL's role in it would also knock a hole in the credit we get here for PFI/PPP initiatives. The Fujitsu/ICL role in Project Horizon has been seen as a template for high level political study here of this approach to large-scale public projects.

9. Finally, whatever the implications for plans for social security benefit delivery (on which it is not for me to comment), any threat to ICL's continued viability would have profound implications for jobs in the UK and for bilateral ties. Given Naruto's points at para 5 above, we have to expect that Fujitsu and ICL would publicise their criticisms of the Project's management. That would be damaging to the hitherto benign and mutually supportive style of the relationship between HMG and Japanese companies invested in Britain. The waves created would be damaging politically at home and to the

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UK' position of strength here vis-a-vis our European competitors. This is already being weakened by perceptions of distancing from the centre of Europe over the single currency. We can do without more trouble.

10. I should be grateful both for background on the current position and for any instructions you may have for action here with Fujitsu.

WRIGHT

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CFSPD		1
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ESED		0
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SEAD		0
SSEARG		0
WSEARG		0
PS		5
PS MR FATCHETT		0
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