

PO-CH/NL/0145

PART A

Part A.

CONFIDENTIAL
(Circulate under cover and notify REGISTRY of movement)

Begins: 4/3/87
Ends: 3/9/87


PO -CH /NL/0145

PART A

Chancellor's (Lawson) Papers:

CABLE AND WIRELESS
SHAREHOLDINGS

PO -CH /NL/0145
PART A

Disposal Direction: 25 Years

J. H. L.
25/8/95



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 March 1987

CABLE AND WIRELESS

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

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

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

(David Norgrove)

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

NO10
TO
FCO
4/3

CH/EXCHEQUER	
REC.	- 5 MAR 1987
ACTING	Mr Monk
COPIES TO	CST P st Middleton Mr Moore Mrs Brown - Mr Bugner Mr McIntyre Mr Cropper Mr Ross Goodey

NO 10



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 March 1987

Dear Prime Minister,

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

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

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

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

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

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

With best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Yasuhiro Nakasone.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	3-APR 1987 ✓ 3/4
APPROV.	CST FST
Copies TO	SIR P. MIDDLETON MR MONCK MR MOORE MR BURENER MRS BROWN MR MCINTYRE MR CROPPER MR ROSS GOUBEY
3 April 1987	

✓

Washington background

NO10
TO
DTI
3/4

CABLE AND WIRELESS

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

RP

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

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

DAVID NORGROVE

Miss Caroline Akers
Department of Trade and Industry

(Provisional Translation)

**EMBASSY OF JAPAN
LONDON**

2nd April 1987

Dear Prime Minister Thatcher,

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

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

EMBASSY OF JAPAN
LONDON

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

Sincerely yours

Yasuhiro Nakasone

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



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

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Secretary of State for Trade and Industry

DTT
TO
NO10
16/4

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16 April 1987

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

*Pls let me know in reply (New Japan Press & TV).
Channon & write in reply to this*

Dear David,

EXCHEQUER	
16 APR 1987	
CST	FST
Sir P Middleton	
Mr Monck	
Mr Sweeney	
Mr Moore	
Mrs Brown	

*Mr McIntyre
Mr Gosper
Mr Ross Goobey*

CABLE & WIRELESS

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

Mr Channon agrees that no immediate reply is necessary.

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

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

*Yours
Carolyne Akers*

CAROLYNE AKERS
Private Secretary

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ANNEX A

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

HMG's pressure so far has contributed to:

- (i) overcoming Mr Karasawa's opposition to foreign participation;
- (ii) eliminating the proposed distinction between Cable and Wireless, as an international telecoms operating company, and other foreign and Japanese participants.

2 What is not yet clear is:

- (i) the extent of the equity stake Cable and Wireless can secure;
- (ii) whether the proposed Pacific cable from the USA to Japan will be authorized.

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

GOVERNMENT INTERVENTION

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

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

POSITION OF CABLE AND WIRELESS AND ITS PARTNERS

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

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

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

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- (ii) On publication, they acknowledged that Mr Watanabe had "gone as far as he can to be fair within the one licence option" and agreed to discuss the proposals with their consortium partners; but they also stressed the merits of the separate IDC approach and the incompatibilities between it and ITJ's approach.
- (iii) On 7 April, C&W put out a conciliatory press release in Tokyo, recognizing the goodwill of the Japanese Government and Mr Watanabe and expressing a wish to co-operate flexibly, though not necessarily to the extent of acceptance and unification.

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

ASSESSMENT - PROSPECTS OF FURTHER GAINS

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

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

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

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

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

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

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

RISKS

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

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



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ANNEX B

LINE TO TAKE IN PUBLIC

Discussions are continuing in Tokyo between the parties involved.

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

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

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

April 1987

JF4ATW



FROM: CATHY RYDING
DATE: 21 April 1987

MR ILETT

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Burgner
Mr D J L Moore
Mrs Brown
Mrs Lomax
Mr McIntyre
Mr Cropper
Mr Ross Gobey

CABLE & WIRELESS

The Chancellor has seen Carol Akers' letter to David Norgrove of 16 April on Cable & Wireless (copy attached for you and Mrs Lomax).

2. The Chancellor would be grateful for a note on the further developments on this front-(new Japanese offers according to the press and TV).

CR

CATHY RYDING

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CR
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ILETT
21/4



JPS

DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

APS/Secretary of State for Trade and Industry

CONFIDENTIAL

13 July 1987

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

ch
See also
Cab. Office
minute below

Dear David,

AMK

BH

CH/EXCHEQUER	
REC.	13 JUL 1987
ACTION	CST FST SIR P MIDDLETON
COPIES TO	MR MONCK
	MR BURGNER
	MR D MOORE
	MRS BROWN
	MR BENT
	MR CROPPER

CABLE & WIRELESS IN JAPAN

The Prime Minister asked to be kept in touch with developments on this issue. Although the final outcome is still unclear, my Secretary of State thought it would be helpful to give you a report on developments since the Venice Summit.

The Prime Minister will recall that Mr Nakasone told her his government would accept applications for two licences and that no further attempts would be made to impose a merger between the ITJ and IDC.

Contrary to expectations, neither consortium has submitted its application and further consideration is being given to the possibility of a merger - but this time at the initiative of C Itoh, C&W's main ally in the IDC consortium. This move seems to be generated by two factors; first to counter accusations that IDC were being inflexible, to the detriment of future working relationships with the Japanese Ministry of Posts and Telecommunications; and second to keep Toyota in the IDC. Toyota are a major member of the IDC but have always favoured a merger and have had increasing doubts about investing in the private pacific cable (PPAC).



Cable and Wireless have entered into negotiations on these new proposals within the IDC consortium, but they have sought supplementary guarantees from Toyota to safeguard C&W's position on the cable.

The proposals as they now stand envisage;

- (i) a merged consortium of ITJ and IDC to run the new international telecommunications system within Japan. C&W would hold 10% of this company.
- (ii) a separate company would be formed to construct and run the cable. C&W and Pacific Telesis would hold at least 30% of this group in partnership with Japanese companies and IDC.
- (iii) Toyota would give written guarantees relating to the construction of the cable and the routing of traffic over it by the merged consortium.

Cable and Wireless have been discussing these proposals in detail with Toyota, and the IDC has been doing the same with the MPT. C&W say they would find these proposals acceptable, but may, even now, be manoeuvring for position in the hope that the eventual outcome will be a separate application by IDC, including Toyota. It is not yet certain that Toyota will sign up. There is growing pressure in Japan and the US for a solution to this long running story, and it is clear that the parties are considering the proposals more urgently than before.

Cable and Wireless have not requested any supportive action at this stage. Just before these new proposals emerged, Sir Eric had requested that the Prime Minister should write to Mr Nakasone to consolidate their conversation in Venice. The company then agreed, however, that this would not be appropriate, given the changing ground, and a separate route has now been found for recording Mr Nakasone's commitment to the Prime Minister. It is however likely that the Company may encourage parliamentary coverage to strengthen their hand in Tokyo.

If there are any significant changes in the position, we shall keep you informed.

I am copying this letter to Lyn Parker (FCO) and Tony Kuczys (Treasury).

Yours sincerely

Gina M. Davis

JG5BDZ

GINA M DAVIS
Assistant Private Secretary



b.f. h. k. r. d. m. c.

10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUE	
REC.	- 7 AUG 1987
ACTION	MC MONCK
COPIES TO	CST FST
	SIR P. MIDDLETON
	MR BURGNEK
	MR D.J.L. MOORE
	MRS BROWN
	MR BENT
	MR CROPPER

From the Private Secretary

6 August 1987

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

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

Charles Powell

Paul Steeples Esq
Department of Trade and Industry.

(T E X T)

OFFICE OF THE PRIME MINISTER

TOKYO

6th August 1987

Dear Prime Minister Thatcher,

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

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

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

Sincerely,

YASUHIRO NAKASONE
Prime Minister of Japan

Her Excellency

Mrs. Margaret Thatcher,

Prime Minister of the United Kingdom,

London



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

PS/ Secretary of State for Trade and Industry

Handwritten: 3/9

3 September 1987

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

CH/EXCHEQUER	
REC.	03SEP1987 ✓ 3/9
ACTION	MR MONCK
COPIES TO	CST FST
	SIR P MIDDLETON
	MR BURGNER
	MR MOORE
	MRS BROWN
	MR FRONT
	MR CRIPPER

Handwritten: Dear Charles,

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

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

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

DW3CLF



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

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

Yours sincerely

Gina M. Davis

GINA M DAVIS
Private Secretary

DW3CLF



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

3 September 1987

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

Mr Shunjiro Karasawa,

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

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

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

Lord Young

LORD YOUNG OF GRAFFHAM

DW3CLH