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May 19th 1987

Ms Catherine Bradley
D T I
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Dear Catherine,

Sir Eric Sharp had asked me to prepare a brief for the Summit on the 2nd KDD issue and to send it to Professor Griffiths. I understand the Prime Minister needs it for her weekend box. In Robert Priddle's absence, I am writing to you and enclosing a draft brief and line to take.

The background material is for the large part the same as something already submitted to Senator Murkowski who has brought the matter to the attention of the White House. Senator Murkowski who knows the Japanese well asked about British sanctions. He himself will be tabling an amendment to the Trade Bill to enable U.S. sanctions. I have not mentioned anything about UK sanctions but the Americans may ask you about this.

There can be no doubt that the most telling thing would be a joint demarche with President Reagan at Venice.

There is talk of another round of "merger talks" on 29th May to assist Nakasone repeat the line he took in Washington recently - namely, that he is waiting for the outcome of "private sector talks" - a charade which Robert himself punctured when in Tokyo in March.

We have come through many obstacles and there is no doubt that there is now a groundswell in Japan for 2 licences - something we have been going for since September last year. However, the Ministry is still clinging to the "unification" concept in order to protect its "FACE".

The Japanese do not like appearing to have made a mistake - so we are in a delicate situation in Tokyo of having to go through a ritualistic end game to save the face of the MPT and its LDP faction. Meanwhile, the clock is ticking away and we are in danger of missing the RFS date for PPAC - a strategic interest of the USA.

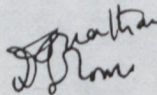
Ms. C. Bradley
D.T.I.

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A further face to face shove - more in sorrow than anger from the Prime Minister in conjunction with the President if possible - might just do the trick. In light of the potential meeting of 29th May, which may lead to a formal and mutually agreed break in merger talks, you may need to put in a last minute update nearer the time.

I am copying this to Brian Griffiths (No. 10) and Paul Diamond (F.C.O)

Best wishes,



J H Solomon
Director, Corporate Strategy

w/attachements: Venice Summit
2nd KDD issue.

VENICE SUMMIT
2ND KDD ISSUE

Brief

1. The Prime Minister will remember raising Cable and Wireless' interest in the 2nd KDD at the Tokyo summit in May 1986. Mr Nakasone promised that the matter would be resolved in a forward looking manner.
2. Since last May both Cable and Wireless and the Consortium in which it is a member - International Digital Communications (IDC) - have made considerable progress, despite the consistent efforts of the MPT to block such progress.

The MPT has tried almost every device to frustrate both IDC and Cable and Wireless but severely underestimated the scale of external concern.

3. Following severe UK and US pressure the MPT has been forced to remove all its objections to Cable and Wireless and the PPAC cable linking the United States and Japan directly. It is, however, still clinging to the figleaf of "merger talks" to maintain its honour.
4. Both sides to the "merger talks" - IDC with UK and US participation and International Telecommunications of Japan (ITJ) the all Japanese Consortium - are against merger but the Ministry is still resisting separate licence applications from each side. It is an open question whether it can be persuaded to be more accomodating in time for the Summit. This may be decided after 29th May.
5. It is important for IDC to be able to apply for its licence by July if IDC is to be able to meet the timetable set in the FCC licence for introducing the PPAC cable - of strategic interest to the United States.

Line to Take

6. Remind Mr Nakasone of his promise at the Tokyo Summit to resolve this issue in a "forward-looking way".
7. The Ministry of Posts and Telecommunications behaviour has been backward looking. Its passive aggression has spoiled what could have been a great Japanese initiative to undertake structural change in harmony with the world - a stated objective of the Government of Japan and Mr Nakasone himself.
8. The merger talks instigated by the Invisible Hand of the MPT are a charade and are unacceptable as a non-tariff barrier.
9. It is more in sorrow than in anger that the issue has to be raised yet again at the Summit.
10. The Japanese Government has stated that it favours fair competition, and structural change, foreign participation, and a boost to internal demand. IDC manifestly meets all these objectives.
11. The charade of merger talks should be ended. IDC should be allowed to file its licence application before July so that it can meet the timetable for the transpacific cable already approved by the Federal Communications Commission of the United States.

2ND KDD ISSUE
background Brief

Introduction:

1. Some key dates

May, 1985	C&W writes to MPT suggesting participating in 2nd KDD.
Sept, 1985	C&W invited by representative of Government of Japan to submit proposal for competition to KDD.
Nov, 1985	C&W submits proposal and recommends U.S. participation.
Nov, 1985/Feb, 1986	C&W canvasses all interested Japanese parties for possible consortium.
Feb,/ April, 1986	C. Itoh, NTTI and C&W establish core group.
April, 1986	MPT in panic, instigates ITJ to block C Itoh, NTTI and C&W.
June, 1986	C&W, MTTI, C. Itoh complete pre-feasibility study.
July, 1986	ITJ establishes formal F/S company.
Nov, 1986	IDC establishes formal F/S company.
Nov, 1986	ITJ completes its feasibility study.
Jan, 1987	IDC completes its feasibility study, which includes PPAC as central element.
Jan/Feb 1987	Ministry insists on merger, refuses to accept separate licence applications.
Feb/May 1987	Merger talks drag on.
1st May 1987	Both ITJ and IDC note gap between 2 sides.
13th May 1987	ITJ hold internal meeting. Majority against merger on IDC terms but wish to show goodwill to MPT by requesting new round of merger talks to facilitate easy Summit for Japan.
29th May 1987	New "merger talks" scheduled.

Some Key Facts

2. MPT very close to KDD - MPT funds around 44% of KDD and MPT officials invariably go to KDD for post MPT jobs.
3. As a licensing authority, MPT is courted and cosetted by leading companies such as Mitsubishi, Mitsui, Sumitomo, Toyota. MPT often uses these companies and others such as Nomura and Tokyo Marine to carry out its wishes within various projects. C.Itoh because of its international affiliations is suspect to MPT.
4. MPT together with KDD and with background support from ATT, BT and the European PTTs has resisted the IDC project from the very beginning, precisely because IDC is a highly professional organisation, is independent of KDD, and has good international connections via U.S. and U.K. participation.
5. The MPT has used the merger tactic on three occasions to block or dilute the foreign interest. It tried to do so in the satellite case but was fought off by Presidential intervention on behalf of Hughes. It used it successfully to erode Motorola's position in cellular radio. It has been applying the same tactic to the 2nd KDD issue so far.
6. The merger tactic enables MPT to use parties such as Mitsubishi or Toyota to cower other Japanese into subservience and by multiplying Japanese participation reduces or eliminates the foreigner.
7. C.Itoh and C&W have had to fight very hard to keep MPT's agent for merger, Toyota, under control within the IDC.

Latest situation

8. Following the breakdown of talks on 1st May, everyone is reassessing their position.
9. Within ITJ, Mitsui and Sumitomo have made clear to Prime Minister Nakasone their rejection of merger and their wish for 2 licences.

Within IDC, C. Itoh, NTTI, C&W, Fujitsu, DKB bank have also made their wish for 2 licences known to Prime Minister Nakasone.
10. MITI supports 2 licences and MOFA is neutral. Within MPT, there has been a growing recognition of the need for a new approach but the top officials, particularly Mr Sawada, the head of MPT, remain adamantly opposed to 2 licences and to IDC.

Political Position

1. The U.S. Government has made its views on the 2nd KDD issue known to the Japanese Government in no uncertain terms. Messrs Yeuter, Baldrige, Smart, and Sikes have pressed the case for the PPAC cable, for 33% foreign participation and for no undue MPT interference in the market.
12. President Reagan, Secretaries Weinberger and Schultz have also made the same points.
13. The Japanese Government have accepted that a further cable is required for U.S. strategic interests - as made clear by the FCC in their licence to Pacific Telecom and Cable and Wireless on 22nd April.
14. The Ready for Service date for the Cable is before the end of 1989.
15. The Japanese Government know that 2 licences are the only common sense alternative but do not wish to be seen to be bowing to foreign pressure. Prime Minister Nakasone has a particular problem because to do the decent thing he would have to override a powerful MPT faction within the LDP itself as well as MPT top officials who have gone out in public against the cable and against Cable and Wireless.
16. Senator Murkowski from Alaska who has led the Senate on this issue may move an amendment to the Trade Bill in early June to enable the FCC to take sanctions against Japan should Japan discriminate against PPAC.
17. The Senator will also be asking President Reagan to act with the Prime Minister at the Summit on this issue.

UK Position

18. The Secretary of State for Foreign Affairs initiated HMG support for Cable and Wireless and the IDC project in February 1986.
19. The Prime Minister, herself, raised the matter with Mr Nakasone at the 1986 May Summit in Tokyo.
20. Mr Channon, Mr Howard, H.M. Ambassador, and officials from the DTI have all pressed the issue since November 1986 culminating with the Prime Minister's letter of 4th March which asked for a fair and objective assessment of IDC's feasibility study.

Japanese Government's latest position

21. Prime Minister Nakasone notified President Reagan on his May visit that the Government of Japan accepted:
 - (i) The principle of a new cable
 - (ii) Foreign participation up to 33%.

but that (iii) negotiations were proceeding between the private group for a merger.

22. This last point is a mere ploy to keep the foreigners at bay and is basically MPT's way of interfering without appearing to interfere - the perfect non-tariff barrier.
23. The question now is whether the Japanese brief for the Summit will be the same as in Washington or whether it will be more reassuring on this last point.

Recommendation

29. The Summit provides a new opportunity to demonstrate in a firm if polite way that this issue will not be taken off the Anglo-Japanese agenda until resolved in a way which is fair and objective and seen to be fair and objective by all the world.

J H SOLOMON
Director, Corporate Strategy