



CABLE AND WIRELESS PUBLIC LIMITED COMPANY

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

2 June 87.

Dear Ben

WILL REQUEST IF REQUIRED

You will have received a copy of Jonathan Solomon's letter of 19th May to Catherine Bradley in the DTI enclosing briefing material on the 2nd KDD issue for the Venice Summit.

A week is a long time in politics. It is also a long time in the twists and turns that make up Japanese decision making. Our enemies are seeking to smooth things over on the 2nd KDD issue so that it drops off the UK/Japan political Agenda. To do so, they are maintaining the facade of continuing talks between the private sector parties while at the same time continuing to block IDC's legitimate wish to apply for a licence by a variety of behind the scenes pressures and threats. They hope that eventually they will be able to draw out the decision making process long enough to detach U.S. interest in the cable from IDC and to give ITJ so great a head-start as to force IDC to wither away.

The Prime Minister asked for a fair and objective assessment in her letter of 4th March. The Japanese Government have still not persuaded the Ministry of Posts and telecommunications to do just this. Instead, the Ministry has continued to utilize its leverage via both the ITJ and the agency of Toyota and IBJ within IDC to resist considering IDC's case on its merits.

The United States' imposition of sanctions on semi-conductors has had a powerful effect on the Japanese, who are now responding more positively on a variety of U.S. demands - macro economic package, SI,, Kansai airport, supercomputers etc. The Japanese Government have yet to respond positively on IDC because they see this as much a British as U.S. problem and they have more or less told Washington that but for Cable and Wireless they could resolve the issue satisfactorily for the United States - hence, their acceptance of the Cable and foreign participation in principle.

To some extent, they are correct. The Prime Minister has made IDC a test case. The Japanese are now testing the British will. On the issue of banks and financial institutions, the threat of sanctions has made the Japanese act more reasonably. At the end of the day the Japanese only respect power and the language of sanctions, however diplomatically impolite this might be.

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

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I do not know what the official brief for the Prime Minister is but I would be grateful if you could sharpen whatever is there.

The most effective line at Venice would be :-

- i) The Ministry of Posts and Telecommunications Dictat of "marry or die" to two incompatible partners is neither fair nor objective.
- ii) Unless the Government of Japan acts on those forces within the bureaucracy and industrial political circles blocking IDC's legitimate wishes to be considered for a licence on its own before the end of June, the new British Government will be forced to consider sanctions.
- iii) Unless an IDC application is filed before the end of June alongside ITJ, the new British Government will discuss the U.S. Government a package of joint sanctions against Japanese Telecommunication goods and services. C&W has itself put a moratorium on all Japanese purchases and this is hurting even some of our friends in Tokyo.

I appreciate that this might appear tough but, as you will note in paragraph 16 of Jonathan Solomon's note, Senator Murkowski of Alaska is prepared to introduce a sanctions clause in the U.S. Trade Bill. I have conferred with the Senator and I am sure that he would be very pleased to discuss joint measures to submit to both the U.S. and British Administrations should this prove necessary.

To toughen the brief is essentially a matter of political judgement, but I am sure that the voters will be favourably moved by a Prime Minister sounding and looking tough on the IDC and Cable and Wireless issue at Venice.

As this is essentially a political matter, I am copying this only to Sir Geoffroy Howe. Jonathan Solomon will of course be conveying the gist of this to the DTI at official level.

With all good wishes

Yours

Eric

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