



cc: Mr Watson
 Mr Walker
 Mr Hoskyns
 Mr Ingham.

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PRIME MINISTER

FUTURE OF INTERNATIONAL COMPUTERS LIMITED

1 In Keith Joseph's absence abroad I am writing to let you know of a sharp deterioration in the situation of the Company, the full extent of which has been revealed to this Department by ICL during the past ten days. The matter is likely to become the subject of increased Press speculation after the Annual General Meeting of shareholders tomorrow at which the Chairman will announce a substantial trading loss for the first half of this Company's year and immediate profit shortfall against corporate plans. The forecasts are, in fact, for a pre-tax loss of £25m - £35m for the year to 30 September 1981 and for a level of borrowing which is in danger of exceeding firmly-available facilities in peak months before end September.

2 This situation is attributable primarily to the worldwide recession, the strength of sterling and increasing competition for computer products. But management acknowledges that it also stems from their own failings, in particular to control the rise in costs during the year. The Company is taking a range of measures to help improve the situation - e.g further factory closures; reduction of up to 2500 manufacturing and development staff; no wage increase this year. These cannot bring relief until after the end of the current Company year and some of these measures will in fact contribute to the loss in this year.

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3 The ICL Board has now formally accepted that the Company cannot continue in the computer business in its present independent form. I have told the Chairman and Managing Director that it must enter into some form of joint venture or partnership which will inevitably involve a major change in the shareholder structure and control. The Company recognises this. No British-owned company has so far displayed any interest in such an arrangement but the Company has had preliminary discussions with the US company, Sperry Univac, and with the Japanese company, Hitachi, though I do not rule out other possible Japanese partners. It will follow-up the necessarily confidential discussions urgently, but estimates that it could take up to twelve months to negotiate a deal which would offer realistic prospects of future viability and at the same time protect the essential interests of the existing customer base.

4 The Civil Service Department estimates that, if the Company has to sell-out precipitately to an overseas' company without adequate safeguards, or goes into receivership, the costs of converting software and equipment to a new supplier could be between £150m and £200m for central Government alone. This estimate excludes the similar costs which would have to be borne by other public sector users (e.g universities; NHS; local government; nationalised industries).

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5 The effects on users outside the UK public sector would be most damaging in sensitive areas like the European Community, the European Space Agency and the oil states, where much diplomatic effort has secured strategically important sales for ICL.

6 There are solid arguments, therefore, for assisting the Company to survive its present short-term difficulties so that it can obtain the right sort of partner and secure the longer term future for this important part of our information technology industry. I have told ICL that it must seek support from the market. It is therefore in close touch with the Bank of England, and with its own bankers, to see whether the banking community is able to put together a credible short-term support package. Present indications are that, even if the banks can put together such a package, (and they, in common with the customer base and other parts of the information technology industry do not want to see ICL collapse) there will probably be a need for supplementary support of some kind from Government. Until we have had further consultation with the Bank of England this week the form and extent of such assistance cannot be determined. The company believes that, in order to maintain its legal borrowing levels, some part of the support will have to flow into its profit and loss account and that the banks' contribution will not include this essential element. It puts this requirement at £70m over two years.

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7 In the coming day or two ICL intend to propose specifically that we should meet this need by contributing £70M (£50M in the current company year) to the maintenance of the company's R and D, product launch and market development programme in order to keep up the essential impetus of new product introduction. This would ensure that it was able to conduct confidential partnership negotiations from a stronger position, which would offer the prospect of securing customer and employee interests. It would also help to maintain the confidence of banks and customers through this vital transitional stage.

8 My officials are in close touch with the Company on its handling of (and statements to be made concerning) the AGM and on the way in which it is determining and exploring the various options open to it. They are also in close touch with the Bank of England, with the Treasury and with the CSD concerning the interests of the Government users. I am convinced that it is absolutely fundamental to any credible and viable solution that there must be changes in the senior management of the present Company. This may take some time to effect but my own view is that, as a condition precedent to any financial support package by the banks, and possibly Government, someone of stature must be appointed at once to the Board specifically charged to drive forward the negotiations with a prospective partner in a manner acceptable to us. A vital corollary will be action to maintain the confidence of customers in ICL and its products while negotiations are concluded. We obviously have a role here.

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9 No doubt you and other colleagues will wish to discuss this matter after the Secretary of State's return when we know the outcome of the Company's AGM and what the banks are likely to be able to offer.

10 At this stage, I am copying this minute only to the Chancellor, the Foreign Secretary, the Lord President and also to Sir Robert Armstrong and to Mr Ibbs.

K.B.

K B

2 February 1981

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