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PRIME MINISTER

Future of International Computers Limited

BACKGROUND

You asked for a preliminary discussion at the meeting of E this afternoon of the minute of 2nd February from the Minister of State, Department of Industry to you about the future of ICL.

2. The position seems to be that, unless ICL can muster sufficient short-term financial support by mid-February, they could be forced to make a quick sale to an overseas company or to go into receivership. If, however, they could secure a credible package to tide them over, they would then over the coming months try to negotiate a joint venture; I understand that Sperry Univac and either Hitachi or Fujitsu of Japan are the front runners. The ICL Board has already formally accepted that the company cannot continue in the computer business in its present independent form.

3. Speculation on the future of the company will increase after the Annual General Meeting this afternoon at which the Chairman will announce a substantial trading loss for the first half of the year. The share price has now fallen to 45p from a peak of 196p in 1980. The deterioration in prospects emerged around the middle of 1980, when the collapse of ICL's export market was followed by a sharp fall in business in the United Kingdom (and the latter represents only 50 per cent of total business but 90 per cent of profits). The Financial Times - page 6 today - are already commenting on the problems and on the possibility of Government aid.

4. In the meantime ICL are talking with the Bank of England and with their own bankers - Midland, Barclays, National Westminster and Citibank. The shareholdings are now widely dispersed, and I understand that the institutions collectively hold not more than around 10 per cent. It does not, therefore, seem likely that they will be a source of support.

5. It is argued that the banks' assistance will be limited by the fact that ICL are already near to their maximum borrowing levels and that the company might need £70 million over two years from the Government, of which

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£50 million would have to be put in before September 1981. It would be given under the powers of the 1968 Science and Technology Act and in support of research and development under the Department of Industry's Process and Product Development Scheme (PPDS). ICL already get around £3 million a year under this scheme and since it would not be a new form of aid it should not be necessary to get clearance from the European Commission. If it were to be given in this form, I think that you could justify it in relation to what you said to Brian Walden in your Weekend World interview on Sunday (see the attached extract from the transcript). The Government would not be taking a stake in the ownership of the company; and the selective assistance would be under existing legislation, although not under the powers relevant to development areas.

6. Because of the size of the proposed sum it is almost certain that a claim on the Contingency Reserve would be necessary.

7. The Government has not had any stake in the ownership of the company since the NEB sold its holding in December 1979 (there could be some - unjustified - criticism that the NEB were sharp in selling at 120p a share before the price collapsed to the present 45p). The case for intervention by the Government would be:-

- (i) Thanks to the computer preference policy, a number of Departments and other public sector users are now heavily dependent on ICL, and would be faced with substantial conversion costs if there were to be precipitate sale to a new supplier - see paragraph 4 of Mr. Baker's note.
- (ii) Overseas users, who were encouraged by the Government to buy from ICL, would also be hit at a cost to the general reputation of United Kingdom exporters - Mr. Baker's paragraph 5.
- (iii) Some support is necessary to buy time and to secure the orderly sale of what ought to be a good business - it has about £2 billion of its equipment around the world and its sales outlets ought to be highly attractive to prospective purchasers.

8. It is proposed that, if further assistance is to be given by the banks and/or by the Government, urgent changes in ICL's top management are necessary. The present Chairman is Philip Chappell, formerly of Morgan Grenfell, and appointed in December 1979 despite the doubts of the Secretary of State for Industry and the outgoing Chairman. DoI officials regard him as a disaster.

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HANDLING

9. You will wish to invite Mr. Baker to speak to his note and to report on the reaction to today's Annual General Meeting. The Secretary of State for Industry will wish to comment, although he will not be fully up-to-date with developments during his visit to Germany. The Chancellor of the Exchequer will wish to give his provisional views on the case for financial support and the further discussions which must follow. The Lord President of the Council can explain the acute difficulties which will be faced by Government Departments using and currently ordering ICL equipment if there were to be a precipitate collapse. The Secretary of State for Employment might want to comment on employment implications - ICL employ about 23,000 people in the United Kingdom.

10. More work and negotiations are necessary before the case for action by the Government can be fully evaluated, and I suggest that the Committee should treat this as a "second reading" discussion and should not come to any firm decision today, either for or against support.

11. If the provisional judgment is that the consequences of sudden collapse would be so damaging to both public sector and other interests that some form of support is essential, you will need to consider what points should be taken in the further discussions. In particular:-

- (i) You will wish to be satisfied that it is indeed the case that the banks cannot deal with the problem without Government assistance.
- (ii) If there is to be Government assistance, consideration should be given to looking for some return in due course by way of, for example, a levy on future profits. But this arrangement was made for £40 million of R & D assistance given in 1972-73 and, even before the present crisis, the PAC had been informed that ICL's profits were too low for the expected levies to be paid.
- (iii) Should it be for the banks rather than the Government to take the lead in bringing about the necessary top management changes? The more the Government is involved, the more it will be vulnerable to criticism of getting back into the driving seat of this company.

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12.. You will also need to consider the next immediate steps. The negotiations will have to be strictly confidential and conducted by the Department of Industry, the Treasury and probably the Civil Service Department, in consultation with the Bank of England. The Secretary of State for Industry will then have to report back as soon as necessary, and the Committee might need to consider the matter urgently very soon.

13. In the meantime you will wish to impress on the Committee the importance of not saying anything which could further undermine confidence in the company. If it becomes known that the Committee had discussed ICL today, it should be played down as a short general discussion in the light of the situation revealed by the Annual General Meeting.

CONCLUSIONS

14. You will probably wish to sum up by inviting the Secretary of State for Industry:-

- (i) to arrange for officials of his Department, the Treasury and the Civil Service Department to consult urgently with the Bank of England and the company on the next steps and, in doing so, to take account of the general points made in the Committee's discussion;
- (ii) to report as soon as necessary on the outcome;
- (iii) in the longer term, and in consultation with the Lord President of the Council, to consider the implications of the takeover of ICL by an overseas company for the Government's computer procurement policy.



Robert Armstrong

3rd February 1981