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SUBJECT

cc. Master set. Econ Pol

10 DOWNING STREET

From the Private Secretary

17 March, 1981

Dear Ian,

As you know, the Prime Minister held a further meeting this morning to discuss the future of ICL. This was a continuation of the meeting held last night at which Sir Peter Carey was invited to refine the options for further action. His minute of 16 March, which was considered at this morning's meeting, was in fulfilment of this remit. The following were present in addition to your Secretary of State: the Lord President, the Chief Secretary, the Attorney-General , Mr Kenneth Baker, Sir Peter Carey, Mr Ryrie, Lord Benson of the Bank of England, Mr David Scholey of Warburgs, Messrs Whittley and Preston from your department, and Sir Robert Armstrong and Robin Ibbs.

First of all, several factual amendments were suggested to Sir Peter Carey's minute. In particular:-

(i) paragraph 4, line 2 - the reference to "the other United Kingdom banks" should read "the other banks lending in the United Kingdom".

(ii) paragraph 5, first sentence - the reference to "overseas banks" should read "banks lending overseas". The figure of £42 million in the final sentence of paragraph 5 should read £52 million.

(iii) paragraph 6 (ii) - this should read "arranging a guaranteed bank facility limited in terms of time and money", with a consequent amendment to paragraph 11(iv).

(iv) paragraph 7(ii) - the third sentence should read "on the basis that the UK clearing banks were willing to maintain..."rather than "increase". In the following sentence "stayed at" should read "reduced to".

(v) paragraph 11(i) second sentence should simply read "the banks would be told confidentially about the state of negotiations". The phrase "the pari passu condition could be withdrawn" only applied if the guarantee were given; its proper place was therefore in paragraph 11(iv).

The following comments were then made on the proposals:-

(i) The Chief Secretary said that he hoped that a guarantee would only be offered as a fallback if the banks refused to keep their existing lines of credit open on the necessary scale. In requesting them to maintain their present facilities no reference should be made to the possibility of a guarantee. Against this, Sir Peter Carey pointed out that this was not a realistic option. He and Lord Bension would of course try to get them to maintain their existing facilities without the provision of a guarantee. But the four lead banks, whom he had seen the previous week, would certainly raise the question of a guarantee. For he had told them, with the authority of Ministers, that the Government was considering a guarantee: and indeed he had discussed

/with them its possible

possible terms and conditions. They had reacted adversely, in particular to the suggestion that the Government should stand pari passu with them; and partly as a result of the discussions, they had reduced their committed facilities from £70 million to £50 million. In short, it seemed very unlikely that it would be possible to persuade the banks to maintain their facilities so as to cover ICL's cash needs even until 30 April without some form of guarantee.

(ii) The Chief Secretary said that, if a guarantee facility were to be arranged, it was essential that it be limited in terms of time and money. More specifically, it must meet the conditions set out in paragraph 7 of the Attorney General's minute of 15 March so as to ensure that the Government did not have to meet the company's debts if in due course it was forced to cease trading. The Chief Secretary also said that he was concerned that the proposal that the guarantee should be up to £200 million might in the event turn out to be inadequate. The company's cash forecast had already deteriorated substantially. What reason was there to believe that the position would not deteriorate further? Against this eventuality, he considered that contingency planning should be undertaken on what would be the consequences and how the Government would cope with them if it were decided that additional assistance over and above the £200 million should not be forthcoming.

(iii) It was suggested that, as a quid pro quo for the guarantee which would now be provided without the pari passu condition, the lead banks should be asked to maintain their existing facilities of £70 million. The Government should try to persuade them to maintain these for the same period as that proposed for the guarantee (ie 2 years) or until a partnership for ICL had been successfully negotiated. But it had to be recognised that they might not be prepared to go along with this - particularly as, on present projections, their security would be worthless after another 2 years. However, the Government should insist as a minimum that they hold the £70 million in place until 30 September. If that turned out to be the most they were prepared to do, consideration would have to be given to how the £70 million would be replaced. But this need not be done at once because the question would only arise if a partnership arrangement failed to come off.

Summing up a brief discussion, the Prime Minister said that Sir Peter Carey and Lord Benson should meet the banks later today, and try to persuade them to maintain their present facilities at least until 30 April. If the question of a guarantee was raised, they should tell them that the Government was prepared in principle to offer one; but the terms and conditions were still being worked out. They could, however, indicate that the pari passu condition was being withdrawn. Sir Peter Carey could also tell the company that the assurance which he had given them the previous week that the Government would provide some measure of help still held. The meeting was agreed that the guarantee shouldbe up to £200 million for a period up to 2 years. Further work on the terms and conditions should be undertaken rapidly taking into account the point made by the Chief Secretary about the need to limit the Government's future liability and the suggestion that the lead banks be asked to keep their facilities in place. At the same time, negotiations should be pressed forward as rapidly as possible between ICL and their possible partners; if necessary, some dowry should be available, but the precise nature and amount of this should not be decided at this

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stage. Urgent consideration should be given to the Parliamentary procedures that would be necessary for the guarantee to be given and a draft statement should be prepared. Finally, contingency planning should be undertaken on the lines suggested by the Chief Secretary: this would involve the Treasury, Department of Industry and the CSD only. It was essential that knowledge of this work should be kept within Government.

I am sending copies of this letter to Jim Buckley (Lord President's Office), Terry Mathews (Chief Secretary's Office), Jim Nursaw (Attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Tim Lankester

Ian Ellison, Esq
Department of Industry

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Treasury Chambers, Parliament Street, SW1P 3AG

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

18 March 1981

Dear Tim,

The Chief Secretary has seen your letter of 17 March to Ian Ellison, recording the discussion at the Prime Minister's meeting yesterday on the future of ICL.

With regard to paragraph (ii) on page 2 of your letter, the Chief Secretary has asked me to record that he was not just concerned that the guarantee itself should meet the conditions set out in the Attorney General's minute of 15 March. He also stressed that any accompanying statements, however informal, should make it quite clear that the government is not undertaking any commitment to go beyond the guarantee, and is in no way warranting the future successful performance of the company.

I am sending copies of this letter to Ian Ellison (Department of industry), Jim Buckley (Lord President's Office), Jim Nursaw (attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours ever,

Terry Mathews

T F MATHEWS

Private Secretary

SECRET

18 MAR 1981