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10 DOWNING STREET

From the Private Secretary

*File*

*cc: Mr Ingham  
Mr Welford  
Mr Hoskyns*

*cc: Leon dot  
Ld Pres, CSD  
CSD, HWT  
Att-Gen.  
M/S, DOI  
D/Emp*

18 March 1981

*D/Trade  
CPRS  
CO*

ICL

As I told you on the telephone, the Prime Minister has seen your letter of 17 March enclosing a draft of the proposed guarantee, a draft Ministerial statement, notes for supplementaries and a note on Parliamentary procedure. She has asked me to say that she is content with the terms of the proposed guarantee subject to any comments which the Attorney-General and the Chief Secretary may have. She has, however, asked what would be the rate of interest on the Second Special Loan Account Monies: you told me that this was a point for the Treasury to consider.

The Prime Minister has also noted that no decision has been taken on whether share dealing should be suspended in the event of the guarantee being required. This point was raised in your minute of 16 March, but we did not discuss it at yesterday morning's meeting. You told me that your Department and the Treasury would be considering this again in the course of today.

The Prime Minister has not at this stage offered any comments on the draft statement or on the other notes enclosed with your letter.

The Prime Minister has also seen your letter of 17 March reporting on your discussion yesterday afternoon with the lead banks, and she has noted that so far their attitude appears to be better than we had expected. We understand that you are seeing them again this afternoon, and that you will report back.

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

I. P. LANKESTER

Sir Peter Carey, KCB,  
Department of Industry. CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

*RB*

PRIME MINISTER

Parliamentary Affairs

I can see nothing in next week's business which needs to be raised at Cabinet.

If it is decided that Keith Joseph should make his statement on ICL tomorrow afternoon, you might ask him to inform colleagues about it.

MJS

18 March, 1981



10 DOWNING STREET

Premier Minister,

As Peter Carey's Office asked  
that you see the attached  
 tonight.

Alan

Duty Clerk

17-3-81

- ① We have not yet  
decided on suspension of  
shares
- ② Subject to P.H.'s  
Ch. Sec's consent - agree  
guarantee. Re: 'y' interest?
- ③ not

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Sir Peter Carey KCB  
Permanent Secretary

*Walter  
Yorkshire*

DEPARTMENT OF INDUSTRY  
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17 March 1981

Mr C Whitmore  
10 Downing Street  
London SW1

*Dear Sir,*

ICL

As agreed at the Prime Minister's meeting this morning, I attach:

- (i) a draft of the guarantee;
- (ii) a draft Ministerial statement;
- (iii) notes for supplementaries;
- (iv) a note on the Parliamentary procedure for implementing the guarantee.

Copies as before.

*Yours ever,*

*Peter,*

Peter Carey



THIS GUARANTEE is made on the \_\_\_\_\_ day of \_\_\_\_\_ 1981 BETWEEN (1) ICL PLC ("the Company") and (2) MIDLAND BANK PLC, BARCLAYS BANK PLC, NATIONAL WESTMINSTER BANK PLC AND CITIBANK PLC ("the banks") and (3) THE SECRETARY OF STATE FOR INDUSTRY

In consideration of the banks making available to the Company by way of financial assistance -

- (a) loan facilities of up to £707,000,000 (seventy million pounds sterling) to be available until 30th April 1983 and to be advanced on an account designated "SPECIAL LOAN ACCOUNT" in accordance with the terms of a facility letter dated \_\_\_\_\_ 19 \_\_ ("the facility letter") and
- (b) loan facilities of up to \_\_\_\_\_ hundred million pounds sterling to be available from \_\_\_\_\_ 1981 until \_\_\_\_\_ and to be advanced on an account designated "SECOND SPECIAL LOAN ACCOUNT" in accordance with the terms of a facility letter dated \_\_\_\_\_ ("the second facility letter").

Now the Secretary of State for Industry ("The Guarantor") acting under section 8 of the Industry Act 1972 as amended by the Industry Act 1975 and pursuant to a resolution of the Commons House of Parliament passed on \_\_\_\_\_ 1981 and with the consent of the Treasury and subject to the terms and conditions set out in the Schedule hereto, hereby GUARANTEES payment to the banks on demand made at any time on or after 30 April 1981 but not after \_\_\_\_\_ 1983 (hereafter referred to as "the relevant period") any amount advanced by them to the Company in pursuance of the facilities mentioned in paragraph (b) above:

PROVIDED ALWAYS that the total liability ultimately enforceable against the Guarantor under this Guarantee shall not exceed the sum of \_\_\_\_\_ (hundred million pounds sterling) which sum shall be reduced by the amounts of principal repaid by the Company to the banks from time to time and credited to the Second Special Loan Account together with interest (as well after as before judgement) upon the sum demanded from the date of demand until actual payment.

© note



SCHEDULE OF TERMS AND CONDITIONS

- (1) It is hereby agreed by the banks that no part of the facilities mentioned in paragraph (b) of this Guarantee shall be made available to the Company until the facilities mentioned in paragraph (a) thereof have been fully utilised by the Company.
- (2) It is hereby agreed by the banks and the Company that the terms and the amount of any loan made to the Company in pursuance of the facilities mentioned in the said paragraph (b) shall be approved by the Guarantor and the Treasury before the loan is made by the banks.
- (3) If at any time during the relevant period arrangements are made between the Company and any other person or persons whether incorporated or not whereby there is a change of control or of the controlling interest in the Company / all obligations of the Guarantor under this Deed shall cease except insofar as they have arisen before that time / the Guarantor may at his option withdraw from or modify his obligations under this Guarantee except insofar as they have arisen before that time / unless the Guarantor has previously given his written approval to the change.
- (4) The Company hereby agree to pay to the Guarantor all monies which the Guarantor becomes liable by virtue of this Deed to pay to the banks and the Company as beneficial owner hereby charges by way of floating charge in favour of the Guarantor as security for all such monies all the undertaking property and assets of the Company whatsoever and wheresoever both present and future.
- ∟ (5) The Company shall not be at liberty to create or permit to subsist any mortgage charge or lien on or in respect of any part of the said undertaking, property or assets except with the <sup>written</sup> consent of the Guarantor and any debentures mortgages or charges hereafter created by the Company shall be expressed to be subject to this Deed and it is hereby declared that any



charges created by the Company over its undertaking, property or assets in favour of the banks or any of them with respect to any of the facilities mentioned in ~~paragraph 1~~ <sup>this Guarantee</sup> above have priority over the charge mentioned in condition (4) above.7

- 7 (6) The Company undertakes that during the relevant period it will not make <sup>or give effect to</sup> any agreement or arrangement (whether legally enforceable or not) with any of its employees, or with any person or body or organisation representing those employees whereby those employees become entitled to or to claim any payment or other benefit in the event of their ceasing to be employed by the Company in addition to any payment or benefit to which they are legally entitled by virtue of any agreement for that purpose made by the Company before the date of this Deed.7
- (7) The banks whether as debenture holders or otherwise agree not to appoint a receiver of the undertaking, property or assets of the Company without the written consent of the Guarantor.
- (8) The Company undertakes to use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as soon as possible, the arrangements to be acceptable to the Guarantor and the banks, and the Company undertakes to cooperate with those parties at all stages of the negotiations taking into account the Government's interest as a user of computers.
- 7 (9) Conditions as to circumstances where the Company is to be treated as in default so as to trigger liability under the Guarantee.7
- (10) The Company will furnish to the Guarantor all such information as he may from time to time require relating to the activities of the Company.



- (11) The Company undertakes to ensure that all of its subsidiaries act in all respects as if each such subsidiary were a party ~~thereto~~ and accordingly the references <sup>hereto</sup> to the Company shall be treated as if they included references to any such subsidiary.





## NOTES

- Paragraph (a) A firm condition of the Government Guarantee for up to two years would be a willingness of the banks to make their unguaranteed facility of £70,000,000 /? at least £50,000,0007 for the same period.
- Paragraph (b) The final version would specify the maximum figure /? £200,000,0007. The discussion with the banks on 18 March will indicate whether a lower sum would be sufficient.
- Condition 3 This condition specifies two alternatives if a successful partnership leading to a change of control is negotiated. Under the first option the Government would be obliged to withdraw the guarantee. Under the second option the Government would be entitled to withdraw the guarantee. But it would also be able to continue the guarantee, reduce the amount, or shorten the duration, without a new Resolution of Parliament, if the negotiations with the new partner justified this.
- Condition 5 This Condition will be needed only if comparable provision is not contained in relation to the floating charge in the existing debentures of the banks.
- Condition 6 This Condition is aimed to prevent the company from making redundancy payments to the company's employees over and above the statutory entitlement under redundancy legislation and payments to which they are legally entitled under existing agreements with the Company. This condition would however involve the present Government for the first time in the imposition of conditions for payments to the workforce before it agrees to provide selective



assistance. The previous Government sought to impose conditions on pay awards to employees in 1977-78. This was within its statutory powers, but it decided to reverse this policy following criticism from recipients of selective assistance and the then Opposition.

Condition 9

This Condition relates to technical provisions specifying the precise circumstances where the Government's obligations are to arise under the Guarantee whenever ICL is in default with the banks. The provisions need to be worked out in the light of the terms of the existing loan agreement between ICL and the banks.



DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY THE MINISTER FOR INFORMATION TECHNOLOGY, DEPARTMENT OF INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a major user of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the Company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, ICL expected a significant improvement in the profitability of its operation.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. I am glad to be able to say in this context that it is a measure of their confidence in ICL, as a Company with excellent technology, good R & D and a worldwide

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marketing base, that banks both in this country and overseas are maintaining their support for the Company.

The information technology industries in this country are vitally important to our future prosperity. The Government recognise the important contribution of this developing technology in improving the performance of industry and commerce and in increasing the efficiency of public administration. For this reason and because of our interest as a customer we have responded positively to proposals that, in the present circumstances of world recession, we should provide a temporary measure of support for ICL.

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for a banking facility for ICL under Section 8 of the Industry Act 1972. This guarantee will be limited to an amount of up to £200 M for a period of up to 2 years.



NOTE FOR SUPPLEMENTARIES

1 Change in Government Policy?

NO. The measure is temporary and the circumstances exceptional.

2 What about the Prime Minister's "Weekend World" Interview on 1 February?

In that interview the Prime Minister did not rule out selective help under existing industrial legislation.

3 Why is a guarantee needed at all?

I referred in my statement to the unavoidable impact on the company of the world-wide recession.

4 Why £200M? Will it be enough to see the company through?

The company and their banks judge this to be sufficient.

5 What happens at the end of two years?

The guarantee lapses.

6 Is there sufficient money available under Section 8 for this purpose?

Yes.

7 Supposing the guarantee is called: addition to public expenditure?

Providing a guarantee does not itself involve any public expenditure and has no effect on PSBR. But it is the nature of a guarantee that expenditure will be required if it is called.

8 Are the Government prepared to acquire a stake in ICL?

No. We are not taking up any equity.

9 Permanent pensioner/lame duck/Government rescue?

The Government is simply providing a guarantee limited as I have



indicated.

10 Surely ICL have an appalling future?

Not at all. ICL have an excellent product range with well-established markets at home and abroad.

11 A result of restrictive Government policies?

High technology industries like the computer industry are particularly exposed in a world recession. ICL have successfully kept their share of a rapidly falling world market. The company should share in the benefits of expanded opportunities as the world economy recovers.

12 Any further support contemplated?

No, other than the normal support available to qualifying companies such as research and development.

13 Government attitude to and knowledge of foreign take-over? Protection of existing users?

This is primarily a matter for the company. The Government's attitude will depend on the nature of any particular approach. Any partner would I am sure have as a major commercial objective the need to secure the loyalty of ICL's customer base.



STAGES IN IMPLEMENTING A £200M GUARANTEE UNDER  
SECTION 8 OF THE INDUSTRY ACT, 1972

- I      Oral Parliamentary Statement
  - i      Information Technology Division of Department of Industry provide Private Office with draft which has to be cleared with the Prime Minister and other Ministers.
  - ii     Statement made in House.
  
- II     Affirmative Resolution under Section 8(8) to permit Assistance of over £5 million
  - i      Resolution drafted by Industrial Development Unit of Department of Industry in conjunction with Solicitors.
  - ii     Resolution approved by Secretary of State.
  - iii    Parliamentary Branch arrange for Resolution to be sent to Table Office in House of Commons with Explanatory Memorandum for Whips.
  - iv     Notice inserted in Orders of the Day enabling the Secretary of State to move the Resolution.
  - v      Whips arrange debate (NB this normally takes up to 2 weeks: minimum 7-8 days).