Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 June 1983

(2)

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Prime Minister

The Chancellor turns down the STC request for a government guarantee.

MCS 22/6

Dear Secretary of State,

STC AND THE TAT 8 TRANSATLANTIC TELECOMMUNICATIONS CABLE

Thank you for your letter of 20 June.

I have considered the arguments very carefully, but I am not happy about Government taking on this kind of unpredictable, and potentially very costly, contingent liability, which could last for most of the next decade. And since commercial insurance cover is apparently not available for more than about a third of the potential liability, and STC are unwilling to cover the residual risk, we must assume that there is a significant possibility that any guarantee we extended would be called. Quite frankly, I believe that it would be wrong for us to expose future taxpayers to such a risk.

I am also concerned about possible repercussions. Although the paper by your officials suggests that a one-off arrangement for submarine cables would be feasible, I suspect that when other industries found out about it they would demand similar treatment. And the discrimination would not be easy to defend. So the precedent of a new form of export subsidy could prove very costly.

So much for the general policy arguments. But I am also puzzled as to why STC, while apparently willing to risk the whole amount of the contract value for the first three years, should take so different a view for the period after the third year. Surely their confidence in the system's resilience to "wear out" in the fourth and fifth years should be only slightly lower than in the first 3 years? And, while the risk is bound to increase over the life of the system, so surely should their ability to bear it? They say they are willing to bear

/the first

the first £100 million of the loss after year 3, because they can contemplate risking 25 per cent of their net asset base from the fourth year of the project onwards (ie from 1992). But their net assets will presumably increase as the project proceeds, and by the later years of the warranty period 25 per cent should comfortably exceed £100 million. I really do think that they ought to be able to self-insure that portion of the risk that the market will not cover. And I don't think we should provide Government assistance.

I am copying this letter to the other recipients of yours.

Yours sincerely,

John Kerr

pp NIGEL LAWSON

Approved by the Chancellor.

010

DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB
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JF3621

Secretary of State for Trade & Industry

20 June 1983

(2)

Prime Minister

STC are asking the government to stand behind a 10-year warranty to enable them to compete with A.T&T's superior asset base.

MES 20/6

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
LONDON
SW1P 3AG

Dear Nigel,

STC AND THE TAT8 TRANSATLANTIC TELECOMMUNICATIONS CABLE

As you may know, Sir K Corfield, Chairman of STC, wrote to Geoffrey Howe shortly before the Election seeking Government assistance to overcome a particular difficulty that had arisen over STC's bid for the TAT8 cable, the first fibre optic Transatlantic cable due to come into service in 1988. The difficulty arises from an exceptional requirement in the request for quotations to quote for 5 and 10 year warranties on the cable.

2 The broad problem had been examined by officials while STC had been preparing their bid and there was Ministerial correspondence. At that stage, we were unable to agree whether we might assist STC and how. But the situation now that bids are in is rather more stark, and that is why Sir K Corfield has written.

3 Bids were requested and received from STC, from Western Electric - a wholly owned subsidiary of AT&T, which in turn will own 44% of TAT8, and from Submarcan of France. STC know that on technical grounds and price their bid is competitive with that of Western Electric; Submarcon are rather more expensive and may be out of the running. However Western Electric, given the underlying strength of AT&T's asset base and indeed AT&T's potential earnings from the cable, were able to quote for a full 10 year warranty. STC, faced with a potential liability worth 50% or more of their total projected asset worth in the 1990's, were unable to offer more than the 2 year warranty. If STC is to maintain a credible bid for this contract, and to do so is important not just for the contract itself but also for their ability to maintain their market lead generally as the new fibre optic technology is introduced, they will have to offer some warranty over the 10 year period required.

4 I believe that it is most important that STC are enabled to stay in play on this contract. AT&T is obviously seeking to use its dominant position in the consortium, where it was responsible for pressing for a 10 year warranty requirement, to put its own subsidiary in an extremely privileged position. STC, with very little Government support, have built up a position as world market leader in conventional submarine cabling. Technically, with some assistance under the Government's fibre optic support scheme, they are well placed to maintain that lead. The need for assistance to meet warranty requirements should be unique to this case, but unless STC can maintain a credible bid, their position on this contract will be unsustainable and, as important, their standing for future business will be severely weakened.

5 The attached paper explains the problem in more detail and suggests a way forward. This involves using the Science and Technology Act to provide a last call cover once STC have made maximum use of insurance market cover and accepted a very substantial element of cover on their own resources.

6 If STC are to offer a 10 year warranty, this needs to be done before 24 June when they begin a major presentation to the TAT8 consortium. I would appreciate an urgent reply.

7 I am copying this letter to the Prime Minister and, with a copy of Sir K Corfield's letter, to the Foreign Secretary, and colleagues on EX Committee.

Yours Ever,

Paul

Standard Telephones and Cables plc

CHAIRMAN AND CHIEF EXECUTIVE
Sir Kenneth Corfield

STC HOUSE
190 STRAND LONDON WC2R 1DU

TELEPHONE 01-836 8055
TELEX 22385

COMMERCIAL IN CONFIDENCE

25th May, 1983.

Rt. Hon. Sir Geoffrey Howe, QC MP,
Chancellor of the Exchequer,
11 Downing Street,
London. SW1

Dear Geoffrey,

On 16th May, in response to an international invitation to tender, STC bid for the first optical trans-Atlantic submarine telecommunications system - TAT-8. AT&T and the French company CGE have also bid.

The bids have now been opened. It appears that STC's proposals are highly competitive.

First, we are able to propose an "All British" solution with technology largely developed by STC and British Telecom; competitors may well have to use "imported technology" - AT&T, for example, propose the possible use of Japanese lasers.

Second, our proposals are highly competitive on price - STC had to bid in Sterling and the Dollar rate is calculated through a complicated formula applied over the next few weeks. The indications are, however, STC's price will be similar to that proposed by AT&T.

It is on a third and key aspect of the bid where we find STC is unlikely to prove competitive. STC has been unable to fully insure the system we propose against failure, and we have therefore only been able to offer a two year warranty. AT&T has offered ten years, and is advantaged in its position because, as the largest single shareholder of the partners purchasing the system, it is assured of the revenue generated by the system when operational.

...../

Standard Telephones and Cables plc
Registered in England No. [illegible]

The private sector was only able to offer us insurance terms which permit us to put forward a two year warranty because it is only in the early stages of developing such insurance and the market is therefore small. The issue is, moreover, complicated by the relative newness of the technology and, inspite of STC's management record in the world's submarine business (STC holds some two thirds of the world market for technologically established systems), the private sector is willing to take only limited risk. We subsequently had long and helpful discussions with Ministers and officials from the Departments of Trade and of Industry in order to examine whether Her Majesty's Government might act as Guarantor of last resort. Sadly, HMG was unwilling to do this, and so we have bid on the best terms we dared without jeopardising STC's financial position.

We have the opportunity still to adjust our bid, and I am writing to ask if you, Chancellor, would reconsider HMG's decision and offer to act as guarantor of last resort. The matter is urgent because adjudication is now underway.

I believe it is critical for STC's future submarine systems business that we are able to improve the credibility of our bid by extending the warranty to cover the full ten year period.

I would be pleased to discuss this with you at any time.

I am copying my letter to the Prime Minister, to the Secretary of State for Trade and to the Secretary of State for Industry.

Yours sincerely

Ken

STC BID FOR THE TAT8 SUBMARINE TELECOMMUNICATIONS CABLE

Summary

Standard Telephones and Cables have sought Government guarantees to help them to meet the warranty requirements for the next trans-Atlantic telecommunications cable system, known as TAT8. The project is worth over £200m, but the successful tenderer will have to guarantee the new system, which will be the first long-haul submarine cable incorporating optical fibre and laser technology, for up to ten years. This paper proposes that the Government agrees to offer a degree of contingent support for STC, but on considerably harder terms than those proposed by the company.

Background to the TAT8 tender

2 The full background to this case is involved and complex; it has been set out in extended interdepartmental correspondence at official level and also in previous Ministerial exchanges. Briefly, STC are competing with the American Western Electric (WECO) and the French CIT-Submarcom for a contract to be let by the end of this year, the system to be in service in 1988. The customer is an international consortium of national telecommunications authorities including British Telecom. The consortium is dominated by the US operator, AT&T, which holds 44% of the voting power. AT&T is also the parent of WECO, which accordingly has an exceptionally strong position in the competition.

3 In particular, AT&T's insistence that bidders for TAT8 offer as options full warranty for two, five and ten years - as against the usual convention on previous copper co-axial (analogue) cables of only a two year warranty - exploits this advantage. Such extended conditions can readily be met by WECO, backed by the vast assets of AT&T (including the capabilities of Bell Laboratories) and also the further strengthening AT&T will derive from the substantial revenue flows from the TAT8 link.

4 By contrast, such long term guarantees prove extremely onerous for a company like STC, for whom the potential liability could greatly exceed their current asset base, or even for CIT-Submarcom, despite the latter's French Government shareholdings. When bids were opened last month, AT&T had complied fully with the warranty requirements, as well as putting in extremely aggressive prices which appeared to incorporate no value-added costs or insurance premiums. STC offered only a two year warranty, although their prices were within 5% - 10% of the Americans. CIT-Submarcom declined to offer warranties without any share in the revenues, and were some 15% higher on prices than AT&T; they have recently offered to lower some of their prices.

5 Bids are now being evaluated, and a decision will be reached by November. However, AT&T are seeking to have the UK and French bids ruled out now, as non-compliant. STC conclude, and BT from

their vantage point on the co-owners group agree, that they must improve their offer on warranties in the next few days if they are to stay in the race. At stake is not just STC's chances of winning TAT8, or at least gaining part of the business from it, but more importantly their standing and credibility in future competitions for optical cable links, which will mostly be let by the same authorities as TAT8, though with different relative participation. AT&T, forced by US liberalisation into the world market, are clearly intent on exploiting the transition to a new technology and their special advantages in TAT8 to wrest from STC the market dominance which STC has enjoyed for analogue systems.

Background to Government involvement

6 STC have had remarkably little Government support in maintaining their 50% share of the market for analogue cables. Their reasons for seeking special support now stem from several unique features of the TAT8 competition, viz

- the size of the contract (and hence the potential liability) against STC's asset base;

- the timing of this tender relative to the development of optical fibre technology. Since no-one has any operating experience with such technology, it is impossible to make assessments of the risks involved over an extended period (in the way that can be done for analogue systems);

- the fact that commercial insurance is not yet available for this untried technology;

- the particular position of AT&T (and WECO) in this consortium.

7 STC have stressed that, even if future optical fibre cable tenders require a ten-year warranty, this combination of factors, and the consequent need to approach Government, will not recur. The likely tenders over the next ten years (after which time much of the current technical uncertainty will have been removed) are mostly relatively small. The warranty conditions for these will be coverable from STC's own resources plus market cover, which should also be more readily available given some proven technical experience. The only large system in prospect in this timescale is one from Europe to South Africa, and STC would have the benefit there of an equity stake in the South African operators.

8 In view of these considerations, Mr Baker (MOS, DOI) wrote to the Minister of State at the Treasury on 22 April, proposing that the Government indicated its willingness in principle to help STC over the contingent liability of a compliant bid for TAT8 subject to conditions over the total Government exposure and STC making maximum use of whatever commercial insurance they could obtain. Mr Wakeham replied on 6 May, rejecting the proposal on the grounds that the maximum liability did not appear to be more than STC's assets could cover by the mid-1990s, and that adequate commerical

cover would, in the Treasury's view, be available to them by that time.

9 STC, on the strength of having established that their bid is commercially and technically competitive, providing they can offer improved warranty terms, returned to the fray with a letter to the Chancellor, dated 25 May, asking the Government to act as guarantor of last resort for the full warranty. Following discussions with officials this request was put more specifically, as follows:

- Government to share 50:50 with STC any shortfall in the total cover available from the insurance market;

- STC to take on a maximum liability of 100% of contract value in the first two years;

- STC to bear a maximum liability of 25% of corporate net assets thereafter, put at £100m;

- any commercial cover obtained to be set equally against reducing STC's and the Government's total exposure.

The Issues

10 Such an undertaking from HMG would go much further than was sought in April, and would imply a Government exposure considerably greater than STC's on all but the cheapest option. (Bidders are required to quote for five different options, varying accordingly to the number of landing terminals chosen, ranging in cost, for STC, between £180m and £280m; the likely options are in the range £180m - £225m). This is not a tenable proposition.

11 The complexities of the issue admit many questions, but the key ones concern:

- the nature of the risks implicit in offering guarantees;

- the size of the liability base for which any guarantees would be exposed;

- the prospects for obtaining commerical insurance; and

- the contingent liability which STC could reasonably be expected to bear, given forecast asset strength.

12 STC have characterised the technical risks of submarine cable systems into three phases: "infant mortality", "prime of life" and "wear out". They are confident, from the testing they have done to date, that the risks of a system failure in the first two phases are sufficiently small that they could assure them themselves - hence their willingness to bear 100% liability for the first

two years. They are also confident that the incidence of isloated faults during these two phases will be no more than they can cover. However, neither they nor any other supplier has any means of predicting any unknown weaknesses in the new technologies which would bring forward the "wear out" phase - normally planned for analogue systems to come not earlier than 25 years from installation. Such premature wear out might arise anytime from the second or third year onward, and (in the absence of contradictory experience) the probability must increase with time. If this did arise, it would quickly lead to a system failure and the calling of full liability guarantees. The point is not that STC expect fear such premature wear out; rather, at this stage of development they have no basis for expecting otherwise, and so must stand prepared at this point in time able to cover the full liability from the second or third year onwards.

13 The tender requirements specify a liability base over the whole warranty period(s) more-or-less equivalent to the full contract price. For the most likely option, B, this would be £225m. However it can fairly be argued that over the ten years (assuming that warranty period), the cable operators will have benefitted from traffic revenues from TAT8, while at the same time amortising the value of their stake in the cable. It would appear reasonable, in that case, for the supplier's liability to be similarly written down. This has indeed been proposed already by Submarcom, and BT accept that it represents a reasonable case, which they could press on their co-owners. Assuming a cable life of 25 years, this would suggest a total liability reducing over a ten year warranty ... from 100% to 60% of the contract value. The attached graph illustrates this for Option B.

14 The insurance market for the kind of high-technology catastrophe risk sought by STC operates on the fringes of normal commercial markets. It is not possible to obtain commitments now for cover five years hence, nor will such cover be available for more than three years at a time; the volume of available underwriting finance is as much a constraint to the amount of cover available as estimates of the risks. The best indication currently available is that, by 1988, STC should be able to obtain up to $100m (say, £65m) of total risk cover, for an initial period of three years. In addition, they expect to get up to £10m of product liability cover, against isolated faults, initially for 5 years. It is reasonable to assume that by 1988 STC will be able to obtain cover from both sources, at least for the initial periods. This should enable them to offer warranty on their own behalf for years 1, 2 and 3 (ie one year beyond their current proposal). After the first three years, they would hope and expect to roll forward the commerical cover, but there is no guarantee of this. At the same time, the risk of premature system failure - the key unquantifiable factor in all this - is increasing. It is therefore after year 3 that STC feel themselves really in need of Government backup.

15 STC's net tangible assets at the end of 1982 were £207m. By the time they would be exposed on TAT8 they estimate this figure will have doubled. Accordingly, they have proposed that £100m, equivalent to 25% of forecast corporate assets, is the maximum contingent liability they could prudently bear without endangering the financial health of the company. The

Industrial Development Unit is of the opinion that this is not an unreasonable view. Indeed, a contingent liability carried on STC's balance sheet even at this level could materially constrain their credit rating and hence their scope to undertake other profitable activities elsewhere in the company.

16 Nonetheless, STC have already shown themselves prepared to take on liabilities in years 1-3 of between £150m - £133m (on Option B, assuming initial commercial cover is available). It does not therefore seem unreasonable for them to consider total exposure of a similar magnitude in the later years (4-10), given that their asset base will be then have grown.

Proposal

17 We have held extensive discussions of the STC proposal, with the company, with BT and between Departments. A proposed basis for Government guarantees, incorporating the main considerations to emerge from these talks, is shown on the graph. Under this proposal, STC would offer the full ten year warranty, but on a diminishing liability base, amortized over a twenty-five year system life. For the first three years STC would be required to cover the liability themelves, drawing on commercial sources assumed to total at least £75m. From Year 4, the Government would guarantee up to £50m of the liability subject (a) to STC bearing at least £100m on their own account, and (b) any continued commercial cover going first to offset the Government's exposure.

18 The particular amount at risk to STC and to HMG would depend on the eventual contract value and the level of commercial cover available in each year. The graph illustrates how this proposal would work if STC won option B at £225m, also obtaining £10m of cover, for five years initially, and plus a further £65m ($100m), for three years initially. The uncertainties then concern the availability of commercial cover after year 3, and the possible outcomes, for this example, are as follows:

	BEST OUTCOME (MAX. LIABILITY)			-	WORST OUTCOME (MAX. LIABILITY)			(TOTAL) Liability Base
YEAR	STC	HMG	MKT		STC	HMG	MKT	
4	100	24	75		139	50	10	(199)
5	100	15	75		130	50	10	(190)
6	100	5	75		130	50	-	(180)
7	98	-	75		122	50	-	(172)
8	87	-	75		112	50	-	(162)
9	79	-	75		104	50	-	(154)
10	70	-	75		100	45	-	(48)

19 A formulation on these lines is designed to meet most of the Treasury's expressed reservations, in that it leaves most of the liability on STC, it limits the maximum Government exposure, and it concentrates the "real" Government exposure(ie that remaining

even with commercial cover invoked) to years 4-6 (1992-1994). Treasury officials have suggested that pressure be maintained on STC to obtain the maximum market cover, beyond the £75m currently envisaged. There would in fact be a strong onus on STC to continue seeking the maximum market cover, since the benefit of cover obtained beyond £75m would accrue entirely to their exposure in years 1-3 and year 7-10. In addition, we would require STC to pay a premium no lower than market rates for the exposure actually borne by HMG in any years; this would be around 1% pa.

20 As before, any Government guarantee would be on a last call basis, although the caveat is largely hypothetical: there is in practice no half-way stage between a few isolated "rogue" faults(rectified by STC themselves) and a total system collapse invoking the whole liability. The guarantee would be given under Section 5 of the Science and Technology Act; hopefully this would be achieved without public debate (and consequent publicity) by laying a minute before Parliament.

Recommendation

20 We recommend that the Secretary of State now replies to STC, offering to meet their request for Government guarantees on the following basis:

a) the Government would be prepared to offer contingent liability guarantees up to a maximum of £50m (less if STC win an option A, worth £180m);

b) this support would be available from the beginning of the fourth year after TAT8 is in service;

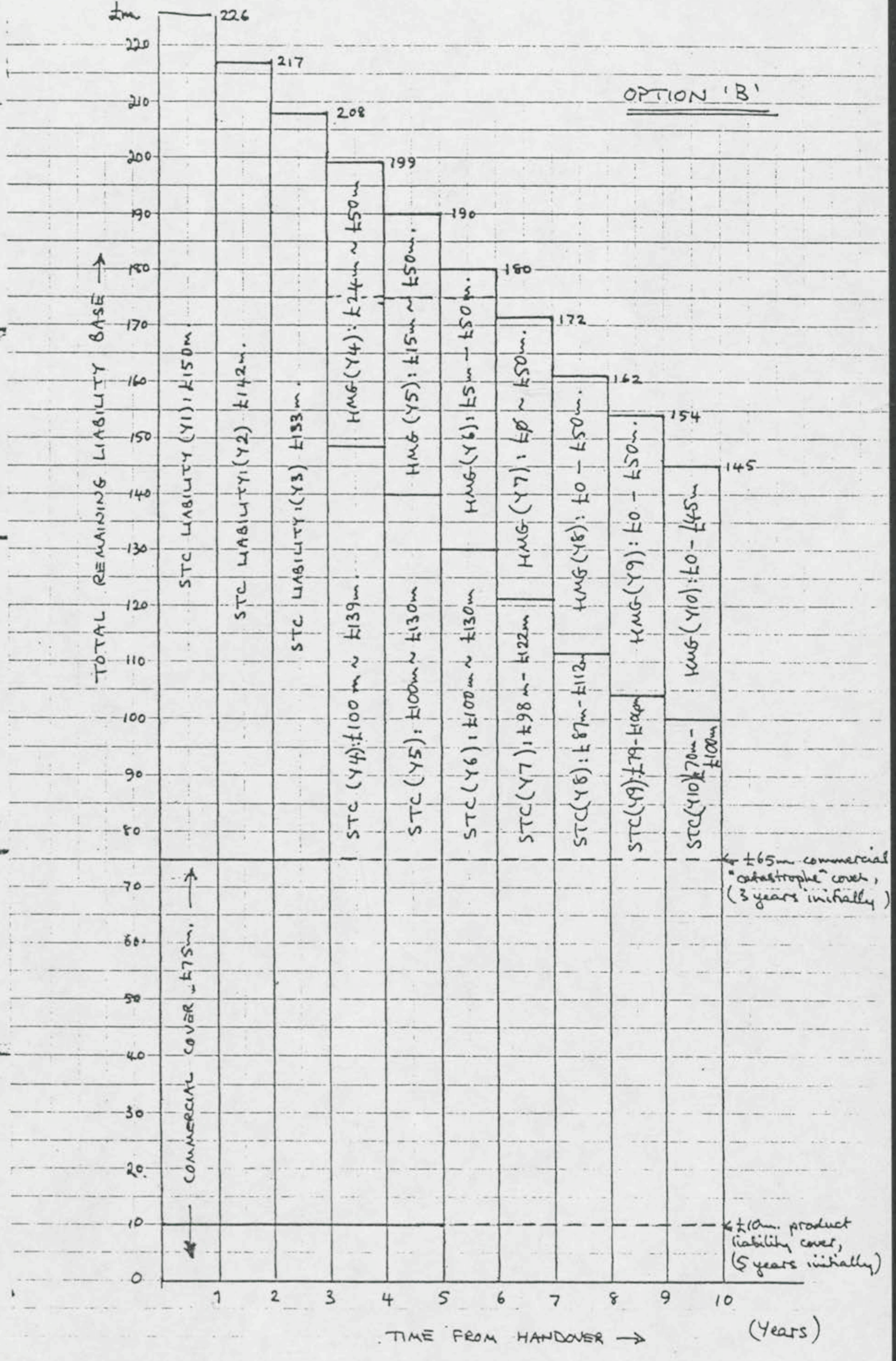
c) any commercial cover obtained by STC would be applied in the first instance to reducing the Government's liability;

d) STC would pay a premium, to be negotiated but not less than payable on commercial cover, to the amount of remaining Government exposure in any year;

e) STC would offer a ten-year warranty, but on a declining total liability base, reducing by 1/25 of the contract value in each year.

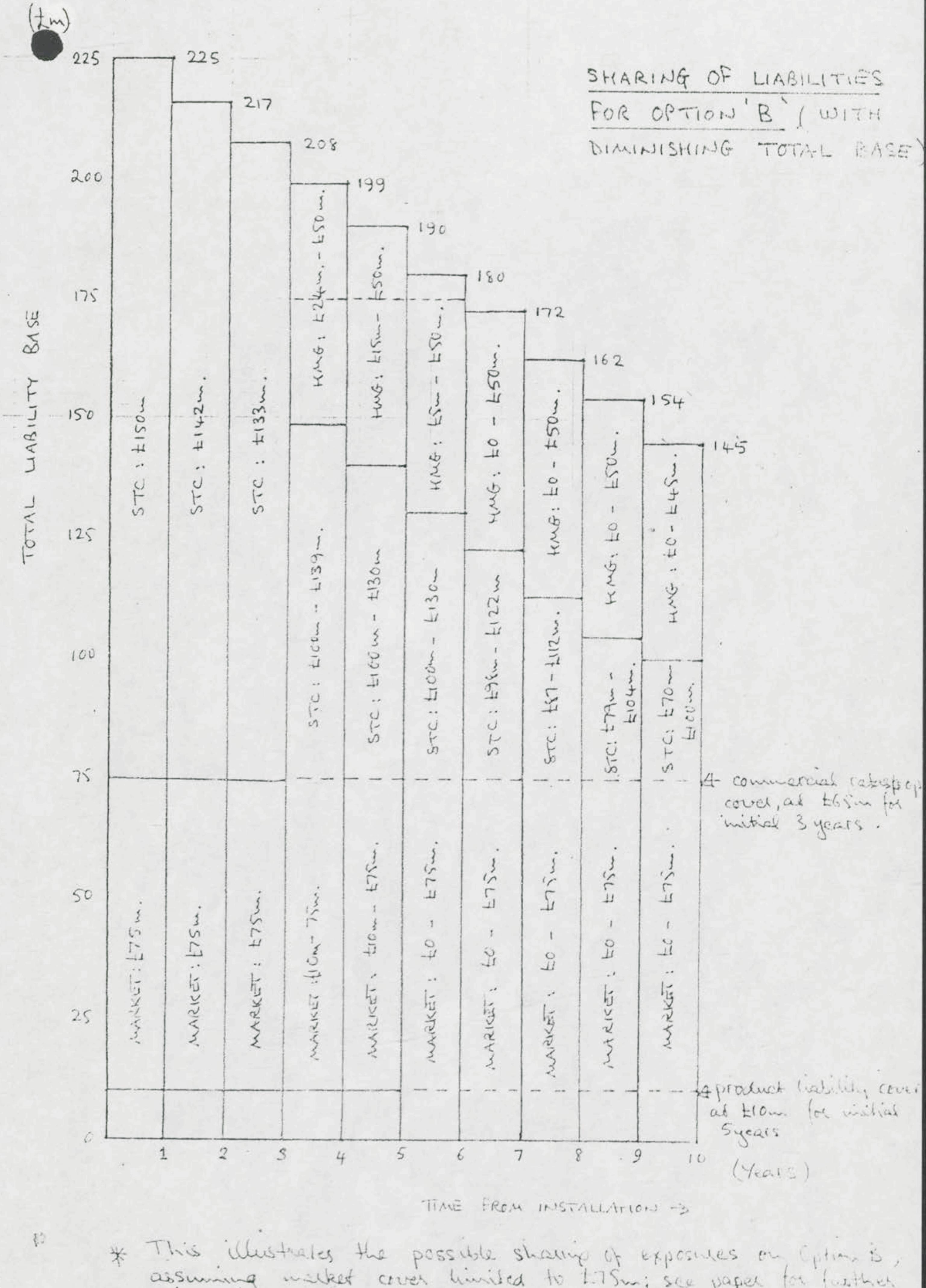
Projects and Export Policy Division
Department of Trade and Industry

16 June 1983



OPTION 'B'
£m
226
217
208
199
190
180
172
162
154
145
TOTAL REMAINING LIABILITY BASE →
STC LIABILITY (Y1): £150m.
STC LIABILITY (Y2) £142m.
STC LIABILITY (Y3) £133m.
HMG (Y4): £24m ~ £50m
STC (Y4): £100m ~ £139m.
HMG (Y5): £15m ~ £50m.
STC (Y5): £100m ~ £130m
HMG (Y6): £5m – £50m.
STC (Y6): £100m ~ £130m
HMG (Y7): £0 ~ £50m.
STC (Y7): £98m – £122m
HMG (Y8): £0 – £50m.
STC (Y8): £87m – £112m
HMG (Y9): £0 – £50m.
STC (Y9): £79 – £104m
HMG (Y10): £0 – £45m
STC (Y10): £70m – £100m
COMMERCIAL COVER £75m.
← £65m commercial "catastrophe" cover, (3 years initially)
← £10m. product liability cover, (5 years initially)
0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180 190 200 210 220
1 2 3 4 5 6 7 8 9 10
TIME FROM HANDOVER →
(Years)

SHARING OF LIABILITIES FOR OPTION 'B' (WITH DIMINISHING TOTAL BASE)



* This illustrates the possible sharing of exposures on Option B, assuming market cover limited to £75m; see paper for further discussion

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Sir Kenneth Corfield
Chairman and Chief Executive
Standard Telephones and Cables Ltd
190 Strand
LONDON WC2R 1DU

6 June 1983

Dear Kenneth

Thank you for your letter of 25 attached May about the tender for the TAT 8 fibre-optic cable system.

The competition for this contract is certainly formidable, and it is very encouraging that you think STC's bid is competitive on price, and that you will be proposing a system which will rely on technology developed in this country.

The problems of the insurance of the system were brought to our attention by Kenneth Baker at the end of April. The solution you propose raises a difficult problem for us, and while I fully recognise the importance of the contract for STC, my initial reaction is that it is a little difficult to envisage how the Government could justify accepting a contingent liability of this kind. I understand, however, that the Department of Industry will be holding further discussions with your people in the next few days.

Copies of this letter go to the Prime Minister, Patrick Jenkin and Arthur Cockfield.

Yours ever
Geoffrey

GEOFFREY HOWE

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

NBPM

MCS 6/6

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

6 June 1983

Dear Patrick

STC AND THE TAT 8 TELECOMMUNICATIONS CABLE

You wrote to me on 1 June about STC's bid for the TAT 8 contract.

The position on this contract is clearly complicated and still quite fluid. I entirely agree that it would be useful for officials from both our Departments to re-open discussions with STC.

... I enclose a copy of my reply to Kenneth Corfield.

I am copying this letter to the Prime Minister and to Arthur Cockfield.

GEOFFREY HOWE

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JU806

1 June 1983

(4)

The Rt Hon Sir Geoffrey Howe QC
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister

Mr Jenkin proposes official studies about whether the government could insure this STC against failure long-term - for a quick decision after the Election

MCS 2/6

Dear Geoffrey,

STC AND THE TAT8 TELECOMMUNICATIONS CABLE

Sir Kenneth Corfield copied to me his letter of 25 May about the warranty problems associated with STC's bid for the TAT8 Cable. As he indicated, officials in this Department had had long discussions with his company about this problem and these discussions culminated in Kenneth Baker's proposal to John Wakeham (in his letter of 22 April) that the Government should, within certain limits, be prepared in principle to cover some or all of the remaining liability once the commercial markets own cover had been fully utilised and STC itself had made a realistic contribution from its own resources. The Government's cover would have been clearly that of last resort. John Wakeham rejected that proposal but I have to say that his grounds for rejection do not really address the problem that STC face.

2 Since the TAT8 bids were submitted on 16 May, we have learnt a little more about the competitors' proposals. AT&T are offering the option of a full 10 year warranty but at an addition to the 2 year warranty price that clearly supports our earlier view that AT&T's longer term cover would be offered on the strength of their own huge overall resources - and their income potential as the largest shareholder in TAT8 - and would in no way represent the commercial cost of such cover. This, as STC have discovered, is in any case not available from the market. We understand that the French company Submarcan have indicated in their bid that they will be able to offer longer cover once their negotiations with the French Government have been completed; in other words, they too are not going to commercial sources for the cover.

3 It is clear therefore that STC's difficulty in offering warranty terms any longer than 2 years severely handicaps them even though their bid in other respects shows strong signs of being highly competitive. Their disadvantage stems not from

commercial factors but from an aspect that its competitors can meet either because of their enormous industrial base or because of potential government support. I need hardly repeat the importance which we attach to this contract which will be the first transocean fibre optic telecommunications cable and which will put the eventually successful company in a very strong position in this new market which we expect to be expanding significantly by the end of the decade.

4 In these circumstances, I hope you will agree that officials from both my Department and yours should reopen discussions with STC now to examine the present situation (which differs in detail, though not broad substance, from that described by Kenneth Baker in his letters of 22 April and 16 May), so that proposals can be put to Ministers immediately after the Election if necessary. We cannot wait until after the election for officials to start looking at this; the adjudication process has already begun and STC will be making a major presentation to representatives of the Consortium which will own TAT8 in late June. They really need to know by 21 June whether the Government can back their bid in some way.

5 I am copying this letter to the Prime Minister and to Arthur Cockfield.

Yours ever

Patrick

no relevant PPS.

PA

Rt. Hon. Margaret Thatcher, MP
Prime Minister and First Lord of the Treasury

MCS

2/6

With compliments

CAT PPS?

Chairman and Chief Executive
STC House
190 Strand
London WC2R 1DU
Telephone: 01-836 8055

MCS to see.

NO.

GR. NO

Standard Telephones and Cables plc

Standard Telephones and Cables plc

CHAIRMAN AND CHIEF EXECUTIVE
Sir Kenneth Corfield

STC HOUSE
190 STRAND LONDON WC2R 1DU

TELEPHONE 01-836 8055
TELEX 22385

COMMERCIAL IN CONFIDENCE

25th May, 1983.

Rt. Hon. Sir Geoffrey Howe, QC MP,
Chancellor of the Exchequer,
11 Downing Street,
London. SW1

Dear Geoffrey,

On 16th May, in response to an international invitation to tender, STC bid for the first optical trans-Atlantic submarine telecommunications system - TAT-8. AT&T and the French company CGE have also bid.

The bids have now been opened. It appears that STC's proposals are highly competitive.

First, we are able to propose an "All British" solution with technology largely developed by STC and British Telecom; competitors may well have to use "imported technology" - AT&T, for example, propose the possible use of Japanese lasers.

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It is on a third and key aspect of the bid where we find STC is unlikely to prove competitive. STC has been unable to fully insure the system we propose against failure, and we have therefore only been able to offer a two year warranty. AT&T has offered ten years, and is advantaged in its position because, as the largest single shareholder of the partners purchasing the system, it is assured of the revenue generated by the system when operational.

...../

Standard Telephones and Cables plc
Registered in England, No 106321
Registered office: -
190 Strand, London, WC2R 1DU

The private sector was only able to offer us insurance terms which permit us to put forward a two year warranty because it is only in the early stages of developing such insurance and the market is therefore small. The issue is, moreover, complicated by the relative newness of the technology and, inspite of STC's management record in the world's submarine business (STC holds some two thirds of the world market for technologically established systems), the private sector is willing to take only limited risk. We subsequently had long and helpful discussions with Ministers and officials from the Departments of Trade and of Industry in order to examine whether Her Majesty's Government might act as Guarantor of last resort. Sadly, HMG was unwilling to do this, and so we have bid on the best terms we dared without jeopardising STC's financial position.

We have the opportunity still to adjust our bid, and I am writing to ask if you, Chancellor, would reconsider HMG's decision and offer to act as guarantor of last resort. The matter is urgent because adjudication is now underway.

I believe it is critical for STC's future submarine systems business that we are able to improve the credibility of our bid by extending the warranty to cover the full ten year period.

I would be pleased to discuss this with you at any time.

I am copying my letter to the Prime Minister, to the Secretary of State for Trade and to the Secretary of State for Industry.

Yours sincerely

Ken