

PRIME MINISTER

ICL

On closer inspection, the recent events look like a mixture of an abortive boardroom coup and an opportunistic piece of arm-twisting by ICL to force the BT procurement issue. However, Norman Tebbit has now managed to separate the boardroom conflicts from the question of BT procurement.

The problems in the boardroom which seem to be largely a result of Michael Edwardes' personality are of no particular concern of Government. Further changes are likely but are not likely to involve Sir Michael or Robb Wilmot who is a key figure in ICL's future.

The question of BT procurement is potentially more serious. The major issues which need to be resolved are:

- 1) Is it the case that a BT decision to buy IBM compatible equipment for its area computing systems would have the serious consequences for ICL which the company claims?

Although ICL has made considerable progress since the Government rescue, customer confidence is extremely important. ICL claims that this would be shattered by the decision of the biggest customer who is perceived as "Government" to purchase IBM compatible equipment. This would in turn bring about an ICL collapse.

The direct implications for Government would be the loan guarantee which we think is now about £100 million (tapering down from £150 million and ending by 1986). There would be wider implications for the Government's ICL systems.

On the other hand it is by no means clear that the company will collapse if it loses the BT order. ICL is about to declare pre-tax profits of £45 million on sales of £846 million and capital employed of about £340 million. The balance sheet is



strong and the company is forecasting increased profits over the next three years. The relationship with Fujitsu is going well and the 20,000 ICL employees would appear to have good prospects.

2) Would the loss to the nation of the demise of ICL, in terms of information technology, be greater than the cost to BT of not having its first choice?

This raises an important strategic question about the growing dominance of IBM in all markets. There is concern that IBM's new aggressive stance amounts to market exploitation.

It appears that the main reason why Sir George is insisting on an IBM compatible system is that he feels that the world is going for IBM and he does not want to be left in the cold.

ICL feel that they can offer both the best commercial solutions and a viable alternative in international terms to IBM. In these circumstances a BT decision against them could be self-fulfilling in bringing about a collapse of ICL. Against this, IBM(UK) employs 15,000 people and generates higher turnover, exports and profits than ICL.

3) Have ICL been given a fair opportunity to make their case?

ICL claim that their proposals would provide the best commercial solutions for BT and that BT has not acknowledged this. ICL point to a recent case when BT planned to introduce an IBM-compatible system for billing in preference to a more attractive ICL offer. In the event, the IBM system was aborted at some cost, as ICL had predicted, when it was found to be too difficult to convert the system to BT practice.

Norman Tebbit is considering the possibilities for an independent assessment to assess this argument.

4) How far can, or should, Ministers go in putting pressure on BT?

ICL do get a modest degree of preference for public sector / purchases.



purchases. The CCTA - the Government's advisory body on computer-purchases - gives ICL informal advance warning of its future requirements. However nationalised industries make their own purchasing decisions.

BT argue that it has conducted a full appraisal and should be allowed to make its own decisions. It would be difficult for us to overrule BT, especially in the run-up to privatisation.

However, Norman Tebbit will be pressing BT hard to reconsider. If he is not successful and the implications really are of an unacceptable ICL collapse, it may be necessary for you to become involved.

5) How secure is ICL's future even with the BT procurement?

It is likely that ICL will need to enter into further collaborations or even partnership arrangements to secure its future. These could be with another computing company or more attractively with a telecommunications company. ICL have proposed a joint venture with BT on value-added network services. BT's attitude is apparently very luke-warm. BT appear, however, to have shelved the idea of an IBM joint venture.

Norman Tebbit is working hard to clarify these complicated and important issues. We understand that Sir George is reluctant to wait more than a few days before making his final decision. Our view is that there is no need for you to become closely involved at this stage. We do consider that it would strengthen Norman Tebbit's hand and make it easier for him to delay the decision, if you registered your concern that the facts should be fully established before irrevocable decisions are taken.

DLP

DAVID PASCALL



*Agree that a letter goes to Mr. Tebbitt in accordance with last para. of this note - MB*

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ICL

You will have seen from the two minutes from the Secretary of State for Trade and Industry that he has managed to patch up the boardroom quarrel, though with two Chief Executive types in Edwardes and Wilmot it would not be at all surprising if trouble broke out again. More important however is to assess the significance of the BT contract for the future of ICL, which is discussed more fully in the Policy Unit advice.

ICL put forward two arguments:-

- i) BT is ICL's best customer and if it defects to IBM, customer confidence in ICL will evaporate and the efforts to revive it over the last two years will have been wasted.
  
- ii) ICL also claim that they have not been given a proper chance to make their case to BT and that if they do they would be able to demonstrate that their system is cheaper. The only reason for BT to go for IBM is that it feels that the world is going for IBM standards and technology and BT do not want to be left out in the cold. (The problem with this is that if it is the case that this contract is crucial to ICL's future, BT's action will prove self-fulfilling.)

BT, of course, argues that it has conducted a full appraisal and should be allowed to make its own decision. It is difficult for the Government to over-rule BT, especially in the run-up to privatisation since it implies that there are decisions on which BT cannot be allowed to exercise its commercial judgment and in consequence that it should remain in the public sector under Ministerial control.



The key issues appear to be:

(i) Is it the case that the BT contract is a life or death matter for ICL?

(ii) If it is, is the loss to the nation of the demise of ICL, in terms of information technology, greater than the cost to BT of not having its first choice?

*Have we the necessary information to make a judgement?*

(iii) Is there substance in the argument that ICL have not been given a fair opportunity to make their case?

(iv) How far can, or should Ministers go in putting pressure on BT?

(v) How secure is ICL's future even with the BT procurement?

I understand that Mr. Tebbit is pursuing these issues but in view of their potential implications, do you agree I write expressing your concern about these questions and looking forward to receiving his conclusions before any irrevocable decisions are made?

*Andy Clerk*

PP

Andrew Turnbull

28 November 1983



SUBJECT cc Master

SECRET



File No 7  
bc. NO

10 DOWNING STREET

From the Private Secretary

30 November 1983

ICL

The Prime Minister saw your Secretary of State's two minutes of 24 and 25 November. She was very grateful for his efforts in patching up the Board Room quarrel at ICL.

She has expressed concern, however, that a number of important questions remain to be resolved. For example, is it the case that the BT contract is a life or death matter for ICL? If it is, is the loss to the nation of the demise of ICL greater than the cost to BT of not having its first choice of computer system? Is there any substance in the argument that ICL have not been given a fair opportunity to make their case? How far can, or should, Ministers go in putting pressure on BT? How secure is ICL's future, even if it succeeded in getting the BT contract?

She understands that your Secretary of State is pursuing these issues but in view of their importance she looks forward to receiving his advice before any irrevocable decisions are made by BT.

I am copying this letter to John Kerr (H.M. Treasury) and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Callum McCarthy, Esq.,  
Department of Trade and Industry.

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