



JF4547

Prime Minister (2)

V. NO

This seems to meet your concerns about the original proposal. GEC/Plessey have been given two years to develop a home base from which to launch exports but

COMMERCIAL IN CONFIDENCE

Competition is provided for in the longer term. Agree?

PRIME MINISTER

SYSTEM X

There are much better alternatives
Yes. not
AT 21/10

Patrick Jenkin wrote to you on 5 May concerning BT's proposals to purchase telephone exchanges from L M Ericsson of Sweden in competition with System X. In the light of your views Patrick subsequently made it clear to Sir George Jefferson that the purchase of a foreign system was only acceptable if it was clear that GEC and Plessey were unable to satisfy BT's requirements. As a result of this, BT, for the first time, showed GEC/Plessey their total requirements which were considerably larger than those which had previously been revealed. Both companies have been able to accelerate the development and production programmes for System X in order to meet BT's requirements.

2 Sir George has now informed me that he intends to place new large orders with the suppliers on a competitive basis. He has undertaken not to introduce a second competitive system for two years, after which he intends that about 10% of his requirements would be met by means of an international tender. A second system could probably be manufactured in the UK. GEC and Plessey will have to meet tough performance targets during this interim period.



3 This is a satisfactory outcome and I have told Sir George that I am content with it. System X has two years in which to build a firm home base from which to attack world markets. Many thousands of jobs in Merseyside and Scotland are secured by this arrangement.

4 In the longer term, competition in the home market will be healthy for GEC/Plessey and will benefit BT's customers. BT's programme of digitalization is extremely ambitious - by 1986 all new exchanges will be digital and we shall have one of the fastest programmes of modernization of any major country. The benefits of this will shortly become apparent to consumers as the first of the fully digital exchanges comes into service later this month. After many years of delays in development System X has finally become a reality - the challenge is now for GEC and Plessey to make the product a success in world markets.

5 I am copying this minute to Nigel Lawson, Patrick Jenkin, George Younger and to Sir Robert Armstrong.

NT

19th

October 1983

Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

Post & Telegram

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Patricia Campbell (TP) to Patrick



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VCCDP

10 DOWNING STREET

From the Private Secretary

24 October 1983

Dear Callum,

System X

The Prime Minister has seen your Secretary of State's minute of 19 October setting out the arrangements that have been agreed with Sir George Jefferson. She has noted that for the next two years new orders will be placed with GEC/Plessey and that there will not be an international tender during this period. She has also noted that thereafter about 10% of BT's requirements would be met by international tender, though in the expectation that this equipment could be manufactured in the UK. She agrees that this is a satisfactory outcome to this question.

I am copying this to John Kerr (HM Treasury), John Ballard (Department of the Environment), John Graham (Scottish Office) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

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

da

File

MR TURNBULL21 October 1983

cc Mr Mount.

SYSTEM X

The revised proposals meet the Prime Minister's earlier concerns. System X will now have two years to develop a firm home base. The competitive pressures contained in the proposals, both in the short and long term, offer the best chance of international success for System X.

DP.

DAVID PASCALL