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Prime Minister

PRIME MINISTER

This is the minute you were promised about the extension of the ICL guarantee.

ICL: COLLABORATION WITH FUJITSU

*Handwritten:* Agree that Mr Baker announces on Friday 27<sup>th</sup> Nov? MUs 25/11

I copied to you my letter of 13 November to Leon Brittan, with a background note on the financial implications of ICL's proposed collaboration with Fujitsu. Since then Kenneth Baker has discussed the venture with Fujitsu's chief negotiator and I held a meeting with Mr Laidlaw, ICL's Chairman, last Thursday, 19 November. I subsequently discussed the position with Geoffrey Howe and Leon Brittan. The purpose of this minute is to bring you up to date with these developments.

2 You may recall that Mr Laidlaw, at the presentation that he and Mr Wilmot made to Ministers on 10 November, requested that the Government's current guarantee be extended, at the reduced level of £150 million, for five years beyond 31 March 1983. I considered that, worthwhile as the collaborative venture with Fujitsu undoubtedly was, we should offer instead to extend the guarantee for three years, on a reducing basis, and also make it clear that we regarded our agreement as part of a total financial package in which we expect ICL's bankers to play a full part beyond March 1983.

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3 Kenneth Baker met Mr Yoshikawa of Fujitsu on 17 November after which he and I decided that my alternative proposal should meet the Japanese requirements. ICL also accepted that it would meet their needs so long as their bankers were prepared to maintain an adequate level of committed, but unguaranteed, facilities in place beyond March 1983. On 19 November, Geoffrey Howe agreed that I could make my proposed alternative offer to ICL and the same day I wrote to Mr Yoshikawa, just before he left London, to inform him of our offer and of our confidence in ICL's future under its new management team. I sent Mr Laidlaw the enclosed letter on 23 November after consulting Leon Brittan. You will see that I have spelt out firmly that once the tapered extension of the guarantee has been put in place, no further Government support of this kind will be forthcoming.

4 Subsequently Sir Peter Carey invited representatives of ICL's four main UK banks to a meeting on 23 November. He asked the banks:

- a to agree to extend their £70 million committed, but unguaranteed, overdraft facilities by a year, to 31 March 1984; and

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- b to provide continuing, committed, but unguaranteed, support to ICL thereafter, at levels to be established in the light of the continued progress of ICL's financial recovery.

The banks responded positively to this request and Sir Peter Carey hopes to obtain their formal agreement by this evening, 25 November. From what the banks said at his meeting, there also seems to be a reasonable chance that they will agree to continue holding preference shares under the guarantee beyond April 1983, if we and ICL conclude that it would be prudent to phase the redemption of the £50 million preference shares over a somewhat longer period as part of the total package. This is a point which will require more detailed discussions between all the parties concerned.

5 Subject to your agreement, I propose that Kenneth Baker should announce the tapered extension of the guarantee during the debate on Robert Atkins' Private Member's Motion on Information Technology on Friday 27 November. This would spell out precisely the continued borrowing facilities which ICL's bankers are prepared to provide, though it would not go into the question of preference shares.

6 I am copying this minute to Geoffrey Howe, Leon Brittan and Barney Hayhoe.

PJ  
P J

25 November 1981

Department of Industry

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25 NOV 1981



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10 DOWNING STREET

*From the Private Secretary*

27 November 1981

ICL: Collaboration with Fujitsu

The Prime Minister was grateful for your Secretary of State's minute of 25 November.

As I told Richard Riley on the telephone this morning, she has no objection to the proposal that Kenneth Baker should announce the tapered extension of the guarantee during the debate on Robert Atkins' Private Member's Motion today.

I am sending a copy of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office) and Adrian Carter (Mr. Hayhoe's Office).

M. G. SCHOLAN

CS

Ian Ellison, Esq.,  
Department of Industry.



DEPARTMENT OF INDUSTRY  
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123 Victoria Street  
London SW1E 6RB

Telephone

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C.F. please

25. 11. 1981

<sup>MCS</sup>  
Could you please attach this  
enclosure to the POST's minute  
to the PM on JCh: Collaboration  
with Fujitsu dated 25. 11. 1981.

With the Compliments of the

Private Secretary to the  
Secretary of State for  
Industry

*M Benson*

with

MCS



DEPARTMENT OF INDUSTRY  
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Secretary of State for Industry

24 November 1981

C F Laidlaw Esq  
 Chairman  
 ICL PLC  
 ICL House  
 4 Carlton Gardens  
 London SW1

Dear Chris,

My colleagues and I were most grateful to you and Robb Wilmot for the clear and thorough exposition of ICL's financial position and the implications of the Fujitsu deal which you gave us on 10 November. At the end of the presentation you requested on behalf of your Board an early indication of the Government's reaction to your proposal that the current Loan Guarantee under Section 8 of the Industry Act should be extended. In particular you sought a view from us which could be taken into account in your final negotiations with Fujitsu.

Your presentation showed that you have already made commendable progress in getting a grip on the Company and that you are beginning to pull it back to profitability. However, there is clearly some way to go before all your plans reach fruition and we did not expect to have to address the question of tapering the Guarantee after March 1983 with you at this stage, when the Guarantee has itself been in place only since April. Nevertheless, we noted your firm conviction that the issue had to be faced now because of the need to facilitate your major collaborative venture with Fujitsu.

In responding to your request, the Chief Secretary and I have very much in mind that, if your prospects in the mid 1980s are as your presentation suggested, we would expect your bankers to accept a greatly increased level of commitment as profitability improves, and certainly well before 1988. Nevertheless, we certainly share your appreciation of the importance of the Fujitsu deal and having considered your representations I can now say that the Government are prepared to agree to an extension, by three years, of the period of the Guarantee to the banks. The Guarantee will reduce to £150m on 31 March 1983; to £100m on 31 March 1984; to £50m on 31 March 1985; and will end on 31 March 1986.

I should also make it clear that we regard our agreement to an



extension of the Guarantee as part of a total financial package in which we expect your bankers to maintain an adequate level of committed facilities in place beyond March 1983. The other component of the package would be the raising of further equity capital. I should be grateful if you could give me an early indication of the progress that you make in your discussion with your bankers arising from these points.

This arrangement is, of course, made at a time when, as you made clear, there is still a good deal of uncertainty as to the real level of your likely future borrowing needs. You explained that the equation is a complicated one with a number of variables as between equity, borrowing, leasing arrangements and EXIM finance. It is clearly too early for us to ask you for a full corporate plan for the period in question, but I must leave you in no doubt that, with this tapered extension of the Guarantee in place, together with the parallel bank facilities, you will have to draw up your detailed plans on the basis that no further Government support of this kind will be forthcoming. I took it from the replies which you and Robb Wilmot gave to Robin Ibbs on this point at our meeting that you are indeed planning to operate on that basis, but I thought I should spell out the Government's position clearly.

You will, of course, bear this clear statement of the limitation of the Government's commitment firmly in mind in any further discussions that you may have with Fujitsu or any other company with which you may contemplate dealing.

Your ever  
Patel





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PRIME MINISTER

I C L

Patrick Jenkin's Private Secretary telephoned to tell me that Mr Jenkin will be minuting you early next week to tell you the outcome of discussions he has had with ICL/Fujitsu on the one hand and with Treasury Ministers on the other.

Apparently, in order to pull off the link-up with Fujitsu which ICL has been negotiating it has been necessary to consider extending the guarantee agreed with ICL at the beginning of the year (for £200 million for two years). I understand that Treasury and Industry Ministers agreed between them to extend the guarantee for a further three years on a tapering basis, with stepped reductions of £50 million. The company have been told that this has been agreed, and the hope is that this will be sufficient to bring them to the desired agreement.

PLS

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20 November, 1981

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Secretary of State for Industry

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Prime Minister  
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13 November 1981

The Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1P 3HE

Dear Chief Secretary

ICL: COLLABORATION WITH FUJITSU

... I was glad that you were able to attend the presentation on ICL's progress and prospects which the Chairman and Managing Director of ICL gave on 10 November. I enclose a background note on ICL's proposed collaboration with Fujitsu and its financial implications for those who have not received earlier correspondence.

2 I thought the presentation brought out clearly the considerable progress that Messrs Laidlaw and Wilmot have made since their appointment last May. It is heartening to know that there are good prospects for a return to profitability next year and that Mr Wilmot has been able to put in place the foundations of his new product strategy so rapidly.

3 At the Prime Minister's meeting on 8 May it was agreed that, if Messrs Laidlaw and Wilmot pressed for a tapering of the guarantee, we would consider the possibility. I share the regret you expressed in your letter of 6 November that it has proved necessary for the new management to approach us about this earlier than expected. What is clear, however, is that they have done so solely because of the financial implications of the proposed collaboration with Fujitsu. The deal that Mr Wilmot has negotiated will undoubtedly prove to be highly advantageous to ICL and is central to his new strategy for mainframe computers; as he said at the presentation, 90% of ICL's 1984 sales prospects for mainframe computers are dependent on the collaborative agreement. Moreover, the deal is important to the Government as a user of ICL computers. There also seems to be a prospect that Fujitsu may ultimately take a shareholding in the company which I know is something you would like to see. Conversely, if the much-publicised deal failed to go ahead for any reason, there would be a disastrous impact on customer and City confidence from which the company might not recover.

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4 It is because the Fujitsu deal will prove to be so much to ICL's commercial advantage that I agree with the point you made at the presentation that ICL's bankers could be expected to increase their support as the company's financial position improves over the next few years. I was, however, persuaded by Mr Laidlaw's conviction that ICL's bankers would not yet be prepared to agree to provide guarantees of the repayment of any EXIM finance for the collaborative venture. Experience during the original guarantee negotiations and during the subsequent negotiations over ICL's issue of preference shares has convinced my officials and merchant bank advisers that the banks will not increase their support to ICL without some form of Government backing. Although ICL's financial prospects are good, its current financial position is still too uncertain for the banks to be prepared to increase their support.

5 On the other hand I do not think that the Government should provide the full back-to-back guarantee that ICL appear to want for any financing they negotiate from EXIM or elsewhere to cover the costs of the collaboration venture. ICL's ideas on this point go far beyond the ideas about a taper which colleagues had in mind last May. Instead I think we should offer to extend the duration, but not the amount, of the existing guarantee beyond March 1983, but on a reducing basis. I suggest that I should write to Mr Laidlaw, along the lines of the attached draft, offering to extend the guarantee for three years beyond 1983, with the amount of the guarantee reducing to £150 million on 1 April 1983 and tapering to zero by 31 March 1986. It would then be for ICL to convince their bankers to increase their exposure as Fujitsu made shipments throughout the middle of the decade.

6 My proposed offer clearly does not meet Mr Laidlaw's request for the guarantee to be continued, at the reduced level of £150 million, for five years after March 1983. Moreover, it will probably satisfy neither the banks nor Fujitsu, to whose chief negotiator I suggest Kenneth Baker should send a letter on the lines of the attached. My proposed offer would represent a tough stance with which to open negotiations. I hope that you can give your very early agreement to it. ICL, the banks and Fujitsu (not to mention MITI and EXIM) are likely to press me very hard for a greater degree of public commitment to ICL's future. We shall have to resist this as firmly as possible but I may need to come back to you on this.

7 I am copying this letter to the Prime Minister, Barney Hayhoe, Robins Ibbs and Sir Robert Armstrong.

*Yours Sincerely*  
*I. Jenkin*

PATRICK JENKIN  
(Approved by the Secretary of State but signed in his absence)

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## ICL : COLLABORATION WITH FUJITSU

### BACKGROUND

On 10 November the new Chairman and Managing Director of ICL made a progress report on the company's financial prospects and collaboration strategy to Ministers and officials of the Department of Industry, Treasury, CSD and CPRS. Messrs Laidlaw and Wilmot outlined the resolute action they have taken to turn the company round. Their achievements include:

- a determined cost-cutting measures, including making nearly 20% of the work-force redundant (with further redundancies to be announced shortly) and imposing a pay freeze;
- b the development of a radical and imaginative new product strategy; and
- c agreement on three important collaborative ventures, concluded in order to reduce ICL's R and D costs and enable the company to improve its product range at minimum cost.

2 The provisional outturn figures for the company's year to 30 September 1981 suggest that the efforts of Mr Laidlaw and Mr Wilmot are beginning to bear fruit. The trading loss for the second half of the year is approximately £16 million, after a loss of £34 million in the first half. Cash flow is £30 million better than forecast in June. The company hopes to make a rights issue before Christmas (this is particularly confidential) and to return to profitability in the second half of next year.

### COLLABORATION WITH FUJITSU

3 On 9 September ICL signed Heads of Agreement with Fujitsu, Japan's largest computer manufacturer, for collaboration in the field of mainframe computers. The deal represents a remarkable negotiating achievement by Mr Wilmot. ICL will secure privileged and protected access, for the duration of the agreement, to both existing and emerging Fujitsu micro-electronic technology, which is acknowledged to have a technological lead over the rest of the world. The product line ICL will be able to build and market from mid-1983 should, therefore, give the company an important competitive edge, while retaining the essential technical characteristics of the 2900 range. Existing customers, including those in Government, will consequently be able to build on their earlier investment in software. The collaboration agreement is now central to ICL's new product strategy for mainframe computers: Mr Wilmot estimates that 90% of ICL's sales prospects for mainframe computers in 1984 are dependent on the agreement proceeding satisfactorily.



- 4 The agreement with Fujitsu falls into 2 parts:
  - a the transfer of computer technology to ICL for a fee of Yen 7.6 billion (currently about £18 million); and
  - b the purchase of Fujitsu computer products, between late 1982 and the end of 1986, up to a maximum value of Yen 70 billion (currently of the order of £170 million).

Fujitsu have offered to apply to Japan's EXPORT-IMPORT Bank (EXIM) for credit facilities to enable ICL to finance 80% of this deal. However, it is a standard condition of all EXIM financing that the foreign purchaser's main banks provide letters of guarantee to cover the credit extended to the Japanese exporter. ICL are of the firm conviction that their UK bankers will not be prepared to provide such guarantees without some form of back-to-back agreement with the Government. The Department of Industry and its merchant bank advisers share this conviction. The Japanese authorities and Fujitsu also appear to be keen to have some tangible sign of the Government's commitment to the survival of ICL before allowing such an important contract to be signed.

5 ICL have, therefore, requested that the Government's current Guarantee of up to £150 million of bank overdraft facilities (£50 million of the Guarantee has been transferred to a new class of redeemable preference shares issued in September to ICL's three main UK banks) be extended for five years beyond 31 March 1983. The new management have always considered that some form of tapering of the Guarantee beyond March 1983 would be necessary. Ministers agreed at a meeting chaired by the Prime Minister on 8 May that if Messrs Laidlaw and Wilmot pressed for a tapering of the Guarantee they should be told that the Government would have to consider the possibility. Their current request does not, however, represent any real tapering of the Guarantee and it is considered that a much more restrictive offer should be made to the company, making it clear that the banks will have to provide an increasing share of the support for the company as the benefits of the collaborative venture come through.

IT3  
Department of Industry  
12 November 1981

RL3ACZ

**DRAFT**

Addressed to:

C C F Laidlaw Esq  
Chairman  
ICL PLC  
ICL House  
1 Putney High Street  
London SW15 1SW

**File No.**

Copies to:  
PS/Mr Baker  
PS/Secretary  
Mr Young  
Mr Croft  
Mr Macdonald  
Mr Preston  
Mr Whittley  
Mr Worman  
Mr Lingard  
Mr Chapman

Originated by:  
*(Initials and date)*

RAL 11/11/81

Seen by:  
*(Initials and date)*

Enclosures:

Type for signature of  
Secretary of State

*(Initials and date)*

DEPARTMENT OF

My colleagues and I were most grateful to you and Robb Wilmot for the clear and thorough exposition of ICL's financial position and the implications of the Fujitsu deal which you presented to us on 10 November. At the end of the presentation you requested on behalf of your Board an early indication of the Government's reaction to your proposal that the current loan guarantee under Section 8 of the Industry Act should be extended for five years from April 1983, with a reduction then in the amount guaranteed from £200 million (including the preference shares) to £150 million. In particular, you sought a view from us which could be taken into account in your current round of discussions with Fujitsu.

As you rightly recalled, at the time of your appointment Ministers accepted that when you and Robb Wilmot had had the opportunity to assess the company's position in detail you might wish to come back to us to propose some form of tapering of the guarantee, instead of a cut-off after two years. Your presentation the other day showed

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that you have already made commendable progress in getting a grip on the company and beginning to pull it back to profitability. However, there is clearly some way to go before all your plans reach fruition and originally we did not expect to have to address the question of tapering with you at this stage, when the guarantee has itself been in place for only seven months. Nevertheless, we noted your firm conviction that the issue had to be faced now because of the need to provide an assurance to Fujitsu that ICL would be able to meet its financial obligations during the period of this major collaborative venture - an assurance which you believed your principal bankers would not be prepared to give at present without some measure of Government backing.

Our main difficulty in accepting your proposal for a five year continuation at a level of £150 million is essentially the one which I and the Chief Secretary indicated at the meeting. If your prospects in the mid 1980s are as good as your figures suggest, we would expect your bankers to accept a greatly increased level of commitment as profitability improves, and certainly well before 1988. Indeed, that has always been our understanding of the basis on which any tapering of the guarantee would be suggested. Why then should the Government accept the whole load for the whole period? I appreciate that the way your business with Fujitsu is likely to build up may well lead to a particularly high level of borrowing towards the end of the period, but by the same token you should by then be demonstrating the full benefits of the

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collaboration in a way which would be expected to attract support at normal commercial risk.

Nevertheless, we certainly share your appreciation of the importance of the Fujitsu deal and having considered your representations I can now say that the Government would be prepared to agree to an extension, by three years, of the period of the guarantee to the banks. However, the sum guaranteed would be initially no higher than £150 million and would have to taper significantly from that level over the period of the extension. In parallel, we would require your principal bankers to maintain a significant level of unguaranteed but committed facilities in place beyond March 1983.

This offer is of course made at a time when, as you made clear, there is still a good deal of uncertainty as to the real level of your likely future borrowing needs. You explained that the equation is a complicated one with a number of variables as between equity, borrowing, leasing arrangements and EXIM finance. It is clearly too early for us to ask you for a full corporate plan for the period in question, but I must leave you in no doubt that once this tapered extension of the guarantee is agreed and in place, together with the parallel bank facilities, you will have to draw up your detailed plans on the basis that no further Government support of this kind will be forthcoming. I took it from the replies which you and Robb Wilmot gave to Robin Ibbs on this point, at our meeting, that you are indeed planning to operate on that

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basis, but I thought I should spell out the Government's position clearly as the background to the offer I am now conveying to you.

To negotiate the details of an arrangement of this kind with the company and the banks will clearly take some time and I do not see how we could hope to complete the process by the time you aim to sign the agreement with Fujitsu on 5 December. Our suggestion would be, therefore, that we should explain to Fujitsu ourselves our readiness to extend the existing guarantee beyond March 1983, though in a tapered form, relating this directly to our enthusiasm for the collaborative deal and to our continued support for ICL, both as a user of the company's equipment and as a Government committed to the success of the UK information technology industry, but explaining that the full implementation of the financial package will take some time yet to bring about. We would hope in this way to enable the collaboration to get under way and to have dealt with the detailed financial arrangements well before you would expect to take any shipments of equipment from Japan.

If you would find it helpful to have a further meeting to go over this ground in more detail I would be happy to see you.

BWIAEO

**DRAFT**

Addressed to:

Mr Shiro Yoshikawa  
Executive Director  
Fujitsu Limited  
Tokyo

**File No.**

Copies to:

PS/Secretary of State  
PS/Secretary  
Mr Young  
Mr Croft  
Mr Macdonald  
Mr Preston  
Mr Lingard  
Mr Worman  
Mr Whittley  
Mr Chapman

Originated by:  
*(Initials and date)*

PJB 11/11/81

Seen by:  
*(Initials and date)*

Enclosures:

Type for signature of

.....Mr. Baker.....  
*(Initials and date)*

DEPARTMENT OF

Her Majesty's Government have noted with great pleasure the signing of Heads of Agreement, on 9 September 1981, between Fujitsu and ICL for collaboration in the field of mainframe computers. This is very much in the spirit of the Agreement on the exchange of technology which I signed with Mr Tanaka last April.

Her Majesty's Government are confident that the Agreement will prove beneficial to both ICL and Fujitsu. For its part, ICL has made considerable advances since the financial crisis it experienced last February. As you know, the Government agreed last March to guarantee up to £200 million of bank overdraft facilities for the company for two years to 31 March 1983. In August we agreed to convert £50 million of this Guarantee into a guarantee of redeemable preference shares, to be held by ICL's three main UK banks. Her Majesty's Government are confident that ICL's determined cost-cutting measures, its imaginative new product strategy, and willingness to

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negotiate important collaborative ventures, will under the company's new management combine to ensure ICL's future success. We are satisfied that the company should soon return to profitability, and that it will represent a secure and successful long-term partner for Fujitsu. We welcome in particular the assurance of continuity which the collaboration between ICL and Fujitsu offers to the Government as a major user of ICL's mainframe computers.

Her Majesty's Government indicated to ICL earlier this year that they would be prepared to consider extending their Guarantee beyond March 1983, on a reducing basis, should this prove necessary. The company have now requested such an extension in connection with their collaborative agreement with Fujitsu. We have informed the Chairman of ICL that Her Majesty's Government are prepared to extend their Guarantee for three years, until April 1986, on a reducing basis, subject to further discussions with the company and its bankers. It is our view that there should be no further need for ICL's bankers to have such a guarantee beyond April 1986, taking account of the expectations we share with the company for its continued recovery and increasing financial strength.

BW1AEP

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