

cc A Wignall



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Qa 05274

To: MR LANKESTER

From: J R IBBS

Future of ICL

1. In his minute to the Prime Minister, the Secretary of State for Industry explains why, in the special circumstances of ICL, there is a case for the Government to buy time for the company by guaranteeing £100m. of its borrowings rather than to allow the company to go into an immediate receivership. The only commercial justification for providing this guarantee is that it gives the company time to secure a reasonable partnership with another computer manufacturer.

2. On balance we believe the Secretary of State is right in recommending that the company should be prevented from going into immediate receivership. The grounds for this are:

- that, because of its heavy dependence on ICL equipment, the public sector is extremely vulnerable to a major disruption of essential business if receivership occurs;
- that if we are to be taken seriously as an international force in Information Technology, we must preserve a substantial home-based computer manufacturing capacity;
- that, with a receivership, there would be no certainty that such a capacity would be retained.

3. We must point out that there is a risk that any attempt to prevent receivership may lead to a greater liability than the guarantee of £100m. There is some possibility, which has to be accepted, that no acceptable partnership could be negotiated by the end of the few months' breathing space and that we shall again be faced with a choice between receivership and a further guarantee. Moreover, once it has embarked on support, the Government may find it difficult to disengage without meeting obligations going wider than its immediate guarantee (even if the guarantee itself is carefully worded to avoid this).

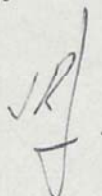
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4. If a partnership is to be the outcome, it is important that the choice of partner and the terms of partnership should be as satisfactory as possible from the Government's point of view. To ensure this, it may well be necessary for the Government to give clear guidance to ICL.

5. The best partnership from the Government's point of view might not necessarily be the most attractive to ICL. The Department of Industry has prepared its list of desirable criteria, and the CPRS urges that this should be used in guiding ICL towards an appropriate partner. Fortunately, the Government should have some leverage on the choice of partner through its right to withdraw the £70m. of development support mentioned in paragraph 17 of the Secretary of State's minute.

6. In the CPRS's view an important characteristic of a partner would be that it should have a secure future in its own right as a computer manufacturer and should be willing to retain a substantial manufacturing capability in the UK and source components from there. In the case of some of the prospective partners, we have doubts on these points.

7. I am sending a copy of this minute to the Private Secretaries to the Secretary of State for Industry, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Secretary, the Minister of State in the Civil Service Department, and to Sir Robert Armstrong.



6 March 1981