

PRIME MINISTER

Your Meeting with Mr. Opel of IBM

Attached is the brief for your meeting with Mr. Opel of IBM at 1000 on Monday, 5 July. Mr. Opel, who is President and Chief Executive Officer of IBM, will be accompanied by Mr. Nixon, his UK equivalent, and by Kenneth Baker. The brief comprises a general commentary on the purpose of the meeting which, you will recall, is to assure Mr. Opel about conditions for further investment in this country by IBM and, in addition, a variety of detailed briefs which I have flagged as follows:

- Flag A: A note on IBM's plans to launch a Viewdata system in the United States compatible with Prestel.
- Flag B: A note on the Government's attitude towards IBM and, in particular, its willingness to see an expanded IBM presence in the UK.
- Flag C: A note on public sector computer procurement policy and, in particular, on suggestions by IBM of discrimination against them by non-Government public sector bodies.
- Flag D: A note on IBM and the European Community and, in particular, the allegation by the Commission of abuse by IBM of market dominance.
- Flag E: A note on the position of IBM in relation to liberalisation of telecommunications and, in particular, on the plans of IBM for a major new VANS (Value Added Network Service) in the United Kingdom.

/Flag F: Background

Flag F: Background notes on IBM and on
Mr. Opel and Mr. Nixon.

Tom Sullivan

1 July, 1982



PRIME MINISTER'S MEETING WITH MR OPEL PRESIDENT OF IBM - MONDAY 5TH JULY 1982

STEERING BRIEF

The purpose of the meeting is to reassure Mr Opel (who effectively takes the decisions in IBM) that the UK is an excellent location for further substantial investment by IBM. The company already employs 15,000 in the UK with a turnover of £1,000m. Mr Eddie Nixon, Chairman and Managing Director of IBM(UK), who will be accompanying Mr Opel, recently told the Secretary of State for Industry in strict confidence that IBM was considering further major investment in Europe and that he believed the choice lay between locating it in the UK or Italy. If the investment came to Britain it would mean a third IBM plant at a new site (their existing sites at Havant, in Hampshire, and Greenock, in Scotland, are too small) creating up to 5,000 new jobs. Since this decision has not yet been formalised, however, the IBM(UK) management would prefer consideration of this possibility to emerge from a general discussion of IBM's current concerns and investment intentions.

2 Mr Opel apparently believes that an anti-IBM sentiment is emerging in some European countries and in the European Commission. He is also concerned about the possibility of nationalisation, particularly in the light of recent events in France. In the long term he feels that ^{both of} these threaten IBM's operations and investment in Europe. Mr Opel is seeking re-assurance that the UK will continue to be a good country for IBM to operate and invest in, both in its own right and because it remains committed to the EC. He will probably emphasise that IBM like to locate their investments near to their major markets - normally they have a roughly neutral balance of trade in those countries where they operate. He is also likely to mention the creation of another 200 jobs at Greenock this year and a further [as yet unannounced] 300 next year when IBM start to manufacture their new personal computer there. He will then detail a number of specific matters related to the development of IBM's investment plans in the UK (see brief notes on separate topics).



3 Discussion of these points should provide an opportunity for the Prime Minister to reassure Mr Opel that the UK is an attractive location for further major investment. She might go on to say that:

i) She understands that IBM's existing plants in the UK are very successful. Mr Maisonrouge - formally President of IBM Europe, now on IBM's main board - said last year that Greenock was one of the best IBM plants anywhere in the world;

ii) If that is so, why does not IBM locate substantially more investment in the UK, where the quality of its existing investments, its commitment to the UK economy and the export earning capacity of further investment are fully appreciated and where it would be very welcome?

iii) Would substantial ^{further} investment mean a third IBM plant in Britain?

iv) If the site for such a plant was in a development area, substantial regional development grants would be available. (IBM has in the past taken investment decisions on their own merits without considering grants: but in the case of a large plant this is a factor that they would weigh).

Otherwise, IBM will already be familiar with the main benefits of location in the UK, such as political and social stability, an excellent workforce and the English language.



IBM: PRESTEL COMPATIBLE VIEWDATA SOFTWARE FOR US

During June IBM announced they were to launch their Series 1 Viewdata System software into the United States market. The ^{software} system has been available in the United Kingdom since October 1981.

This is an encouraging move. As the software is Prestel compatible it will, if successful, be able to assist with and build upon the hoped for increase in ^{both private and public} viewdata usage in the United States in coming months, with the added advantage of promoting British based systems.

IT4a

June 1982



ATTITUDE OF THE GOVERNMENT TO IBM

Background

1. Mr Opel will be seeking reassurance that IBM's presence in the UK is really welcomed by the Government and that the Government believes that IBM have an important contribution to make to the UK economy. He may also say that he would welcome closer co-operation between the US and the UK, particularly in high technology matters. Behind this lies IBM's fear of the sustained increase in the growth and capability of the Japanese computer industry and of what the existing collaborative agreement between ICL and Fujitsu might lead to.

2. Mr Opel may also suggest the setting up of a US/UK research fund, with the results of research supported by the fund to be made available to all the companies contributing to it. This probably represents an attempt to head off the Alvey Committee which is considering the scope for a collaborative research programme in advanced computing, on broadly similar lines to the collaborative research programme into 'Fifth Generation Computers' recently announced in Japan. The Alvey Committee will report to Ministers in the summer. It is likely to recommend that IBM be excluded from participation in any programme, on the grounds that the results would be passed back to IBM headquarters in the US and would not benefit the UK.

Line to Take

a) Of course the Government wishes to see a flourishing indigenous computer industry - but it recognises that UK-owned computer companies cannot meet every market need and that they must be able to stand up to international competition if they are to flourish. The Government therefore welcomes the continuing presence of IBM in the UK and values the important contribution which it makes to the UK economy. The Government recognises the high technology content of many of IBM's activities, such as the new metallised ceramic substrate (providing the mounting for silicon chips) at Havant and the important IBM development laboratory at Hursley, near Winchester (the biggest IBM laboratory outside the US). We are also aware of IBM's excellent record in industrial relations (there is no union involvement); and as a corporate citizen. The bigger IBM's commitment to the UK, the more welcome it will be.



b) The Government would welcome closer co-operation between the UK and the US, but collaborative arrangements are primarily a matter for the commercial judgement of individual companies [defensive: the Alvey Committee has not yet reported to Ministers and it is too early to say what it will recommend].



IBM AND PUBLIC SECTOR COMPUTER PROCUREMENT

BACKGROUND

1 Mr Opel is likely to say that IBM views HMG's handling of computer purchasing as an indication of its general attitude to multinationals in the UK. In common with the other large US companies, IBM have been seeking to take full advantage of the EC and GATT rules requiring open competition for government contracts (which took effect for computer procurement on 1 January 1981). Mr Opel may add that IBM believe that central government purchasing is now generally fair and open; but remain concerned that in the wider public sector (local government and nationalised industries etc), the Government's Public Purchasing Policy has created a prejudice against non-UK owned suppliers, leading to unfair decisions.

2 IBM have made it clear that they would be prepared to take legal action to further their interests. This threat played a part in the decision that the contract for the new computer at the Driver and Vehicle Licensing Centre (DVLC) should be awarded by open tender. IBM are now challenging a decision by the Severn-Trent Water Authority to buy an ICL machine. (Burroughs are taking similar action over Oxford Regional Health Authority's choice of ICL to supply a hospital computer system).

3 Despite the EC/GATT rules, about 60% of central government computer purchases are from ICL by single tender, largely because of the need to maintain compatibility with the ICL equipment already extensively installed. IBM are however strong in open competition, and recently won an important contract for the Inland Revenue at Worthing. IBM probably have about half the public sector market place outside central government.



Line to Take

1 The Government is conducting its computer purchasing in a fair and open manner, in accordance with its international obligations, and will continue to do so. The guiding principle is the greatest possible value - in the widest sense - for the taxpayer's money.

2 IBM's strong presence in the UK marketplace is therefore welcome since it provides a major competitive force.

3 [If raised] Many bodies in the public sector outside central government (such as Water and Health Authorities) take their own purchasing decisions. They are not subject to directions from Ministers on purchasing policy, and are being encouraged to follow the 'value for money' guidelines.



IBM AND THE EC

Background

The European Commission has accused IBM of abusing its dominant position as a supplier of computing equipment within the European Community to prevent any effective competition against itself. This parallels the long-standing anti-trust case against IBM in the US, which the Department of Justice dropped earlier this year. IBM are arguing that the computer industry in Europe is highly competitive and that the Commission's definition of the market is extremely narrow. IBM are however anxious because the Commission's case is being pursued by the Competition Directorate (DG IV) which they regard as anti-IBM, and because they fear the remedies which DG IV will seek could include the disclosure of full technical details of IBM equipment at the time of its announcement, which would remove the lead time which IBM's innovation currently gives them. Mr Opel may say that the Commission's case, if successful, will only benefit the Japanese, and that he hopes that the Government will take an interest in the IBM case. He may also canvass an intervention by the Government on IBM's side.

2. An intervention would further strain the Government's relations with DG IV and would almost certainly be counter-productive from IBM's point of view. Furthermore, with IBM still immensely powerful and still accounting for something like 60% of installed computer capacity in Europe, an intervention would attract criticism from other companies (indigenous, European and possibly competing multinationals). In any case, the proper time to intervene (should the Government wish to do so) will be when all the evidence on both sides has been considered. At that time, it will be important to consider not only the full arguments for and against the Commission's case, but also the thorny legal problems of extra-territoriality which may arise if the Commission wishes IBM to release important technical information, deriving from work done in the US, to rivals who are also US companies.



Line to Take

The Prime Minister may like to say that:-

- a) any intervention by the Government would be counter-productive.
- b) if the Government does intervene, it should only do so when all the arguments have been fully debated and the hearings have come to an end.



IBM AND TELECOMMUNICATIONS

Background

1 As part of the Government's commitment to extend competition in the use of the public telephone network and in response to a demand from industry, the Department of Industry has taken over from BT responsibility for the licensing of VANS (Value Added Network Services) and is drawing up a general licence which will overtake the need for operators to apply individually. The general VANS licence will require operators to add value in a technical sense to the basic transmission network provided by BT (and in future by Mercury).

2 To ensure that the general licence will be as far as possible within the bounds of the Government's present liberalisation policy, satisfy the growing market demand for more sophisticated VANS and be flexible enough to encourage technical development, the Department is drafting the licence in consultation with BT, and private sector organisations, including the Computing Services Association (CSA), of which IBM is among the most active members. It should be possible to meet most (but perhaps not all) of the CSA requirements. The biggest differences concern international liberalisation, where the UK cannot take action without regard to international agreements.

3 Mr Opel is likely to welcome liberalisation and say that IBM are planning a major new VANS network in the UK to take advantage of the new regime and are anxious to have a licence as soon as possible. Up to now IBM have been content to work towards the general licence, recognising that their and the CSA's objectives are virtually identical, but Mr Opel may express concern about the delay in reaching agreement on this. He may also inquire about international liberalisation; and suggest that BT's role gives it too much importance and that there is a need for an independent agency to carry out some of its responsibilities.

4 IBM are however also in close negotiation with BT on a collaborative venture with BAC and Marconi on international business communications using British UNISAT satellite and interconnecting directly into the BT network.



Line to Take

- The Prime Minister might say that:- the Department of Industry is aware of IBM's plans for a major new VANS network in the UK and that the Government's telecommunications policy is aimed at encouraging just such developments.

- the Department hopes to issue a general licence, which should cover IBM's plans, in a matter of weeks. The Department is consulting BT. (there is a statutory obligation to do so) and private sector organisations, IBM (UK) are involved.

- the Government has not yet moved towards international liberalisation in the sense that BT remains our single international carrier but is open to ideas for the future because it recognises, as on the domestic scene, that new technology may well make existing cartel arrangements obsolete.

- Liberalisation has thrown up a number of questions about BT's future role, including the possibility of introducing private capital into it, and those questions are currently under active consideration.



Annex 1

IBM WORLDWIDE

IBM is still by far the largest computer company in the world, 7-8 times the size of its nearest competitor in revenue terms, employing over 300,000 in many countries around the world, and with annual revenues which exceed \$26 billion. It makes every sort of computer from large mainframes to small micros; it is also showing increasing interest in telecommunications and robotics.

IBM IN THE UK

IBM has 15,000 employees in the UK and an annual turnover of over £1,000M. It made a positive contribution of some £60M to the UK's balance of payments in 1980, and virtually all its employees are UK nationals. It has two manufacturing plants - at Greenock in Scotland and Havant in Hampshire - a major development laboratory at Hursley, near Winchester; a head office in Portsmouth; a scientific centre; and over 30 sales and support offices. Greenock specialises in peripherals for computer systems, Havant in assembling and testing a wide range of computer products.

BIOGRAPHICAL NOTES

J R OPEL

John Opel is President and Chief Executive Officer of IBM Corporation. He holds a Master's degree in business administration from the University of Chicago. He joined IBM as a sales trainee in 1949, and became president in 1974 and Chief Executive Officer in January 1981. He is also a member of the Business Council and the Policy Committee of the Business Round Table, and a director of the Federal Reserve Bank of New York and of Pfizer Inc.

ER NIXON CBE

Eddie Nixon is Chairman and Chief Executive of IBM (UK). He was educated at Cambridge where he read mathematics. He joined IBM in 1955 as a sales trainee, becoming Managing Director in 1965 and Chairman in 1979. He was awarded the CBE in 1974 for services to exports. He is a director of a number of companies and trusts, including the National Westminster Bank.



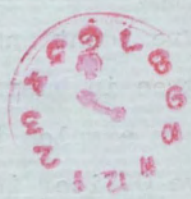
SECRET

The first part of the document deals with the...
The second part of the document deals with the...
The third part of the document deals with the...

The fourth part of the document deals with the...
The fifth part of the document deals with the...
The sixth part of the document deals with the...

The seventh part of the document deals with the...
The eighth part of the document deals with the...
The ninth part of the document deals with the...

The tenth part of the document deals with the...
The eleventh part of the document deals with the...
The twelfth part of the document deals with the...



30 JUN 1982



10 DOWNING STREET

From the Private Secretary

26 May 1982

The Prime Minister has seen your Secretary of State's minute of 21 May, in which he asks whether she would be willing to see Mr. Opel of IBM in an effort to persuade IBM to invest in the UK.

Normally, the Prime Minister only agrees to hold meetings of this sort if it is almost certain that the company concerned will invest in the UK. As an exception, however, she has agreed to meet Mr. Opel as suggested by Mr. Jenkin. On present plans, she would be able to receive Mr. Opel at 1030 hours on Monday, 5 July for not more than half an hour. I should be grateful if you could make the necessary arrangements with IBM, and could provide a suitable brief by Wednesday 30 June.

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry

SW

file
PM
SK



10 DOWNING STREET

Prime Minister

You have agreed to see Mr Opel if
IBM only if he intends to invest in
the UK.

But Mr Jenkin is anxious for you
to see Mr Opel so as to persuade him
to invest in the UK. Are you happy
to see him on this basis, which involves
the risk that IBM may decide in the
end not to invest here?

CM
24/5

So long as it
is not a precedent?
ms.

040

Prime Minister



JFF702

Yes. but only if he does
wishes to meet
here
not

IBM are contemplating a \$100 m,
4-5000 job, investment in the UK.
Mr Jenkin feels it would be helpful if you
could agree to meet Mr Opel, the President of
IBM. There is space in your diary on 5 July.
Content to see Mr Opel then?

WJH
21/5

PRIME MINISTER

IBM(UK) has approached me to ask whether you would be prepared to
have a short meeting later this summer with Mr John Opel,
President of the parent company.

2 I know that you do not normally meet the chairman or
president of US multinationals, but in this case there is good
reason to make an exception. Mr Nixon, Chairman of IBM(UK), has
told me in confidence that IBM is contemplating directing major
new investment either to the UK or Italy. Hitherto IBM has
spread its investment fairly evenly over Western Europe (it
currently employs some 15,000 in the UK and usually makes a small
balance of payments surplus on its operations here). But it has
apparently now decided, as a result of political developments in
France, not to invest there any more; and it judges that its
large investment to date in Germany does not warrant an increase.

3 If IBM do decide to site further investment in the UK, Mr
Nixon's assessment is that it would almost certainly wish to do
so away from its existing main manufacturing plant at Havant,
near Portsmouth, which is a bit constricted on a 90 acre site and
has run into local environmental opposition. He has already
begun an anonymous search for a suitable 200 acre site (it
happens that I have had independent confirmation of this) and



estimates that some \$100m would be invested and 4,000 to 5,000 new jobs would be in prospect.

4 Investment on this scale, and of this quality and export earning potential, would be a major prize for the UK. In Mr Nixon's view a meeting between you and Mr Opel, who is the key decision taker in IBM, could have a decisive influence on the outcome of IBM's internal considerations. From what we know of IBM's sensitivity to the political climate in its host countries, and its need for reassurance that its presence is really welcome, I am inclined to accept this. I gather that Mr Opel is due to meet Chancellor Schmidt on 1 July; and that his predecessor met Sir Harold Wilson, when Prime Minister, on an earlier occasion.

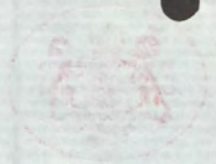
5 In these circumstances I very much hope that you will be willing to consider a meeting with Mr Opel at a convenient time. I understand that he will be in London at the beginning of July and again on holiday from 9 to 12 August; but that he would be ready to come to London in order to meet you whenever convenient.

PJ

P J

21 May 1982

Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB



20 MAY 1982



COOLING

12