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File  
FUJITSU

Tadashi Ishiyama

Chairman

7 April 1999

Without Prejudice

Rt. Hon. Tony Blair MP,  
Prime Minister,  
10 Downing Street,  
London,  
SW1A 2AA

Dear Prime Minister

The BA/POCL Project

I am sure you have been informed that Mr. Keith Todd, the Chief Executive Officer of ICL, wrote to the Secretary of State for Trade and Industry on 25<sup>th</sup> and 30<sup>th</sup> March to say that, unless the UK Government had approved Heads of Agreement for the future of this project by close of business on 31<sup>st</sup> March, he would tell the ICL plc Board, and thereafter Fujitsu (as ICL's shareholder), that work on the project should stop. Disappointingly, no such agreement was reached and (following discussions with, and the support and approval of, the ICL plc Board) Mr. Todd has made such a recommendation to us. I am writing to let you know Fujitsu's position in this matter so that you may have time to consider the matter before you see Mr. Naruto (Vice Chairman of Fujitsu, moreover Chairman of ICL) on 12<sup>th</sup> April.

ICL has made many proposals for a solution over the last year and a half, none of which have yet been accepted. ICL's proposal of 18<sup>th</sup> December 1998, to carry on with the project under the current specification with the magnetic stripe card, has neither been accepted or rejected. However, following your appointment of Mr. Steve Robson of HM Treasury to help us all to find a way forward, much progress has been made, and I am very grateful to you for making this possible. After the work with HM Treasury, over the last three months, three further proposals have been identified – to provide the Post Office Counters core infrastructure (as now specified in the project) together with a simple method of electronic payment of benefits by ACT combined with the use of smart cards (known as "Option B1"); to proceed as in Option B1, but to introduce into the system facilities for



Post Office Counters to provide a full retail banking service for benefit recipients, in partnership with one or more commercial banks (known as "Option B2"); and, finally, for ICL to provide only the core infrastructure subject to full contractual cover, until a decision is taken to adopt Option B1 or Option B2 and the contract is then amended to take account of this (known as "Option B0").

I understand that some progress was made in a meeting which took place on 31<sup>st</sup> March, and there is now a clear preference from all parties to adopt Option B1, but there is still a further step to go. I am told that there are some important issues still to be resolved before a firm decision for B1 can be made by the Public Sector. Without such a firm decision, no final agreement can be reached.

Fujitsu strongly recommends that all remaining issues be resolved and that Option B1 is adopted without delay. It is the simplest, quickest and cheapest way to provide electronic payment of benefits through ACT and to introduce many millions of smart cards to citizens so as to deliver the vision of Modernising Government shown in the White Paper published on 31<sup>st</sup> March 1999.

Option B2 can be achieved, but it will take a long time for the Post Office to specify its exact requirements and work out its relationship with its chosen banking partners. ICL is very willing to work on this with the Post Office. Option B2 would then become an extension to the current project, to be implemented in due course, although, given the risks and uncertainties of Option B2, ICL has told us that it thinks this extension should not be provided on a PFI basis, but only on a system integration basis.

However, it is unfortunately the case that there is only a short time left to reach final agreement on Option B1 and thus save this project.

Fujitsu's position is that, unless there is a legally binding agreement for the future of this project in place by 23<sup>rd</sup> April, when the Fujitsu Board approves our 1998-99 consolidated group accounts, these accounts will have to show a provision which will be the Yen equivalent of about £300 million. If this occurs Fujitsu will be required by its shareholders and the market to explain in detail why they have had to make such a huge provision, and what the full impact is on their consolidated results and their future trading position.

In the circumstances, Fujitsu are not prepared to make such a provision and still underwrite the continuing costs incurred by ICL on the development of this system. It is not fair and reasonable, nor commercially sensible, for us to suffer a provision of this magnitude and then continue to invest more money in this project. Further, in any event, continued investment in a project where the



Public Sector could not decide on a clear way forward cannot be in the best interest of the British tax-payers, and, for this reason alone, it would be irresponsible of us to continue without a resolution.

I very much hope therefore that the basis for a legally binding agreement, adopting Option B1, will have been reached by the time you meet Mr. Naruto, so that it is ready for signature in the week before the Fujitsu Board meeting. I know that ICL is working as hard as they can to make this happen.

However, as ICL will no longer continue to invest in this project, nor can Fujitsu force ICL to invest money, without any binding agreement, I am obliged to inform you that, if no such agreement is reached, ICL will have no choice but to implement its decision to stop work, and Fujitsu will accept ICL's decision. ICL have spent so much money for so long without a commercially viable agreement that the matter will now have to be resolved by a proper legally binding agreement.

ICL and Fujitsu would take such decisions with the greatest regret. The BA/POCL system has the potential to provide the Post Office network of branches in the UK with automated equipment that would provide a whole range of services to the British public, reduce fraud and help the UK Government to achieve its ambitions for Modernising Government explained in the White Paper.

In conclusion, I would like to confirm my belief that a resolution of all our problems on this project is within our grasp, and that, with hard work and decisiveness from all parties over the next few days, a successful outcome is entirely possible. I very much hope that this will be the case, and ICL and Fujitsu will do all that is within their power to make this happen.

*Sincerely yours,*

**GRO**

Tadashi Sekizawa  
Chairman  
FUJITSU