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## Systime plc

*HC Deb 25 February 1986 vol 92 cc916-24*

*Motion made, and Question proposed, That this House do now adjourn.—[Mr. Sainsbury.]*

10.44 pm

*Mr. Michael Meadowcroft (Leeds, West)* I am grateful to have the opportunity to raise the matter of Systime plc of Leeds. I wish to set out at the beginning of my speech what I believe that the Government and the Minister should do. This will be the framework of the story of Systime plc and the Government's role in that story.

I believe there should be an urgent inquiry, perhaps under section 6 of the [Fair Trading Act 1973](#) or any other appropriate statute, into the key issue of whether Digital Equipment Corporation, known as DEC, the United States Department of Commerce, officials of the Department of Trade and Industry and Her Majesty's Customs and Excise behaved legitimately in their dealings with Systime plc. The Government must act to make effective the express views of the Attorney-General on extra territoriality abuses by such companies as DEC. Urgent action is also required to enforce articles 30 and 86 of the Treaty of Rome, which refer to the dominant position being abused by a company and of trade restrictions being permissible only if they are approved by the EC countries. These articles are clearly relevant to the Systime case. The law relating to patent and copyright requires urgent review to see whether vexatious legal action which significantly harms the continued viability of a smaller company can be inhibited.

Since I first embarked on this case, I have been overwhelmed with evidence. Indeed, the question has been what to leave out rather what to put in. I have also met briefly with representatives of DEC through the good offices of the hon. Member for Surrey, North-West (Mr. Grylls), who numbers DEC amongst his financial interests. The case that I put before the House has been assembled painstakingly from numerous sources and pieces of evidence. Within the time constraints of an Adjournment debate I cannot hope to cover every issue. Therefore, I will not deal with the vexed question of the use of legal action on alleged patent or copyright infringements to stop rivals trading. If this legal action is dragged out, it effectively put smaller competitors out of business. I will not deal in detail with the Co-ordinating Committee for Export to Communist Areas issue and the intricate problem of technology and the Eastern bloc countries—both issues are relevant.

I emphasise that I am in no way motivated by any anti-American spirit. In that respect I am at least at one with the right hon. Member for Old Bexley and Sidcup (Mr. Heath) and the speech that he made at the weekend. There is a sense in which, in the longer term, what I am arguing for will help the United States and its broader role in the world. I am not motivated by any wish to score party debating points — if the circumstances had been different, the material could have ended up in any hon. Member's hands.

I am anxious to protect what jobs remain at Systime plc and I would urge the Government to use every means possible to assist the company's future. I do not wish to pretend that one side is all pure and the other entirely evil. Systime plc has its faults. The computer business is not for the faint hearts and no doubt there is some sharp practice in virtually every major deal. The regular movement of skilled managers and entrepreneurs between companies makes the control of legitimate business confidentiality impossible. My case is simply that the odds are stacked against United Kingdom industry when it is under threat from the United States. The Government alone have the power to even up the balance and defend British industry.

I bring before the House the grave matter of Systime plc, at one time this country's second largest computer maker. That company, based in Leeds and drawing staff from all constituencies of Leeds, has reduced its payroll from 1,200 in 1984 to about 400 today. Those 400 jobs and the fate of a major high technology manufacturer and exporter are now in jeopardy. I have a series of sworn affidavits, letters from the American Embassy in London, and other documents which show that Systime's plight is mainly due to the illegal, improper and indecisive activities of three parties. Those parties are Digital Equipment Corporation — Systime's major American supplier and competitor — a number of American Government officials — some based at the London Embassy whom I shall name—and a number of officials and Ministers at the Department of Trade and Industry.

The matter of Systeme plc is not, as the Westland affair was, a matter of disclosure but rather a matter of law. Laws have been broken on a significant scale and frequently by those charged with upholding the law. It is not solely a commercial matter but rather of a question of legality. It involves a sustained breach of United Kingdom sovereignty, condoned by the Government—if only by default — and used as a weapon to destroy Systeme. Within six years we have witnessed the destruction of a company.

I will describe Systeme and its rival and supplier, DEC. Systeme plc was an entrepreneurial company founded in Leeds by Mr. John Gow and others in the mid-seventies. Its major business developed around retailing of equipment purchased mainly from Digital Equipment Corporation, with additional parts and software. DEC, as Digital is known, is the second largest computer company in the world, based near Boston, Massachusetts. It built up its huge sales mainly by wholesaling equipment to companies, such as Systeme, which then sold the equipment to end users.

In 1979, Systeme's management discovered that it was about 25 per cent. cheaper to buy equipment direct from DEC in the United States than from DEC's subsidiary in the United Kingdom. DEC UK objected to the loss of profit that that implied, and persuaded DEC US to insist that equipment could be bought only from the subsidiary. Subsequently, when DEC US tried to break its contract with the Systeme subsidiary in the United States, Systeme's management commenced an anti-trust action in which the British Government took an *amicus curiae* position. DEC drew back and agreed to a partial continuation of supply. Systeme appeared to have won a breathing space, but it was only temporary. That is apparently the only time that the British Government have openly defended Systeme, and, significantly, the only time that DEC has drawn back.

In 1979, DEC UK, under its American manager, Mr. Darryl Barbé launched a formal campaign known as the "Kill Systeme" campaign. He had the full support of the American management. The DEC president, Mr. Ken Olsen, was subsequently overheard leaving a board-level meeting with another company, declaring that he wished to see Systeme out of business. Mr. Pier-Carlo Falotti, European vice-president of DEC, said to DEC staff: "I want you guys to go out and kill Systeme." DEC's most senior vice-president, Mr. Jack Shields, was regularly in the United Kingdom, supervising the events that I shall set out. Between 1980 and 1983, Systeme grew rapidly, making sales to the British and United States Governments, and commencing the manufacture of ruggedised computers for the Ministry of Defence. Exports also grew to the benefit of the United Kingdom.

The British Technology Group, the Government's investment arm, and others invested heavily in Systeme. By the end of 1982 the need for new cash to support the now rapid growth of the company became urgent. That was well known to DEC, which took unique and wholly improper advantage to destroy Systeme.

Besides the openly declared "Kill Systeme" campaign, there was a secret investigation conducted on DEC's behalf by a private detective agency, Network Security Services. I was told by one ex-DEC employee that Network Security Services "have contacts everywhere."

Recalling that we are dealing with a publicly funded company, I come next to a meeting between Systeme, its bankers, Kleinwort, Benson, and representatives of the Government, including the Department of Trade and Industry and others, which took place on 19 January 1983 at Kleinwort, Benson's premises in London. Prior to the meeting, DEC's legal representative, Mr. Harry Small, of the solicitors, Linklaters and Nines, made, among others, the following allegations based on a report from Network Security Services. First, that Systeme was illegally pirating DEC software on a large scale. Secondly, that Systeme had exported no fewer than 400 DEC computers to the Soviet Union and the eastern bloc disguised as juke boxes. Thirdly, that Systeme was involved in a series of other breaches of United States export regulations. Present at the meeting were all the Systeme directors, Mr. Geoffrey Sterling, representing 10 Downing street and the Department of Trade and Industry, Mr. Stuart Bloc, representing the NEB and British Technology Group, and Mr. Bill Wigglesworth for the Department of Trade and Industry.

The DEC representatives made it plain that they intended to inform the United States Government of those matters. The implication was clear to intending investors and purchasers. The flotation effort failed, and a would-be takeover by STC failed which, no doubt, DEC intended should happen to any attempt to keep Systeme going.

John Gow was concerned that there may have been some minor infringements, and so DEC was subsequently allowed to audit Systeme's books, at Systeme's invitation and expense. It was unable to produce any evidence for its more extravagant claims, and only a minor under-accounting for the key one. But Systeme was doomed, though not adequately from DEC's point of view. The "Kill Systeme" campaign continued.

Between 1983 and July 1984, DEC obtained Systime's crucial customer list, and it is alleged that Systime's offices in Washington DC were broken into or that staff were bribed. In Leeds, Systime's own shipping files were apparently raided and documents removed. Those two sets of documents, together with the report used in the 19 January 1983 meeting, were given to the United States department of commerce in Washington, which began an investigation of Systime. The Prime Minister wrote concerning the missing Leeds documents to my hon. Friend the Member for Yeovil (Mr. Ashdown). She said that British Customs "were not aware of any documents which would be of assistance to them being removed from other companies by US Customs". Note the use of the word "other". The Prime Minister refused to exonerate United States Customs from having illegally acquired documents. I assume that she refused to do so because she had good reason to believe that it was indeed United States Customs, or its agents, which raided Systime for the missing documents.

In July 1984, on advice from the United States Government, the United Kingdom Government instructed United Kingdom Customs to raid Systime in Leeds. It was United Kingdom Customs which discovered that the key shipping documents were not there. It took a little longer to discover that the key documents were in the United States being used as evidence against Systime by the Department of Commerce.

There were two American officials in the United Kingdom working with diplomatic status at the embassy who, according to letters in my possession, were involved in the case against Systime. The first is Mr. Jack Lacey, the head of a Customs team at the United States embassy, responsible for the de facto direction and supervision of the United Kingdom's own campaign against the export of high technology. The second was Mr. Timothy Deal, who was directly involved in the subsequent blacklisting of Mr. John Gow, the founder of Systime. Those two officials were, I believe, involved with DEC in the Systime case.

Based on DEC's report on the various illegally obtained documents, the United States Government found Systime guilty of violations of United States export laws. Systime was found guilty of exporting computer equipment from the United Kingdom to Pakistan, Iraq, South Africa and other destinations, without the permission of the American Government. Amazingly, it is now, and has been for some considerable time, an offence to ship high technology goods from the United Kingdom without United States Government export licences.

Systime was fined \$400,000 and has had its domestic and export sales put under the direct control of the United States Department of Commerce. More important, and having a direct bearing on its fate, the company found it almost impossible to obtain supplies of equipment from any American supplier. It began to fall behind on orders. In the last eight weeks alone Systime, having waited months, has been refused United States Government permission to supply a multi-million pound computer order to West Germany from the United Kingdom.

In furtherance of this effort to eliminate Systime, DEC's private detectives have followed Systime personnel and placed their homes under surveillance. There are allegations in my possession of phone tapping, of break-ins, and of pressure which directly or indirectly led, alas, to at least one suicide. Certainly, it would appear that Systime engineers have been followed to their customers' offices by DEC agents. Subsequently, those sites have been visited by DEC personnel under the guise of wishing to quote for a maintenance contract. The serial numbers of machines were then noted and the original American supplier to Systime was then pressured to discontinue supply.

In the same context, DEC has made use of improperly obtained Systime customer lists to canvass Systime's customers with, in DEC's words, a "rubber order book". What has the United States Commerce Department to say about all this? Mr. Frank Deliberti, the manager of the compliance division of the United States Commerce Department said: "I am going to shut Systime down. I am going to issue an (export) denial order and shut them down." In an internal document relating to exports from the United Kingdom, DEC states: "Digital UK must control the movement of the hardware, software and know-how"—presumably people—"in the United Kingdom to ensure that DEC remains within the US and UK laws."

There is no United Kingdom law that requires anyone to control the movement of computers, software or the know-how in people's minds within the United Kingdom, but the fact that DEC can say it is the measure of the position we are now in the United Kingdom, as a result of the Government's failure to act to end the monstrous imposition of United States law on United Kingdom exports and even on United Kingdom citizens—a failure that has doomed Systime and many other less well known United Kingdom companies.

In the case of Systime I allege that, first, the company has been fatally damaged as the result of a sustained campaign,

much of it illegal, by DEC, Secondly, that the most damaging facet of that campaign was the move by the United States Government against Systeme based on laws that, according to our Attorney-General, are: "an infringement of United Kingdom jurisdiction and contrary to international law." Thirdly, based on the Prime Minister's letter to my hon. Friend the Member for Yeovil, and correspondence between Systeme, the United States embassy and the Department of Trade and Industry, I further allege that the Government had specific knowledge of the illegal removal of documents from Systeme in Leeds to the United States, the spurious charges against Systeme by DEC's representatives prior to the 19 January 1983 meeting and the fact that those charges were being conveyed to the United States Government, the improper interference in United Kingdom domestic affairs of the two United States embassy officials, Mr. Jack Lacey and Mr. Timothy Deal and the fact that DEC's application against Systeme of its internal export rules demonstrates prima facie evidence of multiple breaches of at least two articles of the Treaty of Rome, which the Government are legally bound to uphold — article 86, the abuse of a dominant position, and article 30, which prohibits barriers to trade other than those agreed by the EEC.

In a real sense, the Systeme case is virtually closed. DEC has achieved its major objective and now owns Systeme's lucrative maintenance contracts and, in a sense, has brought the evidence. The rest of the company, under CDC parentage, will depend on the success or otherwise of its S series computers. I wish it well. Ironically, even that success can be affected by DEC future policy.

The significance of this story is in its lessons. Why depend on a crystal ball for Westland, British Leyland or for other United Kingdom computer companies when the record exists? Virtually 20 years ago, Servan Schreiber wrote in his book "The American Challenge": "Current disjointed, nearsighted attempts at competition by individual European governments are inexcusable, and doomed to failure. Not only can we succeed, we must succeed. No area of industry can ever be independent if we rely on others for computers, hardware and software. If there is a battle for the future, it is the battle of computing." Successive Governments have allowed battle after battle to be lost. Whether the war is lost I know not, but I am sure that the Government must act as if there is still time. What are the Government going to do to protect our future and Europe's future?

*11 pm*

*The Minister for Information Technology (Mr. Geoffrey Pattie)* As the hon. Member for Leeds, West (Mr. Meadowcroft) has said, Systeme was founded in Leeds in the early 1970s. A vigorous and entrepreneurial approach to the market for integrated computer solutions brought it early success and rapid growth. By 1981 it had built up a turnover of more than £30 million and was employing some 1,200 people. Continued growth required expansion, so the company embarked on a major development at Millshaw park in Leeds to provide the room and the facilities to accommodate the very ambitious growth targets it had set itself.

Sadly, the completion of this development coincided with the onset of financial difficulties of the kind which can all too easily beset companies set on rapid growth. In short, the company found itself caught in the bind of a serious financial crisis requiring the injection of substantial new funds to keep it afloat. Fortunately, such funds were forthcoming from a number of sources, including Control Data Corporation, which took a substantial minority stake in Systeme in 1983. It increased this to over 90 per cent. early in 1985 in the face of continuing financial difficulties, exacerbated by the downturn in the computer market generally. Since that time, CDC has continued to stand by the company while plans were put in place for a restructuring to match Systeme's activities more closely to its available resources.

As the hon. Gentleman will know, the broad lines of that restructuring were announced last November. Inevitably, it involves some cutbacks, which I regret as much as anyone else. But I believe that the plan represents a constructive response to the problems of the past few years and I am encouraged that there now appear to be good prospects of Systeme continuing as a computer manufacturer in Leeds, with a sound in-house designed and developed product range. The opportunity is there, if all goes according to plan, for Systeme to build on its strengths and experience in the market place to become once more a strong and growing force in the United Kingdom computer market.

I would not want to pretend that from this point everything will automatically be plain sailing. There is much work to be done to ensure that the signs of hope for the future which I have just described turn into real results. That will require all the company's energies, and I am sure it is something to which the hon. Gentleman would want to give every support.

In this context, while I fully understand the hon. Gentleman's concern about the grave issues which he has brought before the House tonight, I hope that he will agree that it is very much in Systime's interest, and the interests of job prospects in Leeds, that we should not let the events of the past become a preoccupation or a drag on the major task that needs to be done to assure the future for the company. The hon. Gentleman must decide whether he will put the interest of his constituents first in this matter.

I turn now to the substance of the hon. Gentleman's speech. I listened to what he had to say with great care. The hon. Gentleman was kind enough to send me a draft copy of his speech which I very much appreciate. He said at the beginning of his speech that he had been "overwhelmed with evidence". That is precisely what I want to see. The hon. Gentleman has the right to raise any matter that he chooses in the House and I am perfectly happy to respond to it. I ask him whether he believes—he does not want me to put it in the terms of the best interests of his constituents—that in the best interests of the serious matters he has raised we should be considering them in the 29 minutes and 30 seconds that we have tonight. That is his decision.

The hon. Gentleman will agree that we had a brief conversation in which he said that he would wish to see me about this matter. He will recall that I said that I would be happy to see him, as I am. I must say—this is the most fundamental point that I can make on his speech—that I need evidence. The hon. Gentleman has made serious allegations about an American company, DEC, and about various named officials in the United States Government and about officials and Ministers, unnamed, in the British Government.

I should like to deal in the limited time I have available with DEC and the so-called "Kill Systime campaign". Systime is not the first company to have got into financial difficulties in going for rapid expansion.

*Mr. Paddy Ashdown (Yeovil)* Will the hon. Gentleman give way?

*Mr. Pattie* I cannot give way. I am already taking up time in resisting the intervention. I should be delighted to debate with the hon. Gentleman at any time, but I am trying to respond to the points made by the hon. Member for Leeds, West.

The hon. Member for Leeds, West said that the computer market is not for faint hearts. He would hardly need reminding that the commercial world is a hard and competitive one. Companies fight, and fight hard, to survive, and it should hardly be a cause for surprise if they seek to use every legitimate means to hand to promote their commercial interests. This is the hard practical world of commerce, operating quite justifiably within the law.

The hon. Gentleman makes allegations of improper and unlawful activity to drive home a competitive advantage—indeed, to finish off a competitor altogether. If this is true, it is a very serious matter and if the hon. Gentleman has evidence—not allegation, but evidence—that the law has been broken, I hope he will bring it forward so that appropriate action can be taken. However, I have to say that I have yet to see any evidence of unlawful activity by DEC in relation to Systime.

The hon. Gentleman specifically referred to possible breaches of the treaty of Rome. As he will know, this is a highly complex area, which is essentially the province of the European Commission. On receipt of the appropriate evidence, we shall consider it.

I turn to the subject of United States re-export controls. I begin by emphasising that we fully agree with the United States on the need to prevent the leakage of sensitive technology from the West. We fully support the multilateral controls of COCOM as the United States does. We see eye to eye with the United States on the need for such controls.

However, we object to United States controls on exports from third countries of goods including United States components or United States technology. Such controls are extraterritorial, and the United Kingdom emphatically rejects the implied claim of the United States to jurisdiction in the United Kingdom. The Government have made their position crystal clear on this issue on many occasions. The United States is well aware that we do not accept the validity of its re-export controls, and that we believe the extraterritorial nature of those controls to be an infringement of the sovereignty of the United Kingdom.

We cannot, however, prevent the United States Government from seeking to apply their re-export regulations to United Kingdom companies. Moreover, we have to remember that United States companies may be prohibited from supplying sensitive goods and technology to an overseas company which breaches re-export controls and that such

goods and technology are often not available from anywhere else. The United Kingdom's policy is therefore normally to allow companies to make a commercial decision about whether to comply with United States re-export controls, although we of course, stand ready to take up individual cases with the United States Government, and to do all we can to help in such cases.

When Systime was alleged in 1983 to have breached United States re-export controls by the United States Department of Commerce, the company admitted certain breaches and made it clear that it did not wish the United Kingdom Government to become involved. It preferred to handle the issue itself. This was rightly a factor that weighed heavily with the United Kingdom Government, given that the commercial interests of the company were at stake.

I understand the hon. Gentleman's concern about this issue and his motives in raising it in tonight's debate, but Government action would, in Systime's view, not have been in the best interests of the company, which had to live, after all, with the commercial reality of a need for continued supplies from the United States. I wonder whether the hon. Gentleman would really claim that he knows better than the company what its interests were. It was Systime's view that its best course of action lay in negotiating directly with the United States Department of Commerce. The Government would have had to think very seriously before overriding the company's judgment on a matter which could affect its future.

The hon. Gentleman also made allegations in his speech about Ministers and officials in the Department of Trade and Industry. I entirely reject any suggestion that either Ministers, who were unnamed, or officials, who were named, have behaved improperly, or that the Government have been in any way involved in illegal acts. If the hon. Gentleman has any evidence to the contrary, I will most certainly investigate it. If not, I hope that he will not make any further such allegations.

The hon. Gentleman also made allegations about unauthorised visits by United States officials to Systime. The United States authorities are well aware of the United Kingdom's view that investigations within the United Kingdom may take place only with the prior approval of the Government and on whatever terms we may lay down. Her Majesty's Customs is not aware of any visit by United States customs officials to Systime.

To sum up, Mr. Speaker, I recognise and appreciate the concern of the hon. Member about the affairs of Systime. He has made a series of allegations, which I take seriously, including serious allegations of illegal conduct. But if he has evidence of illegal activity he should bring it to the attention of the responsible authorities so that suitable action may be taken.

*Mr. Meadowcroft* The Minister said that Systime did not wish the United Kingdom Government to intervene during its problems in 1983. That was the time when the company was trying to negotiate with companies in America which might finance it but which took a different view from Systime about where its future lay. Systime believed that it would be possible to come to a financial arrangement with DEC over alleged infringements, which in the end proved impossible. The result was that at the time Systime believed that it would be better for the Government to keep out.

Regarding the Minister's point about bringing forward evidence, I shall do so, but the important thing is to air the matter in this way so that the case is on the record. We can go from there with all the various details that may be useful to the Minister in pursuing an important matter.

*Mr. Pattie* I agree with the hon. Gentleman that the matter is important. It is for him to judge, with his greater local knowledge, the best interests of the company and of his constituents and those of other hon. Members representing Leeds. If he chooses to raise the matter in this way, he is perfectly entitled to do so. I was not seeking to be gratuitously offensive. I was simply making the point that the matter is sufficiently serious to question how the matter should be first raised.

*Mr. Ashdown* The Minister asked for evidence in support of the case of my hon. Friend the Member for Leeds, West (Mr. Meadowcroft). Perhaps I can direct him to consider an internal DEC document which states: "Digital-U.K. must control the movement of the hardware, software and know-how in the U.K., to ensure that DEC remains within U.S. and U.K. laws." I also direct the Minister to the Attorney-General's letter to me, which states that such actions "are unwarranted encroachments on UK jurisdiction and are contrary to international law." That is the legal position, so why are the Government doing nothing about it? What will the Minister do to protect not Systime—because it may be too late for that company—but other British firms to which my hon. Friend has drawn attention, which may be equally

suffering from what the Attorney-General considers to be illegal action?

*Mr. Pattie* The hon. Gentleman has already heard my view. I do not believe that he would like a series of pyrrhic victories in terms of taking matters to the international court, or whatever international jurisdiction may be available.

However, in the absence of evidence, I believe that the better course is not to continue to dwell on past issues regarding Systeme but to concentrate on what has to be done to develop its future. I hope that all hon. Members will co-operate and agree that that is the best way to proceed.

*Question put and agreed to.*

*Adjourned accordingly at fourteen minutes past Eleven o' clock.*