

PART 1 ends:-

Resident Clerk MOD to Duty Office No 10 15/12/81.

PART 2 begins:-

MOD to AJC 15/12/81.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

HMSO

June 1981

The United Kingdom Defence Programme: The Way Forward
Cmnd. 8288

Signed AWayland Date 24 February 2011

PREM Records Team

Duty Officer

10 Downing St

T.A.

Apr 15/12

SALE OF HMS INVINCIBLE

1. As we agreed earlier tonight, I attach a very short brief for the Prime Minister on this topic. At the time of writing we have no indication of the Australian Cabinet's decision, either way.
2. A carbon copy will go to the Secretary of State's office at approx 8.30 am. His Private Secretary has endorsed the "line to take".
3. Apologies for the manuscript!

Att Zowe

Resident Clerk

MoD

0300 hrs 15/12/81

218 - 6002

CONFIDENTIAL

PRIME MINISTER

SALE OF HMS INVINCIBLE TO AUSTRALIA

1. The Prime Minister is aware that negotiations have been taking place for the sale of HMS Invincible to the Royal Australian Navy. The Australian Cabinet is due to consider the purchase on Tuesday ~~morning~~ ~~local time~~ (Monday / Tuesday night in London). The Defence Adviser at the High Commission in Canberra has now reported a conversation with the Australian equivalent of the Chief of the Defence Staff, indicating that Mr Frazer is likely to telephone the Prime Minister to convey their decision.
2. With the authority of OD Committee, the Secretary of State for Defence signalled his Australian counterpart (Mr. Killen) on Saturday 12 December. This signal outlined the terms of sale, which were agreed by the negotiators in Canberra with one exception. The price itself (£175 M) is not at issue, but the timetable of payment has not been agreed. The UK has been pressing for a large early payment — at or near £95 M in 1982/3 — in order to ease pressure on the UK Defence Budget in that year.
3. It is likely that Mr Frazer will say that the Australian Government needs further time to consider this particular provision, and wishes to delay a final decision until February or at least until after Christmas.

4. Line to Take

The Prime Minister is advised to say that the Australian Government must of course consider this matter carefully before reaching a final decision; but to stress the importance of a very early decision in view of its consequences for the UK Defence Budget.

AA Lowe

RESIDENT CLERK
MINISTRY OF DEFENCE
0245 hrs, 15 Dec. 1981

Ref: B06346

PRIME MINISTER

c Sir Robert Armstrong

OD: Sale of HMS Invincible

BACKGROUND

FLAG A The Defence Secretary's minute to you of 30th November recommends that we sell HMS Invincible to Australia for £175 million in 1983 (when her sister ship Illustrious will be ready) and spend £30 million on retaining the veteran HMS Hermes until 1985 (when the third sister ship, Ark Royal, will be ready). He wants an urgent decision, because the Australian Defence Minister is waiting to submit the deal to the Australian Cabinet. And he wants a collective decision, at a meeting of OD, because the plan will be politically controversial; the Chief of the Naval Staff already opposes it, and he is bound to be supported by others including Government backbenchers and the United States Administration.

2. The minute has been circulated without warning and less than 48 hours before OD's meeting. It was not properly concerted with the Treasury, with whom hurried consultations are now taking place today. The Committee may therefore be reluctant to be bounced. Only half an hour is available for the whole meeting, and most of that will be needed for the earlier item (Iraq).

3. HMS Invincible is the first of our new "through-deck cruisers" or small aircraft carriers designed to carry Sea Harrier aircraft and Sea King helicopters. Although three were ordered, this summer's Defence Review decided that we could and should manage with only two. This was a consistent part of the wider decision to rely more on submarines for anti-submarine warfare, and less on vulnerable surface ships. If we are going to sell, Australia's close Old Commonwealth ties with Britain make her an ideal purchaser; there are few others as commercially reliable, politically democratic and militarily committed to the Western Alliance.



4. Without more information it is hard to judge if the price is right. But the Government will undoubtedly be criticised for selling for £175 million (or perhaps less, in real terms, see below) a ship which we shall later replace with a twin costing £350 million (at today's prices).

HANDLING

5. The Defence Secretary should explain why a decision is being sought at such short notice. The Chief Secretary, Treasury, will wish to comment on the financial aspects; the Foreign and Commonwealth Secretary on our Allies' reactions; and the Lord President on those of Parliament and the public.

6. You will need answers to the following questions in particular.

a. Could a decision not wait until it can be better prepared? OD is meeting again on 16th December. Would an announcement before Christmas be well timed, eg viz-a-viz the Alliance?

b. Is the Chief Secretary content with the price? Should the net gain be used to increase the Defence Budget or reduce public expenditure? Is the price fixed in money terms, so that it will be less in real terms if payment does not start until 1983? What credit and interest terms are contemplated?

c. Why not sell, at cost, one of the two not yet built? If a suitable buyer could be found, that should be both better financially and better for morale in the Navy.

d. How likely is a backbench revolt?

CONCLUSION

7. Unless there are convincing arguments against delay, you may wish to postpone the decision until 16th December and ask for more information on points which are raised in the discussion (or would be if time permitted).



8. Failing that, the Committee will probably be prepared to accept the judgement of the Defence Secretary - who will be the main sufferer from any criticism - on the best way to follow through one of the key decisions of the Defence Review. But in the light of the Chief Secretary's comments there may be riders to add on the precise financial terms.

A handwritten signature in blue ink, appearing to read 'R Wade-Gery'.

1st December 1981

R L WADE-GERY

CONQUEROR



Mr Alexander

for O.D.

Mint

A

MO 14/5

PRIME MINISTERSALE OF HMS INVINCIBLE

In the Defence White Paper "The Way Forward" (Cmnd 8288), which I published in June, I announced that we intended to keep in service only two of the three Invincible Class carriers ordered by the Royal Navy.

2. In spite of the excellent performance of HMS INVINCIBLE in NATO exercises in the East Atlantic during the summer - and the undoubted shortages of ASW assets - my Department has, with my authority, been negotiating with the Australian Government for her sale as a replacement for HMAS MELBOURNE. Prior to this the Australians had been considering a new carrier to be built in the United States - British Shipbuilders having been excluded at an early stage.

3. Terms of the sale of HMS INVINCIBLE have now been agreed with the Australian Department of Defence, and the Australian Defence Minister, Mr Killen, wishes to submit proposals for the approval of the Australian Cabinet during the first two weeks in December. A formal announcement could then come before Christmas.

4. Officials from my Department have visited Australia and the price agreed for the ship, ad referendum to Ministers, is £175M (excluding stores and any aircraft or helicopters), and a date of September 1983 has been proposed for her handover to the Royal Australian Navy. This date is related to the entry of HMS ILLUSTRIOUS - the second carrier - into operational service which is planned for July 1983.



To cover possible slippages in ILLUSTRIOUS's entry into service, there is provision for the handover to be deferred by up to six months and for the handover dates to be reviewed if delays arise from events outside the UK Government's control.

5. In order to keep two carriers in service the sale of HMS INVINCIBLE to Australia in 1983 will mean that HMS HERMES must be kept until 1985 when HMS ARK ROYAL enters service. While the retention of HMS HERMES will lead to additional costs of some £30 million to the Defence Budget, it is clear that Australia attaches very great importance to the early acquisition of a new carrier. Although INVINCIBLE would cost nearly £350 million to build today the net revenue of £145 million obtained from the sale will make a large contribution to the Defence Budget in the mid-1980s at a time when it will be under very great strain. It could also lead to substantial orders of ammunition, missiles, spares, etc for many years to come, and there is a good prospect for sales of the helicopters and aircraft to be embarked on the ship.

6. I greatly regret having to propose the sale of a fine ship of proven capability, like HMS INVINCIBLE, particularly before 1985 when HMS ILLUSTRIOUS and HMS ARK ROYAL will both be operational. Such a sale will distress the United States, our NATO allies, our political supporters in the country, and, of course, the Naval lobby. Unlike the older frigates which we are selling as part of the Defence Review decisions, INVINCIBLE has only been in service with the Royal Navy since March 1980. The Chief of the Naval Staff strongly believes that we can and must afford to keep her - if necessary in a reserve status as back up for the other two. But I have to recognise that pressures on the defence budget in 1983 and onwards are almost



certainly greater than even those identified in the summer at the time of the defence programme review, when we decided we could afford to retain in service in the long term only two of the new class of Carriers. The recent figures agreed for the Defence Estimates will place the forward programme in deep jeopardy and therefore it is hard to reject the opportunity now offered to sell HMS INVINCIBLE to the Australian Government on the terms set out above.

7. The sale of HMS INVINCIBLE and the prospective sale of two Hunt class Mine Counter Measure ships, on which negotiations are well advanced, would do much to re-establish the UK's position as supplier to the Royal Australian Navy and to strengthen the traditional links between the two Commonwealth navies.

8. In view of the high political sensitivity of this unique sale I should be grateful to discuss this with you and OD colleagues before I confirm the sale to the Australians. I am, therefore, copying this minute to members of OD and to Sir Robert Armstrong.

JW

Ministry of Defence
30th November 1981

Defence



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~2307822~~ 218 2111/3

MO 26/9/1(A)

28th October 1981

Dear Michael,

Prime Minister

Am

I attach the latest quarterly report to the Prime Minister on major defence sales prospects.

My Secretary of State has also asked me to mention a number of recent defence sales contracts which have recently been agreed, in particular:

- Nigeria - Vickers Tanks £53M →
 Lynx Helicopters £15M
- Egypt - Plessey Tank Radios £25M
- Iraq - Cymbeline Mortar Locating Radar (EMI) £15.5M
 Artillery Meteorological System (MSDS) £22M

Mr Nott has also asked me to mention to you the sale to Chile of the destroyer HMS NORFOLK and the RFA TIDEPOOL, under a £10M package, and the sale to New Zealand for £17M of the Leander frigates, HM Ships DIDO and BACCHANTE.

I am copying this letter to Francis Richards (FCO), John Rhodes (DOT) and David Wright (Cabinet Office).

*Yours sincerely,
 P D Dawson*

(J D S DAWSON)

M O'D B Alexander Esq

MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ALGERIA	HAWK (24) NAVAL EQUIPMENT	125 Dependent definition of require- ments	1982+ upon of require-	After an Algerian team made an evaluation in the UK in June, BAE visited Algiers in August to discuss detailed proposals. Training and technology transfer are required. Following FCS's success in stimulating Algerian interest in UK equipment, and an £3M contract for 2 FPBs signed in June the Algerians are considering a range of other vessels, equipments and helicopters.	US of S(DP) visited Algiers in August.	FRANCE
MOROCCO	IMS Package 1st Phase - includes FH70 and 105mm Light Gun, mortars, small arms, FACE, vehicles, workshops, training and support services.	125	1981+	Final details of Saudi finance have to be clarified but IMS still expect to win this contract.		FRANCE
NIGERIA	JAGUAR (36) SWINGFIRE TANK AMMUNITION (76mm and 105mm)	400+ 135 18	1981 1981/82 1982	Nigerian Air Force reported to be very keen to buy Jaguar this year. ECGD credit approved in principle but the French will also be expected to offer credit for their share (40% of aircraft price). Negotiations are expected to resume shortly. BAE have resubmitted their proposals on a credit basis. Contract for 36 Vickers METs and 9 variants signed on 23 July. IMS are preparing quotation for ammunition now.	S of S discussed credit for future defence purchases with Nigerian Minister of Defence in September.	FRANCE FRANCE USSR ISRAEL BELGIUM USA
TUNISIA	HAWK (12-24) 3 STRIKE OR 6 SURVEILLANCE VESSELS	65-135 95	1982 1982+	Quotation and good credit offered but intense competition with partial aid from France and the USA Success will depend on the credit terms offered.		FRANCE ITALY USA FRANCE ITALY USA FRG

MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE EM	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Brazil	Propulsion and Fire Control systems for up to 12 locally built Corvettes	100-200	1981+	Strong competition but Ferranti on short list for fire control package and Rolls Royce for gas turbines. Decision expected by late 1981.		Italy, France USA, FRG
	Sea Skua Missiles	10	1981	BAE hope to obtain contract by the end of this year.		None
	Mk 24 Torpedo	31	1981/2	Marconi are confident of success following a consortium agreement with Engesa but better credit terms than those currently approved will be necessary. UK decision to buy Marconi heavyweight torpedo for RN will have helped.		None
Chile	Surplus RN Ships	Initially up to 28	1981	Negotiations for 1 County Class and one RFA have been successful. Chileans may go for lightweight Sea Dart in the future.		
	Army Communications Equipment	up to 50	1981+	RACAL in strong position when finance becomes available in Chile.		Israel, France
Ecuador	Air Defence Systems (Radar)	up to 95	1982+	RAF specialist has been loaned to Ecuadorean Air Force to advise on setting up an Air Defence Command. UK is well placed for further contracts.		USA, France
	Lynx helicopters (6)	up to 40	late 1981	MOD have offered RN training, and diversion of airframes. Very strong competition from France.		France
Peru	Naval Base (Phase 1)	200	1981/82	Project definition has been completed and a successful presentation has been given to the Navy. Decision on whether to proceed expected by the end of October.		None
Venezuela	Hawk (24)	100	1981	Decision awaited on a smaller order than previously expected.		France
	Scorpion (200)	up to 40	1982	Decision expected in early 1982.		

MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
FRG	Sea Skua and associated radar	50	1985	Sea Skua missile with Sea Spray or Sea Searcher radar believed well-placed for selection as mid-life improvements to FRG's Sea King helicopters.		France Italy
	Stingray	20+	1984	Stingray favoured to meet firm requirement for light weight torpedo. Interest in Stingray technology for heavyweight torpedo.		USA Italy
Greece	Tornado	200-300	1982	Panavia bid to supply 60 aircraft (with option for additional 40) submitted to Greek authorities. Developments are awaited.		USA France
Italy	Spey aero-engines (licensed manufacture)	100	1981	Italian Parliament has ratified contract for prototype engine. RR hope to secure main contract for licensed manufacture later this year.		None known
	Gem aero-engines	30-100	1981/2	RR currently certifying prototype engine for A129 helicopter project and have entered into licence agreement with Piaggio. Exact value of any production contract will depend on how much of the work will be done in Italy.		None known
Netherlands	FH70	60	1981/2	IMS proposals submitted and decision awaited.		USA
Norway	Rapier	100	1983+	Norway publicly committed to buying Roland II but privately reconsidering. RNOB and AF thought to prefer Rapier. BAeDG have submitted costed proposals.		USA France
Spain	Lynx/Sea Skua/Sea Spray	40-50	1982	Spanish interest confirmed to First Sea Lord earlier this year but strong competition from US LAMPS III.		USA
	Rapier	100-150	1981 (Phase 1)	Spanish Army team witnessed successful firings in July and submitted favourable technical report. Decision may be delayed until US/Spanish bases negotiations are concluded.		USA France
	Sea Harrier	75-85	1982	Spanish navy may be considering the US/UK AV8B as an alternative.		USA (AV8A)
Sweden	Lynx/WG30	150	1982 onwards	Swedish Forces have firm requirements for helicopters in the 80's and early 90's. Westland is basing its campaign on the Lynx 'family' of aircraft.		USA France FRG

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ABU DHABI	HAWK AND AIRCRAFT TRAINING	60+	1981/82	PM secured agreement in principle to purchase. Technical evaluation is now complete and a decision is awaited. RAF visited in August to clarify training requirements.		FRANCE
	FIELD ENGINEERING EQUIPMENT	107	1981	Package under negotiation with IMS. First proposals refused but new proposals are being submitted.		None
	ELECTRONIC WARFARE EQUIPMENT	100+	NK	Tenders submitted by RACAL/MSDS and Plessey. EW committee visited RACAL/MSDS only on 6-15 September. UAE decision is now awaited.		USA, ITALY
EGYPT	MBTs	375	NK	The Egyptian Minister of Defence has re-iterated his interest. Initial quantity required 300 with availability, price and finance being key factors. IMS are preparing proposals with the possibility of some parts being manufactured in Egypt.	S of S visited Egypt and discussed prospects with Egyptian Minister of Defence on 17 September. S of S has undertaken to reply to Egyptians on points raised and to investigate the credit position.	Probably FRANCE & USA
	FAST PATROL VESSELS (CORVETTES)	240	NK	Requirement is for 6 "Ramadan 4" type 60 m FPBs with a helicopter operating facility. Vospers, with MOD support, are pursuing credit cover from EXGD. Credit is considered an essential element in securing the contract.	S of S to take up need for further credit to secure this order.	
	RAPIER	100	1981	A firing demonstration in Egypt and the development of a proximity fuze are under consideration.	Minister (DP) has written to the Egyptian Defence Minister on the superior cost effectiveness of RAPIER as opposed to the French CROTALE system.	FRANCE
IRAQ	HAWK (licensed manufacture)	1000+	1982	Bae feasibility study to be completed by November. Hot weather trials in August were successful.		FRANCE ITALY
	ENGINEER PACKAGE CENTAUR/BARMINE/ RANGER/GIANT VIPER	up to 100	1981/2	A long standing requirement. Security problems for Barmine have been overcome but supply must await the end of the war.		ITALY
	NAVAL BASE REFURBISHMENT OF CAPTURED CHIEFTAINS	500+ 25+	NK 1981/2	IMS have won minor contract for an integrated weapons complex and are now competing for the naval base. IMS have inspected the tanks and assessed spares and repair requirements. They are preparing an offer.		SEVERAL COUNTRIES

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (continued)

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
IRAQ (cont)	NEW MBTs AND ARTILLERY	1000+	1982?	Iraqi General Staff have requested offer for 560 MBTs and up to 500 FH70. Iraqi delegation to visit shortly. Supply must await the end of the war.	Ministerial agreement in principle to supply given in June 1981.	FRANCE, USSR
JORDAN	TORNADO/PLIO	NOT KNOWN	MID-LATE 80s	Jordan is to take the lead in presenting UK aircraft options within the Arab requirements for advanced fighter/ground attack aircraft.	S of S discussed with Jordanians in Sep 81.	FRANCE
	HAWK	NOT KNOWN	1984?	During S of S's visit in Sep 81, Jordanians said that they had a firm requirement for Hawk as an advanced trainer in the mid-80s. Successful demonstration carried out in August.		FRANCE
KUWAIT	MBTs	200	NOT KNOWN	Interest in further 50-165 MBTs. Further visit to UK by Armour Committee due in November.	PM visited in Sep 81.	USA, FRANCE
	AIR DEFENCE EQUIPMENT	400+	NOT KNOWN	UK industry responding to tender for integrated air defence command-control system. Comprehensive package including Rapier.	PM visited in Sep 81.	USA, FRANCE
	TORNADO/PLIO	NOT KNOWN	NOT KNOWN	Kuwaitis will visit UK this year to fly Tornado and discuss PLIO proposals.		
OMAN	MBTs	100	1981/2	Lease of 12 Chieftains recently concluded. Draft contract for 35 MBTs with option on further 18 submitted in August. Further negotiations due early October.		
	SCORPION	15-20	1982/3	An order for one Scorpion squadron was considered imminent. However a current Omani moratorium on all capital equipment purchases may hold this back.		
	LANDING SHIP LOGISTIC	15	1981/2	Brooke Marine and Vosper (Singapore) have been short listed. Decision awaited but Omani moratorium may delay.		
QATAR	RAPIER	150	1982/3	Prospects for two further batteries, following contract signed in June 1981 for 1 battery.		USA, FRANCE
	JOINT OPERATIONS CENTRE	50	NOT KNOWN	QAF have accepted IMHO recommendations and wish MOD to undertake planning and assist in selection of equipment.		

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (continued)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
SAUDI ARABIA	EXTENSION OF MOU COVERING AIR DEFENCE PROJECT (SAIDAP)	500 over 3 years	1982	Saudis are seeking a considerable revision of MOU arrangements. Revised proposals were submitted in September offering a substantial cost reduction and accommodation of Saudi views on some points. Hope to sign new MOU by end 1981.	Favourable indications given to S of S by Prince Sultan in June. S of S wrote to Prince Sultan in August urging speedy conclusion to negotiations.	
	TORNADO/P110	500+	1986/7	<p>RSAF Director of Operations (Prince Fahd Abdullah) visited Warton in August 1981 for flight in Tornado IIS and briefing on Tornado/P110. Response to Saudi questionnaire on Tornado handed over during visit.</p> <p>RAF team gave successful flying training presentation to RSAF in May.</p>	Discussed by S of S and Prince Sultan in both Riyadh and London.	FRANCE, USA
	HAWK	120+	1985	Doubts over Congressional approval of proposed sale of E-7A AMACS aircraft have caused the Saudis to look at Nimrod AEW. At S of S's invitation RSAF Director of Operations led a party to the UK to see the aircraft and receive presentations in August.	S of S discussed with Prince Sultan and Saudi CAS.	USA
	SANGCOM - PHASE II	c 250	1981/2	To be discussed at project review with National Guard, planned for the end of October.		
	WAVELL AND ASSOCIATED COMMAND AND CONTROL SYSTEM FOR THE NATIONAL GUARD	up to 200	NOT KNOWN	MOD/Plessey proposals now being considered by SANS.		USA
	FH 70	c 120	1981/5	IMS negotiations on prices are continuing.	S of S has sent two personal letters to Prince Sultan on price queries.	USA
	TANKS FOR NATIONAL GUARD	45	Mid 80s	The National Guard are currently considering various proposals.		
	IMS assistance to COAST GUARD/FRONTIER FORCE	NOT KNOWN	NOT KNOWN	IMS have recently given an in-country presentation. No response is expected before the end of this year but prospects for a close UK association look hopeful.		
	AIR BASE SECURITY SYSTEMS	80-90	1982	Required for six bases at which F-15 aircraft are to be deployed. Shorrocks have been asked to submit final quotations and are very hopeful of success.		

MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRALIA	HUNT CLASS WCVSE CVS (HMAS MELBOURNE replacement)	90 175	1982 1985?	RAN in detailed discussions with MOD/Vosper Thornycroft for diversion of 2 vessels on order for RN. RN have agreed the diversion. Option for 1 further vessel also a possibility. MOD team has visited Canberra to elaborate on outline offer of Invincible.	PM at Commonwealth Conference in Melbourne PM at Commonwealth Conference in Melbourne	
CHINA	O51 PROJECT (LUDA DESTROYER)	50-100	1981	Prospects remain good. Preliminary decisions on equipment options were taken in September and include Sea Dart. Possibility of substantial follow-on orders. COCOM clearance will be needed.		
INDIA	SEA KING HELICOPTERS SEA HARRIER	200 60	1981 1982	Quotation provided for 23 new helicopters and updated avionics for existing fleet. Discussions continuing on ASW equipment fit in view of security problems. Indian Government has recently requested and received a quotation for a further 12 aircraft.		
INDONESIA	HAWK (28)	140	1981+	12 aircraft ordered out of total quantity of 40 indicated.		
JAPAN	FH70	50-100	1982	Army favour FH70 but no decision expected until the first quarter of 1982		USA
MALAYSIA	Air and Naval Bases, Army Camps and Defence Operations Room RAPIER/BINDFIRE	540 50-100	1981 onwards 1982	Strong competition. MOD active in offering support by means of MOUs and other initiatives Rapier selected by Armed Forces Committee but Malaysian Treasury approval required. Prospects may be affected by current deterioration in Anglo-Malaysian relations	S of S visit 3-5 October	FRG, FRANCE, USA, AUSTRALIA SWEDEN, FRANCE, USA
NEW ZEALAND	SURPLUS LEANDER CLASS FRIGATES (2)	30-35+	1982/83+	RNZN team in UK in September for discussions. Sale of DIDO and Bacchante now agreed	FCS met NZ PM at end of September.	
SOUTH KOREA	HAWK RAPIER	500 200+	1983+ 1983+	Bae proposals well received and, at Korean request, US have confirmed that they have no objections. Competition from US Roland may fade if project is cancelled as a result of US budgetary cuts.		USA

From: Geoffrey Pattie, M.P.



Seen by the
Prime Minister...

House of Commons,
LONDON, SW1A 0AA.

7th September 1981

RW
sic

Dear Margaret,

I thought you would like to know that an extremely successful trial of Searchwater Radar was conducted on an RAF Nimrod off the coast of Scotland last Thursday. The trial was staged for the benefit of John Lehman the US Secretary of the Navy who was on board the Nimrod. Lehman said that Searchwater was 'miles ahead' of anything possessed by the Americans and he wants to have it fitted in their P3 Orion maritime reconnaissance aircraft.

Lehman is on an official visit here at my invitation and today I am taking him to the Naval Equipment Exhibition at Portsmouth. It is difficult to estimate the full value of a

Searchwater Radar deal but over 100 aircraft could be involved and so we could be talking at least of £150 million.

I did want you to know of this success because you share my own feelings of pride whenever Britain demonstrates a world lead.

British Aerospace also did us proud on Friday morning with an excellent presentation to Lehman on Harrier and Harsh. The major prize that we are going for now is for Harsh to win the contract to supply the US Navy with its new trainer. 350 aircraft are involved and the main competition is France-Germany. We may well need your help at the final stages!

The O.D. papers on torpedoes makes interesting reading but for me Gold's figures are not to be relied on any more than Gold are as a company, from what I have heard about them in the U.S.

Yours ever

John



File AH
ccs LPO
CSD

10 DOWNING STREET

From the Principal Private Secretary

3 August 1981

Defence

IN CONFIDENCE

Dear Brian,

Thank you for your letter of 28 July 1981 about Reg Anderson's and Hugh Braden's proposal to form a limited company to advise and assist firms in the export of defence and civil equipment to overseas governments.

I have shown your letter to the Prime Minister, and she is content that Mr Nott should respond to the proposal in the way you describe.

I am sending copies of this letter to Jim Buckley (Lord President's Office) and Jeremy Colman (Sir Ian Bancroft's Office).

Yours ever,

Shirley Williams.

Brian Norbury Esq.,
Ministry of Defence.

AH



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-938 3022 218 2111/3

MO 1/4/2

Prime Minister.

28th July 1981

Dear Clive,

This is an old proposal. Mr Nott's
 suggestion way of dealing with it is probably
 the best that can be managed. The CSD
 are content. Are you?

Mr Yes
 30 vii met

My Secretary of State thought that the Prime Minister should be aware of a proposition which has been put to him on behalf of Mr R Anderson (who retired from the Ministry of Defence this February as Deputy Under Secretary of State (Procurement Management and Sales)) and Mr H R Braden (who retired in January as Assistant Under Secretary of State (Sales Administration)).

Mr Anderson and Mr Braden, together with a former Principal in the Department, Mr Jones, propose to form a limited company to advise and assist companies in the export of defence and civil equipment to governments in the Middle East and elsewhere. Mr Nott has considered their proposal in the light of advice from his officials and those of the Civil Service Department. The project is of an unusual kind and requires, he believes, to be treated with some care, but it is the view neither of the Department nor of the firms in defence industry (which have been consulted) that he need feel inhibited from agreeing to the establishment of the consultancy, provided that its name does not imply any relationship with the Defence Sales Organisation (which it will not) and that he issues (which he proposes) a strict injunction to members of the Defence Sales Organisation that they must not treat the consultancy any differently, or supply it with any different categories of information, from any other such company. It is also envisaged that Mr Anderson and his proposed partners should be reminded that they must be particularly careful to observe discretion and propriety in their dealings with the Ministry of Defence and with defence industry.

Mr Nott proposes on the above basis, and bearing in mind the national interest in fostering sales of defence equipment, to raise no objection to the proposal but he considers, nevertheless, that the Prime Minister should be aware of it.

I am sending copies of this letter to Jim Buckley (CSD) and Jeremy Colman (CSD).

James
 Breen

(B M NORBURY)

C A Whitmore Esq

CF

CONFIDENTIAL

es



Defence

10 DOWNING STREET

From the Private Secretary

13 July 1981

The Prime Minister has seen and taken note of the latest quarterly report on major defence sales prospects enclosed with your letter to me of 8 July.

I am sending copies of this letter to Francis Richards (FCO), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D.S. Dawson, Esq.,
Ministry of Defence.

CONFIDENTIAL

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also copied
to Middle East
Defence Sales.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930-7022 218 2111/3

MO 26/9/1A

8th July 1981

Mr Michael,

Prime Minister

(4)

I attach a copy of the latest quarterly report on major defence sales prospects which my Secretary of State has asked me to forward.

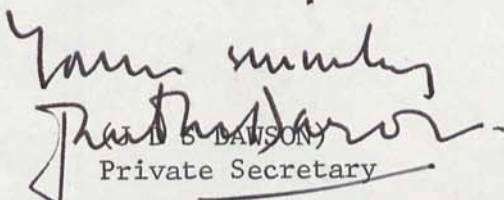
In addition, my Secretary of State has asked me to let you know of two recently signed contracts in the Middle East in which the Prime Minister has taken a personal interest:

- Dubai a contract for 8 Hawk aircraft was signed on 29th June. Estimated value £40M;
- Qatar a contract for the first battery of Rapier was signed on 14th June; together with support package, worth some £71M.

The sales to Dubai and Qatar are, I regret, subject to an embargo on publicity as the Governments in question have specifically stated that the sale should remain confidential.

The Prime Minister may also wish to be aware of further detail in connection with the follow-up to her discussions on Hawk in Abu Dhabi. Following Government to Government discussions, at which a MOU to support the Hawk sale was offered, a round of negotiations between the Company and the Abu Dhabi Air Force recently took place and agreement was reached on technical specifications. Negotiations will re-open towards the end of August. I understand that Abu Dhabi has earmarked some £60M for the purchase, indicating an initial order of up to 16 aircraft.

I am copying this letter to Francis Richards (FCO), John Rhodes (DOT) and David Wright (Cabinet Office).

Yours sincerely

 JUDITH S. LAWSON
 Private Secretary

M O'D B Alexander Esq

CONFIDENTIAL

AFRICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Algeria	Hawk (24)	125	1981+	Algerian team visited UK to evaluate Hawk in June 1981. Training package required.	FCS visited Algeria in May 1981.	France, Italy and Czechoslovakia
	Naval equipment	Dependent upon definition of requirements		Following FCS's success in stimulating Algerian interest in UK equipment, and an £8M contract for 2 FPBs signed in June, the Algerians are also considering a range of other UK vessels and equipment.		
Morocco	IMS Package - includes FH70 and 1st Phase - includes 102mm Light Gun, mortars, small arms, FACE, vehicles, workshops and training and support services.	125	1981	This is considered to be a very good prospect and we expect IMS to win the contract. Subject to funding by Saudi Arabia. 2nd and 3rd phases could be worth up to £300M.	FCS visited Morocco in January 1981	France
Nigeria	36 METs and 11 armoured recovery vehicles and bridge layers	50	1981	Contract is believed to have been approved and now awaits Nigerian Defence Minister's signature.	a. LFS visited Nigeria in December 1980 with DSO rep in his party	France USSR
	Jaguar (up to 36)	250+	1981	BaE proposal believed to be still with President and company is awaiting call for next round of negotiations.	b. FCS visited in February 1981, accompanied by HDS and defence sales team.	France
	Swingfire	135	1981	BaE proposal reported accepted by Nigerian President but renewed French pressure in favour of HOT delaying signature.	c. State Visit of Nigerian President in March 1981. Talks with PM and S of S.	France USSR
	Lynx	12+	1981	Good prospect for initial order for 3 for use with German built frigates. Agreement reached and contract signature confidently expected.	d. S of S wrote in March to Nigerian Defence Minister supporting UK Sales proposals, especially Jaguar.	France
	Naval Training School (Phase I)	5+	1981	Agreement reached and contract signature by Nigerian Defence Minister awaited.		
Tunisia	Hawk (12-14)	65-135	1981	BaE preparing firm quotation. Good credit terms offered already but Tunisia probably hoping for 15 years from contract.	M of S (FCO) visited Tunisia in May 1981 discussed prospects.	France Italy USA
	FPBs (3)	94	1981	Vespers' quotation under consideration but cannot match credit terms reported offered by France and FRG. Customer considers extended offer of credit to 13 years from contract is still unacceptable.		

MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Australia	Hunt Class MCHVs	60+	1982+	MOD/Vesper Thornycroft team began visit to Canberra on 29 June for discussions with Australian DOD. Possible procurement of 2 vessels with option on 3rd. Diversion from RN production line agreed.		FRG NL
China	O51 Project	50-100	1981	Chinese economic problems have forced review of defence priorities but O51 ship weapons fit remains good prospect. Possibility of substantial follow-on orders.	OD approved Letter of Intent for O51 Project	
India	Sea King	200	1981	Westland have quoted for 22 helicopters and for upgrading existing Indian Navy aircraft with new avionics. Supply of LAPADS refused on security grounds. Westland considering foreign alternative.	LAPADS case considered by S of S and security objections to sale upheld	France
	Sea Harrier	60	1982	Option for additional 6-8 aircraft now lapsed. India requires further operating experience before reaching decision.		
Indonesia	Hawk (Up to 28)	140		12 already bought and good prospects for sale of further 28. Indonesian request for 2 year secondment of RAF pilot instructor under consideration.	S of S plans to visit in Autumn	
Japan	SM1A marine gas turbines	20-50	1981	Japan assured of continued RN commitment to SM1A and decision by Japanese Defence Agency (JDA) expected by end July.	M of S (DP) agreed to bring forward RN SM1A ISD to meet Japan's wishes.	USA
	FH70	50-100	1981	Army strongly favours FH70 but formal JDA endorsement awaited. Favourable decision expected	M of S (DOI) visited Japan in April	
Malaysia	Air and Naval Bases, Army Camps and Defence Operations Room	Up to 50	1981	Strong competition. MOD active in offering support by means of MOUs and other initiatives.	M of S (DP) has written several letters supporting UK proposals.	FRG, France, USA and Australia
	Rapier/Blindfire	50-100	1981	Rapier selected by Armed Forces Committee but Malaysian Treasury approval required.	M of S (DP) led high level sales team to Malaysia in January to pursue wide range of prospects. S of S plans visit in September.	Sweden, France, USA
South Korea	Hawk	500	1983+	Strong interest in Hawk but Koreans required assurance that USA would not object. State Department has now given that assurance.		

MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
FRG	Sea Skua and associated radar	50	1985	Sea Skua with Sea Spray or Sea Searcher radar believed well-placed for selection as mid-life improvements to FRGs Sea King helicopters. Budgetary estimates submitted but in-service date deferred by 1-2 years.	Ministers have directed that particular attention be given to penetrating German market. Co-ordinated inter-departmental campaign in progress.	France Italy
	Stingray	20+	1984	Stingray favoured to meet firm requirement for lightweight torpedo. Interest in Stingray technology for heavyweight torpedo.		USA Italy
Italy	Spey aero-engines (licensed manufacture)	100	1981	Ratification of contract still awaited but Italy-Brazil MOU on AMX aircraft now signed. Brazil has 30% stake in the project.		None known
	Gem aero-engines	30-100	1981	R-R working on prototype engine at own cost for A129 helicopter project. Good prospect of 3rd party sales.		None known
Netherlands	FH70	60	1981/2	IMS proposals submitted. Decision awaited.		USA
Norway	Rapier	100+	1983	Norway publicly committed to buying US Roland II but privately reconsidering. Formal position confirmed during US of S(RN)'s visit and during Norwegian Chief of Defence Procurement visit to UK in May.	US of S(RN) visited Norway February 1981.	USA France
Spain	Rapier	200	1981 (First phase)	Rapier believed to be firm front runner to meet Spanish requirement. Spanish Army to send party to UK to witness live firings at end of July.		USA France
	Harrier/AV8B	75-85	1982	Spanish Navy undecided whether to procure AV8Bs, more Matadors or Sea Harriers. MOD exploring possibility of offering free or reduced cost pilot training.		USA
	Lynx/Sea Skua/Sea Spray	40-50	1982	During First Sea Lord's visit in March, Spaniards confirmed interest in Lynx and Sea Skua missile.		USA
Sweden	Lynx	50-100	1981	Westland bidding to meet requirement for 12 aircraft with option for further 25. UK well placed but stiff competition on price. Swedes may be reviewing requirement and purchase may be delayed by a year or more.		USA France FRG

LATIN AMERICA

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Argentina	Camberra (up to 6)	19	1981+	Letter of intent signed for purchase of 2 aircraft (value £6M) but lack of funds has deferred prospect of sale of additional 4 aircraft.	Sale considered by Ministers in light of Falkland Islands dispute and agreed.	None
Brazil	Propulsion and fire-control systems for up to 12 locally-built corvettes. Sea Skua missiles Mk 24 Torpedo	100-200 10 60	1981+ 1981 1981/2	Strong competition. Ferranti on short list for fire-control package and RR for gas turbines. Decision expected October 1981. BAe hope to obtain contract by end of this year. Marconi confident of being awarded contract, following a consortium agreement with Engesa, but better credit terms required than 2-year agreement from Treasury.	M of S (DP) may visit Brazil later this year.	Italy, France, USA & FRG
Chile	Army communications equipment Surplus RN ships	up to 50 100+	1981+ 1981+	Racal in strong position when finance again available. Purchases likely to be phased over several years. Negotiations continuing for 2 County Class Destroyers modernised and converted to carry large helicopters and Sea Dart missiles.		Israel France
Ecuador	Rapier (12) Air Defence Systems (Radar)	90 15-95	1981/2 1982+	Negotiations continuing and BAe confident that they will obtain contract shortly. Contract for first stage (£15M) signed in June after very difficult negotiations with aid of considerable MOD support.	M of S (DP) may visit later this year. S of S wrote to Ecuadorean President.	France USA France
Peru	Naval Base (Phase I)	90	1981/2	Project definition study being undertaken by Balfour Beatty. IMS closely involved. Decision on whether to proceed expected July or August.	Peruvian PM called on M of S (DP) in March 1981. M of S (DP) may visit Peru later this year.	France
Venezuela	Hawk (up to 48) Scorpion (200)	up to 200 up to 40	1981 1981	Decision expected late summer 1981. Decision may be made summer 1981.	M of S (DP) may visit later this year.	France France

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Saudi Arabia	Extension of MOU covering Air Defence Project (SADAP)	650	1982	Despite delays caused by appointment of new Saudi negotiating committee, MOU expected to be signed by end 1981	Favourable indications given by Prince Sultan to S of S, June 1981	France, USA
	Tornado/P110 (See also Iraq, Jordan and Oman)	500+	1986/87	Answers to Saudi questionnaire on Tornado being prepared. Prince Fahd Abdullah has been invited to fly the Tornado.	Discussed by PM and S of S in Riyadh and with Prince Sultan in London	France
	Hawk	120+	1984	RAF team gave successful flying training presentation to RSAF May 81 in support of Hawk prospects.	"	USA
	Air Force Air Defence Radar System	200	1982	Marconi proposing update and extension of existing system against strong US competition.	-	USA
	Nimrod Airborne Early Warning	200	1982	Doubt over US willingness to supply AMACs has aroused considerable Saudi interest in UK kit. Two RSAF officers to visit UK soon to study Nimrod.	S of S discussed with Prince Sultan, London - June 1981	USA
	SANGCOM - Phase II	c 250	1981-2	Progress awaits discussions at official level.	-	France, FRG, USA
	Tanks for National Guard	45	Mid 80s	Joint DSO/TMS/Vicker presentation to the Guard in April. Visit to UK offered.	Discussed by PM during Apr 81 visit.	USA
	Security of Off-Shore Installations	Not Known	Not Known	Successful visit by Saudi delegation in May to view UK organisation and equipment. Report will go to Prince Naif.	"	Not Known
	Wavell and Associated Command and Control System for National Guard	200	Not Known	A joint MOD/Plessey team is giving further presentations and submitting proposals this month with budgetary cost information.	-	USA
	FH 70	130	1981	Negotiations for 72 guns plus ammunition, vehicles and supporting equipment underway.	S of S discussed with Prince Sultan, London - Jun 81	USA, France, Australia
Abu Dhabi	SANGMED	150	1981	MOU/Letter of Agreement covering Jeddah hospital value approx £150M, signed in May. Good prospect for Riyadh hospital but strong US competition.	PM has written to Prince Abdullah promoting British case for second hospital	France
	Hawk and Aircraft Training	60	1981	PM secured agreement in principle to purchase. Second round of negotiations commenced late Jun 81	Visits by S of S in Mar and PM in Apr	Not Known
	Military Engineering Package Electronic Warfare	80 100 (initially)	1981 Not Known	IMS visit late Jun 81 Tenders submitted by Racal/MSDS and Plessey Jun 81		France, Italy FRG, USA
Dubai	Hawk (8)	42	1981	Contract now signed	S of S's visit in Mar 81 PM's visit Apr 81	France, Italy

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Iraq	Hawk (Licenced Manufacture)	1000+	1982/82	Bae feasibility study well underway. In-country hot weather trials due Jul 81		France Italy
	Tornado/P110	500+	mid-late 1980s	Strong Iraqi interest in Tornado IDS but, because of difficulties with FRG, Iraqis being steered towards participation in joint Arab consideration of P110 derivative.		France
	Engineer Package: Centaur/Barmine/Ranger	75	1981/82	A long-standing requirement given higher priority by the Iraqis since the start of the war. Security problems an impediment.	Ministers to consider security constraints.	Not known
	Naval Base/IWC	4-5 initially. Possibly up to 500	1981	IMS close to securing contracts for IWC package and Naval Base design study. Agreement still to be reached on question of bonds and guarantees.	Mr Nott has written letter of support to Iraqi Minister of Defence.	France
Jordan	Refurbishment of Captured Chieftains	25+	1981	IMS currently in Iraq to categorise the captured vehicles.	Ministers have agreed to overhaul in Jordan and provision of non-lethal spares.	France
	New MBTs and Artillery	Up to 1000	1982?	Iraqi General Staff have requested offer for further 200 MBTs based on Khalid and for FH70 (quantity of 500 mentioned).	Ministerial agreement in principle to supply conveyed to Iraqi Minister of Trade by S of S in June.	France
	Rapier	100-200	1981	Bae/DSO sales campaign completed. Outcome of Jordanian evaluation exercise awaited.	S of S plans to visit Autumn 1981	France
Egypt	Tornado/P110 (See also Iraq, Saudi Arabia, Oman)	Not known	mid-late 1980s	Jordan to take lead in further talks with UK and France on meeting joint Arab requirement for advanced fighter/ground attack aircraft. Technical committees likely to be set up in August.	PM's correspondence and meetings with King Hussein.	France
	Rapier	85	1981	Rapier in competition with Crotale. Price will be a problem, but EOGD credit available.	S of S plans to visit Autumn 1981	France
Oman	Armour Requirements Tanks	100	1981/2	Lease of 12 BA Chieftains recently concluded. Draft contract for sale of 35 tanks with option on further 18 to be presented Jul 81.	Visits by S of S and PM, Mar/Apr 81.	USA
	AFCs Tornado (See also Iraq, Jordan and Saudi Arabia)	40 Not known	Not known Not known	Possible requirement for up to 130 Stormer AFCs Omani pilot flew Tornado in April		France, Brazil Austria

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Oman (Cont)	Landing Ships Logistic (LSL)	45	Not known	Brooke Marine and Yarrows have tendered. BM preferred by Assessment Team. Short list for decision by Sultan Qaboos likely to include BM bid plus one each from France and FRG.	Mr Neff has written to Oman's Defence Minister, July 81	France, FRG
Qatar	Rapier	150	1981	£7M contract for 1 battery signed mid Jun 81. Prospects for 2 more batteries.	Visits by S of S and PM 1981.	USA, France
Kuwait	Tanks	100		Interest in further 50-150 Chieftain tanks.	PM to visit Sep 81	Not known

MAJOR DEFENCE SALES PROSPECTS

NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
USA	Rapier	170	1981+	UK/US MOU signed Feb 81 covering 32 fire units for USAF bases in UK. Letter of Intent received and work at BAe begun. Order may be increased to cover 46 units. Possible further sale of 42 units for US RIF.	S of S, M of S and US of S (RAF) heavily involved in pressing Rapier sale.	USA France
	81 mm mortar	80-100	1982+	Co-development contract for modification of weapon to meet US requirements, expected late summer 1981.	PM and S of S promoted all current UK equipment prospects during their February 1981 visits.	USA
	Combat Support Boat	20	1981	Possible USMC requirement for 24 boats in FY 1983 and there is a prospect of a follow-on US Army purchase of an additional 300 boats. Longer term prospects for further 1300+ boats.	US of S (RAF) followed these up during his March/April visit.	USA
	Searchwater radar	50	1982+	US Navy seeking funds for formal evaluation of Searchwater.		USA
	Hawk	Not known	1989/9	BAe in collaboration with McDonnell Douglas have been awarded contract for detailed design proposals for US Navy pilot training system. If Hawk is chosen potential value to BAe would be \$125M. Strong competition.		USA France Italy
	ICS3	50-100	1982	Elements of ICS3 High Frequency Communication System being evaluated by US Navy.		USA
	Stingray	Not known	Not known	US Advanced Lightweight Torpedo programme encountering difficulties. This is prompting US interest in Stingray technology. Stingray also competing for torpedo requirement in US ASW Stand-Off Weapon System.		USA
	Scorpion	Not known	1982/3+	Scorpion competing for Mobile Protected Weapons System (MPWS) and Light Armoured Vehicle (LAV) requirements. \$1.25M design contract for MPWS won by Alvis.		USA Canada
	UK LAW 80	Not known	Not known	USMC see requirement for weapon like LAW for their own and RIF use. USMC have said that they do not want US VIPER system to which US Army remains committed.		USA FRG France Israel
	High Mobility Multi-Purpose Wheeled Vehicle	Not known	1982 (for prototype vehicle)	IDISXO is one of 5 finalists in competition. Decision on which 2/3 firms will progress to evaluation contract (11 vehicles) expected July 1981. Total production requirement could be 50,000 + vehicles.		USA FRG

CONFIDENTIAL

cc EX: FCO
HMT
D/T
CO

TWP

+ ODA
MOD

CONFIDENTIAL

8 April 1981

Defence

FRIGATES FOR PORTUGAL

The Prime Minister has seen your letter to me of 7 April on this subject. She has agreed that, in all the circumstances, we should not pursue the question of Government support for the Rolls Royce bid any further.

I am sending copies of this letter to the recipients of the previous correspondence.

M. O'D. B. ALEXANDER

Richard Riley, Esq.,
Department of Industry.

CONFIDENTIAL

BR



DEPARTMENT OF INDUSTRY
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123 VICTORIA STREET
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PS/
Secretary of State for Industry

7 April 1981

Michael Alexander Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Bonnie Nimotin

*(Doubt whether this business can
be rescued. Agree to let events take
their course?)*

Dear Michael

Yes no
Am

Thank you for your letter of 19 March. My Secretary of State has reviewed the question of finding some means of supporting Rolls-Royce's bid to supply engines for the three frigates which the Portuguese are expected to order. He has concluded that there is nothing which could properly be done to aid the business under any of this Department's existing industrial support schemes. The use of such funds is subject to the boundaries of the legislation for industrial support and the circumstances are such that it would be extremely difficult, if not impossible, to defend the provision of aid in the guise of industrial development when the real purpose would clearly be to fund a further set or sets of Rolls-Royce engines for the Portuguese. The sum involved would be £5m for one set of engines and the belief is that it might require an offer of £10m for two sets of engines, to influence the Portuguese to order Dutch frigates with Rolls engines. This would be in addition to the free set of engines which Rolls themselves have already offered for the first of the three frigates.

2 There is, moreover, a presentational problem. The Portuguese are looking for an aid contribution from HMG to put with those which they have been promised by the Governments of other countries. We could not, even if we thought it desirable, make an aid payment from DOI votes. The Departments which might properly disburse aid are the FCO and/or the Ministry of Defence, but we understand that neither is able to find money for this purpose.

3 My Secretary of State did consider very carefully whether he might forego some part of the total vote provision to this Department in favour of one or other of those two Departments. But given the many other pressures on his industrial support funds he did not feel able to justify such a transfer to supplement existing aid provisions. Unless the Chancellor of the Exchequer is able to help the FCO or Ministry of Defence my Secretary of

/State ...



State fears that we must reluctantly conclude that this Department cannot, in this instance, make available support of the magnitude needed.

4 I am copying this letter to the recipients of yours.

Yours ever

Richard Riley

RICHARD RILEY
Private Secretary

Covering CONFIDENTIAL UK EYES B

also copied
to Middle East
Sales.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-230 2022 218 2111/3

MO 26/9/1(A)

ms

6th April 1981

Prime Minister

(4)

John Michael,

ms

QUARTERLY REPORT ON MAJOR DEFENCE SALES PROSPECTS

I attach the latest quarterly report on major defence sales prospects. We have simplified the format of the report from the first edition circulated with my letter to you of 21st January, and we have cut down the number of entries in the report; but we have retained more comprehensive coverage for India and the Middle East in view of the Prime Minister's impending visit.

I am copying this letter with its attachment to Francis Richards (FCO), Richard Tolkien (HM Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

*Your sincerely
J D S Dawson*

(J D S DAWSON)

M O'D B Alexander Esq

Covering CONFIDENTIAL UK EYES B

INDIA

COUNTRY	EQUIPMENT / PROJECT	VALUE IN	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
India	Sea King helicopters	200	1981	Westlands have quoted for 27 helicopters and for upgrading the IN's existing aircraft with new avionics. Deal may hinge on supply of <u>LAPADS</u> which poses serious security problems.	a) US of S(RAF) visited India 17-20 March 1981. b) PM to visit 15-19 April 1981. c) MOD Ministers will be invited to consider <u>LAPADS</u> question shortly. As a) and b) above.	France
	Sea Harrier	60	1982	Option in current contract for additional 6-8 aircraft has lapsed. I Govt has said first-hand experience of operating the aircraft is needed before decision on additional buy can be made. Arrangements made for Indian pilot to have place on current RN Harrier course.		
	FH70 (up to 200 guns plus tractors and ammunition)	80	1982 on	India considering price and delivery details - UK prepared to consider transfer of technology and local manufacture. Early decision not expected.		USSR USA Sweden
	Rapier	15	mid 1981	India considering use of unallocated funds from 1980/1981 budget to procure small quantity of Optical Rapier for evaluation. Could lead to further orders worth up to £250M. Clearance to sell given on understanding that Blindfire radar should not be promoted.	S of S approved sale of Rapier without Blindfire.	USA USSR France
	Light Combat Aircraft/RB 199	Not Known	Not Known	Prospects pursued by HDS during visit March 1981. Longer term prospect India has a requirement to develop a light combat aircraft to enter service around 1990. Bae and RR are eager to go into partnership with India to design, develop and produce such an aircraft. Possible security problems with our European partners concerning supply of RB 199.	PM's visit 15-19 April.	

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (SAUDI ARABIA)

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Saudi Arabia	National Guard Medical Services Project (SANGMED), Phase I	approx 150	1981	Total project worth over £1000M. Phase 1 would be subject of inter-Governmental agreement on acceptance, commissioning and operation of part of 2 new hospitals about to be completed. <u>Decision expected shortly.</u>	Discussed by Lord Strathcona during his visit and Mr Jenkin helped to promote during his visit to Riyadh in Nov 80. Mr Nott supported UK bid during his visit Mar 81.	USA France
	Extension of HQ covering Air Defence Project (SADMP)	650	1982	Broad agreement on tasks and manning. Costed proposals presented to RSAF end of Mar 81. Hoped to complete negotiations for Ministerial ratification not later than Jun 81.	Mr Nott discussed with Prince Sultan, during his visit Mar 81, who agreed in principle.	None anticipated
	Tornado			See also Oman and Jordan. Potential for Saudi-financed procurement for several Arab States.	Raised by Mr Nott with Prince Sultan	
	Hawk and flying training Requirements	120+	1982	Expansion of flying training and construction of new air academy provides good prospect for sale of Hawk. UK has suggested RAF team visit to advise on restructuring flying training and role of Hawk.	Prince Sultan accepted Mr Nott's offer of RAF team during S of S's Mar 81 visit.	France
	Air Force Air Defence Radar System	200	1982	Marconi, suppliers of majority of existing equipment, proposing update and extension of system. However, US consultants employed by RSAF have recommended complete replacement with new American equipment. UK MOD has offered RSAF opportunity of bringing Marconi proposal under umbrella of SADAP MOU.	Marconis proposals supported during S of S's visit	USA
	RSAF Logistics Computer System	50	1982	Although formally ruled out of this competition, the Company has had difficulty in producing an alternative proposal. A possible approach is currently under discussion with MOD.	Previous initiative supported by Lord Strathcona during his visit Nov 80.	USA Taiwan
	RSAF Central Supply Depot	50+	1985	With RSAF encouragement, BAE are bidding to participate in the development and manning of this scheme.	BAE proposals supported during S of S's visit.	USA
	Nationwide Communications Network for National Guard (SANGCOM), Phase II	approx 250	1981/82	Inter-Governmental agreement covers first part of project currently underway. Phase II would extend system's capabilities and facilities.	Interest fostered by Lord Strathcona during his visit in November 1980.	None known

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (SAUDI ARABIA)

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Saudi Arabia Cont'd	Tanks Security of Off-Shore Installations	approx 45 reports will be presented to Ministry for Defence	Mid 80s	National Guard interested in buying 50 vehicles. Information provided on 4020/3, Chieftain derivative and Vickers Valiant. We hope also be presented to Defence potential Army interest. Saudi Ministry of Interior interested in offshore protection but have yet to define requirements. DMO has submitted a report.	Mr Nott's offer of presentation team accepted by Prince Abdullah Supported by Lord Strathcona during Nov 80 visit. Discussed during Mr Nott's visit.	France FRG USA Canada FRG France USA

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (GULF STATES TO BE VISITED BY PM APRIL 1981)

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Abu Dhabi (UAE)	Aircraft and Training Requirement	Not known	1981	BAe have submitted proposals for supply of 18 Hawk aircraft. Discussions between Mr Hurd, HMS and Shaikh Khalifa, Deputy Supreme Commander, revealed Abu Dhabi also interested in combat aircraft and training. BAe have therefore also provided proposals for 18 Jaguar. S of S asked for decision by time of PM's visit.	a) Mr Hurd, accompanied by HDS, visited Abu Dhabi 5 January 1981. b) PM to visit April 1981. c) Letters from PM and Lord Carrington in support of UK proposals. S of S visited 29 March 1981.	France
	Military Engineering Package	Under 100	1981	Contents of package under discussion for 2 years of effort by IMS; contract negotiations hoped for.	S of S visited 29 March 1981.	Unknown
	Air Defence	Not known	Not known	IMAO sponsored air defence study October 1980. Requirement for further battery of LLAD missiles, radar coverage and Air Defence Operations Centre (ADOC) identified. Abu Dhabi still considering report, but help requested with ADOC.		France USA
	Electronic Warfare	100 Initial Phase	Not known	EM requirement for all 3 Armed Services. 3 UK companies on shortlist.		France FRG USA Italy
Dubai (UAE)	Hawk	approx 30	Not known	Crown Prince told S of S he wished to go ahead with 8 aircraft.	PM to visit April 1981.	France Italy
Oman	FPBs (2) Armour requirements	42 Approx 100	1981 1981/82	Contract now signed. IMAO team recently visited and discussed introduction of tanks into Sultan of Oman's Land Forces. Lease of 12 British Army Chieftains recently concluded. Possible buy of 35 Chieftains with option on further 18. Possible requirement for up to 130 Spartan and Stormer APCs to support tanks. In-country evaluation to be undertaken. 2 Scorpions evaluated very successfully in Oman but purchase may depend on evaluation of Spartan and Stormer APC variants of Scorpion (see above).	a) S of S visited 25 March 1981. b) PM to visit April 1981.	USA France Brazil Austria France
	Tornado	-	-	to fly in Tornado 16 April 1981. (See entry under Jordan and Saudi Arabia)		

MIDDLE EAST (GULF STATES TO BE VISITED BY PM APRIL 1981)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Oman (contd)	Naval Base Landing Ships Logistic (LSLs)	Not known 35+	Not known Not known	Sir Alexander Gibb and Partners have design contract for new naval base. Prospects for IMS and UK construction firms. Requirement for 2 LSLs. Tenders to be issued soon. 2 UK firms in running.		Various Various
Qatar	Rapier	264+	1981	As a result of DMO's report there is strong interest in Rapier although there are reservations on price. MOD asked to adjudicate on costs.	a) Mr Nott visited 28 March 1981 b) PM to visit in April 1981.	USA France

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Egypt	Rapier	85	1981	Egyptians evaluated Rapier in UK in August 1980. keen competition. Maximum indigenous production sought. Discussions in progress.	Lord Carrington visited Egypt 10-17 January 1981.	USA France
Iraq	Radio Relay/Tropospheric Scatter equipment	60-140	1981	Technical proposals being considered by Iraqis. Award of contract believed imminent.	Ministers monitoring sales in light of Iran/Iraq conflict.	FRG France
	Hawk (Licensed manufacture)	1000+	1981/82	Bae awarded feasibility study contract. If French Govt offers same degree of direct support as was believed enjoyed by Thompson CSF in their successful bid for the electronics complex contract, Alpha Jet may be in strong position to obtain sale.	Ministers have approved feasibility study and in-country test flights. Supply will be subject to separate approval.	France Italy
	Naval Base and Integrated Weapon Complex (IWC)	4-5 initially (Ultimately worth up to 500)	Study Contract 1981	Following a year of negotiations, IMS, with MOD support have recently negotiated design study contracts with both projects. These remain unsigned pending outcome of our efforts to establish IMS as an arm of HMG in Iraqi eyes to avoid strict bonding requirements. Reply to Mr Nott's letter on this subject awaited.	Mr Nott has written letter of support to Iraqi Minister of Defence.	France
	Refurbishment of (captured Iranian) Chieftains and possible follow-on sale of new MBTs	Not yet known	1981	Preliminary visit by IMS to Baghdad in December 1980 to examine feasibility of refurbishment and discuss possible training, spares and ammunition package, has led to agreement with Iraqis and Jordanians on possible method of providing UK assistance on conclusion of hostilities.	Ministers have agreed subject to detailed arrangements being made to safeguard UK's neutral status.	Not known
Jordan	Rapier	100-200	1981	Rapier demonstrated in Jordan in February 1981 and is being followed up by two-way visits and a live firing in the UK in May. The Jordanian evaluation of Rapier and its competitors is due to be completed by the end of May after which funds are apparently available for an early purchase.	MOD Ministers see King Hussein during his visit to UK in Apr 81.	USA France
	Armoured Recovery Vehicles Tornado	30 Not known	1981 mid-late 1980s	Contract now signed. See entry under Saudi Arabia and Oman. National Arab consideration of future fighter/ground attack aircraft requirements, has been invited to fly Tornado during his visit to this country in April. Bae gave a presentation to the Royal Jordanian Air Force on this aircraft at the end of March.	PM's recent correspondence with King Hussein.	France
Kuwait	Tanks	approx 100	1981	Interest in purchase of further 50-150 Chieftains. Kuwaitis attended successful March demonstration of improved Chieftain in UK but may want more advanced 4030/3 model.	PM to visit September 1981	Not known

MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Algeria	Hawk (24)	125	1981	B&E working on firm quotation. Credit terms and offer of training could be critical factors.	Lord Carrington plans to visit during May 1981.	France Italy Czechoslovakia
Kenya	FPBs (up to 4 boats)	100	1981+	Kenyan Treasury advise no funding available this FY and decision rests with Cabinet. May be delayed until 1982 and Kenyan Navy being asked to consider purchase of 2 boats only.		
Morocco	INS Package 1st Phase - includes FH70 and 105 mm Light Gun, mortars, small arms, FACE, vehicles, workshops and training and support services 2nd and 3rd Phases - include tanks, transporters and vehicles but exact make-up yet to be determined	125 300	1981 Dependent on definition on requirements	Moroccan Minister of Defence expected to sign contract for first phase shortly. Subject to funding by Saudi Arabia.	a) HM The Queen visited Morocco in October 1980. b) Lord Carrington visited Morocco in January 1981.	France
Nigeria	36 tanks and 11 armoured recovery vehicles and bridge-layers 40 Scorpion and variants (follow-on order) Jaguar (up to 36) Swingfire package Lynx Naval Training School (Phase 1) Blowpipe	50 10+ 250+ 135 12+ 5+ 22	1981 1981 1981 1981 1981 1981 1981	Contract apparently approved by Minister of Finance but requires Minister of Defence's signature. As above B&E proposal thought to be approved by President and contract signature expected. BAeDG proposals reported accepted by Nigeria President. Possibility that purchase will be staged. Good prospect for initial order for 3 for use with German-built frigate. Contractual terms appear to have been agreed and submitted to Minister of Finance. Contract reported to be with President for approval.	a) LPS visited Nigeria December 1980 with Defence Sales Organisation representative in his party. b) FCS visited in February 1981 accompanied by Defence Sales team led by HHS. c) State visit of Nigerian President in March 1981. Talks with PM and S of S. d) S of S wrote in March to Nigerian Defence Minister supporting UK sales proposals, especially Jaguar.	France. USSR Austria France Brazil France France USSR France None known USSR
Tunisia	Hawk (12-24) FPBs (3)	65-135 94	1981 1981	B&E working on firm quotation. Vospers quotation under consideration but cannot match credit terms reported offered by France and FRG.		France USA Italy

MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT / PROJECT	VALUE M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
China	OSI Project	200-300	1981	Chinese economic problems have forced review of defence priorities but LUDA ship refit remains good prospect. Includes Lightweight Sea Dart and wide range of electronic equipment with possibility of substantial follow-on orders.	a) OD approved Letter of Intent being ratified by UK in 1980. b) US of S (BAF) to visit China later this year.	
Indonesia	Hawk	40	1981	8 already bought. Discussions on buy of further 8 underway with prospects for total of 32. Dependent on Hawk's performance during forthcoming ASEAN exercise. HDS with BAe to visit Indonesia end April 1981.		
Japan	SMA Spey Marine Gas Turbine	30-50	1981	Funding tentatively identified in 1981/82 budget. Govt to Govt MOU on support offered and RN have brought forward own In-Service Date to assist Japanese.	a) LPS visited Japan in 1980. b) Mr Mott, as S of S for Trade, visited Japan in January 1981.	USA
	F170 (including licensed manufacture)	50-100	1981	Japanese Ground Self Defence Forces favour F170 proposal - Govt decision awaited.		USA Sweden
Malaysia	Rapier/Blindfire	50-100	1981	Rapier selected by Armed Forces' Committee but Malaysian Treasury approval required.	a) M of S led high level sales team to Malaysia January 1981. b) S of S planning visit - date to be decided.	Sweden France USA
	Air and Naval Bases, Army Camps and Defence Operations Room	540	1981	Strong competition. MOD active in offering support by means of draft MOUs and other initiatives.	a) As a) and b) above. b) Letter from M of S supporting detailed proposals by HDS for airbase project.	FRG France Australia
	Hawk	up to 40	1982+	Strong competition but Malaysians proposing to send evaluation team. Malaysian Treasury will not sanction expenditure until current A4 refurbishment programme settled.	See entries above for visits by S of S and M of S.	Italy France
Singapore	Rapier/Blindfire	approx 45	1981	BAe hope to obtain contract shortly but modification to ensure compatibility with US AWACS may be necessary.		France USA
South Korea	Hawk	50+	1983+	UK has obtained letter from the US Defence Security Assistance Agency stating no objections to S Korea purchase, to combat South Korean sensitivities about their relations with USA.	Raised by Mr Blaker during recent visit.	USA

MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE IN	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
FRG	Sea Skua and associated radar Stingray	50 20+	1985 1984	Sea Skua with Sea Spray or Sea Searcher believed well-placed for selection as mid-life improvements for FRG's Sea King helicopters. Budgetary estimates submitted but in-service date deferred by 1-2 years. Stingray favoured to meet firm requirement for lightweight torpedo. Interest in Stingray technology for heavyweight torpedo.	a) Ministers have directed that particular attention be given to penetrating German market. Co-ordinated inter-Departmental campaign in progress. b) Anglo-German Summit May 1981.	France Italy
Italy	Spey aero-engines (licensed manufacture) Gem aero-engines	100 30-100	1981 1981	Ratification of contract delayed until after Italy-Brazil MOU on AM-X aircraft programme ratified end March 1981. Testing of prototype aircraft begun. R-R working on prototype engine (at own cost) for Al29 helicopter project. Good prospect of third-party sales.		USA Italy
Netherlands	PH70	60	1981/2	IMS proposals submitted. Decision deferred until after Dutch General election in May.		None known
Norway	Rapier	100+	1983	Norway publicly committed to buying US Roland II but privately reconsidering. Formal position confirmed during US of S(RN)'s visit.	US of S(RN) visit in February 1981.	USA France
Spain	Rapier Harrier/AV8B Lynx/Sea Skua/Sea Spray	200 75-85 40-50	1981 (1st phase) 1982 1982	Revised Ike offer submitted 26 January. Evaluation in progress - US aid for use of military bases in Spain could cover part of cost of Chaparral purchase. Spanish Navy have sought quotation from US for AV8B. Possible UK/US joint development of AV8B could lead to Spanish purchase of AV8B from UK. First Sea Lord visited Spain 23-27 March. Spain given information on UK logistic support arrangements for Lynx. Quotations being prepared in response to Spanish request.	Lord Privy Seal discussed with Sen Calvo Sotelo, Deputy PM for Economic Affairs (now PM) on 9 January 1981.	USA France
Sweden	Lynx	50-150	1981	Westland bidding to meet requirement for 12 aircraft with option for further 25. UK well placed but stiff competition on price.		USA France FRG

MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT / PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Argentina	Canberra	19	1981	6 required to add to 10 already in service. RAF has agreed to release 2 aircraft to assist sale, subject/satisfactory arrangements on price.	Sale considered by Ministers in light of Falkland Islands dispute and agreed.	
Bolivia	FPBs (6)	10	1981	Brooke Marine awaiting reactions to their proposals.	Ministers agreed in December 1980 that Brooke Marine be allowed to tender.	Israel S Korea Argentina
Brazil	Propulsion and fire-control systems for up to 12 locally-built corvettes	100-200	1981+	Strong competition. Ferranti's on short-list for weapons package but no decision yet on propulsion package.	M of S may visit later this year.	Italy USA France FRG
Chile	Army communications equipment	50+	1981	Budgeted money used for other equipment purchases but RACAL in favourable position when money again available.		Israel France
Ecuador	Scorpion (120 vehicles)	30	1981	Trials successfully completed in February 1981 but decision not expected before May. Competing wheeled vehicles significantly cheaper and with better credit terms. Early delivery vital.	M of S may visit later this year.	Manufacturers from 8 other countries
	Army communications equipment	10	1981	Negotiations with RACAL in progress.		Israel France
	Air Defence System (radar)	10-95	1981	Negotiations on first stage in progress.		USA France
	Jaguar	72	1981/1982	Negotiations underway but strong competition from Israeli Kfir.		Israel France
Peru	Naval Base (Phase 1)	70	1981/1982	Preliminary project definition study being negotiated, with financial assistance from DOI(PEP). IMS heavily involved.	PM and M of S saw Peruvian Prime Minister during his visit 29 Mar - 1 Apr 81.	Netherlands
Venezuela	Hawk (up to 48)	up to 200	1981	Decision expected July/August.	M of S may visit later this year.	France

MAJOR DEFENCE SALES PROSPECTS

NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE \$M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	
USA	Rupier	170	1981+	MOU signed February 1981 covering 32 fire units for USAF bases in UK. Letter of Intent received and work at BAE begun. Order might be increased to a total of 46 fire units. US interest in Rupier for RDF - potential further sale of 42 fire units.	a) S of S, M of S and US of S(RAF) heavily involved in pressing sale. b) PM pressed UK sales prospects during her US visit Feb 81 and made subsequent statement in House.	USA France	
	81mm mortar	80-100	1982+	US decision on whether or not to continue with programme expected shortly. Considerable MOD efforts to overcome problems identified by US.			
	Combat Support Boat	7.7	1981	US Army purchase of 120 boats included option for further 80.	c) US of S(RAF) visiting USA 29 Mar-2 Apr and will pursue major UK sales prospects.	USA	
	Giant Viper	30	1981/82	USMC request for loan of 2 for testing - requirement for 24 boats in FY 1983 /Also US Army requirement for possible additional 300 with longer term prospects for another 1,300y/.	d) All UK sales pursued by Mr Nott during his visit to USA February 1981	USA	
	Searchwater radar	50	early 1980s	UK preparing development cost plan to cover US request for fuse chain re-design. US Army Interim Project Review of Giant Viper requirement March 1981 - results awaited.			
	Stingray	Not known	Not known	US Navy seeking funds for formal evaluation of Searchwater.		USA	
	Hawk	Not known	late 1980s	US Advanced Lightweight Torpedo programme encountering difficulties and this is prompting interest in Stingray technology. Stingray also being promoted for torpedo requirement in US ASW Stand-Off Weapon system.		USA France Italy	
				BAE in collaboration with McDonnell Douglas have contract for detailed concept design proposals for US Navy pilot training system. Strong competition.		M of S discussed with US Deputy Secretary of Defense during 1980 visit. Raised by PM during visit February 1981.	

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Defence



Foreign and Commonwealth Office

London SW1A 2AH

20 March 1981

(2)

to Mr
M

Prime Minister

I await a reply to your query as to whether the Dept of Industry could not do something to help.

M

Dear Michael.

FRIGATES FOR PORTUGAL

In Lord Trenchard's minute to the Prime Minister of 17 March, he suggested that the Germans and Americans were undercutting us by using their aid programmes.

This misstates the position. The point is that the Americans and Germans have substantial military aid programmes, running to hundreds of millions of dollars for capital equipment, whereas the UK has no more than a modest military training assistance scheme, amounting to only £9 million. In the Lord Privy Seal's view, it has always been likely that, faced with a choice between free American or German engines and market price Rolls Royce engines, the Portuguese would choose the former. He agrees with Mr Marten's view that the use of development aid funds for this purpose would be inappropriate; Mr Marten has made the general point clear on more than one occasion in the House.

I am copying this letter to the Private Secretaries to the Secretaries of State for Industry and Trade, the Minister for Overseas Development, the Minister of State for Defence and Sir R Armstrong.

Yours ever
Stephen Gomersall.

S J Gomersall

M O'D B Alexander Esq
PS/Prime Minister
10 Downing Street

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10 DOWNING STREET

From the Private Secretary

19 March 1981

Lee Ab
cc: Lord Trenchard (RWD)
TSY
Trade Defence
CO

FRIGATES FOR PORTUGAL

The Prime Minister has seen the minute addressed to her on this subject of 17 March by the Minister of State in the Ministry of Defence. She has noted (paragraph 5 of Lord Trenchard's minute) that the Secretary of State for Industry does not feel that the Department of Industry can help. She has asked that this decision should be looked at again. She finds it hard to accept that, given the scale of Government assistance to industry, none of the existing schemes can be drawn upon to help Rolls Royce in this instance.

I am sending copies of this letter to Colin Balmer (Ministry of Defence), to the Private Secretaries to the other members of Ex and to David Wright (Cabinet Office).

CJ

M. O'D. B. ALEXANDER

I. K. C. Ellison, Esq.,
Department of Industry.

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MINISTER OF STATE FOR DEFENCE

D/MIN/TT/3/12

Prime Minister

FRIGATES FOR PORTUGAL

John Nott has asked me to write to you about a problem with assistance to the Portuguese in obtaining some anti-submarine warfare frigates, where there is a real danger that Rolls Royce and other United Kingdom firms will lose some £20m of business because we are unable to provide more Government assistance.

2. As you may be aware, NATO wants Portugal to obtain three of these frigates so that she can fulfil part of her role in Alliance defence. Portugal is too poor to buy the ships herself, and NATO nations have therefore been asked to contribute towards the scheme. The frigate design preferred by the Portuguese Navy is the Dutch Kortenaer, with Rolls Royce engines, at an estimated cost of £400m at September 1978 prices.

3. There are now strong indications that the Portuguese will turn from this initial preference to German frigates, with US General Electric engines, because of the considerable financial inducements offered by the Governments and industries of these two countries. Germany has said that all of its military aid to Portugal (about £15m a year) can be applied to this project over the next eight years; the US Government position is less clear, but General Electric have offered very favourable terms for their engines, which could go into either the German or the Dutch frigates.

4. Rolls Royce are naturally very concerned at the danger of losing this business, and their Chairman has written to John Nott appealing for further Government assistance to the Portuguese to encourage them to buy the Kortenaer with Rolls Royce engines. The firm have on their own initiative already offered one set of propulsion equipment free of charge, but a UK Government contribution of £11m (the 1981 cost of two more engine sets) is seen as necessary to stand a chance of swinging the deal.

5. Here, unfortunately, is the difficulty, for in the present circumstances there are no funds available. Last August, with Cabinet Office involvement, Ministers decided

/ that ...

15 there no help available for D.13?

①

think - 17/3

(My letter of 19 March)

Prime Minister
Lord Frenchard does not seem to be inviting you to intervene & I do not imagine that you would wish to do so. May I say that you "have taken note".

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that our contribution must be limited to commercial credit for the purchase of British equipment. The Foreign and Commonwealth Office and the Ministry of Defence had no funds available, and Keith Joseph wrote that, despite concern for Rolls Royce marine engine business, the Department of Industry could not help for there were no means available under any of the existing schemes of assistance to industry.

6. Following Rolls Royce's most recent approaches - and some from the Netherlands Embassy - the possibilities have been reviewed, but essentially the position remains unchanged. The Defence budget is strained to the limit, and in answer to my query, Neil Marten has said there is no justification for breaching successive Governments' undertaking that overseas aid funds will not be used for military aid purposes. This, despite it becoming both German and US policy to apply aid in this way. Military or civil offset arrangements with the Netherlands look to be a non-starter - there is nothing of sufficient importance in the pipeline - and ECGD have advised that their newly introduced "credit-mixte" scheme cannot be used in this case.

7. Given this situation I am afraid we can offer no more for Rolls Royce comfort. But this is a sorry answer for UK industry generally for if the Portuguese turn to German frigates, other UK firms will almost certainly lose orders for equipment for the frigates worth up to \$15m. Rolls Royce, as well as losing the business for the three frigate engines, will see General Electric secure a foothold in the European market and probably go on to take away other business from the UK firm.

8. In conclusion, we are likely to face some critical comment if UK industry lose this business which Rolls Royce believe could be saved by Government assistance. Whether in fact such assistance would affect the issue at this eleventh hour - the Portuguese are expected to decide in the next few weeks - is open to question. But all the

/ possibilities ...

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possibilities for assistance have been re-examined and have been found to be impracticable.

9. I am sending copies of this minute to members of EX and to Sir Robert Armstrong.

17 March 1981

Yours
Tom Hunt

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Defence



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~9307022~~ 218 2111/3

MO 26/9/1(A)

25th February 1981

Dear Sir,

✓
MAP

DEFENCE SALES

The Secretary of State has asked me to say that he was very grateful for the guidance from the Prime Minister on his minute to her of 12th February which was contained in your letter to me of 20th February.

My Secretary of State has asked Lord Trenchard to have an early discussion with Sir Derek Rayner; and he himself will be seeing Sir Derek within the next few weeks.

*Yours truly,
Bour*

(B M NORBURY)

C A Whitmore Esq

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10 DOWNING STREET

From the Principal Private Secretary

20 February 1981

*BF Can for letter
of 22/12 (Rog A)*

Gen Bnan,

DEFENCE SALES

The Prime Minister has asked me to thank your Secretary of State for his minute of 12 February 1981 about defence sales.

She was glad to learn of the steps he is taking to improve our exports of defence equipment. She looks forward to discussing in EX his report on the survey of our sales strategy which is now being undertaken by Lord Trenchard. Similarly, she would like to give every encouragement to the steps which Mr. Nott is taking to reconcile the requirements of our own Armed Forces with the need to make our equipment cheaper and more attractive to overseas customers.

As regards the proposed Rayner-type study of the Defence Sales Organisation, while the Prime Minister agrees on the importance of getting our sales strategy right first, she thinks that it would save time later on if Sir Derek Rayner, who is no stranger to this area, was involved from the outset in the work which is in hand.

The Prime Minister attaches such importance to the efforts which Mr. Nott is making to improve our exports of defence equipment that she would like to continue to receive quarterly reports on sales prospects. She is, however, content to leave it to him to decide how comprehensive these reports should be and the form they should take.

I am sending copies of this letter to George Walden (FCO), Ian Ellison (Department of Industry), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours ever,

Alvie Whinn

B.M. Norbury, Esq.,
Ministry of Defence.

✓.

PRIME MINISTER

DEFENCE SALES

The attached minute from Mr. Nott is a brief report on what he is doing to improve defence sales.

Most of it is an unexceptionable statement of desirable objectives (paragraph 3) and of sensible practical action (paragraph 2). In paragraph 4 of his minute, however, Mr. Nott is asking to be released from a couple of exercises which you asked for as part of your general interest in the question of improving our export of defence equipment. First, he wants to postpone the Rayner study of the Defence Sales Organisation which you asked Mr. Pym to undertake just before Christmas (a copy of my letter setting out the purposes of the study, which was drafted at your request by Sir Derek Rayner, is attached (Flag A)). Mr. Nott argues that he should be allowed to sort out his sales strategy first and only afterwards should he look at his organisation. There is certainly a logic about his approach. Are you ready to let him postpone the Rayner study for the time being?

Second, you asked a little time ago for a regular report on major defence sales contracts, and in sending the first of these last month, Mr. Nott suggested that he should submit them every quarter. He is now backing away from this and is suggesting that he should involve you in defence sales matters only when he needs your support. This would mean, inevitably, that you would have much less idea of what was going on in the defence sales field than you have now. Do you want to insist on having a quarterly report? Or are you prepared to release Mr. Nott from the obligation to report regularly?

Agree if Mr. Nott wishes but I should have thought it would save time if D.R. started to look at it. He is no stranger to the subject. Mr

Must have quarterly reports
Mr

K.W.

12 February 1981



MO 26/9/1(A)

PRIME MINISTERDEFENCE SALES

We are determined to increase our defence exports.

2. There are two areas where we can make progress. First, there are markets - notably the Middle East - where we can make a major impact with the equipment we have on offer today. Particularly successful items include Rapier and Hawk. Tom Trenchard is undertaking a short survey of our overall sales strategy, and will let me have a short report which I will bring forward to EX Committee. As OD agreed last December Tom will use an in-house working group, to which Ministers and officials from other Departments will be co-opted as necessary. The aim will be to produce decisions and proposals, not a lengthy report.

3. Secondly, there is no doubt that our equipment is too expensive. I am certain that in conjunction with industry we must find ways of designing our equipment to make it cheaper - and more exportable - but without detracting from its fundamental military purpose for our Armed Forces. But this will take time. The equipment being planned now will not enter service in many cases for another decade and it is only then that action I take now will produce commercial results. We must also simplify and speed up our operational requirement and procurement procedures and bring industry into the process of new product development so that at an early stage it is financially involved in equipment projects which it considers to have export potential. Tom Trenchard is talking to industry now about all this.



4. Your Principal Private Secretary wrote to my Private Secretary just before Christmas with your proposal that there should be a Rayner-type study of the Defence Sales Organisation. For the moment, I should like to concentrate first on getting our sales strategy right and only then to look at our structures - the Defence Sales Organisation in the MOD, and International Military Services Limited - to see if they meet fully our objectives. Tom Trenchard's group will certainly examine the issues you raised and he will be in touch with Derek Rayner. Above all, we need action and not deluges of reports. With this in mind I would propose not to send you reports on sales prospects as a matter of regular practice. I shall, of course, keep you fully posted on matters where I need your support: your views on defence sales are fully taken, both by me and my junior Ministers here, and we shall be seeking to implement them as rapidly as we possibly can.

5. I am copying this minute to the Foreign and Commonwealth Secretary, the Secretaries of State for Industry and for Trade; and to the Secretary of the Cabinet.

JN.

Ministry of Defence
12th February 1981

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

MO 26/9/1(A)

Prime Minister
for

11th February 1981

(2)

*These are the answers to your
queries on the joint analysis of
sales prospects.*

Dear Michael,

Part 12/2

DEFENCE SALES

Thank you for your letter of 27th January.

You asked about Ministerial visits to Nigeria, Brazil, Venezuela, Singapore and Tunisia. Later this month Lord Carrington, accompanied by Sir Ronald Ellis, the Head of Defence Sales is planning to visit Nigeria. There are also tentative plans for two further visits to Nigeria by Mr King and Mr Parkinson, for visits to Brazil by Mr Walker and Lord Trenchard, to Venezuela by Lord Trenchard and Mr Clarke, and to Singapore by Lord Ferrers. We would expect to provide appropriate briefing on defence sales matters for these visits. No visits are scheduled at present for Tunisia.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Richard Tolkien (HM Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours sincerely
Jonathan Dawson

(J D S DAWSON)

M O'D B Alexander Esq
10 Downing Street

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FILE

VLS

cc WOD
FCO
HO

10 DOWNING STREET

From the Private Secretary

3 February 1981

I am sorry not to have replied before now to your letter of 6 January about the British Defence Equipment Catalogue.

Before agreeing that the British Defence Equipment Catalogue can be supplied to particular firms, the Ministry of Defence need to establish the credentials of the company concerned in order to ascertain the exact nature of its business.

The brochure which you kindly sent to the Ministry of Defence in 1980 relates to a company (Paratroop Training Limited) which has apparently now ceased trading, and I understand that the Ministry of Defence have not seen the relevant advertising material for Air Operations Limited. It might be helpful if you could send to the Director of Marketing at the Ministry of Defence a copy of your current prospectus so that its contents can be studied in the context of the considerations set out above. May I also suggest that you give him as much information as possible about the nature of your equipment supply arrangements (for example, the range of equipment, the manufacturers from whom you are purchasing, etc.) and the production arrangements for any manufacture of equipment to your own design.

Supply of the British Defence Equipment Catalogue is not automatic but I am sure that the Ministry of Defence will be able to give you a final answer when they have received this information. The address to which you should write is:

"Director of Marketing,
Ministry of Defence,
Stuart House,
Room 707,
Soho Square,
London W1V 5FJ."

M. A. PATTISON

J. C. Welsh, Esq.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-330 7002 218 6169

D/S of S/PS/10

2nd February 1981

Alan Mine,

Type for me, ml

MAP

In my letter to you of 21st January, I said that we were consulting the Security Service about the activities of Mr Welsh who wrote to you on 6th January, and thought it advisable to defer drafting a reply until this process had been completed.

The information which we have now received confirms that Mr Welsh has set up several companies designed to recruit mercenaries, provide protection services and supply related specialist equipment. Although we have not yet seen any brochure describing the services offered by his present company, Air Operations Ltd, there is no reason to believe that these will differ substantially from those offered by its predecessors. Such activities are not, at present, illegal, but because of their political sensitivity the Defence Sales Organisation has always been particularly careful in its dealings with companies operating in this area.

Neither Air Operations Ltd nor the earlier companies run by Mr Welsh appear to have met with any commercial success. There is no evidence to suggest that they have ever secured any significant contracts to supply either equipment or services. It appears that he has attempted to recruit personnel in the past for what may have been mercenary activities but we are not aware that he has in the event actually supplied, or been commissioned to supply, mercenaries. In fact all the available information suggests that he has consistently lacked either the experience, capacity or financial resources to match the ambitious claims made in his brochures.

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M A Pattison Esq
10 Downing Street

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As far as the second strand of our enquiries is concerned, the extent of Mr Welsh's standing as a marketing outlet to foreign governments for British defence equipment, I am advised that - with one minor exception - there is no evidence that he has ever concluded such a sale.

In view of these considerations we have continued to treat Mr Welsh's request with some caution. Nevertheless the reasons why the Defence Sales Organisation have not wished to be associated with Mr Welsh and his companies rest on judgements and suspicions that we would not wish to make public; and we would certainly not wish to place you in a position of having to do so. All in all, therefore, we consider that the best course would be to send a letter asking him to supply the Ministry of Defence with further information about his activities as a basis for reconsidering his request. / I enclose a draft of a letter which you might consider sending.

The FCO and Home Office have been consulted at official level.

Yours ever,

Henry Wood

(D T PIPER)

DRAFT LETTER FROM No 10 TO MR J C WELSH, AIR OPERATIONS LTD

I am sorry not to have replied before now to your letter of 6th January about the British Defence Equipment Catalogue.

Before agreeing that the British Defence Equipment Catalogue can be supplied to particular firms, the Ministry of Defence need to establish the credentials of the company concerned in order to ascertain the exact nature of its business.

The brochure which you kindly sent to the Ministry of Defence in 1980 relates to a company (Paratroop Training Limited) which has apparently now ceased trading, and I understand that the Ministry of Defence has not seen the relevant advertising material for Air Operations Ltd. It might be helpful if you could send to the Director of Marketing at the Ministry of Defence a copy of your current prospectus so that its contents can be studied in the context of the considerations set out above. May I also suggest that you give him as much information as possible about the nature of your equipment supply arrangements (for examples the range of equipment, the manufacturers from whom you are purchasing, etc) and the production arrangements for any manufacture of equipment to your own design.

Supply of the British Defence Equipment Catalogue is not automatic but I am sure that the Ministry of Defence will be able to give you a final answer when they have received this information. The address to which you should write is

"Director of Marketing,
Ministry of Defence,
Stuart House
Room 707
Soho Square
London W1V 5FJ

CONFIDENTIAL

DSG

File



cc: FCO Defence
HM
D/Trade
CO

BF 7/4/81

10 DOWNING STREET

From the Private Secretary

27 January 1981

DEFENCE SALES

Thank you for your letter of 21 January covering your first report on major defence sales contracts in negotiation. The Prime Minister agrees that a report every quarter would be about right. It would be useful if your next report could reach us in, say, the first week of April, i.e. a little before the Prime Minister's departure for India and the Middle East.

The Prime Minister has commented on the present report that more Ministerial attention is required in relation to Nigeria, Tunisia, Singapore, Brazil and Venezuela. I should be grateful if you could let me have an early comment.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Richard Tolkien (H.M. Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J. D. S. Dawson, Esq.,
Ministry of Defence.

CONFIDENTIAL

AIR operations Ltd
The Welsh

26 January 1981

Thank you for your letter of 21 January,
in reply to mine of 7 January forwarding a
letter from Air Operations Ltd.

We have already acknowledged the company's
letter, and I am content to await a substantive
draft.

M.A. PATTISON

Derek Piper, Esq.,
Ministry of Defence.

B

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~9307022~~ 218 6169

D/S of S/PS/10

21st January 1981

Dear Mike,

You asked for a draft reply to the letter which Mr Welsh sent to No 10 on 6th January.

The British Defence Equipment Catalogue is compiled and published by Combined Service Publications Ltd of Farnborough in close consultation with the Defence Sales Organisation. It is sold on request at £50 a time for the three volume set. The Catalogue is an authoritative work of reference on UK defence equipment and suppliers, whose possession by a firm would undoubtedly be taken by a potential customer as a sign of Government approval. For this reason it has been our policy to authorise its sale only to bona fide companies in the defence equipment field with whom we would wish to be associated.

The reason that we have declined to supply the 1980 British Defence Equipment Catalogue to Mr Welsh is that we believe Air Operations Ltd to be the latest in a succession of companies which he has set up for the purpose of recruiting mercenaries. We know of at least three such companies set up by Mr Welsh. I attach copies of the brochure he supplied in February 1980 for one of his previous companies and a letter dated 28th August 1980 demonstrating the connection with Air Operations Ltd.

Before providing you with a draft reply we think it prudent to obtain the Security Services assistance in verifying:-

- a. the account we have of the probable purposes of Air Operations Ltd;

M A Pattison Esq

CONFIDENTIAL



b. the extent to which Mr Welsh can claim to constitute a legitimate marketing outlet for defence equipment with which we as a Department would wish to be associated.

These enquiries are already in train as a matter of urgency, and I expect to be able to let you have a substantive draft reply to send to Mr Welsh in a week's time. In the meantime, if you consider an interim reply necessary, you might simply say that the point he has raised is still being investigated.

Yours ever

Alley

(D T PIPER)

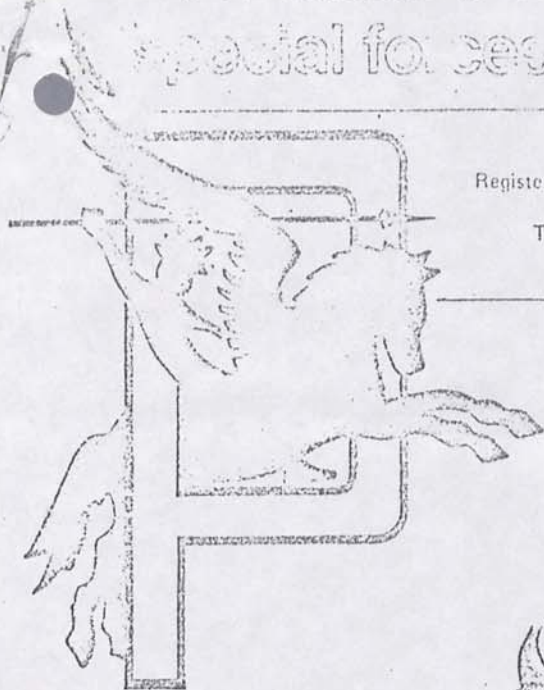
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Special forces training programme

1980



Registered office: 488 Hornsey Road - London - ENGLAND
Telegrams: 'PARATROOP' - London N19
Telephone: 01 272 1519 (telephone answering service only)



PARATROOP
TRAINING
LIMITED

(Registered in England
under 1227359)

AIR
PARATROOPING
LIMITED

(Registered in England
under 1052520)



THE
PROFESSIONALS

PARACHUTE
FIELD
AMBULANCE

(Registered in England
under 2250572)

"... Management of the many is
the same as management of the
few, it is a matter of organization".

(SUN TZU,
THE ART OF WAR, 400-320 BC).



GOVERNMENT SERVICES GUIDE

Ex-British military personnel who have served in either the Parachute Regiment, the Special Air Service Regiment or the Royal Marine Commando, are available to overseas governments on a contract basis to undertake the following duties:

- 1) Act in a supporting role to government forces during counter-insurgent and anti-terrorist operations, which include bomb squad and hostage release duties.
- 2) Counter-coup d'etat precautions, by deploying specially trained teams into pre-determined operational areas in order to tie down military forces should an insurrection be attempted.

These teams to act only upon receipt of orders given directly by the Head of State via special digitally coded communications networks which carry voice discrimination, and they will act automatically and independently in a national emergency according to pre-arranged orders.
- 3) Establish and operate 'NO GO' areas.
- 4) Supervise security of designated high risk/high value areas.
- 5) Border surveillance + long range intelligence gathering patrols.
- 6) Military and security surveys at short notice.
- 7) Armed escort services.
- 8) Supply of Discreet Operational Vehicles (DOV's) which are armour plated to protect against explosive and bullets.
- 9) Peace Keeping Forces available from within our organisation.
- 10) ex-British military specialists available from other branches of the British Armed Forces to teach military subjects.
- 11) Military systems design + manufacture.
- 12) Supply of British Defence Equipment.



PREFACE

Napoleon, following Waterloo, was observed to have stated that he lost primarily because his men had not eaten bread together often enough prior to the battle.

Put another way, they had not learned to trust and depend upon each other to become an effective fighting force with a strongly developed 'esprit de corps' which demanded death rather than defeat and humiliation. This 'esprit de corps' is no less important today than it was in Napoleon's day, nor is it any easier to develop.

It is developed in part by sound progressive training followed by regular practice of the subjects taught, so that the point is reached where individuals react instinctively to any given situation giving outstanding combat performance with the psychological will to meet with and defeat the enemy, which could mean the difference between life and death on the battlefield or success or failure of a military operation.

No attempt will be made here to differentiate militarily between tactical and strategic values, as the time is almost upon us when any difference that does exist will be absorbed and reduced to pure management boundaries. The technical aspects of warfare change dramatically from day to day, and serves only to compound the problems facing special forces units on today's battlefields — be they military or civil, and the need for Interoperability and increased Mobility have demanded Reliability and the Capability for individual action beyond anything previously experienced.

Special Forces units operate automatically and independently in an emergency, and the effects of these units failing to complete their missions in future conflicts can be expected to have a far greater impact on the conduct and final outcome of military campaigns than ever before.

To assist overseas governments in the training of their special forces, we have produced a low cost, no nonsense, no frills SPECIAL FORCES TRAINING PROGRAMME (SFTP) which offers a wide choice of subject intensive military courses taught by ex-British military training instructors. The courses are aimed at providing governments with an indigenous means of effectively combating the increasing threats of insurgency and terrorism with their own independent deterrent, which to be effective must be seen to be effective.

Only by having a highly trained and regularly practised Quick Reaction Air Mobile Force, fully parachute trained and continually deployed ready for wide action in the event of a national emergency, can governments contain anarchy within controllable limits.

Overseas pupils can be trained by us in the United Kingdom subject to Ministry of Defence approval, but we prefer whenever possible to conduct training courses in the pupils own country where distracting outside influences can be kept to a minimum, and by so doing, not only do pupils learn more quickly, but security is that much more easily enforced and coordinated as the training area/s are sealed off by security forces during training.

For reflection; "the best training for war is war. If you cannot get into one in your own role, then get into it in someone else's".

This had been adequately demonstrated in certain African countries during the past decade.

ENCLOSURE
17
NUMBER

JC Welsh
408 Hornsey Road
London N19 4EF

28 08 1980

MOD Mktg 3
Stuart House
23 Scho Sq
London W1V 5FJ

Dear Sirs,

Thankyou for your D/Mktg/19/5/3 dated August 1980 signed Dill Waugh.

As I am sure you are well aware, I have been having the BDEC since 1973 and now you state that I no longer qualify for the publication.


For your information I am taking British defence equipment with me onto our stand in Wiesbaden this coming October, where we are exhibiting on the British Joint Venture project. (i.e. with EEA)

Offered with our system will be laser rangefinders, pyrotechnic stores, GS 908/10g Meridian Indicator, and weapon systems for protection of the LZ/DZ.

Should you in your wisdom consider that the sale of the above equipment does not constitute British defence equipment, then we are obviously at cross purposes, and I shall look to other countries to supply me with this equipment, as the British MOD do not appear to be interested in the export of our products via myself or my new company now being formed: Air Operations Limited.

Paratroop Training Limited which previously had the BDEC will cease to trade within the coming six months.

Yours faithfully,



JC Welsh. per pro Air Operations Limited.

DEFENCE SALES ORGANISATION
MARKETING 3 PUBLICITY

28 AUG 1980

MINISTRY OF DEFENCE



Richard - There are several important contracts coming up & no ministerial involvement. Who follows up? Prime Minister? I have made several comments

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-3307822 218 2111/3

MO 26/9/1(A)

Successful survey: after that it should be produced once a quarter?
21st January 1981

Dear Michael, *Print - 23/1*

I attach the first of our regular reports on major defence sales contracts throughout the world for which Britain is competing. We propose to provide similar reports every quarter: is this about the right frequency?

The list covers the major prospects in terms of value and of significance to our defence sales efforts, based on our most up-to-date assessments, and broken down by country.

BF X

Mr Nott has asked me to say that he will be reporting separately to the Prime Minister on the questions arising from Clive Whitmore's letter to Brian Norbury of 22nd December on the proposals for further work in connection with defence sales. Mr Nott would be happy to discuss this list of major sales prospects with the Prime Minister.

I am copying this letter with its attachment to Francis Richards (FCO), Richard Tolkien (HM Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours sincerely
John Dawson

(J D S DAWSON)
Private Secretary

AFRICA

AFRICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
KENYA	53 metre FPBs (up to 4 boats)	100	Mid 1981	Kenyan Treasury have advised no funding available this FY and decision rests with Cabinet		France Italy FRG	EGDG offered 80% cover at 72% over 8 1/2 years from delivery	
MOROCCO	IMS Package: 1st Phase - includes FH70 and 105 mm Light Gun, mortars, small arms, FACE, vehicles, workshops and training and support services 2nd and 3rd Phases - include tanks, transporters and vehicles but exact make-up yet to be determined	125 300	Early 1981 Dependent on definition of requirements	Moroccan Minister of Defence expected to sign contract for first phase shortly. Subject to funding by Saudi Arabia	HM The queen visited Morocco Oct 1980. Lord Carrington visited Morocco earlier this month <i>P. de la Barre go after Lord C?</i>	France	IMS to provide	
NIGERIA	36 MBTs 5 Recovery Vehicles 6 Bridgelayers 40 Scorpion and variants (follow-on order) Jaguar (up to 36 aircraft)	50 10+ 250+	Early 1981 Early 1981 Mid 1981	Contract reported signed by Minister of Finance but Minister of Defence's signature awaited. (Nigerians averse to any publicity) Contract reported signed by Minister of Finance but Minister of Defence's signature awaited. Maintenance of vehicles may be a problem and IMS/Alvis investigating establishment of local workshop facilities BAe hope contract will be signed shortly as it is thought to have President's approval	LPS visited Dec 80 with Defence Sales Organisation representative in his party. FUS to visit in Feb, accompanied by Defence Sales team led by HDS <i>More attention to Nigeria required.</i>	France - USSR Austria France Brazil France -	Some MOD training may be required but no problems foreseen Training already given but more can be given if needed Substantial MOD training support required. RAF offer of places expired but new offer to be made when requirements known	
NIGERIA	Swingfire: 36 Striker 72 Beeswing 3000 missiles (Navy) Lynx Helicopters	135 20	Early/Mid 1981 Early 1981	BAeDG proposals reported accepted by Nigerian President. Possibility that purchase will be staged 3 to 4 aircraft required for use with German-built frigate. Good prospect		France - USSR France	Not requested as yet but unlikely to pose problems Small amount of RN training will be required	

AFRICA

AFRICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
NIGERIA (Cont)	Naval Training School	10+	Early/Mid 1981	Contractual terms appear to have been agreed and submitted to Minister of Finance for approval and signature		None known		No EM commitment is expected to be necessary
TUNISIA	Hawk 12-24 aircraft plus spares and support	65-135	Mid/Late 1981	Bae working on firm quotation	?	France - USA Italy	ECGD offers 85% over 7 1/2 years from mid delivery at 7 1/2%. Bae believe further improvement may be necessary	RAF training required by Tunisians but this has not yet been defined fully

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
AUSTRALIA	105 mm Light Gun (75) (licensed manufacture of gun and ammunition)	20	Late 1981 or 1982	Long term Australian interest in Light Gun. UK team visited Australia Dec 1980 to finalise licence terms should contract be awarded to UK. Funding expected to be available Oct 1981		USA		Small training commitment
CHINA	051 Project	100	Mid 1981	Good prospect of contracts to modernise 2 ships with Sea Dart, radars, sonars, EM, communications, action information system and fire control equipment. Possible follow-on orders for additional ship refits to include Lynx, Sea Skua and Sting Ray. COCOM partners will have to be notified in this and following projects below	OD approved letter of intent being ratified by UK in 1980. Mr Pym visited China March 1980 to press sales prospects	Chinese industry		
	Sea Dart	100-200	1981	2 ship sets of Lightweight Sea Dart (plus possibly launcher and magazine) for 051 project with missile technology transfer. Longer term possibility of other naval and land applications	Ministerial approval given in context of 051 project			
	Avionics for F8 aircraft	30+	1981	Good prospect for radar, HUD and INS. Expected Nov 1980 contract signature delayed partly through destruction of aircraft allocated to project	US of S(RAF) proposes to visit China Apr/May this year and discuss this and other prospects			
	BL755 Cluster Bomb and retarding parachutes	Up to 50	1981	Strong Chinese interest but problems exist over price, and UK manufacturing content prior to Chinese licensed manufacture. Supply is politically sensitive	Ministers have agreed to subject decision on supply to size of order			
INDIA	Sea King Helicopters	100	1981	Westlands requested to quote for 6-8 and 22 Sea King with Sea Searcher radar, and Doppler and TANS respectively, as well as for upgrading existing fleet of 14 Sea Kings to same standard. Possible security restraints on avionics fit, eg LAPADs, but considered good prospect	S of S for Trade to visit India this month	France FRG		
	Harrier	60	1982	Indian Navy requires additional 6-8 but Indian MOD to decide after delivery of current orders in 1982/3. MOD is working with Indian Navy to reduce this problem	As above	France		Indian pilot currently training in UK to gain experience to aid I. Navy to make case for further buy. (Costs reduced by 2/3

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
INDIA(cont)	FH70 (up to 200 guns plus tractors and ammunition)	80	1982 or later	India considering price and delivery details. UK prepared to consider transfer of technology and local manufacture. An early decision is not expected HDS to visit India March 1981 to pursue prospects	As above	USSR USA Sweden		Vickers/IMS to provide
INDONESIA	Hawk	40	1981	8 aircraft already sold. Negotiations underway for further 8. Total quantity could be 32	Minister of State for Defence to visit this month with high level MOD team including HDS	No	ECGD agreement in principle to Bae request for 80% over 5 years at 7 1/2%	Completed for first 8. No additional MOD training envisaged
JAPAN	SMIA Spey Marine Gas Turbine	30-50	1981	Funding tentatively identified in 1981/82 budget but JMSDF considered they will be first Navy operating SMIA as RN ISD unlikely before 1987. Govt to Govt MOU on support offered to give greater assurance	LPS visited Japan in 1980 and Mr Nott, as S of S for Trade, earlier this month	USA		
	FH70	50-100	1981	IMS quoted for 200 Guns, 170 to be license manufactured in Japan. Total requirement could be 350 towed and 150 self propelled Guns. Japanese Chief of Staff recently attended demonstrations of FH70 in FRG and UK. Decision expected shortly	<i>Now SA Spec. Under way.</i>	USA Sweden		
MALAYSIA	Hawk	Up to 40	1982 or later	Malaysian Treasury will not sanction expenditure until current A4 refurbishment programme is settled, but RMAF proposing to send evaluation team. Strong competition	Minister of State for Defence to lead high level team, including HDS, to Malaysia this month. Also hoped to arrange further visits later in year	Italy France		RAF training required but details to be established
	Rapier/Blindfire	50-100	1981	Rapier selected by Armed Forces' Committee and contract discussions expected shortly	As above	Sweden France USA		Bae will provide
	Air and Naval Bases Army camps and Command and Communications Centre	620	1981	Design, development, maintenance and manning of new/expanded facilities will require considerable external technical support and training. Degree of support offered by foreign governments in design expertise, training and quality assurance will strongly influence competitiveness of bids for these contracts. Like other competing countries, UK has tabled number of draft MOU to emphasise RMG's interest and support	As above	FRG France Australia		Substantial MOI support necessary

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
SINGAPORE	Rapier/Blindfire	approx 45	Early 1981	BAe believe they will shortly obtain contract	?	France USA		

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
BELGIUM	(Army) Lynx Helicopters	45	1984	Tender request for approx 30 Lynx expected later this year but contract not expected to be awarded for some years. Lynx highly regarded but considered expensive. Westland's offset proposals could be crucial	Ministers have directed that particular attention be given to penetrating German market. Coordinated inter-Departmental campaign in progress Anglo-German Summit May 1981	Strong competition especially from France		Will be necessary but detailed FRG requirements not yet known
FRG	Sea Skua and associated radar Stingray	50 20+	1984 1984	Sea Skua with either Sea Spray or Sea Searcher radar believed to have good chance of being selected as mid-life improvement for FRG's Sea King helicopters. Budgetary estimates submitted Stingray favoured to meet firm FRG requirement for lightweight torpedo with in-service date 1985. Success in German market could considerably enhance Stingray's future export prospects		France FRG USA Italy		Training commitment would be considerable. Initial work has begun
GREECE	Valiant MBT Rapier	100+ 73-93	1983 1982	Greek Defence Minister has stated he favours Vickers proposal, offering substantial indigenous manufacture, but Leopard I is strongly placed because of prospect of FRG financial aid MOI/Bae presentation on 12 Jan 81. Franco-German Roland is strongly placed because of low price. Greek Army thought to favour Rapier but is expected to follow Air Force lead. Offset will be required HDS visited Greece for discussions Jan 81	Raised with Greek PM by Mrs Thatcher, Sep 80. S of S for Trade also discussed it with Greek Defence Minister, Oct 80	FRG France USA	ECGD has offered 75% over 5 years As above	Will be required but details yet to be established As above
ITALY	Spey engines (licensed manufacture) Gem engines	100 30-100	1981 1981	Rolls-Royce understand they have won contract but ratification by Italian Parliament necessary Rolls-Royce working on prototype engine (at own cost) for AL29 helicopter project, although no contract yet awarded. Possibility of 3rd party sales		USA None known		

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
NORWAY	Rapier	100+	1983	Norway publicly committed to buy US Roland II but privately reconsidering decision. May be difficult to reverse. Draft US/Norwegian MOU offering 2 batteries of Improved Hawk on favourable terms may work against Rapier. Offset likely to be necessary	US of S(RN) to visit in Feb	USA France		Would be necessary but BAeDG may be able to provide
SPAIN	Rapier Harrier/AV8S	200 75-85	1981 (first phase) 1982	Trials and evaluations completed. Rapier probably favoured on technical grounds but 50% more expensive than Roland because of strength of £. BAeDG to submit revised budgetary estimate by 20 Jan - may be necessary to consider foregoing MOD's commercial exploitation levy US AV8S (Matador) variant thought to be favoured on cost grounds - already in Spanish Navy service. Purchase may be through UK MOD		France USA	ECGD cover of 75% over 5 years subject to Treasury approval Partial ECGD cover for Harrier offered. Position on AV8S purchase to be considered	Required - details to be established Training for 3 pilots at cost of £1.1M+ offered
	(Navy) Lynx/Sea Skua/Sea Spray package	40-50	1982	Presentation given Nov 80 and admission of Spain to Lynx international support arrangements being considered as additional incentive		USA	Westland are considering detailed proposals with BAe	
SWITZERLAND	MBT 4030/3 and Chobham Armour (part licensed manufacture)	500	1984	Leopard II and XM1 are favoured contenders. 4030/3 introduced as fall back contender following intervention by HHS and visit by Swiss team to UK in Oct 80		FRG USA		Will probably be required but Swiss needs no yet defined

LATIN AMERICA

LATIN AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
ARGENTINA	Canberra (8 aircraft)	25	Early 1981	Argentinian Air Force requires additional 8 aircraft to the 10 already in service. Early delivery of fully refurbished aircraft poses problems but release of 2 aircraft from RAF being sought	Sales considered by Ministers in light of Falkland Islands dispute		4 years credit offered from mean delivery date at approx 8%	
BOLIVIA	6 FPBs	10	Mid 1981	FOO reservations now overcome. Bolivians known to favour Brooke Marine vessels and negotiations expected to recommence shortly. Good prospect if satisfactory credit arrangements are offered		Israel S Korea Argentina	ECGD offer of 80% over 84 years now invalid. New offer sought	Any training requirement likely to be small
BRAZIL	Propulsion and fire-control system for up to 10 locally-built corvettes	100-200	Late 1981 onwards	Tenders made by UK Companies in face of heavy foreign competition. Strong bid apparently made by Italy. Short list decisions expected end Feb 1981 and final selection end 1981	<i>iz</i>	France USA Italy FRG	ECGD have offered total of £250M: firms to make detailed bids to cover individual contracts	Small RN commitment may be necessary
CHILE	Army communications equipment	50+	Late 1981	Financial arrangements and HMG support, in form of MOU or IMS involvement, may be important factors in confirming RACAL's present favourable position	Ministers lifted arms embargo in 1980	France Israel and possibly USA	80% cover over 5 years offered by ECGD	
ECUADOR	Scorpion (120 vehicles)	30	Mid 1981	In-country trials (by MOD Sales team) in progress. Scorpion likely to do well technically but competing wheeled vehicles significantly cheaper.		France USA FRG Brazil Switzerland Spain Austria Israel	80% cover over 5 years offered by ECGD	MOD training assistance necessary: substantial support may be required
VENEZUELA	Hawk (up to 48 aircraft)	Up to 200	Mid 1981	Believed approved by Defence Committee but France Committee has yet to consider. Decision forecast for March 1981	<i>Study some challenge. mt</i>	France	RACAL arranging 100% credit	RAF will be offered but ECGD required to prepare to go to train at least 75% if necessary 2/3 instructors

CONFIDENTIAL

MIDDLE EAST

MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
ABU DHABI	Hawk	approx 75	1981	BAE have submitted proposals for supply of 20 HAWK. Following 5 Jan 1981 Ministerial visit, parties considering additional options involving possible in-country training and supply of Jaguar, in addition to training and enhanced avionics versions of Hawk. Consideration also being given to creation of integrated air defence system, linked to command and control system, with prospects for UK firms.	Mr Hurd, accompanied by HDS, visited Abu Dhabi 5 Jan 81 PM to visit April, 1981	France	ECGD offer 85% over 7 years at 7 1/2%. Balance to be on commercial terms repayable over 5 years.	Free training in UK offered but in-country training may not be required.
EGYPT	Rapier	85	mid 1981	Egyptians evaluated Rapier in UK in Aug 1980. Keen competition, and maximum indigenous production sought. Negotiations underway.	Lord Carrington now in Egypt (10-17 Jan 81)	USA France		BAE training is part of package but limited Ser vice assistance may also be wanted.
IRAQ	Radio Relay/Tropospheric Scatter equipment Hawk (licensed manufacture)	60-140 1000 +	1981/1982 1981/1982	Technical proposals being considered by Iraqis. Marconi offering range of equipment through MSDS and German firm, Siemens. Latter look well-placed to achieve contract. Iraq wishes to establish aircraft industry commencing with manufacture of trainer/ground attack jet. Following evaluation, Iraq agreed in principle to fund BAE study of priced offer for complete package. Contract conditions likely to be severe and risks great. Alpha Jet will be in strong position if French Govt offers same degree of direct support as is believed was offered Thomson CSF in their successful bid for electronics complex. Ministers have agreed to allow negotiations to continue but supply will be subject to arms embargo imposed as result of Iraq/Iraq conflict.	Ministers closely monitoring defence sales prospects in light of Iraq/Transconflict and arms embargo	FRG Italy France		To be offered by BAE as part of package, French may offer free training.
	Naval Base and Integrated Weapon Complex (IWC)	4-5 initially (ultimately worth up to 500)	Study Contract: 1981	IMS, with MOD support, have negotiated for year to obtain design study contracts and have submitted detailed proposals. UK thought strongly placed. Further progress depends on establishing IMS as arm of HMG in Iraqi eyes to avoid difficult bonding requirements facing Hawk prospect. However, IMS invited out again to resume negotiations.		France		

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MIDDLE EAST

MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
IRAQ (Cont)	Refurbishment of 72 (captured Iranian) Chieftains, and possible follow-on sale of new MBTs.	Not yet clear	1981	Mr Pym and FCO ministers agreed that IMS team should visit Baghdad Dec 1980 to examine refurbishment feasibility and discuss possible training, spares and ammunition package. Possible sale of large number of new MBTs to Iraq later in decade. Political approval to carry out this work in Iraq is unlikely. Consideration being given to it being undertaken in Jordan.	None known	None known		Would be provided by IMS.
JORDAN	Rapier	100-200	1981	Tracked Rapier to be demonstrated in Jordan in Feb 1981 with offer of live firings in UK later. Funds apparently available for purchase within next 3 months although Roland thought to be favoured. HDS to visit in Jan/Feb 1981. Discussion will include Jordan/Iraq purchases.	Defence Secretary's visit to be reinstated	USA France		Some MOD training support necessary.
KUWAIT	Armoured Recovery Vehicles (ARVs)	30	1981	Proposals for supply of 29 further ARVs under urgent preparation at request of C in C. He has now advised, however, that some are destined for Iraq. Implications under consideration with FCO.	None known	None known		No additional training likely.
KUWAIT	Tanks	approx 100	1981	Interest in further purchase of 50-150 Chieftain. Demonstration of improved Chieftain to be reinstated in 1981.	PM to visit Sept 1981	None known		No requirement.
OMAN	Fast Patrol Boats (2) Scorpion (up to 40)	42 20	early 1981 1981/1982	Vesper Thornycroft (UK) have reached agreement on price and delivery with Oman's Govt. Contract signature hoped for this month. Replacement for Saladin armoured cars required. Scorpion in-country demonstration by MOD sales team Jan/Feb 1981. Commander SOLF favours wheeled armoured vehicles proposed by French	Defence Secretary's visit to be reinstated shortly. PM to visit April 1981	France		Provided by firm.
QATAR	Rapier	400	1981	Recent DMAO report recommended Qataris give highest priority to procurement of low level air defence system coupled with construction of integrated air defence system. High level Qatari visit to UK and RAF(G) base planned for 19/21 Jan.	PM to write to Emir. S of S for Defence to pursue during his visit PM to visit Sept 1981 (possibly earlier if necessary)	USA France		Requirement not yet defined.

MIDDLE EAST

MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
QATAR (Cont)				Strong French competition reinforced by recent sales successes and frequent Ministerial visits.				
SAUDI ARABIA	Nationwide Communications Network for National Guard (SANGCOM), Phase II	approx 250	1981/ 1982	Inter-Governmental agreement covers first part of project currently under way. Next phase would extend system's capabilities and facilities.	Interest fostered by Lord Strathcona during his visit, Nov 1980	None known		No MOD commitment
	National Guard Medical Services Project (SANGMED), Phase I	approx 150	1981	Total project to modernise/develop nationwide medical service for National Guard personnel and dependents worth over £1000M. Phase I would be subject of inter-Governmental agreement on acceptance, commissioning and operation of part of 2 new hospitals about to be completed. Decision imminent.	Discussed by Lord Strathcona during his visit to Saudi Arabia. Mr Jenkin helped promote during visit to Riad, Nov 1980	France may be awarded part of work		DHSS offer of UK university places if UK obtains contract.
	IMS equipment packages for Saudi Navy and Army	about 250	1981	Following signature of first major Army equipment contract, IMS are pursuing prospects for guns, ammunition, other army equipment, and supply ships.	Mr Pym wrote to Saudi Minister of Defence to explain MOD/IMS relationship. Lord Strathcona invited tri service party to UK to view various equipments	USA Belgium		Any requirement yet to be defined.
	Extension of MOU covering air defence project (SADAP)	450-600	1982	Staff negotiations have begun on content of tasks. Formal negotiations led by HDS in Spring 1981 leading to signature of SADAP 3 agreement August 1981. Red Arrows Tour scheduled April 1981.	Lord Strathcona pursued during visit. Defence Secretary due to visit Mar 81. Lord Carrington spoke in support during his visit Nov 80	None identified		Training details to be agreed
	Hawk	120 +	1982	Expansion of flying training and construction of air academy provides prospect for sale of Hawk, in which RSAF already interested. Minimum requirement would be 40 aircraft. MOD and BAE are discussing way forward. Proposal for MOD team to advise on restructuring flying training.		France		
	Air Force Radar System	200	1981	RSAF considering complete update/extension of existing radars plus command, control and communications equipment. Marconi, suppliers of majority of existing equipment, considering offer of Govt support. Stiff US competition expected.		USA		Not expected to be significant element.

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MIDDLE EAST

MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
SAUDI ARABIA (Cont)	Tanks	about 100	1982	National Guard has asked various countries for details of MBTs. Requirement would be for approx 50 vehicles.		France FRG USA		No details known yet.
	Logistics Computer System	60	1981	BSAF examining quotations but USA currently favoured to win contract. ICL preparing counter-bid based on RAF computer system.	ICL supported by Lord Strathcona during his visit. Aim is to support new proposal with letter from Minister endorsing ICL's new initiative.	USA		RAF assistance may be necessary.

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NORTH AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE \$M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION	CREDIT	TRAINING
USA	Rapier	170	Early 1981	Govt to Govt contract for 32 fire units to be signed shortly. Order could be increased to 42	S of S, M of S, and US of S(RAF) heavily involved in pressing sale	France		Proposals included in BAE package
	81 mm Mortar	80-100	Late 1981/1982	USA considers performance and safety do not meet their standards and are considering terminating programme. CDP has requested US to postpone any such decision for 3 months, to enable UK to submit modifications to resolve the problems	PM to visit USA Feb 81	USA Israel		
	Combat Support Boat 1) US Army follow-on order for 80	5-6	1981/1982	Recent purchase of 120 boats included option for further 80	M of S's discussions and correspondence with US Deputy Secretary of State Claytor	USA		
	2) USMC requirement and additional US Army	20	1981/1982	USMC have requested loan of 2 boats for testing; total USMC requirement is 24, US Army have requirement for further 300 boats. USA may request licensed manufacture instead of direct purchase		USA		
	Hawk	Not known	1983 (Development Contract)	US Navy requires comprehensive pilot training system (VTX-TS) including 300-350 aircraft as well as ground based equipment. BAE are in collaboration with McDonnell Douglas. 2 or 3 firms will be chosen for two year demonstration validation phase in 1981	Discussed with US Deputy Secretary of Defense during M of S visit to USA in 1980	USA France/FRG		

JUP

C.F.

Defence

13 January 1981

I enclose a copy of a letter which the Prime Minister has received from the Chairman of British Aerospace, together with a copy of the Prime Minister's reply.

I am sending a copy of this letter and its enclosure to Roderic Lyne (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

D.B. Omand, Esq.,
Ministry of Defence.

JUP

Jul

12/11

c. MOD
FCO

13 January 1981

Dear Sir Austin,

Thank you for your letter of 9 January. I was delighted to receive the news of your success in Zimbabwe. I hope it will be the precursor of other similar successes.

Yours sincerely,

MT

Sir Austin Pearce, C.B.E.

Jul

British Aerospace

PUBLIC LIMITED COMPANY

Brooklands Road
Weybridge
Surrey KT13 0SJ

Telephone: Weybridge (0932) 45522
Telegrams: Britair Weybridge
Telex: 27111

From the Chairman,
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
London SW1.

2/10
9th January 1981.

Dear Prime Minister.

I thought you would be interested to know that we have just completed a contract with Zimbabwe for eight Hawk aircraft. The contract package included the supply of two Canberras and four Hunters which were provided by the Royal Air Force at some considerable inconvenience to the Air Staff and the Air Force Department who have shown us very great assistance and consideration over the long period of negotiation.

I also wanted you to know how very grateful we are for all the help we have received both from the Royal Air Force and Defence Sales in bringing about this contract which is so important to us and which we hope to extend in due course to twenty aircraft.

Yours sincerely,

Austin Pearce

FILE

VLB

AIR Operations Ltd.

7 January 1981

I enclose a letter to the Prime Minister from Air Operations Limited. The company claim that MOD will not allow them to receive the 1980 British Defence Equipment Catalogue.

The company's case for obtaining the Catalogue, as set out in their letter, seems entirely plausible. If there is an issue of cutting down on free distribution, presumably a charge could be introduced in cases such as this.

I should be grateful if you would let me have a draft Private Secretary reply by 22 January.

M A PATTISON

D. T. Piper, Esq.,
Ministry of Defence.

HL8

FILE

VLB

7 January 1981

Thank you for your letter of
6 January about your problems with MOD
over the 1980 British Defence Equipment
Catalogue.

Your letter is receiving attention
and a reply will be sent to you as soon
as possible.

M A PATTISON

J. C. Welsh, Esq.

AIR OPERATIONS LIMITED

488 HORNSEY ROAD
LONDON N19 4EF
ENGLAND

Telephone: 01-272 1519
Telex:
Telegrams: 'AIROPS'
London N19 England

Our Ref: JCW/pe

Your Ref:

Date 060181

The PPS to the Prime Minister
10 Downing Street
LONDON
SW1.

*Enclosures returned
with MAP's reply
of 3/2*

Dear Sir,

I am writing to you in the hope that you can bring to the attention of the Prime Minister the fact that we are a company trading in military equipment and that the Ministry of Defence have refused to allow me to receive the 1980 British Defence Equipment Catalogue. I have received this publication every year since 1973.

The reason that they have given me is that I intend to use the BDEC solely as a work of reference, but as far as I am aware this is what everyone uses it for and the very reason it is printed and circulated to foreign embassies so that people may use it as a reference.

Should the Prime Minister decide that I cannot be allowed to receive this publication to help me in my business, then there cannot be any complaint if I decide to have my system made and sold by a foreign organisation with the loss of possible jobs + revenue that this could mean to this country.

For some reason I cannot understand, the Ministry of Defence resent the fact that I have been able to put my remote airstrip system together without any reference or help from them, and I can only interpret their attitude as the attitude of the Government, and for this reason I am writing to the Prime Minister's office, as a voting Conservative, for official comment, as the Prime Minister has stated that she is doing all she can to encourage exports of British military equipment.

I look forward to your earliest convenient reply,

Yours faithfully,

AIR OPERATIONS LIMITED.

JC Welsh
JC Welsh,
Managing Director.

ENC/ MOD correspondence

I X MEDE '80 Information Sheet.

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Defence
MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

MO 14/19

23rd December 1980

Mr Whitmore has seen

B/F 12 January.

Int. 23/12/80

Dear Michael,

The Defence Secretary has seen your letters of 22nd December to Brian Norbury and to Paul Lever on Defence Sales. He has asked me to reply straightaway.

You listed a number of points arising from the Prime Minister's discussions yesterday with Sir Austin Pearce; Mr Pym's comments follow seriatim. First, Mr Pym wholeheartedly endorses the view that there must be more involvement of Government and of private industry - as part of the effort to win more defence sales orders. This was one of the points made in his paper on defence sales (OD(80)70) which was endorsed at OD(80)25th meeting. To this end he hopes to take with him (your point B) when he visits a number of Gulf states, including the UAE, next month a small group of senior business men including a top level representative of British Aerospace. Ministers of other departments have, when appropriate, taken business men with them on overseas visits to promote exports of all kinds, including defence sales, and Mr Pym hopes that this practice will continue to be extended (though he recognises that not all visits would lend themselves to such arrangements).

He fully agrees that in promoting defence sales (your point C) there should be closer co-ordination between the MOD, the FCO and companies. He hopes that the Ministerial impetus given to defence sales will act as a spur to officials and industry to make greater efforts. He sees the establishment of a Ministerial working group aimed at cutting through impediments to defence sales, both within the MOD and also in Whitehall, as a major contribution to this objective. He agrees that intractable difficulties should be referred to the Prime Minister (your paragraph E) through OD or EX Committees, but he would hope that the machinery aimed at securing such matters and now in being would keep these cases to a minimum.

M O'D B Alexander Esq

1

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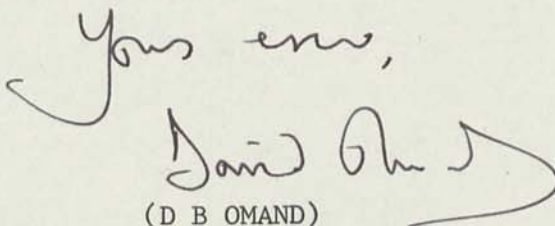
We will make the necessary arrangements for the Prime Minister to receive a report on major defence sales contracts for which we are competing (your paragraph D) and regular reports thereafter.

Finally, you mentioned the "quality of the Military Attache Establishment"; the Defence Secretary sets great store by ensuring that the quality of our Service Attache representation is of the highest possible standard. It is clearly stated in the terms of reference of each Defence Attache that, in addition to reporting on defence policy and defence intelligence matters relating to the country to which he is accredited, he should also provide local advice to British Companies seeking to sell defence equipment, and also to report back to London any military or commercial information which might be used to this end. Mr Pym believes that HM Ambassadors and British High Commissioners can - and do - play important roles in securing defence sales contracts.

In respect of the UAE, I understand that the Prime Minister has already been informed by the FCO of the delay in the despatch of the team of Abu Dhabi (to which you referred in the penultimate paragraph of your letter to Paul Lever) until the return of Shaikh Khalifa to Abu Dhabi. We or the FCO will keep you posted of further developments.

You also mention the question of training; I have written to you separately today.

I am copying this letter to Paul Lever (FCO), John Wiggins (Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours ever,

(D B OMAND)

CONFIDENTIAL



SUBJECT.

cc. Master ext.
cc. C. Hasty

10 DOWNING STREET

From the Private Secretary

22 December, 1980

Kean Brown,

Defence Sales

As you know Mr Austin Pearce and Sir Freddie Page of British Aerospace called on the Prime Minister this afternoon to discuss our defence sales effort in the Gulf. The Minister of State at the Ministry of Defence and Sir Frank Cooper were also present.

The Prime Minister said that she was deeply concerned about the prospect that we might lose the order for 18 Hawks for which we were competing with the French in Abu Dhabi. She had already criticised the effort being made by the Foreign and Commonwealth Office and the Ministry of Defence. However she had to say frankly that the salesmanship of British Aerospace in the area had been subject to criticism which was, in her view, justifiable. British Aerospace salesmanship was nothing like as dynamic as that of the French. We had a better product but seemed incapable of selling it. The Prime Minister said that she had assumed that a major effort would be made to compensate for the failure to sell Hawk in Egypt: after all a second failure would be extremely damaging. But nothing much seemed to be happening. She was also dissatisfied with the degree of collaboration between the various organisations, governmental and private, involved.

Mr Pearce said that the Prime Minister's criticism of the British Aerospace sales team in the Gulf was justified. Efforts were being made to do something about it. But this would take time. He also agreed about the failures of co-ordination. A tight organisation was needed. It did not exist at present. Nonetheless Mr Pearce, who seemed to have only learnt about the potential sale of Hawk to Abu Dhabi very recently, defended the effort being made by his company worldwide. He instanced the successful turn-round of the negotiations with the Indians on Jaguar: the prospects of selling the 748 to Egypt; and the very large contracts which were coming up for renewal with Saudi Arabia. Sir Freddie Page said that British Aerospace had doubled its orderbook in the last four years. In the ensuing discussion it was agreed that:-

/(a)

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- 2 -

- (a) There was a need for a much greater degree of top-level involvement, both governmental and private, in the effort to land contracts. To this end
- (b) Ministers should be prepared to take businessmen, notably those involved with defence sales, in their party on trips overseas;
- (c) arrangements should be made to ensure a much closer degree of co-ordination between the Ministry of Defence, the Foreign and Commonwealth Office and companies;
- (d) the Prime Minister should receive regularly a list of all major contracts for which we were competing in the defence sales area together with an indication of the position reached and the degree of ministerial involvement;
- (e) when major difficulties arose they should be referred to the Prime Minister;
- (f) the quality of the Military Attache establishment worldwide should be looked at closely.

As regards the Abu Dhabi contract, the Prime Minister said that we should be prepared to offer whatever was necessary on the training side. We should be prepared to offer more than £1 million worth of training. She was not prepared to accept that we should put at risk a £75 million contract for the sake of "a couple of million". She told Mr Pearce that she had made it plain to the Ministry of Defence and to the Treasury that they should not make difficulties about this.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Stuart Hampson (Department of Trade), and David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

B Norbury, Esq
Ministry of Defence

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BF 1481

10 DOWNING STREET

From the Principal Private Secretary

22 December 1980

Dear Baron,

DEFENCE SALES

The Prime Minister has been reflecting further on the question of defence sales since the meeting of the Defence and Overseas Policy Committee on 3 December.

2. She believes that the Committee's decision should help us to stimulate defence sales. In particular, we can look for benefits from Mr. Pym's proposal to set up an in-house working group under one of his Ministers, with an inter-departmental group as well, to give more impetus to sales and to resolve conflicting views.

3. The Prime Minister is sure that we can look to these groups for suggestions for improvements to our policies and procedures in several fields. Nonetheless, she remains concerned about the organisation and arrangements on which Ministers must inevitably depend from day to day to make their efforts in these fields effective. She is thinking of

- organisational and procedural arrangements for policy-making including Ministerial involvement at home and abroad;
- the roles of Government and of industry in marketing and selling defence products, including the question whether industry can play a greater part in sponsoring overseas sales;
- the types of staff and of motivation needed within Government in support of our sales effort;
- whether in formulating operational requirements and equipment projects sufficient account is taken of the need to ensure that equipments have the potential for overseas sale, including the question whether specifications are too perfectionist.

4. The Prime Minister's view is that Ministers would be greatly assisted by an early scrutiny of such matters. She would be grateful if your Secretary of State would arrange for this to be done early in your scrutiny programme for next year and in consultation with Sir Derek Rayner, whom she is asking to make himself available to Mr. Pym for this purpose.

/In so far as

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- 2 -

5. In so far as the matters mentioned in paragraph 3 above are affected or influenced by the policy and other arrangements of other Departments, she would like to see the scrutiny cover them as necessary. The Prime Minister is sure that the Ministers concerned will give the official conducting the scrutiny the assistance he needs.

6. I should make it clear that in suggesting this scrutiny, the Prime Minister would expect its main purpose to be improving the effectiveness of organisation and operations, rather than the search for economy although that would not be ruled out, of course.

7. The Prime Minister wishes to be kept in touch with progress. She intends that her own overseas visits should be used to assist defence sales.

8. I am copying this letter to the Private Secretaries to other members of DOP and to Sir Robert Armstrong and Sir Derek Rayner.

Yours etc,

Oliver Whiteman.

B.M. Norbury, Esq.,
Ministry of Defence.

CONFIDENTIAL

K.R.B.

CONFIDENTIAL

PRIME MINISTER



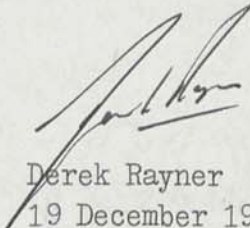
1.

DEFENCE SALES

1. At your reception on 3 December you asked me to supply you with a draft minute to the Secretary of State for Defence.

2. My visit to Japan has somewhat delayed a submission. I am sorry for this. But the interval has enabled my office to take informal soundings in the Ministry of Defence, the Department of Industry and the Treasury, which I have found helpful in submitting a draft (attached).

3. In case you would like me to associate myself with this scrutiny on your behalf, I have included that point in para. 4 of the draft.


Derek Rayner
19 December 1980

Agreed
no.

Enc: Draft minute to the Rt Hon Francis Pym MC MP

*Have submitted
entire letter to Pym to*

Prime Minister

I gather that there has been some contact between Sir Derek Rayner and Sir Francis Cooper on this, and Cooper would welcome an exercise of this kind.

If you are content, I will convert the draft into a letter from me to Mr Pym's (private) Secretary. There is no need for you to write yourself.

AKH
19 Dec

DR

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From me to Sir Philip
SECRETARY OF STATE FOR DEFENCE

DEFENCE SALES

1. *The Prime Minister has* *the question of defence sales*
I have been reflecting on this further since the meeting of the Defence and Overseas Policy Committee ~~meeting~~ on 3 December.

The Minister's view
2. The Committee's decisions should help us to stimulate Defence Sales. In particular, we can look for benefits from your own *Minister's* welcome proposal to set up an in-house working group under one of *his* your Ministers, with an inter-departmental group as well, to give more impetus to sales and to resolve conflicting views.

The Prime Minister is sure that we can
3. We ~~may~~ look to these groups for suggestions for improvements to our policies and procedures in several fields, *Nonetheless, she* but I remain concerned about the organisation and arrangements on which Ministers must inevitably depend from day to day to make their efforts in these fields effective. *she is* I ~~am~~ thinking of

- organisational and procedural arrangements for policy-making including Ministerial involvement at home and abroad;
- the roles of Government and of industry in marketing and selling defence products, including the question whether industry

can play a greater part in sponsoring overseas sales;

- the types of staff and of motivation needed within Government in support of our sales effort;
- whether in formulating operational requirements and equipment projects sufficient account is taken of the need to ensure that equipments have the potential for overseas sale, including the question whether specifications are too perfectionist.

The Prime Minister's view
4. My feeling ^{is} that Ministers would be greatly assisted by an early scrutiny of such matters. ^{the word} I should be grateful if ^{the word} you ^{the word} would arrange for this to be done early in your scrutiny programme for next year and in consultation with Sir Derek Rayner, whom ^{the word} I ^{the word} am asking to make himself available to ^{the word} you for this purpose.

5. In so far as the matters mentioned in para. ^{the word} 3 above are affected or influenced by the policy and other arrangements of other Departments, ^{the word} I should like to see the scrutiny cover them as necessary. ^{the word} The Ministers concerned ^{the word} would, ^{the word} I am sure, give your examining officer the assistance he or ^{the word} she needs.



6. I should make it clear that in suggesting this scrutiny, ^{the former Minister} I would expect its main purpose to be improving the effectiveness of organisation and operations, rather than the search for economy although that would not be ruled out, of course.

7. ^{the former Minister} I wish to be kept in touch with progress and ^{she} my own Director will ^{should be} ~~be~~ ^{used to collect relevant data.}

8. I am copying this to other members of the ~~Committee~~ ^{who} and to Sir Robert Armstrong and Sir Derek Rayner.

(the former Minister is)

MHT

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2.



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111 (Direct Dialling)

01-218 9000 (Switchboard)

MO 26/9/1

17th December 1980

ms

Prime Minister

Dear Michael,

It looks from X/ meeting as though other you said to Schmidt in Bonn had the desired effect! KHL 12xii

DEFENCE SALES

The Defence Secretary has already mentioned to the Prime Minister a number of recent Defence Sales successes. You may find it convenient to refer to the attached note. Since Mr Pym spoke to the Prime Minister, we have heard about the Zimbabwe Government's intention to purchase Hawk (and other aircraft), and I have therefore included this in the attached.


I am copying this letter with its attachment to the Private Secretaries to the other members of OD, to Ian Ellison (DOI) and to David Wright (Cabinet Office).

*Yours sincerely
Pentecost Dawson*

(J D S DAWSON)

M O'D B Alexander Esq

CONFIDENTIAL



A contract to supply 100 Rapier Blindfire units to Switzerland was signed in Berne this morning; value in excess of £200M.

The US Administration's decision to buy 32 Rapier Blindfire units for defence of USAF bases in the UK was finally endorsed by Congress last week in appropriating \$90M in the FY 81 budget for this purpose. This is \$40M higher than initially expected. Negotiations have now started in earnest with the USAF/Department of Defense to enable a contract to be placed early in 1981. Also, we have been asked to examine the implications of increasing the buy to 46 units.

The Saudi National Guard informed our Defence Sales representative in Riyadh last week that the SANGMED contract would be awarded jointly to UK and France. The initial value to UK will be £100M-£150M for 18-24 months' work; potential value is more than £500M.

X | A contract to the value of £125M for the supply of Army equipment to Morocco has been approved by the King. We expect that it will be signed on arrival of the Saudi financing, due this week. The package includes 36 FH70s and is the first sale of this gun outside the consortium.

Three contracts have been approved in Nigeria and await signature. These are for the supply of 45 Vickers tanks (£53M), 10 Medium Girder Bridges (£6-7M), and 10 Field Artillery Computer Equipment (£3.5M).

| The Zimbabwe Government have formally accepted an aircraft package deal from BAe, which includes the supply of 8 new Hawk aircraft, 5 surplus Hunters and 2 surplus Canberras. BAe expect to sign a contract, worth about £35M, before the end of this year.

Defence

MR WHITMORE

The Prime Minister asked Derek Rayner last week to let her have a draft letter to Mr. Pym commissioning a scrutiny on defence sales.

My first reaction was to doubt whether the scrutiny approach would be useful in this field. The most successful scrutinies have been devoted to management questions and it seems to me that any work on defence sales runs very quickly into policy issues. The one advantage of the scrutiny approach is that it is rather less public than any more formal enquiry.

Clive Priestley tells me that he has had a chance to discuss this with Frank Cooper, who appeared interested. His thinking was that it would need to be handled at Under Secretary level, probably with an outside management consultant involved. Priestley's impression was that Cooper saw it as a potential contribution to his efforts to breakdown some of the barriers created by the three-service structure.

Derek Rayner will need to look at this before there is any formal submission to the Prime Minister. Do you think that the approach suggested here is on the right lines?

X

MAF

Mr. Pym

MAF

I have had a work meeting with Sir F. Cooper who has confirmed that he will be ready to have a scrutiny on the lines of X1 above. He is seeing Sir D. Rayner later this week when he will raise this with him and try to reach agreement on how to set up the scrutiny.

12 December 1980

I agree with you - and I see as much to Sir F. Cooper - that defence sales is not an appropriate subject for a classical scrutiny study. We already know what the problems are and they will be overcome only by changes in policies and in the policies of the MoD. Cooper accepts this: hence his wish to do the study in a rather different way from a normal scrutiny.

Atch 16xii

CONFIDENTIAL

Mr Pattison

DEFENCE SALES

1. I understand that at her reception last Wednesday evening, the Prime Minister asked Sir Derek Rayner to let her have a draft letter to the SS/Defence on the importance of Defence Sales.
2. Sir DR was unable to complete the ground work on this to his satisfaction before leaving for Japan at the end of last week. He has therefore asked me to let you know that the ground work will continue during his absence and that he hopes to make a submission to the Prime Minister early next week.
3. I should add that I am aware of the recent discussion of this issue by the OD Committee under the Prime Minister's chairmanship last Wednesday morning.

CP
C PRIESTLEY
9 December 1980

PS Does the attached draft, prepared since the above was dictated, capture the PM's concern, do you think?

Enc: Draft minute to Mr. Pym

DRAFT OF 9 DECEMBER 1980

CONFIDENTIAL

SECRETARY OF STATE FOR DEFENCE

DEFENCE SALES

- 1 I have been reflecting on this further since the meeting of the Defence and Oversea Policy Committee meeting on 3 December.
- 2 The Committee's decisions should help us to stimulate Defence Sales. In particular, we can look for benefits from your own welcome proposal to set up a working group under one of your Ministers to give more impetus to sales and to resolve conflicting views and to extend this group as necessary to act as an inter-departmental task force.
- 3 However, I remain concerned about certain arrangements on which Ministers must inevitably depend from day to day and which may conceivably diminish the effectiveness of their efforts and about certain related issues. These are:
 - organisational and procedural arrangements for policy-making, including Ministerial involvement at home and abroad;
 - project and production control arrangements;
 - whether military requirements are too perfectionist and whether sufficient account is taken of the need for Defence Sales;
 - whether the way in which Defence Sales is run is sufficiently motivating for those working in the Sales organisation and in the rest of the Ministry of Defence; and
 - whether the influence^{of} and relationships with industry at the working and other levels are well enough adjusted to a vigorous Defence Sales policy.

4. My feeling is that Ministers would be greatly assisted by an early scrutiny of these matters. I should be grateful if you would arrange of this to be done early in your scrutiny programme for next year and in consultation with Sir Derek Rayner, whom I am asking to make himself available to you for this purpose.

5 In so far as the matters mentioned in para 3 above are affected or influenced by the policy and other arrangements of other Departments, I should like to see the scrutiny cover them as necessary. The Ministers concerned would, I am sure, give your examining officer the assistance he or she needs.

6 I should make it clear that in suggesting this scrutiny, I would expect its main purpose to be improving the effectiveness of organisation and operations, rather than the search for economy although that would not be ruled out, of course.

7 I am copying this to other members of the Committee and to Sir Robert Armstrong and to Sir Derek Rayner.

M H T



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Copied to
Egypt: Defence Sales
Defence

PRIME MINISTER

Defence Sales
(OD(80) 70, 71 and 73)

BACKGROUND

This Note by the Secretary of State for Defence has been circulated in response to your request following your speech at the Flying Display dinner on 3rd September about the need to increase defence sales. In particular you wanted to know what could be done to reconcile more effectively than hitherto the requirements of our own Services for equipment with the simpler needs of many of our potential customers, in order to make our weapons more attractive in overseas markets.

2. The Note by the Chancellor of the Exchequer emphasises a point made in the Secretary of State for Defence's Note about the need to enhance the export potential of United Kingdom defence equipment by thinking more carefully about this factor when deciding our own operational requirements.

3. The Secretary of State for Industry's Note welcomes the proposals in the Secretary of State for Defence's Note but doubts if they are sufficiently radical to achieve the objectives of making defence sales a major contributor to the export efforts of our high technology industries. He suggests in particular more defence sales-related Ministerial visits, more financial support for defence sales, more consideration of export potential in selecting our own defence equipment, 'token' purchases of defence equipment by the armed services to show confidence in United Kingdom manufacturers, and the linkage of defence sales with an undertaking to provide British oil at commercial prices in times of shortage. The Secretary of State for Energy will probably be writing to suggest that this last point should be considered by the Ministerial Committee on Exports rather than by OD as it links up with wider oil export questions. He did not wish to come to the OD meeting.

4. Mr. Ibbs in his minute of 28th November has drawn your attention to the inadequate sales return on MOD R & D. He will be present at the meeting.



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5. The Secretary of State for Defence's Note does not give very much in the way of facts and figures. I therefore attach to this brief two Annexes which set out our achievements in defence sales over the last three years at constant prices by geographical areas and by the main categories of equipment. One of the facts which emerges from Annex B is the very hard knock which our defence sales have taken from the loss of the Iranian market since 1977/78. Over the same period our defence sales to Egypt, which were financed largely by Saudi Arabia, have also tailed away following the Camp David negotiations. Before these two markets diminished our defence sales were doing significantly better than those of the French; and our defence salesmen still regard the Middle East as their most promising field.

6. A factor which the Secretary of State for Defence does not mention in his Note is the organisation for Defence Sales within the Ministry of Defence. This consists of three main elements: the Defence Sales Organisation itself, which is an integral part of the Ministry of Defence; the Royal Ordnance Factories, which do a certain amount of direct selling to customers themselves and would like to do more so that they could retain all the profits for their Trading Fund; and International Military Sales, a limited liability company entirely owned by the Secretary of State for Defence, which seeks to operate as a commercial organisation but has rather a troubled relationship with the Royal Ordnance Factories, the Defence Sales Organisation and the Ministry of Defence in general. Part of the reason for the French success in the defence sales field, as is clearly illustrated in the story of how they sold their Alphajet to Egypt of which the Secretary of State for Defence sent you a description attached to his minute of 25th November, lies in the fact that they have developed a more successful selling organisation than we have got at present.

7. In his reference to foreign policy constraints, the Secretary of State for Defence ignores one real difficulty which besets a country like Britain which lacks a bipartisan attitude to defence sales. Defence orders tend to have long lead-times (and to depend on continuity of supply e.g. for spares and ammunition) and some of our potential customers are bound to ask themselves whether they



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could trust us not to cancel export orders if Labour returned to power. This may suggest that our main sales effort should be concentrated on the comparatively stable and democratic countries of the Western world.

8. But sales to the Western world, and particularly to NATO, depend on progress towards standardisation. To the extent that we each try to make everything there will be fewer export openings for any of us. Collaborative projects may sometimes be the answer, but not if they serve to push up the cost of equipment through attempts to incorporate the separate requirements of each country involved. Specialisation may be another answer, but will not be popular with the Ministry of Defence - who are for example at present working out what tank we want for the 1990s and would not take kindly any suggestion that we should simply buy whatever the Germans produce, even though the two armies are designed to fight the same war on the same battlefield.

9. This reinforces the general point in your September speech, that behind the problem of defence sales policy there lies a much larger problem of defence procurement policy. The present meeting will not offer scope for examining the larger problem in depth. But it may usefully provide openings for ensuring that it is at least identified.

HANDLING

10. You will wish to ask the Secretary of State for Defence to introduce his paper. You may then care to ask the Chancellor of the Exchequer to introduce his Note which will concentrate attention on the factor identified at paragraph 2e of the Secretary of State for Defence's Note about the export potential of Service equipment. You may then care to ask the Secretary of State for Industry to introduce his paper. Points to cover in subsequent discussion are:-

- (a) Does the Secretary of State for Defence consider that we have got a sufficiently effective defence sales organisation and long term marketing strategy both in terms of geographical areas and in terms of the equipments which will constitute the major defence sales in the

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future? Inevitably there is an element of opportunism in this field but particularly if operational requirements are going to be slanted more towards export potential, do we give sufficient thought to the nature and whereabouts of our future defence sales markets?

- (b) Does the Secretary of State for Defence agree that defence sales would benefit from more "fixed price" or incentive rather than "cost plus" contracts as the Chancellor of the Exchequer suggests?
- (c) Do the Secretary of State for Defence and the Foreign and Commonwealth Secretary agree that a more carefully planned programme of Ministerial visits (paragraph 4 of the Secretary of State for Industry's Note) would help to suggest defence sales e. g. in the case of Rapier in Japan?
- (d) Does the Secretary of State for Defence consider that the financial benefits to be obtained justify the Secretary of State for Industry's suggestion in paragraphs 5 and 7 of his Note that a study should be made of whether the Defence Budget should in effect subsidise defence sales by waiving the Commercial Exploitation Levy, and associated levy on Royal Ordnance Factories, and making token purchases of unwanted United Kingdom defence equipment to provide support for British manufacturers?
- (e) Do the Secretary of State for Defence and the Foreign and Commonwealth Secretary consider it possible to reconcile the desirable aims of increased collaboration with our NATO partners in order to achieve cheaper and more standardised equipment, with the limitation on our freedom to achieve defence sales which appear to flow from collaboration? Does specialisation as recently suggested to you by Chancellor Schmidt (all tanks to be made in Germany, all fighters in Britain) offer a more hopeful route than collaborative ventures?
- (f) Does the Foreign and Commonwealth Secretary agree with the Secretary of State for Defence's suggestion that defence sales suffer from foreign policy constraints? Should defence sales endeavours be more frequently and directly supported by Ministerial visits abroad?



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- (g) Does the Foreign and Commonwealth Secretary believe there is scope for relaxing security constraints such as COCOM rules in order to assist defence sales overseas?
- (h) Does the Secretary of State for Industry agree with the Secretary of State for Defence's assessment of industrial attitudes in regard to defence sales? Does industry feel that the Ministry of Defence's procurement procedures are a genuine obstacle or is this merely an excuse?
- (i) Does the Secretary of State for Industry agree that there is scope for closer collaboration with industry at the start of the design stage of a project?
- (j) Does the Secretary of State for Industry agree that (subject to what the Secretary of State for Energy says in his expected letter) the question of relating British oil to defence sales should be considered by the Ministerial Committee on Exports?
- (k) Does the Secretary of State for Trade agree that in the field of defence sales overseas the Chancellor of the Exchequer is right in saying that the problem of producing and selling the right goods at the right price is mainly for industry? He may take the view that in many parts of the world major defence sales can only be achieved on a government to government basis.
- (l) Do the Secretary of State for Trade and the Chancellor of the Exchequer agree that there is scope for improving the credit arrangements for defence sales, to allow our salesmen to take more initiatives rather than trailing the competition?

CONCLUSION

11. Subject to the discussion the Committee might be guided:-
- (i) to note the work already in hand which is described in the Secretary of State for Defence's Note;
 - (ii) to agree the further steps proposed in paragraphs 8 and 9 of the Secretary of State for Defence's paper;

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- (iii) to agree the Secretary of State for Defence's proposals to give greater Ministerial impetus to sales set out in paragraphs 3 and 10 of his Note;
- (iv) subject to the Secretary of State for Defence's views, to invite him to consider the scope for modifying specifications and procurement procedures and the form of contract as proposed by the Chancellor of the Exchequer in OD(80) 71;
- (v) to agree that the Secretary of State for Industry, the Chancellor of the Exchequer and the Secretary of State for Defence should discuss whether and how defence sales might be stimulated by a relaxation of current financial constraints;
- (vi) to agree that the support of defence sales should be one of the primary aims of Ministerial visits overseas, and to invite the Secretary of State for Defence to propose procedures for achieving this aim;
- (vii) to agree that the merits of establishing a link between oil exports and defence sales should be considered by the Ministerial Committee on Exports;
- (viii) to identify defence procurement policy as a major field for further Ministerial examination.

(Robert Armstrong)

2nd December 1980

MAJOR DEFENCE SALES IN £M BY TYPE

	AFVs & PARTS	COMBAT AIRCRAFT	MILITARY NON-COMBAT AIRCRAFT	MILITARY AIRCRAFT NOT NEWLY BUILT	WARSHIPS INCLUD HOVER-CRAFT	GUNS & SMALL ARMS etc	GUIDED WEAPONS & MISSILES	AMMU-NITION	RADIO & RADAR	OPTICAL EQUIP-MENT	MISC CONSTRUCTION, ENGINEERING, EQUIP, etc	TOTAL
1977/78	48	711	174	0	373	35	82	171	76	17	648	2335
1978/79	87	1169	71	0	68	24	134	190	44	2	380	2169
1979/80	430	203	63	0	63	44	17	55	147	21	108	1151
Totals	565	2083	308	0	504	103	233	416	267	40	1136	5655

The above figures show orders received during the year at prices obtaining in the 2nd quarter of 1980.

MAJOR DEFENCE SALES IN \$M BY AREA

	NATO & OTHER WESTERN COUNTRIES	MIDDLE EAST & N AFRICAN COUNTRIES	SUB-SAHARAN AFRICA	LATIN AMERICA & CARIBBEAN COUNTRIES	ASIA AND FAR EAST	TOTAL
1977/78	272	1,898	77	33	55	2335
1978/79	195	642	72	22	1,238	2169
1979/80	187	771	27	76	90	1151
Totals	654	3,311	176	131	1,383	5655

The above figures show orders received during the year at prices obtaining in the
...2nd quarter of 1980.

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(20)



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

2 December 1980

See Keith

I have read with interest your note on defence sales (OD(80)73) and noted the suggestion in paragraph 8 that British oil be used to assist arms sales.

EX on Thursday will be considering, amongst other matters, the possible use of our oil to promote exports. We have very little oil surplus to our own security requirements. Use of any surplus for trade promotion therefore requires careful co-ordination. You may feel this co-ordination is best achieved through EX and that it would be proper for that Committee to consider your note.

I am sending a copy of this letter to our colleagues in EX and OD and to Sir Robert Armstrong.

D A R HOWELL

See a
Davis

CONFIDENTIAL

Qa 05195

To await OD on Wednesday
3rd December.
hls.

To: MR ALEXANDER
From: J R IBBS

Defence Sales

1. The Defence and Overseas Policy Committee is due to discuss defence sales on 3 December. The Prime Minister may like to be aware that the CPRS has been concerned for some time over the insufficient return in defence export sales in relation to the high proportion of Government-financed research and development which is devoted to defence. I therefore strongly support the emphasis in the Defence Secretary's note (OD(80)70) on the importance of giving full weight to sales considerations when taking decisions on the defence equipment programme and welcome the positive moves to achieve this.

2. The study, through the National Defence Industries Council, with particular emphasis on what can be done to make our defence equipment more exportable is obviously important. But getting the right procurement decisions is only part of the battle. British defence industries, with some exceptions, also need to be prodded into making more of an overseas marketing effort themselves rather than rely on high price, low volume sales in this country.

3. I am sending a copy of this minute to Sir Robert Armstrong.

JR

28 November 1980

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Prime Minister.

To see.

AMJ
Sxi

WJ

Defence



PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE FOR THE ROYAL AIR FORCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 (Direct Dialling)
01-218 9000 (Switchboard)

3rd November 1980

Dear Clive,

You may recall fairly recently that the Prime Minister required some follow up action within MOD on the subject of sales opportunities in Qatar. As I raised the matter in the first place I thought it would be in order if I gave you a quick status report.

AUS (Sales) Peter Jeffs was sent to Qatar to form a view and he has confirmed the opportunities - particularly in relation to the integrated air defence systems - but that more work has still to be done by our industry to get our proposals into shape. In the near future we will be in a position to consider Ministerial

intervention = the shape of a visit. Even
Strathcona is considering visiting Saudi Arabia this
month so perhaps he could combine Qatar with
Saudi.

I notice incidentally that the point about
Ministerial involvement = sales (albeit Senior
Ministerial involvement) was mentioned again in an article
= yesterday's 'Sunday Telegraph'.

On the Warrick Collins affair you will be pleased
to know that a letter inviting him here for a mini
symposium has gone from me with a copy to John
Hosblyns.

On the Queens Flight I hope to have the
economic case = the P.M.'s box (via you) by close of
play Friday. I am having the question of relocating
the new Communications Flight away from Northolt looked
at so that we can consider disposal of that
airfield - I sure the ~~£~~4M a year it costs to run.
My discussions with the ^{RAF} sharp end operators rather
than the RAF top brass indicate very strongly



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PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE FOR THE ROYAL AIR FORCE

2

that a very sensible rationalisation of the VIP
flying scene can be carried through once the
re-equipment question has been resolved. Where
Northolt is concerned certain civil jet operators are
very interested in greater use by them and the airfield
is less utilised at the moment.

As far as the two BAe 1-11 aircraft are
concerned, in confidence, I gather that BAe have
received letters of intent from a Saudi company
and an American company so before very long the
decision will be made for us.

Yours
faithfully

John

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2. *From: Minister -*
This is the full
note provided by the
Minister.
MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1 *1/11/80*

Telephone 01-~~88070220~~ 218 2111/3 *20x*

Defence

MO 20/9/1/1

20th October 1980

Dear Clive,

NEW STATESMAN ARTICLE ON IMS LTD

I reported in my letter of 17th October the assurances we had received from IMS about the legality of their action following the accusations in the New Statesman. We agreed that I would let you have a note on the allegations themselves, principally that IMS have "cooked the Accounts" in order to present a misleading impression of their financial status, and that IMS have, with the agreement of the Ministry of Defence, indulged in bribery.

The position on the Accounts is that 1979 was the first year in which IMS felt the full loss of Iranian business which was reflected in a reduction in turnover from £245M in 1978 to £38M in 1979. It is not surprising that with this loss of business the draft accounts showed a small trading loss of some half a million pounds. However, this was more than offset by interest of about £7M earned on deposits held and it was decided by the Board of Directors, with the concurrence of the Auditors, that this was best shown as a positive net entry of £6,556,000 profit before tax. This was consistent with the presentation for 1978 which showed a net loss of £12,440,000 (the latter entry was however supplemented by sub-entries which showed, inter alia, interest receivable on deposits). It was decided this year by the IMS Board that it was presentationally preferable to show a single clear figure in the body of the accounts with certain necessary sub-entries relegated to the Notes to the account. We are satisfied that this was not with the intention, as claimed by the New Statesman, of misleading MPs and the public and we understand that IMS have been assured by their auditors that there was nothing improper in this method of presentation.

1

C A Whitmore Esq

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The accusations that IMS have, with the agreement of the Ministry of Defence, indulged in bribery rests on the evidence of the cheque that was paid to an Account in a Swiss bank. The payment was part of a fee that was paid on the sale of Chieftain tanks to Kuwait (the contract was signed in 1975). It was to a Company which represents IMS in a number of countries in the Gulf. The fee was 3½% which by Middle East standards is very low and well within the guidelines. It is emphasised that the payment was to a legitimate Company and that it can in no sense be described as a bribe. The payment was made into a Swiss bank account at the request of the Kuwaiti Company. There is nothing unusual in this, nor is there anything sinister in the fact that it was paid into a Swiss Account.

/ IMS work to very clear guidelines (copy at Annex A) on the employment of agents and the payment of commission. These guidelines were issued by our Accounting Officer to the Head of Defence Sales in 1977. You will see from the first sentence of paragraph 4 that IMS (then called Millbank Technical Services) are required to observe these principles when acting on our behalf.

As to the other allegations in the article:

a. there is reference to the financial situation on the Iranian tank deal. You will recall that this was relevant to the pricing of the sale of tanks to Jordan was under consideration (my Secretary of State's minute of 31st July last year to the Prime Minister). Briefly the legal opinion is that because the Iranians repudiated the contract any equipment manufactured under that contract and not delivered to Iran belongs to HMG. We still have to negotiate a settlement with the Iranians but it is likely that the Iranians will receive very little if anything as a refund from their advance payments;

b. the article states that the Public Accounts Committee discovered that the MOD was losing on its weapon sales because we did not make sure that our customers paid up. The true situation is that the MOD does make a "profit" on those defence sales that pass through our Votes: although we have some bad payers the amount involved is comparatively small and almost all is eventually paid;

c. reference is also made to a statement made by Sir Lester Suffield a former HDS that MTS (i.e. the fore runner of IMS) and the MOD had offered payments



to Government officials on at least one occasion. There was one occasion on which such a payment was contemplated but it was never made because it came within the definition of a bribe;

d. there is mention of Sir Shapoor Reporter. He represented MTS and a number of British firms in Iran. He did so openly and his commission of 1 to 1½% was extremely modest by normal standards e.g. the French paid a 26% commission on the sale of tanks to Saudi Arabia. Once again there was no question of bribery - to the best of our knowledge the money went into the Pahlavi Foundation and not to any Iranian officials;

e. there is also a reference to the Randel case. Colonel Randel was convicted of accepting bribes from Racal. The court fully acknowledged that there was no MTS/IMS/Defence Sales involvement in this;

f. mention is also made of an IMS deal with Saudi Arabia involving an Agent called Fustock (really Fustuq). There has been no such deal.

A final comment is that there has been some selective editing of various documents that have found their way to the New Statesman for example a quotation is given from a letter from IMS to the MOD written when the first draft accounts were submitted. The article records that the letter states "it would be appreciated if the information were not widely circulated within the MOD". It omits the words that introduced this statement namely "Pending approval of the IMS Directors". Thus the false impression is given that there was something to hide.

I am copying this letter to Paul Lever (FCO), Stuart Hampson (Department of Trade), Richard Prescott (Paymaster General's Office) and to David Wright (Cabinet Office).

Yours emv.

David Omand

(D B OMAND)

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DIRECTIVE FROM PUS TO HDS

The general principles of conduct for all public servants, whether uniformed or civilian, are laid down in relevant manuals (eg Queen's Regulations, Non-Industrial Civilian Staff Regulations) and apply to all MOD servants in whatever capacity they may be employed.

2. In view of the current interest in the general subject of special commissions and similar arrangements in relation to commercial and business deals and the importance of maintaining strict standards in the Defence Sales field for which we are publicly accountable, there is a need for some special guidance which should be followed by Defence Sales Staff in this difficult and sensitive area. It will be for you to decide the details of arrangements to be made within this guidance, consulting me in difficult or abnormal cases.

3. Although there may well be political and strategic returns from Defence Sales the object is primarily to produce economic benefits by improving the UK balance of payments, providing employment and, where equipment is used by the UK forces as well as being exported, by reducing the unit costs of such equipment with benefit to the Defence Budget. Against this background, staff of the Defence Sales Organisation are to take particular care to observe the following principles:

- a. Public money is not to be used for illegal or improper purposes.
- b. Officials must not engage in, or encourage, illegal or improper actions; this requirement covers relations with representatives of United Kingdom firms as well as with nationals of other countries.

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c. Defence Sales are to avoid so far as possible the direct employment of agents. If agents must be employed then:

- (1) The agent should be reputable in the area in which he is operating.
- (2) The fee or commission paid to an agent should not in any case exceed the normal level for the area; and where the fee or commission is 10 per cent or more, or where, though it is less than 10 per cent, the total payment would appear excessive in relation to the lawful and proper work which the agent undertakes in the area in which he operates, the agent should not be engaged without reference to me.

4. The same principles are to be observed in respect of arrangements made by Millbank Technical Services when acting on behalf of MOD. Arrangements may also be necessary in the context of Government-to-Government deals where MOD is in a back-to-back relationship with a United Kingdom firm. In such cases staff of the DSO should be generally guided, as appropriate, by the principles set out in paragraph 3. Additionally, in those cases when the UK firm seeks MOD authority for a fee or commission to be included in the price, the DSO should obtain assurances in writing from the UK firm concerned that:

- a. The agents to whom the payments are made are reputable companies or individuals.
- b. The firm regard the agents' services as providing an adequate return for the payments which are made to them; and

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c. To the best of the firm's knowledge the appropriate authorities in the customer Government accept the position of the agents in relation to the contract.

5. In all the above what is "illegal" or "improper" will depend in the last resort on the law and practice of the country or countries concerned, and it is for the foreign government to determine what are acceptable standards within its jurisdiction. But where these standards are less restrictive than those applied within the UK, any relaxation of UK standards should be applied by us with great caution.

FC

FRANK COOPER
PUS

23/9/77

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cc. Mr. Ingham.

2.

PRIME MINISTER

New Statesman article on IMS Limited

The MOD have sent over the attached letter about the allegations appearing in today's New Statesman about the activities of International Military Services Limited, a company which is wholly owned by the MOD.

Duncan Campbell's piece in the New Statesman is a long one and I do not suggest that you read it. But the following is the New Statesman's own summary of the article and this sets out the main allegations:

Mrs. Thatcher has publicly endorsed the efforts of Britain's arms salesmen, headed by the Ministry of Defence's own company - International Military Services Ltd. But IMS's business is bad, and prospects poor.

Their business is failing. So IMS has doctored its accounts to turn a £½ million loss into a £6 million profit.

The Directors of IMS have probably broken the Companies Acts.

They have acted in the arms business as a channel for giving bribes or special 'commissions'.

As recently as January, a payment of £½ million was made by IMS to a secret codenamed Swiss bank account.

If IMS makes a loss, the taxpayer pays up. Yet the Ministry of Defence want more public money put into loss-making arms dealing.

The company and the Ministry have hidden away £300 million of Iranian money which they don't intend to pay back.

/ There are

The MOD letter does not say so, but Mr. Pym has set in hand a full investigation into the allegations. He will let you have a further report as soon as possible.

There are reports in today's newspapers that Mr. Joel Barnett is going to propose to his colleagues on the PAC that they should formally investigate the New Statesman's charges against IMS.

John.

17 October 1980

CONFIDENTIAL

copy to TV Engineer.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~2307822~~ 218 2111/3

MO 26/9/1/1

17th October 1980

Dear Michael,

My Secretary of State has asked me to let you have a note straight away on the article in this week's New Statesman which makes allegations against IMS Limited.

He wanted you to know that we have been assured by IMS that they have not acted illegally either in their way of doing business or in their presentation of their Accounts. We are making this clear in answer to Press enquiries.

The article is based in part on documents which have been leaked to the New Statesman. Investigations are under way but there seems little doubt that someone in IMS was responsible for putting the documents into the hands of the New Statesman. The other parts of the article probably derive from evidence given at the trial of Colonel Randel in 1978 and from various reports of the Public Accounts Committee.

There are a number of statements in the article which are actionable and the Legal Advisers of IMS and of their Auditors, Price Waterhouse, are considering the position. Although IMS would not take action without the authority of my Secretary of State we have no such control over their auditors, and if they embark on legal action this will of course affect the amount of publicity given to this whole matter. We are however taking account of the possibility that the New Statesman might be deliberately inviting such action for their own ends.

For the moment we are confining our comment to a statement that the Company has not acted illegally and that there is nothing sinister about the way the Accounts were presented.

1

M O'D B Alexander Esq

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I am copying this letter to Paul Lever (FCO), Stuart Hampson (Department of Trade), Richard Prescott (Paymaster General's Office) and to David Wright (Cabinet Office).

Yours ever,

David Omand

(D B OMAND)

Briefing Note for MOD Press Office

The New Statesman story makes serious and inaccurate allegations against the IMS Company, its Auditors and several individuals. The legal position is now under investigation and we cannot therefore make any comments for the time being.

2 However I can say categorically that IMS Limited have assured us that they have not acted illegally in the way they have gone about their business and in particular the accounts of the Company have been dealt with in accordance with the requirements of the Companies Acts.



ANNEX

INTERNATIONAL MILITARY SERVICES LTD (IMS)

1. The purpose of IMS is to support the Ministry of Defence in every way possible to maximise the UK's defence exports and associated services. The Company is in effect the Ministry of Defence's commercial arm for defence exports.
2. The Company is incorporated under the Companies Act as a private limited company. It is wholly-owned by the MOD, with the exception of one share which for legal reasons is held by the Treasury Solicitor. The Board, appointments to which have to be approved by the MOD, at present comprises a non-Executive Chairman, a Chief Executive who is also Deputy Chairman, four executive directors and two non-executive directors - one former and recently retired executive director, the other, drawn from industry, the Chairman of Rank Xerox. The Company audited accounts are filed with the Registrar of Companies in the usual way and copies are therefore available to the public.
3. IMS meets Government's need for an organisation that can negotiate and discharge contracts with foreign governments for the supply of defence equipment originating from both the Royal Ordnance Factories and industry, arranging credit and export insurance where required, and providing follow-up support covering maintenance, overhaul, training and various forms of assistance in the establishment of defence infrastructure ranging from consultancy and project management to "turnkey" contracting.
4. Since its inception the performance of the company has been successful in both financial and operational terms. It has carried out 161 contracts in 23 countries. Its turnover and profit before tax has increased respectively from £10M and £0.2M in 1972, to £260M and £13M in 1978. This has been achieved without any call on public funds.

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Defence



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7023~~ 218 2111/3

MO 26/9/1A

26th September 1980

MW
26/9

Dear Clive,

DEFENCE SALES

I should confirm, in response to your letter of 10th September, that my Secretary of State will bring forward a paper to OD suggesting what steps might be taken to increase British exports of defence equipment; he aims to do this next month.

I am sending copies of this letter to John Wiggins (Treasury), Ian Ellison (Department of Industry) and Stephen Gomersall (FCO) whose Departments will be consulted as appropriate in the drafting; and to David Wright (Cabinet Office).

Yours and.
Burton

(B M NORBURY)

C A Whitmore Esq

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Defence



10 DOWNING STREET

From the Principal Private Secretary

10 September 1980

*BVA 26
19-9-80*

Dear Brian,

DEFENCE SALES

As I told you when we spoke this morning, the Prime Minister is anxious that steps should be taken to follow up positively what she said in her speech at the Flying Display Dinner on 3 September about the need to increase defence sales (for your convenience I attach the relevant extract from her speech). In particular she would like to know what can be done to reconcile more effectively than hitherto the requirements of our own Services for equipment with the simpler needs of many of our potential customers, in order to make our weapons more attractive in overseas markets. She understands that this is something to which the French have always paid particular attention and that it is an important factor in the success of their defence sales efforts.

The Prime Minister thinks that it would be helpful if the Defence Secretary were to bring forward to OD a paper setting out what measures now need to be taken to increase our exports of defence equipment. The paper should identify any major constraints on the expansion of sales and make proposals for their removal.

I am sending copies of this letter to John Wiggins (HM Treasury), Ian Ellison (Department of Industry), Stephen Gomersall (FCO) and David Wright (Cabinet Office).

Yours ever,

Miss Whitman

B. M. Norbury, Esq.,
Ministry of Defence.

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IMPORTANT: PLEASE CHECK AGAINST DELIVERY

NOT TO BE USED BEFORE 2100 ON WEDNESDAY, 3 SEPTEMBER

PRIME MINISTER'S SPEECH

AT

THE FLYING DISPLAY DINNER,
GROSVENOR HOUSE HOTEL

WEDNESDAY, 3 SEPTEMBER, 1980

To the uninitiated, the Flying Display at Farnborough might appear to be little more than an international get-together of flying enthusiasts, but we know that Farnborough is a manifestation of those qualities of skill, ingenuity and courage which, while not uniquely British, have characterised British aviation throughout its history.

Although others in Europe may claim pre-eminence based on more ground display space, there is only one Farnborough and it will always be the best.

The importance of the aerospace industry to the British economy cannot be over-estimated.

Indeed, if we had to produce the ideal example of an industry with high added value export products, we need look no further than aerospace.

/ The fact

The fact that some 250,000 visitors will attend the flying displays this week is further proof of the tremendous interest taken in flying by young and old alike in this country.

These people illustrate the considerable reservoir of enthusiasm and talent which is available and to which we have a responsibility.

In the spirit of Farnborough I see those very qualities of innovation, brilliance in design and sheer professionalism that are needed for the nation to overcome its difficulties.

/ The giants

The giants of aerospace in Britain are also world leaders.

In British Aerospace we have a group which is producing a range of aircraft unequalled by any other company in the world, and producing missiles which sell even to the US Air Force.

Rolls Royce is one of the three major Western aero-engine manufacturers, acknowledged to be in the very forefront of technology.

While it is the airframe and engine companies whose names make the biggest headlines, we must not overlook the fact that about a third of the value of most aircraft is accounted for by equipment - an immense range covering avionics, instrumentation, electronics, hydraulic systems, and many other components reflecting the excellent work of the large number of equipment companies represented here tonight.

We are fortunate in the UK in having an extremely wide-ranging and efficient aerospace equipment sector which makes a considerable contribution to British, European and American aircraft.

/Mr. President.

Mr. President, the world is moving into recession following the oil price shocks of the past two years.

At home, we are having to tackle the deep-seated problems of high inflation and low productivity. We have never disguised that the adjustment process would be difficult.

We already feel the painful reduction in output and the tragic rise in unemployment.

But we must continue to give priority to securing a lasting reduction in inflation.

This is the only basis for restoring confidence throughout the economy and for creating better prospects for output and employment.

Already, the rate of price increases is falling.

The sooner wage settlements also moderate and productivity improves, the sooner we can achieve more jobs and steady growth.

I am confident that both the good sense and the adaptability of the British people will ensure that together we can restore the economy to health.

/ So far as

So far as defence spending is concerned, the Government has to reconcile the need to strengthen our defences with the policies that will give us economic strength to do so.

No-one is in any doubt that we are determined to improve our defence capability.

At the same time Government spending must be constrained within cash limits.

Because of the priority which the Government accords to defence, an addition has been made to the defence cash limit this year.

Now that limit must be applied firmly.

Francis Pym has taken steps to contain defence spending within the new limit, including the moratorium on new defence contracts which he announced on 8 August.

Francis is watching the position with great care and I know that he will not wish the moratorium to continue for a moment longer than is necessary.

/I did not

I did not come here tonight, however, to talk
about short-term difficulties.

My principal theme is to consider ways in
which Government and industry can work more
fruitfully together.

Although this applies to both civil and
military work, my main examples come from
the field of defence, for in satisfying the
country's defence needs, we are the largest
single customer of your industry.

/This year

This year, the British defence budget is over £10 billion, about 40 per cent of it on equipment.

We must ensure that this enormous budget not only provides our forces with the equipment that they need but also acts as a springboard for the export efforts of our high technology industries.

Export sales of British defence equipment will this year earn £1200 million in foreign currency.

This may sound a large sum and I want to pay tribute to those who earn it.

But, (ladies and) Gentlemen, it is not enough. The procurement budget of Government and the skills of our people, if used together to the best advantage, could bring the country far larger sums, greater benefits both to our Armed Services and to our industries, and more jobs at the same time.

That is the ~~scale~~ scale of the opportunity we have.

If we are to exploit that opportunity government and industry must work more closely together, /Firs

First, we must ensure that whenever possible
the requirements of the Ministry of
Defence are met in a way which is
compatible with the needs of industry.

/Faced with

Faced with the ever-improving quality of Soviet weapons, it is not easy to balance the needs of our Services for sophisticated and expensive equipment with the needs of other markets which may be less demanding.

Our own Armed Forces often do not provide a large enough market on their own to secure a proper return on a major investment of national resources. We must therefore examine rigorously our own requirements to see whether simpler weaponry will sometimes meet our needs.

The fact is that we will not get the export orders we seek unless we are also producing for the home market.

In that effort, we are entitled to look to the aerospace industry to point out exactly where export opportunities lie and precisely what is required for us to compete successfully.

This is well recognised by the Government and the prospect of overseas orders will be a factor which will play an increasing part in deciding our own operational requirements.

/ My second point

My second point concerns our huge investment in military research and development of both cash and the talents of our most able and creative young men and women.

Although the Ministry of Defence currently satisfies 75 per cent of its needs from British industry with 15 per cent from collaborative projects and only 10 per cent from abroad, it is this last 10 per cent that tends to hit the headlines. The contract for new Primary Radars has been a recent case in point.

The previous Government took the decision to follow the NATO infrastructure route in the case of Primary Radars and most of you will know that the rules are very strict - given technical compliance, the lowest tender must win.

Indeed, MOD can only act as a sort of umpire.

/ There are, of course,

There are, of course, very important issues arising from this kind of case.

Long production runs and attractive development contracts often mean that American corporations can offer their products in Europe at prices which are lower than the domestic industry can match.

In Britain, at a time of financial stringency, this leads to a conflict of interest.

Do we buy the apparently cheaper product from abroad, or do we retain and develop our own defence industrial capacity?

/ The Government

The Government recognises its responsibilities in this kind of situation.

A view needs to be taken by the Ministry of Defence and other public procurement authorities of likely requirements well into the future. It could be that a better use of development contracts would help British manufacturers. Too often they feel they need to recover all their own development costs from the first few units sold and consequently set their prices at uncompetitive levels.

Industry for its part will I hope be more ready to spread its R & D costs over the longer production runs that aggressive salesmanship can achieve in world markets.

/ Thirdly,

Thirdly, in recent years the advisability of collaboration
has become a piece of received wisdom.

No nation can afford to meet all its needs alone.

The aerospace industry world wide has a remarkable record
for pragmatism in its partnerships and collaborative
arrangements.

Sometimes the partnerships are put together by
industry, sometimes they are imposed by Government.

Firms and countries are close partners on one
project and strong competitors on another.

I know very well that some of the imposed
partnerships cause a good deal of concern to
some of you.

I understand your worries; there is a danger
that partnerships and consortia will lack the
single-minded control that is necessary to keep
a grip on costs: also there is the real problem
of technology transfer.

/ But

But there are some projects which can only be realised on a collaborative basis.

For those we must ensure that the management and cost control is as keen as on a single company venture.

In my remarks so far the greater emphasis has been on the military side of the industry.

I do not want to trespass too far on your forbearance by making a full survey of the civil side of your industry, but let me highlight a few points.

There are the remarkable technical achievements of Rolls Royce with the RB211 engine: this has proved itself in open competition both the most reliable and the most fuel-efficient of all the large civil aero-engines.

On the airframe side, there has been one event since the last flying display dinner to which I should particularly like to refer - the entry of British Aerospace into Airbus Industrie.

The successful conclusion of that negotiation was a major step in European collaboration.

Ardent though I am in promoting British industry, not even I will go so far as to claim that the dramatic surge in sales of the Airbus since then is entirely due to British participation. I do, however, want to record the importance that we as a Government attach to this European venture.

Hawker Siddeley, as a private sector company, with acumen and foresight made a major contribution at the start of the programme.

British Aerospace, at present as a nationalised industry, and, I hope, before long as a company with private shareholders, is now a full partner.

I wish every success to the partnership.

/ It is

It is hardly necessary for me, in this of all gatherings, to draw attention to the close relationship between military and civil programmes.

The spin-off from advanced military programmes has often been considerable.

In the same way there is much excellent advanced work done both in industry and in the Government's Research Establishments.

We can be justly proud of a whole range of endeavours - the Chevaline improvement programme for the Polaris missile; the Airborne Early Warning Nimrod programme and Tornado programme. Thermal Imaging techniques and applications; and Holographic Head-Up Displays, where we have recently clinched an order with the United States Air Force in the face of fierce competition.

/Today

Today has brought more good news.

Marconi and Plessey, in association with Hughes of America, have won the major NATO contract worth about £100 million to supply the complex improvements to the United Kingdom Air Defence Ground Environment.

This is another fine example of British firms competing with the best in the world and winning.

I congratulate the firms concerned.

Mr. President, I am very pleased to be able to address your Society's dinner tonight, because your industry has a record of which we in Britain are proud. And if I have on the occasion of such a truly international Show spoken at times about particular British matters it is because your Show and your Flying Display is the International Show of the Society of British Aerospace Companies.

/ As the

As the public come in their thousands to watch the products of your flair and brilliance this week, they will have no doubt that you are well able to meet the challenge of the 'Eighties and beyond. In wishing you well I share their confidence.

Prime Minister.

PA.

10/2/1012

I do not think that Geoffrey Pattie is entirely right in what he says about defence sales in his letter below. If one reads Frank Cooper's paper in its entirety, it is clear that he is not complaining about lack of Ministerial support for defence sales: rather, when he talks about the need for a positive strategy (paragraph 33), he has in mind a much greater effort to draw up the operational requirements for equipment with the needs of potential overseas customers in mind as well as those of our own armed forces - as the French have done for years.

This is for MOD

In short, the remedy lies in the MOD's own hands. But the Services have always been reluctant to accept second-best equipment for their own purposes, in the interests of improving defence sales and of gaining the political advantages which often go with arms deals. And I do not see them willingly changing their attitude now. But they may in any case be forced to as the cost of weapons in real terms continues to rise with increased sophistication. If, for this reason, they have to accept that they have got to make do with

Something less than the ideal, but would be opportunity to build into equipment specifications features which will help to make our weapons more saleable.

In my experience FCO Ministers are as keen as MOD Ministers to sell arms, provided there are not obvious political disadvantages in doing so. Indeed, they often argue in favour of sales when the MOD are reluctant to contemplate because they mean diverting equipment from the British Service.

As regards Ministerial visits to the Middle East, you will see from a letter in your Information Folder that FCO Ministers have asked Mr Pym to go to Saudi Arabia; which he has agreed to do. In any case, I do not think that the figures on Annexes B and C show us as particularly lagging behind the French in sending Ministers to the Middle East; and the French Minister of Defence has paid only one visit to that part of the world and to only one country (Saudi Arabia) at that.

Having said all that, I think that there would be some advantage in asking Mr Pym to put a paper to OD setting out how he proposes to respond to your call in your Flying Display speech for greater defence sales. Agree? Alth 6 ix.

Yes not

From: Geoffrey Pattie, M.P.



Clive - ① would you ask about the Qatar point

Done. Spoke to Mr Patten's Secretary, who was very helpful. He will be in the House of Commons, LONDON, SW1A 0AA.

not 4th September 1980

② Have the F.O.

take account of receiving arrangements The PMZ between us comes into it

He was to see by Mr Patten. H.H.

Dear Margaret,

Although it is not open to me to make any comment about the content of your flying display dinner speech, I can tell you from my discussion with the chaps afterwards that they received the speech enormously well.

You were so right when you said that our defence exports were not enough, particularly when our £1,200 million this year is compared with the French 2,604 million last year.

I thought you might like to see a copy of a report prepared by Frank Cooper for Michael Patten which contains many telling passages, none more so than paragraph 33 - it calls for a positive strategy. The French give their industries far more support Ministerially than

we do — it is interesting to note from the list
of Ministerial visits to the Middle East that there is
not a Defence Minister from Britain among them.

It is my belief that we Defence Ministers
should be giving a lead, as happened with Rapier,
but any initiatives are squashed by the Foreign
Office. I met one of our Ambassadors to a
Middle East country at Farnborough who was
almost begging for support Ministerially to secure
£200 million in helicopter and air defence contracts in
the face of French competition. Charles — I versed
on request. Alternatively send for our man in Qatar — ask
him directly.

It is all rather frustrating when one knows
that the opportunities are there — and that we can
seize them if we try hard enough.

Congratulations again on the speech.

Yours ever

John

FRENCH DEFENCE SALES TO THE MIDDLE EAST

Introduction

1. This paper looks at what the French are up to in the Middle East in the defence sales market, and what evidence we have of their intentions and methods.

Objectives of the French

2. The major objectives of the French in this field are:
- To further the aims of French foreign policy (see para 4 below).
 - To sustain a domestic defence industry capable of supporting an independent defence posture. Overseas sales are regarded as a primary objective rather than a useful spin-off from domestic (and Allied) procurement. Independence of NATO's military structure is a help and an incentive in this respect.
 - To safeguard oil supplies. Iran was a major supplier of oil and the revolution resulted in a 19.3% loss of supplies for France. A number of oil-for-arms deals with Middle East countries have helped to bridge the gap. These barter arrangements have advantages for both sides. The most significant in 1979 was with Iraq, where in return for a substantial increase in oil supply France provided £1.5 billion worth of Mirage Fls, AMX 30 tanks and Alouette helicopters, with an option on Mirage 2000s. The French are trying again to get the warship programme (? £1 billion) at the expense of the Italians.
 - For general commercial, and national economic, gain of the kind also motivating our own defence sales effort.
3. Thus the French set out to maximise defence sales as a major instrument of foreign, defence and trade policy, with a particular focus upon relations with the Middle East. The Iranian revolution, both through its effect upon French oil supplies and trading position, and through the instability it has engendered in the region, has provided a powerful spur to step up defence sales in the Middle East.

Foreign Policy

4. The French policy of independence in foreign affairs, and especially of detachment from American influence, is known to be particularly attractive to the Iraqis, for whom France is the only Western state acknowledged as friendly. The French attitude to the Palestinian question, and especially the President's use of the word "autodetermination" during his recent Gulf tour had an attractiveness for Arab leaders (if not for the PLO).
5. This may explain also why, during the Secretary of State for Trade's visit to Iraq in November 1979, the Iraqi Minister for Trade,

Hassan Ali, told him that the British were backward on the question of Palestine, whereas the French "really understood the Arab cause." President Saddam Hussein, speaking in October 1978, said that all Iraq's commercial dealings with foreign nations would be in the light of their political orientation.

6. French actions can be as effective as French words. On several occasions the French have demonstrated their readiness to provide physical support to endangered friendly regimes (eg Chad, Mauritania, Zaire, Tunisia). When Libyan-backed insurgents attacked Tunisia at Gafsa, the French provided President Bourguiba with two transport aircraft and two helicopters and sent a task force to cruise off Tunisian waters as a further gesture of support. When Saudi Arabia appealed for aid for the YAR during hostilities between YAR and PDRY in March 1979, France offered, it seems, Mirage Fls with French crews; this compared with the British offer to refurbish Lightnings from Kuwait over a longer timescale, and with the UK's reluctance about assistance with contract pilots or the use of BAe personnel on loan to the Saudis.

7. Recently, three Mirage Fls flew direct from Paris to Djibouti in four hours, no doubt to demonstrate France's ability and implied determination to support, say, the Saudis against external threats in times of crisis. French intervention in Africa with 'les paras' created a dynamic and effective image; it also lends credence to the possibility of France coming to the assistance of the Gulf. The President is known to want to start a so-called dialogue between Europe, the Arabs and Africa for purposes of economic co-operation, combining technology, wealth and mineral resources - another example of the tailoring of current French foreign policy to non-aligned expectations.

8. There is also evidence that the French have embarked upon a cultural push in the Gulf to assist their penetration of the region. During his Gulf tour, Giscard d'Estaing was accompanied by his Minister for Culture and Communications. The UK has always possessed a significant advantage in the widespread use of English in the area. Now, however, institutes and schools to teach the French language are appearing (eg in the Qatari Armed Forces) at a time when the British Council is being made to retreat for reasons of economy. During HDS's visit to the Gulf in 1979 he was told by a senior Arab "When we were poor you were here; you even taught us English so that we could understand you. Now we are rich, we never see you, and we are having to learn French."

Organisation for Sales

9. French foreign policy therefore provides a background against which French defence sales to the Middle East may prosper. French internal policy, with its emphasis on the importance of sales, assists in a variety of ways, and the resources of the Government and the Services are geared towards maximising exports of defence equipment.

Equipment Policy

10. 'Saleable' equipment forms the backbone of the French defence

sales effort, and its role is crucial. An examination of French sales successes in the Middle East and North Africa in recent years reveals the pattern of French activity (Annex A).

11. Sales of Army equipment are based upon relatively few equipments. The AMX 30 tank has sold extremely well, and by comparison sales of Chieftain and its derivatives outside NATO (to Jordan and Kuwait) look poor. The French also sell a large number of armoured personnel carriers (APCs), of which they produce a wide range. The UK has no tracked APC to rival French products; our only contender, Alvis's SPARTAN, can only carry five men apart from the driver and gunner, as opposed to the nine carried by the AMX 10. Similarly, the French have sold a large number of self-propelled 155mm guns; we have no rival gun to offer; the tri-nationale SP70, when it is available, will be a competitor but very expensive.

Raise at Bonn
12. Sales of aircraft, both fixed wing and rotary, show the same pattern. The Mirage F1 has sold well because it was and is available. The Tornado ADV is several years from delivery for export and to date we have not secured German approval to show it to the Saudis who have asked to look at it. Even if security objections can be overcome it will still be a very expensive and complex aircraft. Sales of Harrier and Jaguar have been comparatively disappointing, and some potential customers have not been convinced of their relevance to the Middle East roles.

13. French sales of helicopters are also sizeable, due possibly to a greater product range than that of the UK competitor, Westlands, and also the fact that the French have the advantage of marketing rights on two out of the three co-produced models Aérospatiale are building with Westlands, ie Gazelle and Puma.

14. The gap in export performance of major equipments is too wide to attribute to French salesmanship or British inhibition. In certain key areas of equipment the French have a product which reflects better the overseas customer's needs, especially in the third world.

15. The main reason for this is that export considerations are a significant factor in the formulation of the operational requirement for any item of equipment to be used by the French Armed Forces. French independence of NATO's military structure also means that questions of standardisation can be overlooked, security objections need not be the concern of any but the French themselves, and there are fewer requirements for equipment to be produced to fulfil NATO-defined tactical roles. An example of this is the Harrier which, as well as being sophisticated and difficult for Arabs to fly, has a specialised role in the European theatre, which does not equate with the operational requirements of potential Middle Eastern customers for whom French aircraft and tanks are better suited to the latter, if correspondingly less fitted for European conditions.

16. Some of the UK's successful export products have been private venture. Examples are in the fields of communications and opto-electronics, where funding requirements are low enough for firms to commit considerable resources to researching and designing private venture products for export as well as products for the UK Services.

17. The French seem to be attempting to take this idea of 'designing for export' to its logical conclusion with the Mirage 4000. Rather than relying on their own assumptions about what potential overseas customers may require, the French are now trying to set up a collaborative project, with Saudi Arabia and Iraq providing funds. Export sales would be assured and development costs subsidised. This has already been practised with Crotale (Shahine) for Saudi Arabia.

18. Because of previous successes in aircraft sales with products better suited to local conditions the French may succeed in selling Alpha Jet over the Hawk to potential Middle East customers. Alpha Jet's performance is inferior, but its sale to Qatar and Morocco could mark the beginning of a trend. Other factors may be equally important, such as credit terms and delivery schedules, which are discussed below. These were mentioned on several occasions to HDS during his recent Gulf visit.

19. In key equipment areas therefore the French have products which better suit the needs of customers, and this derives from the concerted effort made by Government, the military and industry at the operational requirement and design stage to arrive at a product which will sell well.

Price and Delivery

20. Although there is no strong evidence that the French are seriously undercutting the UK on price, on selected deals there is evidence that they show more flexibility than UK manufacturers would. The French, in their anxiety to steal the Iraqi frigate contract from the Italians, offered price reductions of a magnitude that indicated a willingness possibly to run the contract at a loss.

21. Delivery dates are always important to customers, especially in the Middle East where procurement may not be planned far ahead and the desire is for goods 'off the shelf'. Because of the value attached to defence sales by the French Government, we believe items are diverted from the supply allotted to the French Armed Forces when there is the prospect of a large contract, although concrete examples of this are hard to come by.

22. Where products have sold as successfully as the Mirage F1 and AMX 30 the long production runs and confidence in future sales which ensue must increase the scope for flexibility in delivery. We also have some evidence that the French are building speculatively on the Super Puma.

Ministerial Involvement

23. A list of visits to the Middle East by French ministers is at Annex B. It is difficult to determine to what extent these visits may affect defence sales, but the most important of them, that of Giscard d'Estaing to the Gulf, certainly had defence sales interests high on the agenda. French ministers other than the President and Defence Minister also take an active interest in defence sales.

On the admittedly imperfect evidence of Annex B, however, the French do not seem to use ministers on sales promotion visits to the extent that is often alleged. UK ministers have probably visited as frequently and Giscard's tour mirrors that of The Queen last year. However, the French probably capitalise more on the sales potential of such visits as they make: industrial representatives are often in the official party, and included in the official discussions.

24. When Italy was reported to have gained the Iraqi frigate contract, Giscard summoned the Iraqi Ambassador and personally remonstrated with him about the decision, and requested that the French be given a further opportunity to plead their case, with reduced prices. This was granted, though the Italians may still win the contract. It is unlikely that the British Government would have gone to such lengths in similar circumstances.

AOI

25. Following the Camp David agreements between Israel and Egypt, those countries became markets for predominantly American defence equipment. Moreover, the Arab Organisation for Industrialisation (AOI) collapsed just when its members (Egypt, Saudi Arabia, the UAE and Qatar) looked to be heavily dependent upon UK and French technology. Since Camp David, French ministers have steered clear of Egypt, probably through fear of incurring the displeasure of the Gulf States, some business is reported as continuing, but less publicly than before.

26. Fortunately for the French they had not proceeded further than feasibility studies for projects with the AOI, and consequently they are not involved in the legal tussles which currently occupy several British contractors seeking compensation. Hence they have avoided any Saudi Arabian criticism of the kind which has been levelled against the UK firms, and are well placed to provide technical support for any revival of the AOI. This, if it transpires, will provide French defence sales with a considerable boost in the Gulf region. The decision by Westlands to resort to arbitration to safeguard their legal position will also not help our activities in the area.

Training

27. Service training, military assistance and its price, are often very important ingredients in a sales package. Petrodollars can buy hardware off the shelf but it is much more difficult to purchase skills. The degree of help that an arms exporting country can offer in this area is therefore very important. In this the French benefit from having a partly conscript army, which allows greater flexibility of manpower. The offer of pilots for the YAR mentioned above shows the French attitude and capability in this area.

28. Sometimes the cost of training connected with sales can be waived, reduced or disguised at the discretion of the French Foreign and Defence Ministries. By comparison the UK capability to offer training has been reduced by successive defence cuts and manpower shortages and there is very little flexibility in prices, which are in any case very high by international standards and are likely to

increase with the current Treasury determination to move towards 'full' rather than 'extra' cost.

Credit

29. With the occasional exception of Syria and Jordan credit has not been a major issue in UK sales to the Middle East. However, there is evidence from elsewhere that the French are more flexible in this. The UK only departs from OECD agreed guidelines on credit in response to known departures by the competition (which are very difficult to prove). COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur), by contrast, take the initiative in offering easier terms, as they have done in Tunisia. This may involve a mixture of aid and credit, which far outstrips ECGD terms for a number of items. Whether or not this policy pays, even in the longest run, is difficult to tell. It seems much more likely that the offer of soft terms is primarily politically motivated.

Hospitality and Protocol

30. The French are clearly well aware that the Arab minister's impression on arrival at Paris or London will influence his outlook on the whole visit. Arab heads of state visiting Paris are always treated as royalty and suitably guarded; the senior ministers and the President are often on hand to meet them. The importance of the respect and attention lavished on Middle Eastern dignitaries is immense; many believe Iraqi favour towards France stems from a rapport struck between M. Chirac and Saddam Hussein on an early visit to Paris, and the French strength in Saudi Arabia certainly stems from good personal as well as diplomatic relations. Franco-Saudi relations were consolidated by a particularly successful and enjoyable visit to Paris in May 1978 by King Khalid. Similarly the Qatari royal family have been overheard to say that French treatment of them, both in terms of hospitality and of security arrangements, far exceeded their reception in the UK. The ruling family of Abu Dhabi have also received a great deal of attention in Paris.

Press Publicity for Deals

31. It is standard practice to leak claims that contracts have been signed. It is said that the contract for the development of the Tehran Metro was won eleven times in this way. Rumours were rife after King Khalid's visit to Paris in May 1978 but the only identifiable success was for the supply of Crotale (Shahine) announced in July 1979. One of the cleverest rumours concerned supply of the Mirage F1 to Saudi Arabia which reverberated round the Paris Salon in June 1979.

Conclusions

32. We have learned little that is new in this exercise. The motivating force is the desire to spread French national political influence in the Middle East, with all the accompanying advantages for trade and security of oil supplies. The Iranian revolution added impetus to this and in the past year the French have stepped

up their efforts to penetrate the region, especially in the Gulf area.

33. They have not been universally successful; for example they have achieved nothing in Dubai and Oman. Some of the apparent success lies in the imagination of the media. The success the French have had has only been partially due to the tactical support of the Government for sales (ministerial involvement, training, credit, hospitality), on which British firms have cast envious eyes. Much more important is that these factors derive from a positive strategy in which defence sales themselves are an important policy objective commanding the conscious efforts of the Services and of all levels of Government.

FRENCH SALES TO THE MIDDLE EAST AND NORTH AFRICA IN RECENT YEARS
(BY EQUIPMENT)

Army Equipment

- AMX 30 (MBTs) - Iraq (1975-), UAE (1978), Abu Dhabi (NK), Lebanon (NK), Qatar (1979), Saudi Arabia (1972-5)
- AMX 10 (Tracked APCs) - Morocco (1978), Qatar (1978), Saudi Arabia (1976), UAE (1978), Bahrein (NK)
- AMX 13 (Light Tank) - Lebanon (NK), Morocco (1958-69), Tunisia (1958-), Kuwait (ARV version - 1977)
- AML 60 (APC) - Algeria (pre 1973), Saudi Arabia (1971)
- AML 90 - Lebanon (1970-72), Morocco (1978?), Saudi Arabia (1971), UAE (1974), YAR (from Saudi Arabia 1979), Bahrein (NK)
- Panhard M3 APC - Bahrein (1978?), Saudi Arabia (1971), Iraq (1975-), Abu Dhabi (NK)
- Crotale Missile System - Abu Dhabi (1977), Egypt (1979), Saudi Arabia (Shahine - 1980+)
- Milan Anti-Tank Weapons - Iraq (1976), Syria (1978), Lebanon (NK), UAE (1978), Tunisia (1978-)
- HOT Anti-Tank Weapons - UAE (1978), Iraq (1980+), Saudi Arabia (1980+), Syria (1980+)?
- 155mm SP Gun - Saudi Arabia (NK), Kuwait (NK), Morocco (1978), UAE (1975), Qatar (1979), Lebanon (NK), Egypt (NK)

Aircraft

- Mirage F1 - Iraq (1980-), Jordan (1980), Kuwait (1976-77), Libya (1977-78), Morocco (1978)
- Alpha Jet - Qatar (1980), Morocco (1980) Egypt 1978
- Gazelle Helicopter - Egypt (1976-77), Iraq (1976-78), Kuwait (1975+), Libya (1978), Lebanon (1979-80), Morocco (1976), UAE (NK), Qatar (1974)
- Puma Helicopter - Kuwait (1974+), Lebanon (1979-80), Algeria (1971-74), UAE (1972-73), Morocco (1975-77), Iraq (1978)

Alouette helicopters - Iraq (1973-74), Jordan (1965-74),
Lebanon (1971+), Libya (1965-), UAE
(1972+75), Tunisia (1963+66), Saudi
Arabia (NK)

Super Frelon Helicopters - Iraq (1976), Libya (1971)

Interest shown in
Mirage 2000 + 4000 - Saudi Arabia + Iraq (1980)

Naval Equipment

Missile FPBs - Lebanon (NK)

Combattante FPBs - Libya (1980+)

FPBs (Genera₁) - Morocco (1975/6/7+)

P48 Missile Craft - Tunisia (1970+75)

FRENCH MINISTERIAL VISITS TO THE MIDDLE EAST (1979/80)

- President Giscard d'Estaing - Kuwait, Bahrein, Qatar, Abu Dhabi, Jordan, Saudi Arabia (March 1980)
- M. Andre Giraud - attendance on Gulf tour (see above)
Minister for Industry
- M. Jean-Francois Deniau - attendance on Gulf tour (see above)
Minister for Foreign Trade
- M. Jean-Philippe Lecat - attendance on Gulf tour (see above)
Minister for Culture and Communications
- M. Raymond Barre - Due to visit Saudi Arabia but cancelled
Prime Minister because of King Khalid's illness - hence Saudi Arabia added to Gulf Tour itinerary. Iraq (1979)
- M. Jean-Francois Poncet - attendance on Gulf tour (see above),
Minister for Foreign Affairs Syria (1979), Kuwait (1978)
- M. Bourges - (notably absent from Gulf tour),
Minister of Defence Saudi Arabia (July 1979)
- M. Michel Poniatowski - (Special Envoy of the President)
Saudi Arabia (October 1979)

BRITISH ROYAL AND MINISTERIAL VISITS TO THE MIDDLE EAST (1979/80)

HM The Queen	- February/March 1979 - Kuwait, Abu Dhabi, Qatar, Oman, Dubai, Saudi Arabia
Foreign Secretary Lord Carrington	- Autumn 1979 - Iraq January 1980 - Oman, Saudi Arabia <i>AUGUST 1980 SAUDI ARABIA</i>
Secretary of State for Trade Mr Nott	- November 1979 - Iraq, Saudi Arabia
Minister of State (FCO) Mr Hurd	- September/October 1979 - Jordan, Syria, Lebanon January 1980 - UAE, Bahrein, Qatar March 1980 - Kuwait, YAR
Minister of State (Trade) Mr Parkinson	- October 1979 - Iraq April 1980 - UAE, Kuwait
Parliamentary Under-Secretary of State for Trade Mr Eyre	- April 1980 - Bahrein, Oman

FRENCH ARMS EXPORTS IN 1979 (ALL FIGURES ARE FOR NEW CONTRACTS SIGNED)

Total value (worldwide) 1979 - 25,000m Francs (£2,604m)

Total value (worldwide) 1978 - 23,000m Francs (£2,396m)

of which:

Aircraft and missiles - 75% (123 aircraft) (these to Iraq, Jordan, Pakistan and Argentina)

Ground equipment - 17.5%

Naval equipment - 7.5%

Geographical distribution - 55% Middle East Region

15% Far East Region

15% Latin America

12% Europe

Delegation Generale de l'Armement states 1979 an exceptional year especially as regards aircraft sales, and unlikely to be repeated. Official statement is that only 380 French technical advisers are currently abroad worldwide.

(NB A number of major naval equipment orders are expected in the course of 1980)

Source: Interavia Air letter for 22 April 1980.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~922~~~~7022~~ 218 2111/3

MO 26/7/3

PM has seen 2nd September 1980

Stan Duke,

MAP 3/ix - copy to a defence file for price in memorandum - page 2.

PRIME MINISTER'S SPEECH AT FLYING DISPLAY DINNER

MAP

We spoke earlier today about the selection of a contractor for a major NATO Infrastructure funded contract for the United Kingdom Air Defence Ground Environment (UKADGE). You asked for a form of words on which the Prime Minister could draw for her speech at the Flying Display Dinner tomorrow evening. This I attach. I am now able to confirm that the outstanding contractual points which I mentioned to you earlier have now been ironed out between our contracts staff and the companies concerned. The way is now clear, therefore, for the Prime Minister to include a reference to the UKADGE contract in her speech.

So far as the detailed arrangements for the announcement itself are concerned, we would expect to inform, formally, the companies concerned - Marconi, Plessey and the Hughes company of America - during the course of today or early tomorrow of their success. This will mean that the audience will be prepared for the Prime Minister to make a reference to the contract.

It might be helpful for you to have a little further background information on the contract for the UKADGE. UKADGE is a complex arrangement of computers, communications links and displays which will improve the coordination of all input data for the command and control of the United Kingdom's air defence resources. The total programme is estimated to cost about £100 million, and NATO Infrastructure funds are expected to meet about £80 million of this total. To bid for the contract, Marconi and Plessey joined together with the Hughes Aircraft Company of America and formed a consortium (UKSL). A year ago - and a late arrival in the field - a rival partnership to UKSL was formed with French Government encouragement. The rival group consisted of French, American and Dutch firms, with a 20% stake held by ICL of Great Britain. Plessey and Marconi had expressed a fear to the MOD that their competitors

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might have put in a "loss leader" bid for the contract. In the event, however, the British led consortium, UKSL, was the winner by a margin of some £7 million.

I should mention one final point which is that of the current moratorium on defence contracts. Officials here are monitoring the MOD's financial position very carefully, and, in order to keep Defence Expenditure within the agreed cash limit, it is probable that the moratorium on defence contracts will have to be extended beyond the initial three months (which end on November 8). We are looking at the implications of any such action on the timing of the placing of the contract for the UKADGE.

I am copying this letter to Peter Stredder (Industry).

Yours truly
John Dawson

(J D S DAWSON)

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