

1/5/81



Prime Minister

CF - I have asked

DoI for a further report

before the weekend. Pls chase

tomorrow evening.

TL

(Oral report direct to TP2)
1/5/81

ARABSAT

You will wish to be aware of the latest developments reported to us by our Embassy in Amman based on information they have in turn received from British Aerospace representatives.

We are informed that the ASCO Board has virtually decided on the joint French-US bid from Aerospatiale-Ford on grounds of price. The bids are close with Hughes at \$143 million, BAe/MATRA/Thompson at \$141 million and Aerospatiale-Ford at \$132 million. The various forms of Department of Industry and ECGD support offered have therefore enabled the Anglo-French consortium to submit a lower bid than Hughes, whom we regarded as the main threat, although the consortium is significantly less attractive in price than Aerospatiale-Ford, even though neither they nor Hughes made further reductions in prices put forward in Washington.

British Aerospace have said the amount of the reduction they were able to make to their earlier bid following re-negotiations of ECGD terms, was in fact less than \$10 million suggested when this matter was raised with you in Riyadh. BAe claim that the reduction is only \$2.8 million for their share of the contract and this is due to ECGD basing their guarantees on forward rather than current sterling-dollar exchange rates.



The latest position is that the Anglo-French consortium has been given an opportunity to come forward with a reduced bid by 3 May latest. The options are said to be a straight reduction from \$141 to \$125 million or a reduction to \$130 million coupled with certain changes to make the bid fully compliant.

These changes are estimated to cost \$8 million (which would have to be included in the \$130 million so this is financially the more onerous option).

We are exploring urgently with British Aerospace what more might be done. We shall, of course, wish to probe the company fully about the extent of the reductions they have made in their price in the light of the very considerable assistance that has been offered by the UK and French Governments. We have as you know, already offered up to \$12½ million from my Department and even if we accept the benefit from the ECGD change as \$2.8 million, these sums matched by the French amount to nearly \$31 million. This is a formidable subsidy for an order of this magnitude.

So far as the re-negotiations of the ECGD guarantee is concerned I understand that ECGD did what was asked of them by the company ie to replace the October exchange rates schedule which formed the basis of their earlier guarantee with a current exchange rates schedule. BAe estimates of potential savings from this change were either over-optimistic or they did not fully understand the nature of the ECGD scheme. We shall, however, probe this point as well.

Our objective now will be to see if a more acceptable package can be put together for submission by 3 May but I do not believe there is much scope for further subventions from public funds. I will of course keep you informed. Copies of my minute go to Cecil Parkinson, Douglas Hurd and Leon Brittan.

MICHAEL MARSHALL

29 April 1981