

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

CONFIDENTIAL

CONFIDENTIAL



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.