

Prime Minister
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2/3MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~910 7022~~ 218 2111/3

MO 26/9/1a

1st March 1982

Dear John,

I enclose a copy of the latest quarterly report on major defence sales prospects.

At my Secretary of State's request, I am also sending you a summary of major defence sales contracts signed in the last quarters of 1981. These were worth some £358M in all, £35M more than the value of contracts secured during the previous three months, bringing the total for 1981 as a whole up to £1,446M.

As the summary makes clear, Iraq continues to be a particularly important customer and was responsible for almost 28% of our sales during those three months. Future sales prospects are also good, with considerable interest being displayed in UK aircraft such as the Hawk, Nimrod AEW and the P110/Tornado. Our second largest customer during the quarter proved to be the USA which signed contracts, mainly in the aerospace area, worth just over £35M. Another good customer over the past year has been Nigeria which signed contracts worth £150M during 1981. A number of additional major contracts are currently being negotiated and a Nigerian letter of intent to purchase 36 Jaguar aircraft has recently been signed. The overall value of this contract will eventually be about £500M and an initial down payment of £50M has already been made to British Aerospace.

The Prime Minister may be interested to learn of the campaign to increase UK penetration of the West German market. Studies showed that the greatest opportunities lie in the field of components and sub-systems. Following on from visits to West Germany earlier in the year and a display of British NBC defence equipment at Rheindahlen, the Defence Sales Organisation arranged an inward mission of senior German industrialists and officials from the Federal Procurement Agency. As well as visiting British industry, the German party met my Secretary of State and other Ministers. Both the German and British industrialists found the visit worthwhile and almost all the UK companies involved,

A J Coles Esq



some 25, have arranged further discussions with West German industry on specific sales prospects. One of the most significant developments since the last report has been the American decision to choose Hawk to meet the US Navy's advanced trainer aircraft requirement. Although there has been some Congressional opposition to offshore defence purchases, we are hopeful that the Hawk programme will go ahead and its potential value to UK industry is £500M.

Agree that
we should
fix this
meeting?
WR
2/3
Yes
not

I understand that my Secretary of State has mentioned to your office that he would like to brief the Prime Minister on his proposals for changes to the Defence Sales Organisation. Perhaps we could fix a suitable time for this discussion.

I am copying this letter to Francis Richards, John Rhodes and David Wright.

Yours sincerely
Nick Evans

(N H R EVANS)

PART I - STATISTICAL SUMMARY OF CONTRACTS SIGNED DURING THE QUARTER ENDING
31 DECEMBER 1981

The value of new orders received (ie, contracts signed) during the quarter amounted to £358.318M compared with £322.927M in the previous quarter and £532.08M in the April-June quarter. The principal orders were the £30M contract for Landing Ships placed by Algeria, the purchase of 5 Hawk aircraft by Indonesia for £25.7M and the Omani order for £28M worth of Chieftain tanks.

<u>NAVY</u>	<u>£M</u>	<u>ARMY</u>	<u>£M</u>	<u>AIR</u>	<u>£M</u>
Algeria	30.000	Abu Dhabi (UAE)	0.897	Argentina	0.500
Cameroon	2.500	Australia	8.500	Cameroon	0.300
New Zealand	19.000	Austria	25.346	Chile	0.500
Trinidad & Tobago	3.000	Botswana	0.180	Egypt	5.250
USA	1.900	Canada	1.062	Finland	0.950
		Chile	0.300	Indonesia	27.200
		Ecuador	5.000	Iraq	8.000
	<u>56.400</u>	Egypt	5.750	Japan	0.450
		Iraq	91.050	Nigeria	13.310
		Jordan	1.775	USA	33.513
		Kuwait	1.024	Zimbabwe	0.400
		Lesotho	0.280		
		Malaysia	10.000		<u>90.373</u>
		Mozambique	2.300		
		Netherlands	1.009		
		New Zealand	6.000		
		Nigeria	18.620		
		Oman	28.612		
		Portugal	1.940		
		Somalia	0.350		
		Sudan	0.400		
		Yugoslavia	0.750		
		Zimbabwe	0.400		
			<u>211.545</u>		

Note: The figures are substantially correct but not completely comprehensive as not all private orders, particularly those of a minor nature, are known to the Defence Sales Organisation. Orders worth less than £100,000 are not included in the Report. The figures shown are basic costs and do not include escalation or interest on credit.

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 MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ALGERIA	HAWK	100+	1982+	Evaluated by the Algerians in November. Detailed proposals are now being drawn up.	US of S(DP) visited Algiers in August	France Italy Czechoslovakia
	SEA KING/COMMANDO HELICOPTERS	100+	Not known	Demonstrated in November. Proposals are now with the Algerians.		France Italy
	FOX	25	1983-84	Awaiting invitation to tender.		
MOROCCO	IMS PACKAGE - ARTILLERY, VEHICLES ETC	125	1982+	Outcome of negotiations still awaited. IMS still consider it a reasonable prospect for the near future.		France USA(aid)
	FOX	35	1983-84	Vehicle of this type is expected to be included in the final phase of current Moroccan programme.		
NIGERIA	JAGUAR	500	early 1982	Initial down-payment of £50M received. Final contractual and financing terms under continuing discussion. Nigerians have requested no publicity.	S of S discussed credit with Nigerian Minister of Defence in September 1981.	France
	SWINGFIRE	135+	1982	BAe negotiating team visited Lagos in January to continue talks.		France USSR
	PARACHUTES	15-20	early 1982	£5M contract for an initial qty expected shortly.		USA
	TANK AMMUNITION (76 MM & 105 MM)	18	1982	IMS have followed up last year's sales of tanks with quotations for ammunition.		Israel Belgium USA
	RAPID RUNWAY REPAIR EQUIPMENT	10	early 1982	Contract terms agreed - awaits Presidential approval.		
TUNISIA	HAWK	65-135	1982+	Quotations made and good credit offered. Demonstration last November. Intense competition with partial aid offered by France and USA.		France USA
ZIMBABWE	RADIO COMMUNICATIONS	20	1981-82	Second of two contracts for direct supply due in March. Local production of remainder likely to start later this year.	M of S(AF) plans to visit in the Summer.	France

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 MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRALIA	HUNT CLASS MCMVs	90	1982	Negotiations in progress for purchase of 2 MCMVs from Vosper Thornycroft with an in-service date of 83/4. RN have agreed diversion of 2 hulls and associated equipment. MOD and IMS offering support to the deal and possibility of further orders for 2 vessels.		
	HMS INVINCIBLE	182	1982	Draft Sales Agreement and MOU negotiated in November. Australian decision expected end of Feb. Prospect is good.	PM, S of S, M of S(DP) in correspondence with Australian counterparts	US, ITALY, SPAIN
BANGLADESH	HMS LYNX	1.5	1982	Offer of sale open until 28 Feb on condition that Bangladesh agrees terms for settlement of outstanding debt of £1.5M on previous purchase.		
CHINA	O51 PROJECT	170	1983+	Negotiations continuing. Contract signature now forecast for end of March. US has agreed to sale and full COCOM clearance expected shortly.		
INDIA	SEA KING HELICOPTERS	200	1982	Revised proposals submitted in January. Further negotiations and MOU discussions to take place.	M of S, FCO visited in January	FRANCE
	SEA HARRIER	75	1982	BAe have been asked to visit India for contractual negotiations. Quotation made for 10 Sea Harriers and two trainers.		
	FH70 ARTILLERY	80	1982	IMS are preparing a revised offer for 200 guns, including some local manufacture of 100 guns, 200 tractors, ammunition and a credit package for the whole deal.		USSR, USA, SWEDEN AUSTRIA AND FRANCE
JAPAN	FH70 ARTILLERY	50-100	1982	Decision expected first quarter of 1982. Japanese army prefers FH70 and has told US and Sweden.		US SWEDEN
MALAYSIA	PANGA ARMoured CAR	22.5		Evaluation in Malaysia in January. Up to 75 army and 30 police vehicles required.	FCS visited early Feb to mend trade fences	FRANCE USA
SOUTH KOREA	HAWK	500	1983+	BAe proposal for purchase of 18 and licence build submitted in Sep. Response is awaited.		
	SKY VAN	270-300	1983	Initial requirement for 30 aircraft. Understand Sky Van to be favourite.		SPAIN

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EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRIA	BL755 CLUSTER BOMBS	5	1982	Order awaited following apparently successful aircraft compatibility trials.		None
BELGIUM	VEHICLE RADIOS	15+	1982	Plessey are sole UK contender. Strong competition from Israel. Decision expected end of March.		Israel
DENMARK	SEA SKUA	5-10	1985-86	For Lynx helicopters already on order. BAe will visit in February for further discussions.		
GERMANY	SEA SKUA AND RADAR	50	1986-87	Well placed for selection as a mid-life improvement to Sea King helicopters.		France Italy
	STINGRAY/TORPEDOES	20+	1984	Marconi, with MOD support, trying to counter FRG decision to buy Selenia homing head for AEG heavyweight torpedo. Lightweight torpedo reqt slipped to end of 80's.		USA Italy
GREECE	TORNADO	200-300	1982	Intensive discussions with Panavia are expected before a final decision is taken in the spring.	M of S has invited Greek Deputy Defence Minister to UK.	USA France
ITALY	SPEY AERO-ENGINES	100	1982	Text of main contract substantially agreed. Parts to be manufactured in Italy identified. Final signature now anticipated in Autumn 1982.		None known
	GEM AERO-ENGINES	30-100	1982	MOD(PE) and Rolls-Royce are currently doing type approval certification of prototype engine for the Italians.		None known
SPAIN	RAPIER	100-150	1982	Letter of Intent issued by Spanish authorities. Contract should be signed by end of March if arrangements for local production can be agreed.		USA France
	SEA HARRIER/AV8B	75-85	Not known	Spanish interest in AV8B confirmed by US. Spanish Navy have taken 2 places offered for Harrier pilot training this year.		
SWITZERLAND	BL755 CLUSTER BOMBS	Up to 18.4	late 1982	Offer for 2,000 weapons submitted as follow-on buy to earlier sale.		
YUGOSLAVIA	EW SYSTEM	16	1982	Racal have made proposals in accordance with detailed Yugoslav specification. Contract imminent.		USA
	BL755 CLUSTER BOMBS	Up to 23	early 1982	Huntings have been asked to quote for a further 1,000 and 2,000 bombs. Excellent prospects of a further sale.		

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LATIN AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
BRAZIL	FIRE CONTROL SYSTEMS FOR 4 CORVETTES	45	1982	The Ferranti package has been chosen by the BN and final contractual and financial details are being negotiated. Prospects for 8 further systems.	US of S (DP) plans to visit in April/May 1982	Italy and Holland
	SEA SKUA	10	1982	The BN are waiting for the missile to be accepted into RN service before making their final decision.		
ECUADOR	AIR DEFENCE SYSTEM	up to 85	1982+	First phase contract (£15M) signed in 1981 RAF specialist on loan to EAF to advise on set-up. Plessey seem well placed for second phase of programme (£25M) in 1982.		USA and France
	LYNX HELICOPTERS	up to 40	1982	MOD have offered RN training. Strong competition.		France and Italy
PERU	NAVAL BASE (Phase 1)	90	1982	Project definition complete and successful presentation given to the PN. Credit cover could be a problem		
URUGUAY	Ex RN TRIBAL CLASS FRIGATES	up to 60	1982	Defence Sales and Vosper Thornycroft visited Uruguay in Dec 81 to present proposals to UN. Possibility of reciprocal trade agreement under consideration.		USA
VENEZUELA	HAWK (24)	100+	1982	Decision delayed due to political implications of border dispute with Guyana. Final contract negotiations are expected in early 1982. Venezuelan team visited UK in late 81.	US of S(DP) plans to visit in May 82	France, FRG USA and Switzerland
	SCORPION (100+)	42	1982	Decision expected early 82		
	RAPIER (8-12 fire units)	up to 90	1982	Venezuelan team visited UK in June 81 for a presentation and live firing. Part of an overall air defence programme (value £1.5B) over next five years.		

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MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ABU DHABI	HAWK	60	early 1982	Detailed specifications being completed and contract negotiations imminent. Shaikh Khalifa assured of MOU in support.	PM secured agreement in principle to purchase. Visits by PM and S of S in 1981.	France
	ENGINEERING PACKAGE	80	early 1982	IMS tender under consideration. New competition introduced but IMS still offer only complete package.		Various countries
	ELECTRONIC WARFARE PACKAGE	100+	mid 1982	UK tenders submitted and offer of UK MOD support made.		France, Italy, FRG and USA
EGYPT	MBTs	300+	mid 1980s	Interest in 300 tanks. Presentation given in Egypt, end January 1982.	S of S discussed with Egyptian Minister of Defence.	USA, France, FRG
	FAST PATROL VESSELS (or CORVETTES/FRIGATES)	240	1983+	Egyptian Navy to decide whether 6 FPVs or 2 larger ships would best meet their requirements. Provision of credit essential to secure order.	Special allocation of credit agreed by Ministers.	France, Italy, Spain and USA
IRAQ	HAWK (licensed manufacture) and industrial infrastructure package	2000+	1982	BaE proposals for local production presented during December 1981, and now being evaluated by Iraqis.	Ministers have agreed to supply.	France and Italy
	NAVAL BASE	500	1982	IMS secured design contract for Integrated Weapons Complex and have tendered for Naval Base Complex.	S of S has written letter of support to Iraqi Minister of Defence.	France and Italy
	REFURBISHMENT OF CAPTURED CHIEFTAINS	50	1982	IMS have now submitted costed proposals to Iraqi government.	Ministers have agreed to this work being carried out in Iraq.	None
	NEW MBTs AND FH70	up to 1000	1982+	Iraqi delegation saw Challenger in UK in November 1981. Proposals for 300-560 MBTs and up to 500 FH70 requested.	Ministers have decided that supply must await end of Iran-Iraq war.	France
	TORNADO/P110	500	1985+	Iraqi Air Force delegation visited UK end January 1982 to test-fly Tornado and continue discussions on joint Arab participation in P110 project.	Under consideration by Ministerial Working Group on Defence Sales.	France
	AEW AND TANKER AIRCRAFT	about 750	1982+	At the request of the Iraqi Air Force, proposals are being prepared for Nimrod AEW export-version and HS146 AEW. Proposals to meet Iraqi tanker aircraft requirement also discussed during January 1982 visit of Iraqi Air Force delegation.	Agreement to supply	Italy
	BARMINE, RANGER & MINELAYERS	up to 100	1983	Draft proposals under discussion.	Foreign Secretary has agreed to supply.	

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MIDDLE EAST (Continued)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
JORDAN	TORNADO/P110	NOT KNOWN	mid-1980s	Jordan taking lead with Iraq in discussing joint Arab requirement. Considerable Middle East interest but much depends on there being a UK requirement for this aircraft and the security/political problems of supplying Tornado.	S of S discussed with General bin Shaker in September and November 1981.	France USA
KUWAIT	MBTs	250	NOT KNOWN	Current interest focussed on Challenger with requirement believed to be for up to 80 vehicles. Challenger demonstration taking place February 1982.	Discussed during PM's visit September 1981.	France and USA
	AIR DEFENCE PROJECT	400	NOT KNOWN	To include C ³ , radars and Rapier. 3 RAF officers being made available to Kuwait as air defence advisers.		
LIBYA	OUTDOOR MARKSMAN TRAINING RANGES	240	1982+	Nation-wide system of ranges required, including one small indoor range. Reasonable prospect.		
OMAN	SCORPION	40	1982	Omani Chief of Staff known to favour Alvis proposal. Decision imminent.	S of S wrote to HH Sayyed Faher and HM Sultan Qaboos in support.	France
	LANDING SHIP LOGISTIC (LSL)	15	1982+	Brooke Marine contract now ratified.		
	JAGUAR	NOT KNOWN	1982	Omani MOD has accepted offer of a replacement Jaguar presently on loan to Indian Air Force. Contract to be concluded on completion of current conversion work by BAe in Oman.		
	COMMUNICATIONS NETWORK	80	mid 1980s	US firm awarded design study contract for replacement of existing in-service network but UK firms have good prospects of securing equipment contracts.		USA
QATAR	RAPIER	150	1983	Good prospect for two further batteries if Rapier battery already on order is successfully installed.		Various countries
	AIR DEFENCE RADARS	40	1982	Two radars ordered during 1981 and good prospect of sale of further three to complete coverage.		
	JOINT OPERATIONS CENTRE	40	1982	QAF intend to place order in UK and have sought UK MOD assistance in evaluating proposals.		

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 MIDDLE EAST (Continued)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
SAUDI ARABIA	EXTENSION OF MOU COVERING AIR DEFENCE PROJECT (SADAP)	500 over 3 years	1982	Saudis seeking greater involvement in control of project and revised proposals accordingly submitted December 1981. Good prospect that provision of fire services organisation to Saudi Air Force, will be added to SADAP MOU.	S of S has written and spoken to Saudi Ministers in support of UK offer.	
	RAPID RUNWAY REPAIR EQUIPMENT	40	1982	Sales to be effected through SADAP MOU. Formal IMS proposal submitted through Defence Sales Organisation in January 1982. Early response expected.		USA
	TORNADO/P110	500+	1986/7	Tornado production lines visited by Commander RSAF October 1981 P110 presentation planned to be given in Saudi Arabia later this year.	Discussed by PM and S of S with Prince Sultan in London 1981.	France and USA
	HAWK	120	1985	Saudis impressed by Hawk's success in USN trials. Possibility of part-exchange deal for existing Saudi Strikemasters under investigation. No immediate requirement.	PM and S of S have discussed with Prince Sultan in both Riyadh and London.	France
	SANGCOM	250	1982	LOA signature now expected by mid-1982.		
	WAVELL AND ASSOCIATED C ³ EQUIPMENT	up to 200	NOT KNOWN	UK proposals under consideration and offer for first phase included in SANGCOM proposal above.		USA
	SANGMED	up to 625	1982	Further LOAs on operation of Jeddah hospital and implementation of Plan are to be negotiated in 1982.		USA
	FH70	130	1982	IMS now hope to obtain contract signature in February 1982. Additional prospect of sale to National Guard, as well as to Army.	S of S has sent two personal letters to Prince Sultan on prices issue.	
	ARTILLERY AND ENGINEER SUPPORT PACKAGES	up to 100	1982	IMS expect to renew existing support and training packages.		
	AIR DEFENCE RADAR SYSTEM	200	1982+	Marconi, supplier of majority of existing equipment, is proposing an extension and up-date of system. Plessey is submitting proposals based on mobile AR3D system.		USA
AIR BASE SECURITY SYSTEMS	80-90	1982	Shorrocks have submitted final quotation to RSAF. Decision imminent.		USA	
IMS ASSISTANCE TO COAST GUARD/ FRONTIER FORCE.	up to 350	NOT KNOWN	Saudi response to IMS's September 1981 presentation on security of offshore resources and equipment package expected shortly. IMS hopeful of favourable outcome.			
YEMEN	TANK TRANSPORTERS	72	1982	Following successful demonstration, Scammell have good prospect of being awarded contract for up to 700 vehicles.		

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 MAJOR DEFENCE SALES PROSPECTS

NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
USA	RAPIER (for the RDF)	NOT KNOWN	NOT KNOWN	Investigative team visited UK during Nov and seemed impressed by system. BAE continuing to promote in anticipation of funds becoming available in FY 83.	S of S, M of S(DP) and US of S(DP) have all been actively involved in UK/US discussions of both sales.	France
	(for USAF bases)	170	1982	MOU and LOA signed for 32 fire units.		
	81MM MORTAR	200	1983	Joint development programme is under way to modify the equipment to meet US requirements. Excellent prospect.	M of S(DP) visited US in October 1981.	
	COMBAT SUPPORT BOAT	16	FY 1982	Army plans to buy further 67 boats during FY 82 and a similar number in 83 and 84. Procurement likely to be competitive and US given the option of a licence to manufacture.		USA
	SEARCHWATER RADAR	100	1983+	US Navy wishes to evaluate Searchwater as quickly as possible. It is to be tested in a US Navy aircraft.	US of S(DP) discussed during visit.	USA
	HAWK	500	1987	Development contract signed for preliminary engineering developments for US Navy. Congress asking the Navy to re-open competition and there are still some funding problems.	US of S(DP) discussed during visit.	
	SCORPION (for Mobile Protected Weapon System)	NOT KNOWN	1986+	Alvis have submitted Scorpion-based designs for USMC longer-term mobile protected weapon system programme. Alvis and eight competitors have been awarded development contracts.	US of S(DP) discussed during visit.	USA
	(for Light Armoured Vehicle)	up to 50	1982	Alvis are one of three finalists in competition. Vehicles undergoing final evaluation in the US.		
	INTEGRATED COMMUNICATIONS SYSTEM (ICS 3)	50-100	1982+	System is under evaluation by the US Navy.		USA
LIGHT ANTI-ARMOUR WEAPON (LAW)	NOT KNOWN	NOT KNOWN	Although limited production funding given for indigenous Viper anti-tank system, US Army instructed to carry out a foreign weapon evaluation to take account of all Services needs. UK LAW offers improved capability against armour and should be evaluated.		USA	

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