

Ackd 9/6

VICKERS P.L.C.

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LONDON, SW1P 4RA

TELEPHONE: 01-828 7777

SIR DAVID PLASTOW

MANAGING DIRECTOR &

CHIEF EXECUTIVE

Monday 9th June.

Dear Prime Minister,

Please accept my
apologies for troubling you
personally with the enclosed.

With no response from
the M.O.I. to our
proposals I had no

alternative but to appeal

to your office.

Yours sincerely,

David Houston

SIR DAVID PLASTOW
MANAGING DIRECTOR &
CHIEF EXECUTIVE

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

9 June 1986

Dear Prime Minister,

Vickers has supported enthusiastically the Ministry of Defence's commitment to competitive procurement. However, since that policy was announced, we have seen the award of orders for two batches of Challenger Main Battle Tanks being given to the Royal Ordnance Factory at Leeds without competition. Simultaneously, we have had to compete with ROF for a major programme for the development and manufacture of the Challenger Armoured Repair and Recovery Vehicle.

We believe that a further significant non-competitive contract for the supply of Challenger Tanks is now to be awarded to RO plc to aid the privatisation of that company. In addition, the scheme made pursuant to the Ordnance Factories and Military Services Act of 1984 may well inhibit the placing of competitive contracts after privatisation.

In 1982 we invested in a modern tank factory in Newcastle-upon-Tyne which has proved to be internationally competitive with orders and/or collaborative agreements in Nigeria, Brazil, Germany, China and the United States. We wish to be able to compete for British Ministry of Defence business on a fair basis.

Enclosed are a series of letters between our company and the Secretary of State for Defence in which our case is detailed, and your staff may find these helpful in preparing a brief. Vickers applauds the privatisation programme and welcomes competition, but it is now faced with an extremely damaging development which could have serious repercussions on our investment, our overseas programmes, and on employment in Newcastle-upon-Tyne.

Yours sincerely,

David Plastow

Vickers



4 June 1986

Vickers Public Limited Company
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Telephone 01-828 7777
Telex 27921

P K Levene Esq
Chief of Defence Procurement
Ministry of Defence
Main Building
Whitehall
SW1A 2HB

Dear Mr Levene

As you know we have been discussing the future of the heavy fighting vehicle industry with the Department of Trade and Industry.

To have a strong UK base able to be a major player in export markets, we believe it is necessary to rationalise the industry and concentrate the centres of excellence in design and manufacture.

We have put forward these views to the Secretary of State for Defence, and the purpose of this letter is to confirm that we wish to enter into serious negotiations to purchase from the MOD certain assets of RO plc represented by the plants at Leeds and Nottingham.

It would be our intention to market the products of these two factories together with our own produced in Newcastle as a single entity. Although we know we would need time to put the factories at Leeds and Nottingham on to a commercial cost structure, we would not close the Leeds facility until the immediate needs of the MOD for Challenger main battle tanks were satisfied.

This offer is based on the assumption that the placing of the order for the 7th regiment of Challengers is negotiated with the new combined organisation.

We believe this new combined organisation will give the UK a competitive armoured fighting vehicle industry which could secure a reasonable share of world markets. We would like to know whether this proposal is of interest to you.

If this course of action is not attractive and you decide to give the 7th regiment of Challengers to RO plc without competition, we must restate our position that there should be a clear manifestation of the MOD's intent to behave in an even handed manner.

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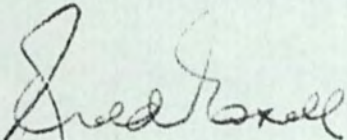
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4 June 1986

P K Levene Esq

Although at a value of about £20 million the requirement for the conversion of a further 16 Chieftan bridge-layers and some 60 AVRE conversions is hardly equitable compensation, we might be prepared to settle for a negotiated contract for these two known requirements, provided that all future design development and manufacturing contracts for armoured fighting vehicles and spares were open to tender.

Yours sincerely



Gerald Boxall
Chairman and Chief Executive
Vickers Defence Systems

bcc Sir David Plastow ✓
Mr Windsor

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SIR DAVID PLASTOW
MANAGING DIRECTOR &
CHIEF EXECUTIVE

The Rt Hon George Younger MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
SW1A 2HB

30 May 1986

Dear Secretary of State,

We have yet to receive a reply to our letter of 14th May setting out our concerns about the future intentions of the MOD for fighting vehicles procurement. In particular we believe that an order for another batch of Challenger MBTs is to be placed non-competitively with ROplc. We would like your immediate assurance that we shall be invited to tender.

It also appears to us that elements of the Scheme made pursuant to the Ordnance Factories and Military Services Act of 1984 are being interpreted by your Department in a way which could fetter future fighting vehicle contracts and are against the public interest. We are seeking leading counsel's opinion and, if so advised, will seek the appropriate remedy in the courts.

Yours sincerely,

David Plastow

cc The Rt Hon Paul Channon MP
Peter Levene Esq
Sir Clive Whitmore KCB CVO

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The Rt Hon George Younger, TD, MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
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SW1A 2HB

14th May 1986

Dear Secretary of State,

We have raised our concern on several occasions at the lack of competition on Challenger buys and the possibility of your paying to maintain strategic capacity for the manufacture of Main Battle Tanks. When we met recently we put forward some suggestions to improve the competitiveness of the heavy AFV industry which we suggested should take place prior to the flotation of RO plc.

A more serious situation has arisen since our meeting concerning the Intellectual Property Rights which we understand were transferred by your predecessor to RO plc under the terms of the Scheme made on 20 December 1984, pursuant to the Ordnance Factory and Military Services Act 1984. Our understanding of the consequences of this Scheme is that amongst other effects, the design rights for Challenger, Chieftain and Centurion together with all variants have been transferred to RO plc.

We believe that this has led to a position in which the MOD is precluded from seeking alternative bids for any work on developments, improvements and modifications for Challenger, Chieftain and Centurion. This would relegate Vickers, at best, to the role of an engineering sub contractor, despite having demonstrated for 70 years a level of excellence in the design and construction of battle tanks. For example, future procurement of the Challenger ARRV, after completion of the current contract with Vickers, would appear to have to be exclusively from RO plc.

Furthermore, can the situation possibly be allowed to continue where RO plc be given design rights for such as the Chieftain turret which Vickers designed in 1960 and of which the Challenger turret is a derivative? This apparent new legal status coupled with our belief that yet another batch of Challenger MBTs (7th Regiment) will be placed non-competitively with RO plc, is totally unacceptable to Vickers.

The Rt Hon George Younger, TD, MP

14th May 1986

On 3 December 1984 we wrote to the then Secretary of State for Defence and received an assurance from the Principal Director of Patents that IPR granted by Vickers under contract and vested in MOD would not be transferred to RO plc. We are taking advice on our position with respect of these rights and have to say that we may seek to remedy the potential damage to Vickers arising from the Scheme, even if the effect of any litigation were to delay flotation. The MOD is still at today's date the owner of the shares in RO plc and we need to meet you and come to an equitable agreement prior to the flotation of RO plc.

I am copying this letter to the Secretary of State for Trade and Industry and the Chief of Defence Procurement.

Yours sincerely,

David Newton

SIR DAVID PLASTOW
MANAGING DIRECTOR &
CHIEF EXECUTIVE

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CONFIDENTIAL

The Rt Hon George Younger, TD, MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

4 March 1986

Dear Secretary of State,

On 24 January I wrote to you about the concern of my company over the placing of further orders for the Challenger Battle Tank in the context of the proposed floatation of RO plc. Whilst I understand that you are considering the matter, the delay in being able to discuss this issue with you personally is giving me increasing cause for concern.

When we met at the NDIC meeting last Thursday, we agreed that a brief meeting should be arranged before you went overseas later this week. Despite numerous phone calls to your office, no time or date has emerged. For my part, I shall be out of London, apart from a couple of hours late on Monday of next week, until Wednesday 19 March. The prospect of facing yet another fait accompli over tank orders runs the risk of a robust Vickers response which I wish to avoid.

Yours sincerely,

David Plastow



MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 10/4E

3rd March 1986

Dear Sir David,

Thank you for your letter of 24th January and for your kind congratulations.

I fully understand your concerns about the placing of future tank orders and can assure you that the points you raised in your letter will be much in my mind when the time comes to make decisions. However, we are still in the process of determining the right balance of priorities within our long term equipment programme and the resources which can be made available for further purchases of tanks. This means we are not yet at the point where I can tell you anything firm about our intentions, but in our considerations we will take fully into account the respective facilities at Newcastle and at Leeds and the need to obtain the best value for money, as well as our plans for the flotation of Royal Ordnance.

Sir David Plastow
Managing Director and Chief Executive
Vickers plc



I note your request for a meeting. As I said to you on 28th February I am of course ready to see you at any time, but were we to meet now there would be nothing I could usefully add to what I have said in this letter. I will of course be happy to talk to you when we are closer to a decision on what is a complex issue, and so I would suggest that we meet when that stage is reached.

I am sending a copy of this letter to Paul Channon.

Yours sincerely,
George Younger.

George Younger

D. A. S. PLASTOW
MANAGING DIRECTOR &
CHIEF EXECUTIVE

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The Rt Hon George Younger, TD, MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
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SW1A 2HB

24 January 1986

Dear Secretary of State,

Please accept my congratulations on your appointment.

As you know we are moving ever closer to the flotation of the Royal Ordnance Plc and trust that it will be successful. We welcome fair competition with the prospect that future contracts will be awarded on merit.

However, we have some concern over this particular flotation. Speculation in the more responsible sections of the Press, and also in a report from a major stockbroking firm, raises two key issues.

The first is the question of strategic capacity for the manufacture of Main Battle Tanks and other critical hardware. In our view any consideration of the issue of tank capacity cannot be related solely to that offered by Royal Ordnance, Leeds, but must take into the equation the combined capacity of Vickers in Newcastle, where a new efficient fighting vehicle and Battle Tank facility exists, with the Leeds facility.

Any question of making payments to Royal Ordnance at Leeds for capacity which they already have, in isolation from consideration of Vickers capacity would in our view be quite unfair and would seriously disadvantage Vickers in any competitive tenders.

The second issue is the possible award of further orders for Challenger MBTs to Royal Ordnance, Leeds, which it is being suggested is a critical matter to be resolved prior to flotation in 1986. The background to our concern began in June 1984 when a contract was awarded to RO non-competitively, for the Fifth Regiment of 64 Challenger Tanks. We were assured that this was a unique and special decision and that future orders would be subject to the rigours of competitive tendering.

In June 1985 Vickers were awarded a contract for the development and initial production of a batch of Challenger Armoured Repair and Recovery Vehicles (CRARRV) after a fierce but very fair competition with Royal Ordnance. This decision, however, coincided with the award of a non-competitive contract for a further batch of 18 Challengers to Leeds, coupled with a statement in the House that future quantities of the CRARRV vehicle would be subject to yet further competition, this seemed to us to be grossly unfair.

2

24 January 1986

The Rt Hon George Younger, TD, MP

Whilst there has been in the past one set of rules for procurement for the privately financed Vickers company and a different and preferential criteria used to award others to the public sector Royal Ordnance company, today this cannot be reconciled with the Government's commitment to full and fair competition in the immediate future.

As a rider we feel that prior to flotation RO already has built-in advantages when compared with Vickers. As a preferred source historically they have enjoyed a captive market for the supply of both armoured vehicles and spares with MOD investment in facilities and plant on a major scale, whereas we have had to recover our development costs with cash generated from sales of defence equipment in a commercial environment.

To add to these historical advantages any further non-competitive orders would be jeopardising the investment we made in the modern, cost effective, plant in Newcastle during 1982, which is very important to the economy of Tyneside and affects employment prospects in an area of very high unemployment.

May I have a meeting with you to seek assurances that you will not take any steps in relation to the flotation of RO Plc which would positively discriminate against Vickers?

In view of the industrial and employment issues I have copied this note to the Secretary of State for Trade and Industry.

Tom Smith,

David Platts

