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Treasury Chambers, Parliament Street, SW1P 3AG  
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21 July 1983

The Rt Hon Cecil Parkinson MP  
Secretary of State for Trade  
and Industry

Prime Minister

A.S.C. 22/7

HARM/ALARM

Michael Heseltine's minute of 15 July describes the revised British Aerospace ALARM bid which we shall be discussing on 26 July.

One of the worrying aspects of the original BAe offer was that, as C(83)22 pointed out, their ability to develop ALARM to an acceptable standard in the four years which they had allowed was very doubtful; that they would be liable for all delays, at up to £3 million a month; and that they could therefore be expected "to exploit every opportunity to overturn the fixed price contract." Their new offer is clearly a loss leader: they apparently stand to lose at least £85 million on the contract and, if it slips as expected, perhaps as much as £150 million. Michael Heseltine says that he has been assured that there will be no consequential effects on the prices paid for other MOD purchases, and we shall no doubt explore that on 26 July. But, assuming such assurances prove watertight, I think that we shall also need to bear in mind the possible effects on BAe as a whole (and on the claims for launch aid which they may have in mind). I hope that we can look to you to cover this in Tuesday's discussion.

I am not of course suggesting that the new BAe bid is unwelcome. My point is that we shall need to be clear about its possible implications for them, and thus indirectly for us, not least because we remain their major shareholder.

Copies of this letter go to our Cabinet colleagues and to Sir Robert Armstrong.

NIGEL LAWSON

Defence,  
Nov 83,  
Harm / Alarm

31 JUL 1983

