

PRIME MINISTER

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NIMROD AEW

Negotiations with GEC have dragged on so inconclusively for two reasons:

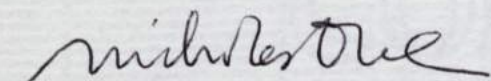
1. GEC don't really know whether they can finish the project and are therefore asking outrageous sums (an extra £450 million was suggested by Weinstock and Prior at last week's meeting) just to reach an interim level of performance, well below the specification in the contract.
2. Michael Heseltine has taken no steps to provide an alternative option. Rather than approaching the Americans in a serious way, MoD have used the reported price at which three AWACS were offered to the French as their benchmark.

As John MacGregor says, Michael Heseltine must seek urgent quotes from the Americans. However, given the anti-American sentiment on procurement matters shown by Michael Heseltine, the House of Commons Defence Committee, and no doubt others, too, we must also find a British alternative. The most promising solution is that GEC simply gives the project away to a British consortium, and releases or seconds key personnel. A possible consortium might be a combination of the systems house which MoD commissioned to assess the



progress of the project (CAP Scientific) and a manufacturing company, not necessarily in the defence field, with sufficient financial resources to see the project through. A solution of this kind would save GEC's face and avoid the embarrassment of writing off over £1 billion of work.

We recommend that you support John MacGregor's suggestion and enquire whether the idea of a British consortium might not be pursued in parallel.

  
NICHOLAS OWEN