



10 DOWNING STREET

From the Private Secretary

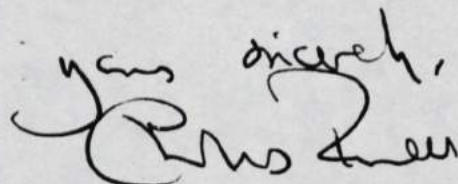
14 March 1986

Dear Richard,

**BALLISTIC MISSILE EARLY WARNING SYSTEM
(BMEWS)**

Thank you for your letter of 13 March describing the arrangements which have been negotiated with the Raytheon company to place work in Britain in connection with the Fylingdales contract. The Prime Minister agrees that the firm's offer represents a good bargain and she is content for the Defence Secretary to settle the matter on this basis when he meets Mr. Weinberger on 17 March.

I am copying this letter to the Private Secretaries to members of OD and to Michael Stark (Cabinet Office).

Yours sincerely,

 (C. D. POWELL)

Richard Mottram, Esq.,
 Ministry of Defence.

(1)



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone ~~01-3307002~~ 218 2111/3

Prime Minister

MO 26/7/2E

13th March 1986

We appear - for once - to have got the substance but not the form!

Agree that Defence Secretary should settle with Mr Weinberger on this basis?

BALLISTIC MISSILE EARLY WARNING SYSTEM (BMEWS)

*CDP
13/3*

In your letter of ^{at 11 ap} 17th July 1985 you said that the Prime Minister was content that we should agree to the request from the United States Government to modernise the BMEWS station at Fylingdales, provided that we could reach satisfactory industrial and financial arrangements.

*Yes - excellent
out.*

The need for equitable British industrial participation in the project was raised with Mr Weinberger by Mr Heseltine. Mr Weinberger, while content to allow British companies the opportunity to bid into the Fylingdales programme, expressed himself unwilling, indeed unable, to make any definite offer of work to British companies. He pointed to the well known Congressional constraints and Congressional pressure on the Administration and American industry to resist offset arrangements that relate to projects ultimately funded by the American Government. In subsequent negotiations American officials doggedly followed this line and were unwilling either to accept or to try to implement any offset obligation.

However we have, with the help of Pentagon officials, been able to negotiate arrangements with the Raytheon company, the main contractor for the radar modernisation, which should lead them to place work in Britain for the next 10 years to the sum of about \$135M - the expected value of the Fylingdales contract to be awarded to Raytheon. The arrangements are set out in a Memorandum of Understanding with the company. Although this does not provide guarantees of work, Raytheon has agreed that their performance on this agreement is to be monitored regularly and reported to the Ministry. There will be scope then to bring pressure to bear, if this were to prove necessary. In addition to these arrangements the Pentagon has promised to place a de-activating contract for the old radar with a British company which is expected to be worth some \$20M.

Charles Powell Esq
No 10 Downing Street



Raytheon does not wish its role to be revealed, since it sees a very real risk of other countries trying to make similar arrangements if this one becomes public knowledge. In the light of Congressional attitudes the Administration may also wish to distance itself publicly from any industrial agreements. Nevertheless American officials have been prepared to accept what has been done, and we are now discussing the text of a formal MOU to cover the details of inter-governmental arrangements on the modernisation. We will need to give careful thought, with the FCO, to the presentation of the modernisation decision. As part of this we have provisionally agreed a form of words with the Americans on industrial arrangements which is attached for information.

It is disappointing though not surprising that, after lengthy negotiations with the American authorities, we have not been able to make any officially supported arrangements. The Administration no doubt calculate that we shall not press the issue to the point of blocking the modernisation of a facility which is in our mutual defence interest. Unless we were seriously willing to block the modernisation - with all the attendant risks to other Anglo-US co-operation - there seems little purpose in further negotiations on an official arrangement. The firm's offer itself represents a good bargain which the Defence Secretary believes meets our requirements for satisfactory industrial and financial arrangements. Subject to the Prime Minister's agreement, he would propose to settle the matter on this basis when he meets Mr Weinberger on 17th March.

I am sending copies of this letter to the Private Secretaries to other members of OD, and to Michael Stark (Cabinet Office).

Yours etc,
 Richard Mottram

(R C MOTTRAM)
 Private Secretary

As well as its improvements to our operational capability, the Fylingdales modernisation will bring jobs to Britain. British companies will be used in the development of the facilities and infrastructure required by the improved radar, and they will also be undertaking the deactivation work on the existing radars. In addition arrangements have been made which ensure that a range of British companies will have an opportunity to benefit to an extent closely equivalent to the investment undertaken by the Americans at Fylingdales.

D6F6NCG

Procurement PT3

