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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

10 December 1986

John Howe Esq
Principal Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

*EDP
10/12*

*Dear John
at home*

My Secretary of State has seen your Secretary of state's minute of 24 November and the subsequent correspondence.

The Secretary of State agrees that ideally, it would be desirable to resolve this matter quickly, particularly since BAe have told officials here that the company has not relinquished its interest in bidding for the Royal Ordnance Factory and has been asked by MoD to submit its bid this week. It would be unfortunate if BAe were to be ruled out as a potential bidder because of problems which have arisen on the ALARM contract which are largely not of BAe's own making.

Clearly, the cancellation of ALARM has serious industrial implications for BAe and its main sub-contractor GEC-Marconi. Depending upon the decision reached by Ministers on the choice between the AEW system and AWACs, this could prove a double blow to both companies, as well as to a range of sub-contractors. When evaluating HARM as an alternative option it would be helpful if these industrial consequences could be fully assessed, including the possibility of work for UK firms should HARM prove technically suitable to meet the requirement. Another factor, although one more for your Secretary of State to assess, is the effect that cancellation may have on the future technological capacity of the guided weapons industry, since that was a key factor in the original decision to select ALARM.

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BOARD OF TRADE
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In view of the importance of this project, my Secretary of State believes that before any final decision is taken on BAe's revised proposals, there should be further consultation and if necessary discussion with Ministerial colleagues in the light of Mr Younger's further report.

I am sending a copy of this letter to the Private Secretaries to members of OD, to the Private Secretary to the Chief Secretary and to Sir Robert Armstrong.

*Your sincerely
Timothy Walker*

TIMOTHY WALKER
Private Secretary

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