

THE GENERAL ELECTRIC COMPANY, p.l.c.
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cc RTA
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16th December, 1986

Dear Margaret,

Thank you for spending the time to see me with George Younger this evening.

I enclose two papers, one by our Chief Scientist explaining why we are so confident that the Nimrod AEW is right for the Royal Air Force, and the second by Jim setting the record straight about both his and the GEC's views of the assessment process.

I am grateful for your assurance that these matters will receive proper consideration by you and your colleagues in Cabinet.

Yours,

Arnold

Lord Weinstock

The Rt. Hon. Mrs. Margaret Thatcher, MP,
10, Downing Street,
LONDON, S.W.1.

Enc.

PAPER BY THE RT. HON. JAMES PRIOR MP

Much has been written about the GEC views, and my views in particular, about the AEW contract decision. I must set the record straight.

1. I am not, and do not, impugn the reputation of the RAF. I yield to no-one in my respect and admiration for the service. Anyone who has had to travel securely back and forth from Northern Ireland as much as I have gets to know the RAF in operation pretty well.
2. I am not accusing the MOD or the RAF of a biased assessment. As we have not seen the assessment it is impossible for us to criticise it or its findings.
3. What we have had to deal with are specific leaks, primarily to the Sunday Times, which have become common currency, all of which purport to have come from the Ministry of Defence and have never been denied. This is not our first experience of leaks from the MOD. We wrote to the Secretary of State for Defence in January on the same subject pointing out the damage being done to the GEC and now the same process is happening again.

4. The substance of these leaks is two key points. First that the EPC and MOD are recommending AWACS, and secondly that the assessment of the Nimrod AEW is so "overwhelmingly bad" that no other choice is possible. It is these leaks, which albeit may not be true, that are doing the damage to our company and to the opportunity for the Cabinet to make an objective decision. It is these leaks to which we have had to respond. It is these leaks which lead to our incredulity over the findings of the MOD assessment.

We cannot believe that the report concludes an "overwhelmingly bad" assessment of Nimrod AEW because :

1. Our technicians have set their current and their development achievements against the RAF five cardinal point requirements and are confident that Nimrod AEW is capable of their fulfilment.
2. Our progress since March has been carefully monitored and reported regularly to the MOD. We received one critical commentary after the first report, since when no other critical comments have been received.

3. Neither in March, when the Secretary of State's agreement was reached, nor in September, when the three other contenders were eliminated, did the MOD give any discouraging sign or seem to be aware of any "overwhelmingly bad" problems.

4. The onerous terms of the agreement between GEC and the MOD mean that we would have to be sure of our ground in order to proceed. If, as has been suggested, we might deliver three years late, we would incur penalties of at least £200 million. No commercial company could run such a risk, not even the GEC, despite its superbly successful track record in technical development, electronic research, sales and marketing, fulfilment of defence contracts and financial management.

5. Lockheed, who have every reason to be thorough and cautious, have chosen the Nimrod mission system for their C130 Hercules aircraft in order to capture, together with the GEC, the highly profitable and prestigious export market, and are already in talks with more than a dozen countries.

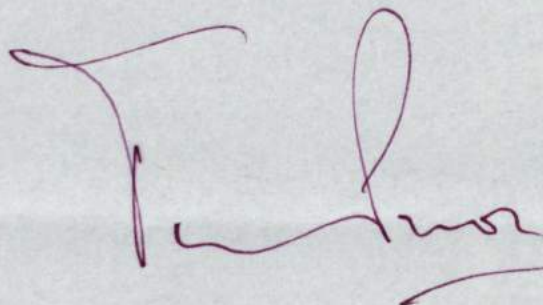
6. Let me give one example of our sharp disagreement with the leaked "results" of the

assessment. Based on our more detailed comparison of ground-based and Nimrod-based target tracking, we claim a "success" rate of greater than 80%, compared with the MOD's generalised 50% claim. However, what we believe is even more important is that our analysis of the "missed" targets indicates that the further low risk system developments, scheduled for completion over the next 9-12 months, would raise the success rate to the full specification. In our most recent test flight (12.12.86) we achieved the full radar range of 200 miles, thus giving approximately 50% increase in the surveillance area (and corresponding increase in the number of targets seen) compared with the 160 mile range achieved during the Secretary of State's flight. This information has already been forwarded.

In short, we find ourselves asking many questions about the whole affair -

- a) What is the reason for this bizarre process of leaks from the MOD?
- b) Can these leaks be true, given our assessment of our own project?

- c) Why have we not been able to see the assessment since if it is as bad as it is said to be we would not wish to proceed with the contract?
- d) How can our technicians, who have been involved in many successful defence contracts, be so wrong?
- e) How can the whole of the last 9 months have passed without the slightest indication to us by the MOD that the outcome could be so "overwhelmingly bad"?
- f) Why have we been allowed to work on to the detriment of our reputation and at considerable cost to both the taxpayer and GEC?

A handwritten signature in red ink, appearing to be 'T. L. Jones', is written in a cursive style.

16th December 1986

VITAL POINTS ON FINANCIAL ASSESSMENT

1. GEC's price will have been increased by the interest to be paid on the withheld 50%, but the AWACS contract will have to be financed by the MOD to the extent of 75% and presumably no debit has been made for the cost of finance for the extra 25%.

If this hypothesis is incorrect, has the financing of both offers been made on an equivalent basis?

2. Similarly, have both offers been treated on an equivalent basis for VAT purposes?
3. Is the dollar/sterling exchange rate realistic in the 20-year cost assessment of AWACS in relation to maintenance and support services and spares?

CROXLEY
SCRIPT

PAPER BY D. H. ROBERTS

As the senior technical authority and Chief Scientist in GEC, I have participated for the last 10 months in a weekly review of the technical progress of NIMROD AEW and am fully aware of the performance improvements we have made in this period.

It seems to me that undue emphasis is being placed on a comparison of Nimrod as it now is, with an AWACS aircraft which has been in operational service for 10 years. This comparison is illogical, as we have offered a further two years of development and flight proving to provide the necessary improvements to meet the RAF's specification. The issue should be the judgement of the degree of risk involved in GEC's completing the work yet to be done, and I have no hesitation in giving you my personal assurance that the technical solutions which have been identified and the timetable proposed are soundly based.

We are continuing to make progress at a rapid rate. As recently as last Friday we demonstrated improvements which increased the radar range to the specification figure. The remaining modifications to get the radar to full specification standards in other respects will be flown and demonstrated during 1987. The method by which we have analysed the cause of "missed targets" strengthens my conviction that we will meet the programme which we have set out.

Perhaps the best measure of a company's confidence in its programmes is its willingness to accept commercial risks, and in this regard GEC has offered financial penalties which would be crippling in the event of delays occurring.

GEC Avionics has a long track record in providing complex avionic systems, not only to MOD, but also to the USA and other countries, to specification and on time. It would be a major blow to us and the industry at large if Nimrod were not to proceed because of disbelief in undertakings which we have contractually offered and which I regard as technically sound.

Jack Rents
16.12.86.

