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Handwritten initials

Secretary of State for Trade and Industry

22 September 1983

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2HB

Dear Michael,

PLESSEY RADAR LTD - ECUADOR

PS/Minister for Trade
PS/Mr Lamont
PS/Mr Butcher
PS/Sir Brian Hayes
PS/Sir Anthony Rawlinson
PS/Secretary ECGD
Mr Roberts DTI
Mr Croft DTI
Mr Kemp ECGD
Mr Twyford ECGD
Mr Titchener OT5, DTI
Mr Benjamin PEP, DTI
Mr Breach CPD, ECGD
Mr Hall PD2, ECGD (on file)
Mr Hudson Air, DTI
Mr Hutton PEP, DTI
Mr Pryor Air, DTI

Thank you for your letter of 9 September.

2 It is unfortunate, given the efforts which Plessey have made to secure further contracts for the supply of radar equipment to Ecuador, that the country's economic situation and prospects deteriorated so rapidly, and to such an extent, that ECGD had no alternative but to decline to extend the offer of support made for the second phase of the Condor project.

3 Your letter acknowledges the difficulty in giving cover in the present situation. ECGD is already paying claims in respect of past business with Ecuador and will continue to do so well into 1984 as a result of the formal rescheduling of part of Ecuador's officially insured export credit debt. ECGD's standard policy in such circumstances is not to undertake substantial new commitments until there are positive signs of a sustained economic recovery. To do otherwise would be inconsistent with the Department's remit to conduct its credit insurance business at no net cost to public funds and would be contrary to existing Ministerial assurances to Parliament as to how the Department will operate. As a result of world economic problems the level of claims paid by ECGD has risen to the point that it risks exhausting the cumulative balances built up by its credit insurance schemes since 1930. Against this background the Prime Minister has agreed that the Department should be more rigorous in its country risk assessments in marginal cases.

4 For these reasons I am afraid that I am unable to meet your request that cover be made available for Plessey's contract. ECGD's policy towards Ecuador will be kept under review with a view to the restoration of cover for longer term credit business



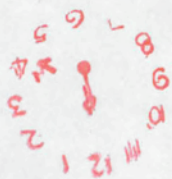
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as soon as this can be justified by Ecuador's economic prospects. I hope you will agree that it would be difficult to come to a more favourable conclusion from the facts of the situation as set out in your letter.

5 I am sending a copy of this letter to the Chancellor of the Exchequer.

Yours *Erst,*
A. L.

Release - Sales - P43



26 SEP 1983



BF with DTI's
response

WR
21/9

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HE

TELEPHONE 01-218 5000

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MO 26/9/4

9th September 1983

[Handwritten signature]

ECUADOR - PLESSEY RADAR

Since the late 1970s Plessey has been competing with American, French and Israeli firms to satisfy Ecuador's requirement for a national air defence radar system - "Project Condor". The project has been planned in 5 phases over 8 years and is thought to be worth a total of some £125M in radar sales.

In June 1981 Plessey won the contract for the first phase of the project largely against American competition. During the contract negotiations John Nott wrote to the then President of Ecuador supporting Plessey in order to counter American allegations that their proposals were inadequate. As a further indication of HMG's support a RAF loan service officer specialising in air defence was loaned to the Ecuadoreans to help them set up their new Air Defence Command. He has been in Ecuador for over 18 months and has been a great success. The Plessey contract for Phase I was worth £15.4M and was covered by ECGD credit insurance.

In early 1982 Plessey started preliminary negotiations to supply radar for Phase II and obtained a general indication from ECGD that credit cover would be available to support the contract. By September 1982 negotiations had progressed to a stage where Plessey sought, and got, a firm statement of intent from ECGD that cover would be reserved for the contract for a period of 2 months. During November/December however, the Ecuadoreans defaulted on their

The Rt Hon Cecil Parkinson MP



obligations under an existing ECGD backed loan and there were signs that Ecuador's economy was deteriorating, with the possibility that existing debts would need to be re-scheduled. As a result, when Plessey applied for a renewal of ECGD cover this was refused. The firm continued negotiations (had they not done so, this would almost certainly have given an opening to the American and Israeli competition) in the hope that the economic position would improve and ECGD support would be restored. Plessey eventually secured a signed contract worth £22.8M in May 1983, but it contained clauses to prevent it becoming effective until a loan agreement (which would need ECGD support) was also signed. By this time Ecuador had made formal application to re-schedule its debts.

The main negotiation for the re-scheduling was completed at the end of July. As a result ECGD now faces claims arising from some £58M worth of business achieved by UK firms in Ecuador, including one from Plessey for the first radar contract signed in 1981. Along with the government export credit insurance organisations in the other developed (OECD) countries, ECGD has now taken Ecuador "off cover" for medium and long term business. They will review the position periodically but failing signs of a sustained upturn in Ecuador's economy, of which there is little evidence to date, there is little prospect of cover being restored in the immediate future.

I gather that my officials have taken up Plessey's case with both ECGD and Treasury. They have emphasised MOD's involvement with Plessey and the Ecuadorean Air Defence project and have suggested that there is a moral commitment to support this case in view of ECGD's earlier indication that credit cover would be available. They have pointed out that if Plessey is able to win all 5 phases of the project it will represent some 2,200 men years of work in their factories and create orders for some 90 sub-contractors who supply radar modules and components. If cover is not forthcoming there is now a strong likelihood that the Israelis - who tend to be

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rather more flexible over credit matters when export business is at stake - will secure it instead. I should be grateful if you would have a look at this case with a view to making the necessary credit cover available. I appreciate the difficulties and risk that may be involved but unless we secure cover for the contract soon we fear this business will be lost to the Israelis.

I am copying this letter to the Chancellor of the Exchequer.

Yours ever

Michael Heseltine