

CONFIDENTIAL

PRIME MINISTER

Libya - Current Defence Sales Business

You earlier agreed the outcome of a review of defence sales to Libya. One point is still in dispute.

In common with the Lord Chancellor and the Chancellor you thought that supply of Martello surveillance radars should be allowed to go ahead only if we failed to get undertakings from France and Italy that they would not supply if we cancelled the contract.

The Defence Secretary is dissatisfied, arguing that the radars are not of use to terrorists, the loss of business to Marconi would be severe, and there would be a bad effect on our relations with Yugoslavia (which will actually supply the radars). He wants the point reconsidered. Norman Tebbit supports him. (Flag A).

The Lord Chancellor is sticking to his guns (indeed firing them vigorously) (Flag B).

In the light of other information about continuing Libyan activities, greater caution than ever about supplying items of defence equipment is surely called for.

Continue to side with Lord Chancellor?

C.D.P.

5 July 1984

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act mainly with France Italy. I do not know their agreement but we must find out in a reasonable time
Yes - we must not



FILE

OD: L. Chancellor
FCO
HMT
LPO
MOD
LPS
CDL
DTI

10 DOWNING STREET

From the Private Secretary

6 July, 1984

LIBYA - CURRENT DEFENCE SALES BUSINESS

The Prime Minister has considered the Defence Secretary's letter of 26 June to the Lord Chancellor on this subject together with further comments from other colleagues.

As regards the Martello surveillance radars, the Prime Minister agrees with the Lord Chancellor that the sale should be allowed to go ahead only if we fail to obtain undertakings from France and Italy that they would not supply if we were to cancel the contract. She thinks it unlikely in practice that either France or Italy will give such an undertaking. She wishes action to be taken quickly with them, so that the uncertainty for the company can be ended. I shall be grateful if you would arrange for this to be done.

I am sending a copy of this letter to the Private Secretaries to the members of OD and to Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Mottram, Esq.,
Ministry of DefenceCONFIDENTIAL*J*



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PS/ Secretary of State for Trade and Industry

5 July 1984

CC: PC
CDI
5/7

Nick Evans Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Nick,

LIBYA - CURRENT DEFENCE SALES BUSINESS

Your Secretary of State sent mine a copy of his letter of 26 June to the Lord Chancellor.

2 As he suggested in the fourth paragraph, we are issuing the export licences for the equipment over which there is no dispute.

3 We are not commenting on the Marconi and Ferranti equipment at this stage, since other OD members have not yet commented.

4 I am copying my letter to the Private Secretaries to OD members, and to Hugh Taylor and Richard Hatfield.

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Deference Sales: DEFERENCE Pt 4.



4 JUL 1984

CONFIDENTIAL



HOUSE OF LORDS,
SW1A 0PW

4 July 1984

Our Ref: 198/442/01
Your Ref: MO 26/9/15/1

The Right Honourable
Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
London S.W.1

My Dear Michael;

Libya - Current Defence Sales Business

Thank you for your letter of 26th June. I am very glad to see that you accept the arguments which I and others put to you on Ferranti's licence for the supply of equipment for shell muzzle velocity calculations, and I entirely agree that it would be better to let the licence lapse rather than taking positive steps to revoke it.

The main point of your letter, however, is to ask me to reconsider the views I expressed on Marconi's contract for the supply of Martello Surveillance Radars. You say that my suggestion seems to be at variance with the decisions reached in Cabinet on 3rd May. I assume the point you have in mind is the Prime Minister's conclusion that, where equipment is not of potential value to terrorist activities, existing contracts should be allowed to proceed, since you say that you see no reason why this contract should be singled out for cancellation.

The principle we agreed in Cabinet was that agreements once concluded should be honoured. It is undoubtedly the case that Marconi have concluded this contract, and if therefore the Libyans had proceeded with it in accordance with its terms I would reluctantly accept that Marconi should do likewise.

/But

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But this is not the case. The Libyans themselves have defaulted on the contract; they have failed to make the required 15% downpayment to Marconi, and have likewise failed to open the letter of credit which was to have been opened by 1st March 1984. On the facts as stated in your original minute the contract could thus only proceed if Marconi were prepared to waive this failure by the Libyans to honour their obligations, and I see no reason why Marconi should do so.

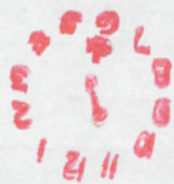
You state that you are not at all sanguine about the prospects of concluding a self-denying ordinance with France and Italy. I share your lack of optimism, but do not see this as a reason for failing at least to attempt to persuade France and Italy that, if Marconi do not proceed with this contract, they should decline to allow their own companies to step into Marconi's shoes. I note that this is a view shared by the Prime Minister, and expressed in her Private Secretary's letter of 18th June.

I have by no means ignored the fact that, if our approaches to France and Italy were successful, this would have adverse effects both on Marconi itself and on our political and commercial relations with Yugoslavia. But if we are to avoid putting arms in the hands of criminal lunatics, this is the price we have to pay.

I am copying this letter to other members of OD Committee, to Leon Brittan and to Sir Robert Armstrong.

yrs:
L.H.

DEFENCE : Sales P4



4 JUL 1964



Await other
views
CDP 29/6.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
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MO 26/9/15/1

26th June 1984

See Quin

LIBYA - CURRENT DEFENCE SALES BUSINESS

Thank you for your letter of 13th June in reply to my minute of 6th June.

You have suggested, and some other colleagues have agreed, that we should take the initiative in cancelling the contract which Marconi have secured to supply Martello Surveillance Radars to Libya through Yugoslavia. This seems to me to be at variance with the decisions which were reached in Cabinet on 3rd May. There, you will recall, we agreed that no arms exports should be allowed which involved equipment of potential value to terrorist activities, even where contracts had been signed but that, where this restriction did not apply, the aim should be to allow existing contracts and licences to be maintained. Although the Libyans have still to make the initial down payment and open the letter of credit required to bring this contract into effect, I would regard it as a contract concluded in good faith on our side and one which is of no conceivable benefit to terrorism. The Libyans may themselves decide not to proceed but I would argue strongly against the UK Government taking the initiative in cancelling the contract. The loss of business to Marconi would be severe as would the effect on our political and commercial relations with Yugoslavia. I am not at all sanguine about the prospects of concluding a self-denying ordinance with France and Italy and I see

The Rt Hon The Lord Hailsham of Saint Marylebone CH FRS



no reason why this contract should be singled out for cancellation, solely on the grounds that the Libyans have not yet brought it into effect. To cancel this contract, whilst proceeding all the others that have already been signed, would be regarded as provocative and could lead to retaliatory action on civil contracts. I note that Norman Tebbit takes the same view. I must therefore ask you and other colleagues to reconsider in this case.

Colleagues also felt that Ferranti's licence for the supply of equipment for shell muzzle velocity calculations should be withdrawn. I accept the arguments which you and others have put forward against any conclusion of this contract but it seems to me that, as Norman Tebbit has pointed out, it would be better to let the licence lapse in three months time rather than taking positive steps to revoke it. It could be made quite clear to the firm that the contract should not be concluded even though the licence had not been formally revoked.

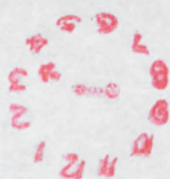
For the remaining contracts over which there is no dispute I believe we should now inform the firms without further delay that they can proceed. Some have been waiting several weeks for a decision and are running into severe difficulties. I would therefore hope that, even if further consideration is necessary on the Martello radar and muzzle velocity calculators, the necessary export licences for the rest of the equipment can be issued by the DTI at the end of this week. In the meantime I have taken the point made by the Chancellor of the Duchy of Lancaster and can confirm that steps will be taken to warn those companies for whom an export licence will not be issued against concluding a contract.

I am sending a copy of this letter to my OD colleagues, the Home Secretary and Sir Robert Armstrong.

Yours ever

Michael Heseltine

Reference Soues Pt 4



29 JUN 1984



No action
C.D.P. 25/6
C.D.P. 22/6 (2)

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Secretary of State for Trade and Industry

22 June 1984

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Prime Minister

Letters from Chancellor and
Mr. Tebbit. It is highly
unlikely that the French &
Italians would give the
required assurances. Mr
C.D.P. 22/6

D Michael,

LIBYA - CURRENT DEFENCE SALES BUSINESS

I have seen the reply from Geoffrey Howe to your minute MO/26/9/15/1 of 6 June and the comments made by the Prime Minister and the Lord Chancellor. I am in broad agreement with the proposals you put forward and the comments made by OD colleagues, but two matters cause me concern.

2 Revocation of the licence to Ferranti for the supply of equipment for shell muzzle velocity calculations would be a serious step to take. You pointed out that a contract looks unlikely. The licence has, I understand, only three months to run. It would, in my view, be preferable to allow it to expire and not to renew it. In the meantime your officials could, as the Lord Chancellor has suggested in his letter of 13 June, speak to Ferranti explaining the position.

3 The Marconi contract for supply of the Martello surveillance radars is the other matter on which I should like to comment. Even if the French and Italian Governments were to provide watertight undertakings along the lines proposed by the Lord Chancellor, a decision to revoke the export licence would have damaging consequences for both Marconi and our relations with Yugoslavia. The effect on employment at Marconi and their future exports to Yugoslavia would be serious and a factory at Gateshead or Leicester would have to close. Our relations with Yugoslavia are on an excellent footing following the very successful official visit to the UK last November of Mrs Planinc, the Yugoslav Prime Minister, during which she had cordial discussions with the Prime Minister and me. Cancellation of the contract following this visit would be taken very hard by the Yugoslavs with serious repercussions for our future trade.



4 I am sending a copy of this to the other recipients of your minute.

*Yours
Norman*

NORMAN TEBBIT