



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 26/8/2

4th September 1984

De Ry

MOBILE SUBSCRIBER EQUIPMENT

will request if required
You were among those who received a copy of Michael Clark's letter to me of 16th August describing the problems Plessey are facing in bidding for the United States Army's requirement for a battlefield communications system known as Mobile Subscriber Equipment. Your officials have also seen a fuller paper by Plessey analysing the problem of how they can hedge the exchange rate risks which stem from their being obliged to tender in fixed price dollars, the receipt of which would be uncertain and spread over more than 10 years.

The potential size of the contract is enormous. Plessey stand to win business worth around £1 billion at today's prices and other British companies could consequently win additional sub-contracts worth hundreds of millions of pounds.

I have today discussed the problems again with Michael Clark. We considered what more could be done to pressurise the Americans into changing the rules they have set and allowing Plessey to bid in Sterling. Plessey and Rockwell, the prime contractor through whom they are working, have already pressed US officials hard, as have the

The Rt Hon Nigel Lawson MP



Head of Defence Sales' staff. I am today writing to Caspar Weinberger. But we cannot rely on my approach being successful, nor can we afford to wait for the result before considering whether there is some way in which the Government can help. Plessey have to calculate and submit their bid by the end of this month. I am not hopeful of persuading the United States to change the rules since we are, in effect, asking them to take on the uncertainty of the exchange rate. Moreover, we do not know what approach the French, who are in direct competition, are adopting. Thomson CSF are state controlled and, Plessey believe, will be allowed to take on the risk. I understand that the French are likely to ease the risks by placing a higher proportion of the work in the United States. This is an option also open to Plessey, which may anyway be necessary to help gain the necessary Congressional support, though it would obviously reduce the employment benefits in this country.

We need to consider, therefore, the question of Government assistance, given that the normal commercial markets are not available because the sums involved are too large, spread over too long a period and too uncertain. Plessey have applied for cover under the ECGD Tender-to-Contract scheme but have been turned down. I can see that the scheme cannot cover the uncertainties of the future options which the United States might not exercise. But for the basic contract Plessey are asking for cover over a 12 month period rather than the 9 month limit of the scheme. Given the importance of the order, would it not be possible to stretch the rule? If it were possible, this would do something to reduce the size of the problem. As for the remainder, is there scope for a special scheme run by ECGD or some form of DTI exchange risk guarantee? Norman Tebbit may wish to comment.

If all else fails, I have been considering the possibility of an MOD scheme, as proposed by Plessey, under which we would agree to buy from them, at predetermined rates, all the dollars they received under the contract. I am reasonably confident that our requirement for dollars, not just to pay for Trident but for a wider range of other planned purchases, would more than cover receipts from Plessey. The



vital feature of such a scheme would be the exchange rates adopted. We would have to set rates and charges which were in some way related to the market and reflected the risk being taken onto the Defence budget. I think Plessey recognise this. There would also be some advantages to the Ministry of Defence in taking part in such a scheme. We anyway stand to benefit from substantial R&D levies if the sale goes ahead, but there would be an additional benefit from the increasing degree of certainty we would have of the cost of a significant proportion of our future dollar requirements. This could only help with our long term costing and project planning processes. Nevertheless, we would be taking on a real risk of an opportunity loss if the pound was to strengthen above the rates we had fixed in the scheme. There is also the risk that we might not, in the event, need all the dollars we had contracted to buy and it is worth noting that there are other companies in the same position as Plessey who might want a similar facility. There is also an argument that the Defence Budget should not really be in the business of taking risks in this way to support exports.

But as a measure of last resort, and if Norman Tebbit cannot help, I would be prepared to enter into the sort of arrangement proposed by Plessey. I would be glad to know that you would be prepared to agree such a scheme in principle. Given the timetable Plessey face, we need to give them an answer within a week.

I am sending copies of this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

Yours
Michael

Michael Heseltine

1
2
3
4
5
6
7
8
9
10
11
12

SEP 4 1984



CC No
Since colleagues
are agreed NBP
C.D.P.
25/9.

Treasury Chambers, Parliament Street, SW1P 3AG

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

24 September 1984

John Michael

MOBILE SUBSCRIBER EQUIPMENT

In the Chancellor's absence I am replying to your letter of 4 September.

2 I fully support your efforts to help Plessey win this major contract. I believe that the US Government should continue to be pressed at the highest level to relax their conditions, but accept that if the Americans resist all pressure to change their rules, we shall have to do something to relieve the company of the exchange rate risk involved.

3 I recognise Norman Tebbit's difficulties over stretching the existing schemes, pursuing new ones and would not wish to press him to go further.

4 I am content therefore to give my agreement in principle to the last resort exchange cover scheme which you propose to offer. If I may say so you have given a very fair summary of the advantages and risks and I am in no doubt that the importance of the contract justifies the action you propose. I share your concern that any rates and charges offered must be related to the market and must reflect the risk on the defence budget. There can be no subsidy. When the stage of a specific offer is reached I would ask that the Bank of England, ECGD and Treasury officials should be consulted about the precise terms and conditions.

5 I am copying this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

Peter Rees

PETER REES

25 SEP 1987

11
10
9



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

*NRPT
CDB 31x.*

MO 26/8/2

2nd October 1984

See Peter

MOBILE SUBSCRIBER EQUIPMENT

Thank you for your letter of 24th September 1984. I was most grateful for your helpful response.

I am glad to say the pressure we have been applying in Washington seems to have had some effect. The US Department of Defense have apparently agreed to accept bids which contain clauses to vary prices, at least for the optional element of the contract. This has enabled Plessey to bid without the need for an exchange rate scheme with the Ministry of Defence. For the basic programme, they can use normal ECGD or market facilities. I have, therefore, told Michael Clark that we have put further consideration of our scheme on the shelf. Obviously, we will be ready to discuss with them any further problems that might arise.

I am sending copies of this letter to OD colleagues and to Sir Robert Armstrong.

Yours truly

Michael Heseltine

DEFENCE : Sales Pt 4



25 OCT 1984



2 No

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

18 September 1984

Amat
Charalbi > my
PD.

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

D. Nigel.

PLESSEY: MOBILE SUBSCRIBER EQUIPMENT FOR THE US ARMY

I have seen Michael Heseltine's minute to you of 4 September in which he invites me to comment on whether ECGD or DTI could provide assistance on the exchange risk faced by Plessey on their bid to the US for the supply of Mobile Subscriber Equipment.

2 This contract is the largest order for tactical communications systems open to British industry. Through our investment in Ptarmigan the UK has become a world leader in this important high technology sector. This is one of the rare occasions where there is no established US competitor. It is important that the key systems design skills are retained in the UK and, as far as possible, are prevented from falling into the hands of a potential US competitor. Otherwise we shall lose control of our technology and hence jeopardise British industry's prospects of winning business in other export markets, worth £400-£500m per annum. This risk would exist even if Plessey retained control of the US production and development facilities.

3 A significant number of jobs depend on winning this contract. At present 2,500 people are employed on Ptarmigan. Even if 50 per cent of the work is transferred to the US there will be sufficient workload to maintain that workforce, and possibly even increase it by several thousands until the early 1990s. While a significant US content will be required for political purposes, I would be concerned if the UK had to forego the employment and industrial benefits of this contract merely to overcome the exchange risk.

JH5BAH



CONFIDENTIAL

4 ECGD has indicated to Plessey its willingness to provide cover for the basic contract on the normal terms of its Tender to Contract facility. I do not think it would be right to go further than that. The TTC scheme is presently under review, and we should not modify the terms of cover in a way which would add to the potential risk for ECGD in such an unusual case.

5 I have also considered whether DTI should provide some form of exchange risk guarantee. While the means exist under the Industrial Development Act 1982, its use would involve an Affirmative Resolution, exchanges with the EC, and substantial administrative complications. These hurdles would both undermine the objective of helping Plessey to defeat the French, and be very complex, given that there is a readier solution through MOD's own US dollar flows. I very much hope therefore that Michael Heseltine will be able to approve the scheme currently proposed.

6 I am sending copies of this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

Devenor
Salvo
Pru

11 21 23
11 21 23
11 21 23

19 SEP 1984