



PM/80/80

PRIME MINISTER

Prime Minister
 You have already seen a note
 from the Defence Secretary on all
 this. *md* *Paul*

Sale of Hawk Aircraft to Egypt

1. I am sorry to say that the Egyptian contract for a defence trainer and ground attack aircraft to which Francis Pym and I referred in minutes of 6 November appears to have been won by the French for their Alpha Jet.
2. When British Aerospace representatives and officials called on the Chief of Staff of the Egyptian Air Force, on 16 November, he informed them that a contract for Alpha Jet was signed on 15 November. The decision was defended on the grounds that the French were 12% cheaper and offered earlier delivery than British Aerospace. Your message to the President was said to have caused the Egyptians to instruct their negotiating teams not to sign up with the French until time had been given for the Air Force to study the new proposals that British Aerospace were submitting. In the event, however, no further real negotiations took place with the Company and they were left without a chance of submitting their final proposals. This is obviously highly unsatisfactory and leaves room for doubts about the propriety of Egyptian procurement procedures. I am also concerned that you have not had a reply to your message.
3. The Ambassador, Sir Michael Weir, is trying to secure an opportunity for the Company to submit formally their final proposals, but I think it would be unrealistic to think that we will be able to overturn the Egyptian decision at this stage. I am therefore instructing my officials to co-operate fully in any post-mortem which the Ministry of Defence and ECGD may conduct. I or Francis Pym will keep you informed.
4. I am sending a copy of this minute to Francis Pym, Geoffrey Howe and John Nott.

CONFIDENTIAL



MO 26/9/13

Prime Minister ⁽²⁾

L.S. Am

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Am

PRIME MINISTER

HAWK FOR EGYPT

I thought that you and the other members of OD should see the report I have just received from one of my senior officials who, at British Aerospace's request, went to Cairo last week with the Company's team.

2. We must not give up the struggle, but I cannot be other than pessimistic about the outcome. The immediate moral I draw is that British Aerospace did not pursue this important potential sale with either sufficient expertise or the necessary vigour. As to the longer term, the issues raised are germane to the proposals I have just put to the Committee in OD(80)70.

3. I am sending copies of this minute, with Mr Anderson's, to the other members of OD and the Secretary of State for Industry; and to Sir Robert Armstrong.

reference:
Sales Sept 80

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Ministry of Defence

25th November 1980

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26/9/13
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PS/Secretary of State

Copy to: PS/Minister of State
PS/PUS
CDP
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AUS (Sales)
D Sales 1
Mr J Moberly FCO

Egyptian Requirement for a New Trainer/
Ground Attack Aircraft

Although you have seen some of the telegrams reporting recent events on the Egyptian aircraft requirement I think you will wish to have a fuller report.

2 The procurement was handled in a very odd way by Air Vice Marshal Helmi Chief of Staff of the Egyptian Air Force. When we finally got to meet him he told us of the procedure he had adopted. He said he had drawn up a matrix to embrace matters such as performance, delivery, cost, industrial benefits and credit. He had then sought written offers from BAE and Dassault and had made comparisons on the basis of those offers and the reports of the EAF teams who had evaluated the two competing aircraft. He explained that there had been no real negotiation with either of the Companies until he had completed his comparison of their written proposals. He added that whenever he had been approached either by Dassault or BAE he had asked them to improve their offers and this process had gone on until the 10th October at which time on the basis of the offers then available a decision had been taken in favour of the Alphajet. As a result an EAF team had been sent to France for detailed negotiations with Dassault.

3 He went on to say that these negotiations had been held up when BAE had submitted their third proposal on the 1st November because this represented a significant improvement on their earlier offers. His subsequent assessment however had been that the French proposal was still ahead in terms of price, delivery, industrial participation

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and the credit arrangements. The negotiations with the French had then resumed. The next action followed from the Prime Minister's message to President Sadat which was delivered to Vice President Hosni Mubarak by the British Ambassador on the 8th November. Amongst other things the message had foreshadowed yet more proposals from BAe, so, according to Helmi, he had instructed his team in France that while they could continue negotiations they were not to sign anything.

4 The final BAe proposals, Helmi said, had been delivered to him on the 3th November. He had considered them but although they now matched the French offer in terms of industrial participation and payment arrangements there was still a significant price difference (he said 12%) and the French were offering earlier delivery. He argued moreover that the BAe final proposal which gave an apparent price reduction was in fact little different in this aspect from the earlier proposal since a lower standard of aircraft was being offered. He said that he had reported this position to "higher authority" who had given their agreement to the signature of a contract with the French. He informed us that the contract had been signed on Saturday 15th November ie on the day before we met him.

5 The BAe representatives argued strongly that they had never been given a proper opportunity to negotiate - if they had they would have been able to offer improvements in delivery and price reductions. Helmi denied this and said that he had in fact had more meetings with representatives of BAe than he had had with Dassault. When we asked whether the decision was final Helmi said that it was.

6 Past experience has shown that final decisions in Egypt can be reversed - this happened with a large contract for fast patrol boats for the Egyptian Navy where we managed to overturn a deal that had been signed between the Egyptian Navy and the French. Gamal Said the Minister of Military Production, whom I have known for some years, told me, when I saw him during the recent visit, that I would remember that in Egypt "all things are debatable". BAe, HM Ambassador and I subsequently discussed what the tactics should be in the wake of Helmi's announcement: there was universal agreement that while the chances of upsetting the Alphajet deal must be considered remote we should make clear to everyone concerned in Egypt that we considered that the British offers had not been properly evaluated - in other words we would cry "foul" and seek to get an opportunity for BAe to have a proper negotiation with the EAF. We should also continue to press for a formal reply to the Prime Minister's letter.

7 Any postmortem must include the following points

a the Hawk is a better aircraft than the Alphajet and BAe were told after the EAF evaluation of the Hawk in April and the subsequent Alphajet evaluation in May that the EAF regarded the Hawk as the superior aircraft. This induced complacency on the part of BAe. As Gamal Said said to me "BAe had the flower in their hands but they did not irrigate it".

b the French obviously realising that they were behind mounted strong efforts at governmental and Dassault level. In particular

they homed in on Air Vice Marshal Helmi as being the key man in the evaluation. Dassault re-employed the tactics that had originally won them the AOI contract (which was cancelled when the Saudis etc withdrew from the AOI) ie they offered the Alpha-jet as a stepping stone to Franco/Egyptian collaboration on the Mirage 2000 and the Mirage 4000.

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e Bae's local representation was of poor quality. They relied on a man, an engineer by profession, who was in Cairo for the maintenance and repair contract on Mig 21 aircraft for the EAF. He sent back reports that were invariably optimistic. He had no contact with Helmi and only very late in the day did he discover how far things had gone with the French. Bae dabbled with a number of potential local Agents but the quality was poor eg one of them reported that the Hawk was bound to win the competition because of its vertical take off capability! At no time have BAE had access to the levels that really matter in this particular competition. Nor did they ever get information on the offers Dassault were making.

f BAE were very slow to accept that the amount of work that could be undertaken in Egypt was a major concern. Dassault on the other hand placed speculative work on Egyptian factories some months ago.

g The BAE final offer was not well considered since it was of a nature that Helmi could easily dismiss as being not on all fours with the French offer.

enc. Pym to Am, 25/11/80

h HMG's intelligence too was not good. We relied too much on the local BAE representative. On the other hand HMG did pull out all the stops as soon as BAE found out what was really happening ie we offered some training and competitive credit terms. Above all the Prime Minister intervened personally on behalf of the Hawk.

8 Before I left Egypt I saw Kamal Hassan Ali, the Egyptian Foreign Minister, who was formerly Minister of Defence, and made our position clear to him. I pressed particularly that he should use his influence to bring about a meeting between the Vice President and BAE. He undertook to do his best. The Ambassador pressed the same point at a meeting he had on Thursday 20th November with General Ghazala at which he also emphasised HMG's unhappiness at the way matters had developed and debated effectively when Ghazala attempted to argue that BAE had indeed been given a fair crack of the whip.

9 I think we must continue to make as much fuss as we possibly can even though there is the danger that we shall antagonise the Egyptian Air Force. However they have not been pro-British on equipment matters since we refused to let them have the Jaguar some years ago.

10 BAE must learn from this episode. First of all they must make sure that the current Rapier/Crotale competition is not handled in the same way by the Egyptians and the French. There is reason for disquiet because Ghazala made criticisms of Rapier that are obviously inspired by the French. One item of comfort is that the BAE Dynamics Group representative in Cairo is a much better operator than his BAE Aircraft counterpart. Another necessity is that both the Military Aircraft and the Dynamics Groups of BAE find themselves effective Egyptian Agents.

11 Some final points are:-

- 1 the Egyptians have said they would like quotations for up to 4 Nimrod AEW aircraft - this is an obvious attempt to make us feel less aggrieved about the trainer deal. There is also talk of a 748 purchase.
- 2 the Westlands/AOI situation did not help BAE at all. The Egyptians feel considerable bitterness at the way Westlands have "let them down" and also about their action in suing Egypt. In an attempt to harm BAE the rumour was spread that BAE owned shares in Westlands.
- 3 there are hints that the Egyptian police are investigating certain aspects of Dassault's activities in Egypt. It is said for example that they are concentrating on an Egyptian named Shemi who spent 4 years in France but who is now employed in Helmi's office as a translator and general aide. In this capacity he would have been ideally placed, first, to let Dassault have immediate copies of BAE's proposals and second to mis-translate BAE's documents.

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enc. Pym to Am 25/11/80




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Everyone is puzzled for example at the origin of a widely held assertion that in one of their documents BAE said they were not prepared to offer any Egyptian industrial participation.

4 it is very odd that no announcement has yet been made about the signing of the contract. Let us hope our tactics have thrown a spanner in the works.

12 I will let you know if and when the Vice President agrees to meet BAE.


R ANDERSON

24th November 1980

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