

Security Classification ----- 15 spaces ----->

CONFIDENTIAL UK EYES A

Message Instructions ----- 15 spaces ----->

AMRAD
SIGNAL
MESSAGE
FORM

Precedence: ACTION/INFO

IMMEDIATE / IMMEDIATE

DTG

191815 Z Month SEP 85

FROM

MODUK

*TO

BRITEMB AMMAN (DESK BY 200600Z)

*USE A
SEPARATE
LINE
FOR
EACH
ADDRESSEE

*INFO

- 3 -
spaces

BRITEMB WASHINGTON
FCO LONDON

Line Feed

TEXT Security Classification

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Special Handling Caveat Only

DIG(s) Only

~~DIG~~ SIC A2P

FROM: DEFENCE SECRETARY. FOR: PRIME MINISTER

SUBJECT: MSE

1. I EXPECT THAT YOU WILL HAVE BEEN AS CONCERNED AS I WAS BY THE INFORMATION IN WASHINGTON TELEGRAM NUMBER 2614 ABOUT MSE. I HAVE BEEN IN TOUCH WITH SIR OLIVER WRIGHT AND THE US AMBASSADOR IN LONDON, CHARLES PRICE, ABOUT THIS, AND ADDRESSED WHAT WE SHOULD DO NEXT WITH MY CLOSEST ADVISERS AND WITH PLESSEY.

2. THE LATEST ASSESSMENT, WITH ALL THE CAVEATS THAT I MUST STRESS ABOUT ITS POSSIBLE INACCURACY, IS THAT THE COST DIFFERENCE BETWEEN THE GTE/THOMSON CSF AND ROCKWELL/PLESSEY BIDS IS NOW \$100 MILLION. I HAVE ASKED COLIN CHANDLER

Special Distribution See note 9

File Reference

DRAFTER'S NAME (Block letters)

Extension Branch

RELEASING OFFICER'S Signature

Page of Pages

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Grade/Rank

Name (Block letters)

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TO APPROACH THE COMPANIES TO INVITE THEM, IF THAT IS THEIR COMMERCIAL JUDGEMENT, TO PUT FORWARD PROPOSALS TO BRIDGE THE PRICE GAP. I WOULD HOPE TO HAVE ADVICE ON THIS SHORTLY. IT MAY ALSO BE RELEVANT THAT CHARLIE PRICE, IN HIS CONVERSATION WITH ME, GAVE THE IMPRESSION THAT WE MAY HOLD THE ADVANTAGE ON THROUGH-LIFE COSTS BECAUSE OUR APPROACH ON SUPPORT IS MORE ECONOMICAL FOR THE US ARMY.

3. I HAVE PAID PARTICULAR ATTENTION TO THE SUGGESTION IN PARAGRAPH 5 OF SIR O WRIGHT'S TELEGRAM THAT THE WHITE HOUSE MAY HAVE TAKEN A POLICY DECISION TO KEEP THE PRESIDENT OUT OF THE FINAL DECISION. WE HAVE CHECKED THIS AGAIN AND IT WOULD APPEAR - SURPRISING THOUGH IT MAY SEEM - TO BE TRUE. IN MY CONVERSATION WITH CHARLIE PRICE, I INDICATED TO HIM THAT THERE WERE RUMOURS TO THIS EFFECT AND THAT, WERE THIS THE CASE, IT WOULD BE A VERY GRAVE ERROR OF JUDGEMENT. HE CLEARLY TOOK THE POINT ON BOARD. THIS REINFORCED A SEPARATE MEETING I HAD WITH HIM TWO DAYS AGO IN WHICH I AGAIN STRESSED IN UNMISTAKEABLE TERMS THE CRUCIAL POLITICAL DIMENSION TO THE MSE DECISION.

4. I HAVE OF COURSE CONSIDERED WHETHER THERE IS ANYTHING MORE THAT WE CAN REASONABLY DO. OUR LATEST INFORMATION IS THAT A FINAL RECOMMENDATION WILL GO TO MR TAFT, WEINBERGER'S DEPUTY, NEXT TUESDAY. I BELIEVE THAT THE ONLY CARD LEFT TO US WORTH CONSIDERING IS THAT YOU MIGHT YOURSELF PHONE THE PRESIDENT ON MONDAY. IT IS, I BELIEVE, IMPERATIVE THAT WE SHOULD CONTINUE TO DEPLOY TO THE END OF THE COMPETITION THE IMPORTANCE WE ATTACH TO THIS DEAL AND ITS POLITICAL IMPLICATIONS. YOU ALONE CAN DO THAT. I REALISE THAT I HAVE ALREADY ADVISED YOU TO WRITE TO PRESIDENT REAGAN, THAT THAT APPROACH WAS LEAKED, AND THAT THE POLITICAL STAKES WERE THEREBY RAISED.

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PRECEDENCE— Action / Info	SECURITY CLASSIFICATION	DATE—TIME—GROUP	MOD FORM 140A (continuation sheet)
IMMEDIATE / IMMEDIATE	CONFIDENTIAL UK EYES A	191815Z SEP 85	

ON MY ADVICE

I STILL BELIEVE THAT THE DECISION YOU TOOK WAS THE RIGHT ONE, AND THAT, NOW WE HAVE GONE DOWN THIS ROAD, FURTHER ACTION WILL LEAVE US NO WORSE OFF OR MORE EXPOSED. WE ARE IN THIS MATTER TO WIN.

5. I WOULD HOPE THAT I MIGHT HAVE A WORD WITH YOU ON MONDAY, BEFORE A FINAL DECISION IS REACHED.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

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	Extension	2111/3	Branch S OF S
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Page 3 of 3 Pages	Have you referred to a classified message? (Answer YES or NO in box)	<input type="checkbox"/> YES	Grade/Rank AS Name (Block letters) R C MOTTRAM

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CONFIDENTIAL

CP
CE P J Kitcraft
HM Treasury

GRS 600
CONFIDENTIAL
UK EYES ALFA
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 2614
OF 181920Z SEPTEMBER 1985
INFO IMMEDIATE AMMAN (FOR PM'S PARTY), MODUK
INFO PRIORITY UKDEL NATO, PARIS
MSE

1. IT MAY BE HELPFUL IF I SET OUT THE CURRENT POSITION ON THE MSE DECISION.
2. NO ANNOUNCEMENT OF THE PTARMIGAN/RITA CHOICE HAS BEEN MADE, NOR HAS A DECISION BEEN TAKEN. WHAT HAS HAPPENED IS THAT, PROBABLY AS A RESULT OF THE INTERVENTIONS BY THE PRIME MINISTER AND THE SECRETARY OF STATE FOR DEFENCE, AN INDEPENDENT COST EVALUATION GROUP HAVE BEEN CHARGED WITH REVIEWING THE ARMY'S ASSESSMENT OF THE TWO BIDS. WE KNOW THAT THE ARMY ORIGINALLY OPTED FOR THE GTE/THOMSON CSF BID ON GROUNDS OF COST, (THE COST DIFFERENCE BEING SOMETHING OVER DOLLARS ONE BILLION, MUCH OF IT APPARENTLY ARISING FROM THE DIFFERENCE IN THE CAPABILITY (NUMBER OF NODES) OF THE COMPETING EQUIPMENT.)
3. WEINBERGER TOLD THE MINISTER OF STATE FOR THE ARMED FORCES ON 17 SEPTEMBER THAT HE REGRETTED THAT THE PRIME MINISTER'S MESSAGE TO THE PRESIDENT HAD BECOME PUBLIC KNOWLEDGE. HE ALSO CONFIRMED THAT THE INDEPENDENT COST ASSESSMENT WAS IN TRAIN, AND THAT IT WOULD TAKE ACCOUNT OF THE POINTS MADE IN MR HESELTINE'S MESSAGE IE GUARANTEES ON EXCHANGE RATE, A CAP ON INFLATION, AND A REDUCED NUMBER OF NODES.
4. THE COST EVALUATION GROUP IN FACT COMPLETED ITS WORK ON 17 SEPTEMBER; ITS CONCLUSIONS AND RECOMMENDATIONS ARE BEING TIGHTLY HELD, BUT THE RUMOUR MILL SUGGESTS THAT THEY ARE UNFAVOURABLE TO US.
5. WE HAVE ALSO LEARNED FROM TWO USUALLY RELIABLE SOURCES THAT THE WHITE HOUSE HAS TAKEN A POLICY DECISION TO KEEP OUT OF THE DECISION TAKING PROCESS. WEINBERGER HAS, IT IS SAID, BEEN TOLD TO MAKE HIS MIND UP WITHOUT REFERENCE TO THE PRESIDENT. (PRESUMABLY THE INTENTION IS TO TRY TO REDUCE THE RISK OF DAMAGING THE PRESIDENT'S RELATIONS WITH EITHER THE PRIME MINISTER OR MITTERRAND.)
6. SHULTZ TOO APPEARS TO HAVE CONFIRMED TO WEINBERGER THIS WEEK THAT HE DOES NOT WISH TO INTERVENE IN THE DECISION.
7. WE HAVE, WITH ROCKWELL, CONTINUED OUR LOBBYING EFFORT; SENATORS WARNER, HATCH AND HAWKINS HAVE THIS WEEK CONTACTED WEINBERGER ON PTARMIGAN'S BEHALF. THE ROCKWELL/PLESSEY AIM NOW IS TO PERSUADE DEPARTMENT OF DEFENSE TO CALL FOR A SECOND BEST AND FINAL OFFER; AN ACTION FOR WHICH THERE ARE NUMEROUS PRECEDENTS. THE PRESIDENT OF ROCKWELL WROTE ON 17 SEPTEMBER TO THE DOD ASKING THEM TO REOPEN NEGOTIATIONS ON THE BASIS OF APPLES FOR APPLES.

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3. WE KNOW THAT THE PENTAGON PLANNED TO MAKE AN ANNOUNCEMENT ON 20 SEPTEMBER. SOME OF OUR SOURCES HOWEVER MAINTAIN THAT THEY WILL NOT BE ABLE TO MEET THIS DEADLINE, AND THAT THE MIDDLE OF NEXT WEEK IS NOW A BETTER BET.

WRIGHT

LIMITED
NAD
DEFENCE .D
NEWS .D
SIR W HARDING
MR GOODALL
MR DAUNT
MR DAVID THOMAS