

CSFC ①



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~938 7022~~ 218 2111/3

MO 26/8/2V

24th September 1985

*On Prime Minister
Your tentative conclusion
was let, if you were to
ring anyone, it should be
Don Regan. I don't think
it
right to
do so
today;
you might
like me
to check
how matters
stand in
Washington
tomorrow;
we must
miss COP
to
best. 24/9*

Dear Charles,

MSE

We spoke on the telephone about the Prime Minister speaking to President Reagan about MSE, for the reasons set out in the Defence Secretary's message sent to you in Amman.

I attach a background note on where matters now stand. You will see that the cost gap could now be down to \$100 million, although we cannot be sure about this and it should not be referred to directly in any conversation. We have asked Rockwell to make it clear to Weinberger's office that the consortium is confident of closing any small price gap.

The Prime Minister will no doubt have her own ideas about how best to put over what represents our final approach. We assume that it would be inappropriate to attempt, with the President, to go into detail about technical issues. The Defence Secretary suggests therefore that the Prime Minister might develop the following themes:

- I explained in my earlier message to you why the British Government attaches so much importance to this contract. I understand a decision may be taken shortly. Interest here is very high and it is assumed that the final decision will rest with you.
- The technicalities need not concern us because there is no doubt that the British Ptarmigan system is superior.
- We believe that there is now nothing in the price. I have taken the initiative in pressing both Rockwell as the lead contractor and Plessey the main British contractor to make adjustments which would save your government more than \$1 billion.
- The point I wanted to emphasise is that I shall be placed in an impossible position politically in this country if you opt for the French-based system. People here are only too aware of the way in which the French behave towards you across the range of defence and foreign policy questions. I am criticised all the time by the Opposition about the

C Powell Esq
No 10 Downing Street



Government's pro-American stance. I can defend this while I can show that there are tangible benefits as well as the perceived drawbacks - that we enjoy a genuine partnership. If we fail to win this contract it will be an enormous boost to Mr Kinnock. He will no doubt claim that if the British Government pursued his policies of kicking out American bases and so on - just as the French have done over the years - we would be likely to be better treated.

I am copying this letter to Colin Budd (FCO).

Yours ever

Richard Mottram

(R C MOTTRAM)

D/HDES/5/82

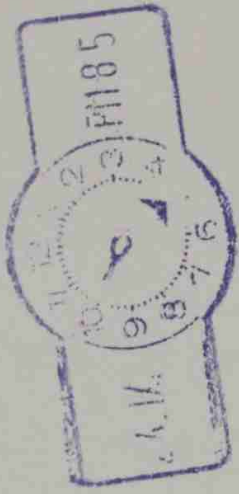
MSE: BACKGROUND

1. Following the interventions of the Secretary of State and the Prime Minister, it became clear that the political implications, domestic and international, of this project had not, until then, been appreciated by Weinberger.
2. Without these interventions and with two seemingly compliant bids, the project would have been awarded to GTE/Thomson-CSF whose tender cost was in the region of 20% lower than that of Rockwell/Plessey - a difference of the order of \$1Bn in this \$5Bn project.
3. Weinberger then ordered an assessment of the project in political and cost terms. For the former the Rockwell/Plessey team should have the advantage domestically and internationally. For the cost area, a separate Cost Evaluation Group (CEG) has been assessing the rival bids.
4. In the political area, we believe, with a fair degree of confidence, that Reagan's advisers have taken a decision to keep the President out of the final selection.
5. Confidential, but unsubstantiated, information we have about the work of the CEG is that the difference in cost has narrowed to around \$100M, in favour of GTE/Thomson-CSF. We have to assume that this takes account of the \$1Bn approximately reduction in the Rockwell/Plessey bid advised by Rockwell to the Pentagon and by HMA to Weinberger but we are not sure if this current small difference (less than 2%) covers just the capital cost of the system or whether it takes into account life cycle costs where the higher standard of maintainability of the Ptarmigan system would give us an added advantage. At this critical stage, we have to assume that this advantage has been taken into account.
6. The next steps are believed to be for the results of the work of the CEG to be put to Taft (Weinberger's deputy) on Tuesday, 24 September and for a combination of the cost and political evaluation to be put to Weinberger on Wednesday, 25 September. We also understand that an approach will be made on Tuesday, 24 September, to the White House Chief of Staff about the domestic political advantages of success for Rockwell together with a scenario for choosing Rockwell and withstanding the subsequent political pressures. An announcement is thought to be likely on Friday, 27 September.
7. Weinberger would have basically four choices:
 - a. To award the project to GTE/Thomson-CSF.
 - b. To admit the revised Rockwell/Plessey bid within the current tendering process.
 - c. To order a further best and final offer.
 - d. To re-assess the whole project, question its need and scope and go out to open tender again. (This is probably unlikely but is an option).
8. Our prime objective has to be to win now (ie b. above) using our political position with the United States and arguing for the revised Rockwell/Plessey bid to be admitted.

9. If that fails, our secondary objective is to have the project be the subject of second best and final offers. The arguments under 6. above will assist this process combined with efforts being made by friendly Congressmen to have brought into question GTEs illegal access to confidential papers and their relevance to the MSE project.

10. Despite the arguments that are being deployed (6. above) it is realistic to appreciate that a decision this week in favour of either bid would be a very difficult one for either Weinberger or Reagan to make. The high public profile given to the project must have created problems and to seek a further best and final offer may be the way out for the White House particularly bearing in mind the emphasis placed in the United States on the competitive process.

11. With the timing described in 6. above, it is recommended that the Prime Minister telephones President Reagan today, 24 September.



CONFIDENTIAL

PH