

11 ~~CBU~~



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7032~~ 218 2111/3

MO 26/8/2V

27th September 1985

EDP 27/9.

Dear Charles,

Your letter of 23rd September asked for briefing in preparation for the Prime Minister's talks with Mr Macfarlane tomorrow. The Prime Minister will be very familiar with the background both to the discussion with the US over United Kingdom participation in SDI research and to Ptarmigan, but I attach short notes setting out the current state of play on each.

On Ptarmigan, we have also just heard from Washington that Mr Macfarlane's line may be that, whilst he is sympathetic to our position, it is not possible to award a contract other than to the lowest bidder. The Prime Minister could rebut this point quite firmly. The invitation to tender on MSE set out clearly the factors to be taken into account in making the award: operational suitability (most important) then cost, and then logistics, technical and management. This reflected the United States regulations which, whilst recognising that cost will probably be the deciding factor in most cases, explicitly permit selection of a proposal which offers the greatest value in terms of performance and other factors.

Yours ever,
Jeremy Wright

(J S WRIGHT)

Charles Powell Esq
No 10 Downing Street

MOBILE SUBSCRIBER EQUIPMENT

1. At the beginning of this competition some 18 months to two years ago the PTARMIGAN based system was far ahead technically because of its later technology and more flexible design. But GTE in America has moved rapidly within the last 18 months or so to develop a system around Rita and there is now little to choose technically between the two; but the Rita based system has yet to be fully proven and as such does not meet the NDI (Non-Developmental Item), off the shelf, purchasing philosophy originally espoused by the US Army on this project.

2. The Pentagon faces strong criticism on budget extravagance, and could not support a massive premium for the winner. GTE with the French have always aimed at a rock bottom bargain price; but we have moved both financially and technically to close the \$1Bn gap to something nearer the order of \$100-200M which should be politically acceptable. (These figures from confidential sources.) As a result of Mr Heseltine's exchanges with Mr Weinberger, an American Cost Evaluation Group (CEG) is now reassessing the US Army figures to take into account all the factors we have been stressing such as difference in financing provision, exchange rate problems, inflation rates, disparity of technical specification.

3. There is little point in arguing technicalities. The essential point to get over to the Americans is that the size of the programme, the impact on the two-way-street, the important implications for world-wide sales mean that this is much more than a domestic decision for them; the American decision will attract considerable notice, both domestically and within NATO and the choice will be seen as reflecting the extent to which support of Alliance goals and wider Western interests is recognised in Washington. And although much of the equipment will in any case be manufactured in America, the issues have willy nilly come to be seen as Britain versus France.

4. LINE TO TAKE:

- The British PTARMIGAN system represents a fully competent solution to the MSE requirement.
- As a result of action Rockwell and Plessey have made adjustments to save the American Government more than \$1Bn; there is now virtually nothing in the prices.
- We have offered the US Administration wholehearted support on cruise missiles, SDI and co-operation between our Armed Forces (e.g. in the Middle East): the closeness of our relationship is politically

controversial within Britain. The contrast with the approach of France is well understood. Should the order go to France the conclusion will be drawn both in Britain and internationally that it pays not to be supportive of the United States and not to play the game in the Alliance.