

THE GENERAL ELECTRIC COMPANY, pl.c.

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31st March, 1988

Dear Charles,

I enclose a note about the subject we discussed this morning. I hope the Prime Minister will be willing to raise this matter with the Turkish authorities.

Yours,

Arnold

Lord Weinstock

Charles Powell Esq.,
10, Downing Street,
LONDON, SW1.

P.S. Have a good trip

ZEUS FOR TURKEY

INTRODUCTION

ZEUS IS AN ELECTRONIC WARFARE SUITE NOW IN PRODUCTION FOR THE RAF'S HARRIER'S GR5. THE TURKISH AIR FORCE HAVE A SIMILAR REQUIREMENT FOR THEIR F-16 AIRCRAFT BUT HAVE BEEN UNDER CONTINUAL PRESSURE FROM THE US TO INSTALL AMERICAN EQUIPMENT. NEVERTHELESS THE TURKS HAVE RETAINED A STRONG INTEREST IN ZEUS WHICH IS TECHNICALLY SUPERIOR AND ON THIS BASIS SHOULD WIN THE COMPETITION WORTH SOME £200 MILLION; (INCLUDING £60 MILLION FOR THE TRANSMITTER SUPPLIED BY THE AMERICAN COMPANY NORTHROP). HOWEVER POLITICAL INFLUENCE WILL BE DECISIVE AND THE PRIME MINISTER'S INTERVENTION ON OUR BEHALF WILL CERTAINLY BE HELPFUL AND POSSIBLY CRUCIAL.

ZEUS - DESCRIPTION

ZEUS IS THE FIRST FULLY INTEGRATED AIRBORNE ELECTRONIC COUNTER MEASURES SYSTEM TO BE PRODUCED. IT COMPRISES A RADAR WARNING RECEIVER (THE PASSIVE COUNTER MEASURE) WHICH LISTENS TO AND ANALYSES ALL ENEMY TRANSMISSIONS AND THEN INITIATES THE APPROPRIATE RESPONSE FROM THE ONBOARD RADAR JAMMER (THE ACTIVE COUNTER MEASURE). THE EQUIPMENT ALSO CONTROLS THE RELEASE OF CHAFF AND FLARES. TRADITIONALLY,

PASSIVE AND ACTIVE COUNTER MEASURES HAVE BEEN DESIGNED AND PROCURED SEPARATELY. BY ADOPTING AN INTEGRATED APPROACH FROM THE OUTSET SIGNIFICANT SAVINGS IN WEIGHT, VOLUME AND EFFICIENCY HAVE BEEN ACHIEVED. ALSO, THERE ARE FEW CONSTRAINTS ON THE DISTRIBUTION OF THE COMPONENTS OF THE SYSTEM WITHIN THE AIRFRAME, WHICH ALLOWS THE SYSTEM TO BE READILY INSTALLED IN A WIDE VARIETY OF AIRCRAFT TYPES.

PROJECT BACKGROUND

A MAXIMUM PRICE CONTRACT, WITH INCENTIVES, WAS AWARDED IN AUGUST 1983 FOR DEVELOPMENT AND PRODUCTION OF ONE HUNDRED AND ELEVEN ZEUS SYSTEMS FOR THE RAF. THE PROGRAMME IS ON COST, ON SCHEDULE AND THE FIRST SIX PRODUCTION EQUIPMENTS HAVE JUST BEEN DELIVERED. THE PERFORMANCE OF ZEUS AND THE SUCCESS OF THE PROGRAMME HAVE ALREADY ATTRACTED THE ATTENTION OF OTHER AIR FORCES.

USMC EVALUATION

THE UNITED STATES MARINE CORPS HAVE HAD A LONG STANDING INTEREST IN ZEUS FOR THEIR (HARRIER) AV8B AIRCRAFT AND HAVE SELECTED IT FOR A FOREIGN WEAPONS EVALUATION, NOW TAKING PLACE IN CALIFORNIA. EARLY INTELLIGENCE ON THE INITIAL GROUND TESTS IS EXCELLENT WITH THE EVALUATORS REPORTEDLY

DELIGHTED BY THE CAPABILITY OF ZEUS TO COPE WITH THE MOST DIFFICULT THREATS. FLIGHT TRIALS ARE DUE EARLY NEXT YEAR FOR WHICH THE LOAN OF A HARRIER GR-5 FROM MoD (PE) WILL BE NEEDED.

TURKISH REQUIREMENT

THE TURKS HAVE REJECTED THE STANDARD UNITED STATES ELECTRONIC WARFARE EQUIPMENT FOR THE F-16 AS TECHNICALLY INADEQUATE. THE COMPETITION TO REPLACE IT LIES BETWEEN ZEUS AND THE RAPPORT SYSTEM MADE BY LORAL IN THE USA. RAPPORT HAS NOT BEEN ADOPTED BY THE US FORCES BUT AN EARLY VERSION HAS BEEN SUPPLIED FOR THE ISRAELI F-16 AIRCRAFT. RAPPORT WAS ALSO A CANDIDATE FOR THE RAF HARRIER GR-5 COMPETITION WHICH FOUND IN FAVOUR OF ZEUS. NOR IS RAPPORT A FULLY INTEGRATED SYSTEM. ON TECHNICAL, OPERATIONAL, AND COST EFFECTIVENESS GROUNDS ZEUS SHOULD WIN THE COMPETITION; MOREOVER THE TURKS PERCEIVE THAT UK SUPPORT OF THE SYSTEM IN SERVICE, PARTICULARLY IN SENSITIVE AREAS SUCH AS SOFTWARE, IS PREFERABLE TO RELIANCE ON THE US; BUT OTHER FACTORS NEED TO BE TAKEN INTO ACCOUNT.

OTHER FACTORS

THERE ARE THREE AREAS OF CONCERN POLITICAL, INDUSTRIAL, AND FINANCIAL.

(A) POLITICAL. THE UNITED STATES IS THE MAJOR SUPPLIER OF TURKISH DEFENCE EQUIPMENT AND WILL NOT EASILY RELINQUISH THIS SLICE OF THE MARKET WITH FAR REACHING EXPORT IMPLICATIONS (SEE LATER). OUR SUCCESS IN THE USMC EVALUATION MAY STIMULATE AN EVEN TOUGHER DEFENCE OF WHAT THEY REGARD AS THEIR EXCLUSIVE PRESERVE. LORAL CAN EXPECT STRONG US GOVERNMENT SUPPORT THROUGH POLITICAL PRESSURE AND FUNDING ASSISTANCE. THIS NEEDS TO BE COUNTER-BALANCED.

(B) INDUSTRIAL. TURKEY WISHES TO EXPAND ITS HIGH TECHNOLOGY BASE AND MANUFACTURE ITS OWN ELECTRONIC WARFARE EQUIPMENT. WE AIM TO SATISFY THESE ASPIRATIONS IN A TWO STAGE PROGRAMME WHICH HAS HMG (TREASURY) APPROVAL. FIRST, WE HAVE ALREADY ESTABLISHED MARCONI INSTANBUL AS (MIAS) AS A WHOLLY OWNED SUBSIDIARY OF MARCONI WITH £40,000 SHARE CAPITAL. THIS HAS BEEN APPROVED BY THE STATE PLANNING ORGANISATION IN TURKEY AND WILL BE FORMALLY REGISTERED AS A LEGAL COMPANY BY THE TIME THE PRIME MINISTER VISITS. SECOND, WE HAVE APPROACHED A NUMBER OF LARGE TURKISH INDUSTRIAL CONCERNS WITH A VIEW TO FORMING A

JOINT VENTURE COMPANY, MARCONI TURKEY AS (MTAS), WITH THE EQUITY SPLIT 51/49 BETWEEN MARCONI AND THE TURKISH PARTNERS. THIS WILL ALLOW US TO MANUFACTURE A NUMBER OF MARCONI PRODUCTS IN TURKEY. THE TURKISH RESPONSE IS ENCOURAGING AND A SHAREHOLDERS' AGREEMENT SHOULD BE SIGNED IN MAY 1988.

(c) FINANCIAL. A FAVOURABLE FINANCING DEAL IS NEEDED BY THE TURKISH GOVERNMENT. THE ECGD HAS INDICATED SUPPORT FOR A £70M DEPARTMENT MAXIMUM LIMIT (DML) (INCLUDING £25M INTEREST CHARGES). UK BANKS ARE UNLIKELY TO COVER THE DIFFERENCE BECAUSE ECGD GUARANTEE IS FOR LESS THAN 50 PERCENT OF THE TOTAL. AN INCREASED DML OF £90M (INCLUDING £30.5M FOR INTEREST CHARGES) IS THUS REQUIRED. THE SHORTFALL CONSTITUTES A SERIOUS DIFFICULTY AND FAILURE TO RESOLVE IT COULD LOSE THE CONTRACT AND THE PROSPECT OF FURTHER EXPORT ORDERS.

EXPORT POTENTIAL

APPROXIMATELY 2000 F-16 AIRCRAFT HAVE BEEN WIDELY EXPORTED. QUITE A HIGH PROPORTION OF THESE WILL REQUIRE EW EQUIPMENT TO BE FITTED. THE WINNER OF THE TURKISH COMPETITION CAN BE CONFIDENT OF FURTHER ORDERS WHICH COULD BE WORTH £400M; THE LOSER HAS LITTLE CHANCE OF OTHER BUSINESS.

CONCLUSION

THE COMPETITION FOR THE ELECTRONIC WARFARE EQUIPMENT FOR THE TURKISH F-16 FLEET OFFERS A MAJOR EXPORT OPPORTUNITY WHICH COULD BE DOUBLED BY FURTHER SALES. DESPITE THE EXCELLENCE OF THE ZEUS EQUIPMENT, STRONG POLITICAL AND FINANCIAL SUPPORT FROM HMG IS NEEDED IF WE ARE TO COUNTER THE US EFFORTS.

SALIENT POINTS

- * ZEUS IS AN EXCELLENT EQUIPMENT, THE FIRST FULLY INTEGRATED SYSTEM OF ITS KIND. IT IS THE RESULT OF A SOUND PROCUREMENT DECISION BY THE UK MoD WHICH BROUGHT A SUCCESSFUL RESPONSE FROM BRITISH INDUSTRY.

- * IT HAS ATTRACTED THE ATTENTION OF THE WORLD'S AIR FORCES AND IS UNDER EVALUATION FOR THE USMC AV8 AIRCRAFT. (THIS IS GOING VERY WELL.)

- * THE TURKISH COMPETITION IS A STRAIGHT FIGHT BETWEEN MARCONI AND LORAL. NO OTHER UK COMPANY IS INVOLVED.

- * SUCCESS IN TURKEY WILL OPEN UP A LARGE MARKET (£400M) FOR THE WINNER FOR EQUIPMENT FITTED TO THE WIDELY EXPORTED F-16 AIRCRAFT.

- * SPECIFIC SUPPORT FROM HMG TO HELP A BRITISH COMPANY SUCCEED IN ESTABLISHING AN INDUSTRIAL PARTNERSHIP IN TURKEY, AND TO WIN A CONTRACT WITH SUCH MILITARY AND INDUSTRIAL SIGNIFICANCE, WILL BE VITAL.

- * DESPITE THE SUPERIORITY OF ZEUS, THE ISSUE MAY TURN ON THE FINANCIAL PACKAGE OFFERED.

31.3.88