

BAOR ORDERS FOR CHIEFTAIN TANKS,
~~Sale of Shur Tanks to Jordan.~~

The question of the placing of Chieftain
 tank orders for the BAOR with the
 Royal Ordnance Factory (Heads) or Vickers
 (Newcastle).

Defence

Tank Procurement Policy Introduction of the Challenger

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.6.79		24.3.80					
18.6.79		14.7.80					
10.7.79		23.7.80					
25.7.79		27.8.80					
31.7.79		17.10.80					
5.8.79		20.10.80					
8.8.79		14.11.80					
9.8.79		17.11.80					
28.8.79		21.11.80					
10.9.79		24.11.80					
15.9.79		28.1.81					
21.9.79		10.2.81					
1.10.79		1.4.81					
17.10.79							
23.10.79							
29.10.79							
22.11.79							
26.11.79							
1.12.79							
10.3.80							

PREM 19/4/11

SECRET

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(79) 6 <i>and</i> OD(78) 8	06/06/79
OD(79) 2 nd Meeting, Minute 1	11/06/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *C. Wayland*

Date *22 February 2011*

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons *Hansard*
Defence – Tank Procurement

14/07/80
Columns 420-421

Supplementary Statement on Defence Policy 1968
Cmnd. 3701

HMSO
July 1968

Signed *A Wayland* Date *22 February 2011*

PREM Records Team

From: S R Douglas - Assistant Private Secretary



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/TT/1/6

1 April 1981

Dear Peter,

not copied to us.

Lord Trenchard wrote to Mr Tebbit on 12 March about the choice of engine for the Army's new Tank Transporter and the Chief Secretary to the Treasury wrote to Mr Tebbit about this on 23 March. *- not copied to us*

I am writing to let you know that, as part of the annual scrutiny of the forward Defence Programme, we are looking again at our requirement for Tank Transporters in the mid-1980s. Initial indications are that we will be purchasing fewer than had been planned. Until, therefore, the way ahead is somewhat clearer, we do not intend to place an order for the engine.

The Minister is still of the opinion that unless the majority of the price difference can be closed we will have to buy the Cummins engine, and he notes the Chief Secretary's support for this view.

I am copying this letter to Terry Mathews (Chief Secretary's office) and to Mike Pattison at No 10.

*Yours
Stephen*

Peter Mason Esq
Private Secretary to
Norman Tebbit Esq MP
Minister of State
Department of Industry

*Discussed w PM
MA*



MO 26/4

PRIME MINISTER

COMMANDER TANK TRANSPORTER:
CUMMINS KTA 600 ENGINE

I shall be having a talk with Keith Joseph about this matter.

2. I am sure you will agree that Cabinet Committees are not an ideal forum for deciding complicated issues of procurement policy, if it can possibly be avoided. The amounts at stake here (£1.6M) are very small but seen in the context of alternative savings (and alternative consequences for British industry), the issues here are pretty uncontroversial. You may wish to be reminded of the recent list of savings to make up the £200M reduction - and we are still looking for the outstanding balance of £40 million out of this list.

3. The Ministry of Defence can hardly be criticised for failing to support British industry. I set out the figures below:

	Cash	Constant Prices (Sept 79 Survey Prices)
1978/79	£2.9 billion	£3.5 billion
1979/80	£3.6 billion	£3.6 billion
1980/81	£4.7 billion est.	£4.1 billion

CONFIDENTIAL
covering SECRET



It is inevitable that changes will be forthcoming in the future programme - some of them controversial ones. Otherwise I shall have to ask the Chancellor for a higher Budgetary allocation in 1981/82 - and 82/83.

4. I shall let you know the outcome of my talk with Keith Joseph.

JW.

Ministry of Defence

17th February 1981

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covering SECRET

DEFENCE CUTS 1981/82 (ALREADY AGREED)

	£M	
1. Tri-Service measures -		
a. Recruiting	12.2	Prolongs undermanning. Structural disruption. Loss of recruiting in good years before demographic trough.
b. Fuel stocks	50 (approx)	Affects war readiness and compliance with NATO standards.
c. B vehicles (general purpose, load carriers etc)	35.3	Vehicle shortages. Retention of over-age vehicles, leading to uneconomic repair. Industrial implications still under examination.
2. Sell/scrap 1 cruiser and 2 frigates	2.0	Affects declarations to NATO
3. Sell 1 additional stores ship (TARBATNESS)	3.9	
4. Sell or scrap 5 Tribal class frigates	8.9	Affects declarations to NATO
5. Dispose of HMS BULWARK 6 months early	2.6	Affects declarations to NATO
6. Disband 781 Sqn (Communications) and close fixed wing function at Lee-on-Solent	2.7	Staff Side and Trade Union interests, strong local issue
7. Recast ship repair programme: cancel conversion of NORFOLK and sell (82/83). Defer ANTRIM 1 year. Delay BACCHANTE's modernisation	4.1	Industrial implications
8. Reduce Royal Marines winter training	1.9	Affects specialist reinforcement to vulnerable area of NATO
9. Territorial Army - training, works etc	9.5	Detracts from emphasis placed on reserve forces in 1980 Statement on Defence Estimates

	£M	
10. Slow down computerised artillery target engagement system (BATES) by 1 year	1.4	Delays enhancement of artillery effectiveness in BAOR
11. Slow down delivery of mines (BARMINE)	1.4	Affects war maintenance reserve
12. Blowpipe air defence missile - cancel some improvements, delay others and defer some production	4.0	Will affect Army's air defence capabilities. Industrial implications for Shorts still being examined
13. Reduction of strike Vulcans by 1 squadron equivalent, brought forward	5.5	Affects declarations to NATO in long range theatre nuclear capability. Also national strike cover.
14. Run down Canberra Photographic Recce squadrons early	1.0	Affects commitments to NATO
15. Hold Buccaneer establishment to 24	0.4	RAF maritime/strike attack capability to be reduced by one-third
16. Reduce long-range maritime patrol, Vulcan, fast jet and communications flying	31.4	Reduced capability to meet Service tasks, Fast jet measures must affect operational standards.
17. Defer purchase of 14 Jetstream and further 18 Hawk	17.2	Industrial implications
18. Defer electronic counter-measures for Jaguar	4.1	Reduces planned future capability of Jaguar
19. Reduction in Shackleton Airborne Early Warning Force	1.0	Affects declarations to NATO (Nimrod AEW not due until 1984/85)
20. Extensive further cuts in works programme for all 3 Services (other than TA)	91.7	Major industrial implications for the construction industry, felt in many parts of Britain. Very few new contracts will be let, and will take many years to recover ground lost. Comes on top of long series of works cut-backs, leading already to a seriously run-down defence estate.



10 DOWNING STREET

File Note

Treasury would like
the CST to be
present at the
meeting.



Deferre

Treasury Chambers, Parliament Street, SW1P 3AG

M A Pattison Esq
No. 10 Downing Street
London SW1

13 February 1981

Dear Mike, ^{MAP}

The Chief Secretary has seen your letter of 10 February about the MOD order for engines for tank transporters. He would welcome an opportunity to attend the proposed ad hoc Ministerial meeting to discuss the order, and would like to see Lord Trenchard's paper when this is ready.

Copies of this letter go to the other recipients of yours.

Yours ever,

Terry Mathews

T F MATHEWS
Private Secretary



10 DOWNING STREET

From the Private Secretary

10 February 1981

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Defence

Engines for Tank Transporters

Thank you for your letter of 4 February about the progress on a paper for E Committee.

The Prime Minister has now concluded that it would be preferable to settle this matter in an ad hoc meeting of Ministers rather than in E. When Lord Trenchard's paper is ready, I should be grateful if you could circulate it to those involved in this correspondence, and Caroline Stephens here will then find a date for a meeting. The Prime Minister will wish your Minister and Mr. Tebbit to attend. I should be grateful to know which other Departments would like to send a Minister.

Tebbit's Office
I am sending copies of this letter to Richard Tolkien (HM Treasury), Peter Mason (Department of Industry), John Wilson (Scottish Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

M. A. PATTISON

Colin Balmer, Esq.
Ministry of Defence.

From: Colin Balmer, Private Secretary

2



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/TT/1/6

Prime Minister

4 February 1981

For information.

*(This is, of course, Rolls Royce Motors, not
the aero-engine business.)*

Dear Mike

*MRD
6/2. mb.*

Thank you for your letter of 28th January asking that Lord Trenchard should put a paper to 'E' Committee on the choice between Cummins and Rolls Royce engines for the Army's new tank transporter.

U Lord Trenchard was also approached by the Chairman of Rolls Royce Motors, Mr David Plastow, about this, and as a result Rolls Royce have submitted a further presentation to us which contains a number of new points, particularly about the relative consumption of spare parts by the two engines. Since we need to look at these points very carefully, Lord Trenchard is unlikely to have ready a paper for 'E' Committee until towards the end of next week.

I am copying this letter to Richard Tolkien, HM Treasury, Peter Mason, Department of Industry, John Wilson, Scottish Office, Richard Dykes, Department of Employment and David Wright, Cabinet Office.

How was

Colin Balmer

M A Pattison Esq.,
10 Downing Street



10 DOWNING STREET

From the Private Secretary

28 January 1981

Dear Balmer

The Prime Minister has seen a copy of Lord Trenchard's letter of 16 January to the Department of Industry about the choice between the Cummins KTA 600 engine and the Rolls Royce CV12 for the new Commander Tank Transporter. She has also seen Mr. Tebbit's reply of 26 January.

The decision proposed by your Minister of State is likely to be badly received, and may have a considerable impact on morale at Rolls Royce. She agrees, therefore, with Mr. Tebbit that collective discussion is needed, and she has asked that your Minister of State should put a brief paper to E Committee.

I am sending copies of this letter to Catherine Bell (Department of Industry), Richard Tolkien (HM Treasury), John Wilson (Scottish Office), Richard Dykes (Department of Employment), and David Wright (Cabinet Office).

Yours ever

Mike Pattison

C. V. Balmer, Esq.,
Ministry of Defence.

cc: JOL
HMT
So
O/Comp

DSG
Defence

co

DSG

PRIME MINISTER

I told Mr. Tebbit's Office that you were uneasy about the Ministry of Defence proposal to settle for the Cummins engine for their tank transporters. As a result he has registered objections and asked for collective discussion - see attached letter.

If you agree, I will now ask that the Secretary of State for Defence should put a draft paper to E, to allow collective discussion before a decision is reached. (There is a case for saying that this properly belongs in E(PSP) or E(EA), or alternatively in an ad hoc meeting: but I am sure you wish to be involved, and as the Secretary of State for Defence has been retained on E, I think it would be most convenient to add this to the agenda of a scheduled meeting).

Amie

MMP

27 January 1981



From the
Minister of State
Norman Tebbit MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

Lord Trenchard
Minister of State
Ministry of Defence
Main Building
Whitehall
London SW1

26th January 1981

D. Tom,

TPM

Thank you for your letter of 16 January addressed to Ken Baker about the choice between the Cummins KTA600 engine and the Rolls-Royce CV12 for the new Commander Tank Transporter. Following the recent allocation of Ministerial duties in the Department, I am responsible now for all matters involving the vehicle industry.

I note that the further negotiations MOD have held with Rolls-Royce and Cummins still leave a balance of advantages on cost grounds clearly with Cummins and this must of course be given careful weight. However, I note that the extra cost of choosing the Rolls-Royce CV12 engine would be some £5m above the cost of the Cummins option only in the event that sterling stays at \$2.35 and that no import duty is payable. Furthermore, the job loss associated with the business choice would not be restricted to Rolls-Royce Motors, but would spread downstream to that company's components suppliers where the number of employees affected would, I understand, be significantly greater, with consequentially greater Exchequer costs. I know that you will agree that it is vitally important that when spending money we are seen not to have made decisions to the detriment of our own industries except where the case is demonstrably strong.

I am also concerned about the credibility of Government purchasing policy in this case, given that, as pointed out by Keith Joseph in his letter of 18 November, Rolls-Royce Motors developed the CV12 engine in preference to a cheaper 8-cylinder version following advice from the Ministry of Defence. This is, I realise, not an easy case, and in view



of the above circumstances it seems to me that it should perhaps be considered by colleagues collectively if you feel unable to change your view.

I am copying this letter to recipients of the previous correspondence.

Norman

NORMAN TEBBIT



10 DOWNING STREET

Prime Minister

Naman Tebbit is handling
this at DoI. His officials
are advising him not to
fight the MoD decision.

If he takes this advice, do
you want to intervene,
or let Lord Trenchard
go ahead?

MAF

23/1

Must
intervene.

Any such
decision will be
highly dangerous to
R.R. morale.
rob.



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/TT/1/6

16 January 1981

Will see K.J.'s
reply first.
This decision will be very
badly received
in.

1. TPL P.
2. PRIME MINISTER

As forecast in November, MOD
have now settled on an
American engine in preference to
a Rolls Royce one for tank transporters.
I think the earlier cabinet office
advice (below) remains valid.
Acquiesce?

Dear Ken

Keith Joseph's letter of 18th November to
Francis Pym expressed concern that we might buy the
Cummins KTA 600 engine instead of the Rolls Royce CV12.
In his reply of 21st November Francis said that the
Ministry of Defence would negotiate further with both
RRM and Cummins under the aegis of Scammell Motors,
the prime contractor. This has now been done. Both
offers have been significantly improved and the attached
table summarises the outcome.

The balance of advantage on cost ground still
rests clearly with Cummins. In view of the pressures
on the Defence Budget, I can only confirm the judgement
Francis had reached that the choice should be to adopt
the Cummins engine manufactured entirely in the United
States of America. The extra cost of choosing the
Rolls Royce CV12 would be some £5 million (75%) above
the cost of buying the Cummins engine. Even the
compromise course of the Cummins engine partly manufactured
in the United Kingdom (which would create only about
12 new jobs) would cost an extra £1 million which would
have to be found at the detriment of other defence
objectives.

/ I am ...

Kenneth Baker Esq MP

I am, of course, sympathetic to the other factors which Keith mentioned, and I fully accept that it is in the national interest to put work wherever possible with a British as opposed to a foreign firm. Rolls Royce contend that if they do not get this order some 80 jobs may be at risk during 1984-1986 which, over the period, could cost the Exchequer some £1 million in unemployment and redundancy costs. The premium however, for choosing Rolls Royce is too great. In the circumstances, therefore, we will shortly inform the companies that the Cummins engine is preferred.

I am sending copies of this letter to Keith Joseph and to the recipients of the previous correspondence.

yours with regret.
Tom

Lord Trenchard

COMMERCIAL IN CONFIDENCE
COMMANDER TANK TRANSPORTER

Estimated cost comparison between RRM and Cummins options (£M at Nov 80 prices) (VAT exclusive).

ITEM	RRM (a)	CUMMINS		VARIATION	
		US manufactured (b)	35% UK Content (c) (Note 1)	(a)-(b)	(a)-(c)
1. Installed cost of validation and production engines (230)	4.705	3.140	3.708	-1.565	-0.997
2. Spare engines, direct from supplier (20)	.320	.214	.253	-0.106	-0.067
A. Total (1 + 2)	5.025	3.354	3.961	-1.671	-1.064
3. Estimated spares and contract repairs over 20 years lifetime	4.705	3.140	3.708	-1.565	-0.997
B. Total (2 + 3)	9.730	6.494	7.669	-3.236	-2.061
4. Fuel consumption differential	1.709	-	-	-1.709	-1.709
C. Total (3 + 4)	11.439	6.494	7.669	-4.945	-3.770
5. Effect of £ falling from 2.35£ to 2.00£ (250 engines)	-	.587	.450	+0.587	+0.450
Total (4 + 5)	11.439	7.081	8.119	-4.358	-3.320
6. Import Duty - if payable	-	.695	.264	+0.695	+0.264
D. Total (5 + 6)	11.439	7.776	8.383	-3.663	-3.056

NOTE 1 Cummins on reconsideration of the capital expenses they would bear have revised the percentage UK content from 50 to 35.

Reference

PRIME MINISTER

You should be aware of discussions on another defence procurement issue where the price quoted by a British manufacturer is uncompetitive.

Mr. Pym has in mind to purchase some 250 Cummins engines to power the Army's new tank transporters. Rolls Royce produce an engine which is technically very similar. The Cummins engine is up to 36% cheaper and, because it is smaller, it will be cheaper to run. At April 1980 prices, the Rolls Royce engine cost including spares and contract repair over their lifetime was estimated at just over £10 million. On a comparable basis Cummins were quoting £6.44 million for US manufacture and £7.24 million if they guaranteed 50% UK content. Cummins have also suggested that an MOD order for this engine could "accelerate their consideration" of using a factory at Shotts or at Daventry as a source of engines for UK and European customers, creating up to 150 jobs.

Mr. Pym has now agreed to reopen negotiations with both Rolls Royce and Cummins, to see whether there is any prospect of Rolls Royce bridging the gap. This seems most unlikely. Mr. Pym and the Treasury are clear that the decision must rest on best value for money, although Sir Keith Joseph has taken the part of Rolls Royce to date.

24 November 1980



Defence

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/4

21st November 1980

MJP

Dear Keith,

*More would
mean like us to
get this?*

ENGINES FOR THE COMMANDER TANK TRANSPORTER

Not copied to 10/10?

Thank you for your letter of 18th November. I share your concern for the success of Rolls Royce Motors in the diesel engine field. It was because of my concern that this proposal has been given the high level consideration that it has had, and that I particularly wished to seek your views.

I can assure you that adequate weight was given to the advantages of commonality of parts and servicing by having Rolls Royce engines in the tank transporters, as well as some tanks and some personnel carriers, but in the event, these did not match, let alone outweigh, all the cost and other factors involved.

I have given much evidence of my support for our public sector purchasing policy, not least in the case of RRM, where my decision in favour of MCV 80 was made with the effects on RRM had we bought the US vehicle very much in mind. Because of my decision on MCV 80, and the order for 237 Challengers with CV12 engines together with the Jordan tank order which also stipulates CV12 engines, these military orders go a long way towards assuring the future of RRM diesel engine divisions. Rolls Royce may claim that the Commander order is significant to the company; so also is the difference in cost to us, particularly when we are looking very hard indeed to make every possible economy in our expenditure.

The Rt Hon Sir Keith Joseph Bt MP

COMMERCIAL IN CONFIDENCE



Nevertheless, in view of the importance which we both attach to this matter, I am directing my officials to reopen negotiations with both RRM and Cummins, under the aegis of Scammells, the main contractor. In any case it would not be contractually proper to speak only to RRM, and I do think we must be fair to Cummins who have tendered a much lower price and who, on that basis, must surely be regarded as the front runner. I will write again when the outcome is known.

I am sending copies of this letter to the recipients of yours.

Handwritten signature
Handwritten signature

Francis Pym



✓
MAD
Defence

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 November 1980

J.D.S. Dawson Esq
Ministry of Defence
Main Building
Whitehall
LONDON SW1

Re: Jonathan,

ENGINES FOR TANK TRANSPORTERS

Thank you for copying to me your letter of 11 November.

We are content that officials should be asked to negotiate further with Cummins on contract prices, and to make a final effort with Rolls Royce to encourage them to bring down their prices. It may also be possible to determine with greater certainty whether, and to what degree, Cummins might be encouraged to expand production at their UK factories. However, on the information currently available, the premium of 57 per cent by which the dearest option (Rolls Royce) exceeds the cheapest (Cummins) is a substantial one which Rolls Royce will find it difficult to close. We entirely accept that the final decision should be one based on securing best value for money.

Copies of this letter go to Catherine Bell (Department of Industry), Mike Pattison (No.10), John Wilson (Scottish Office), Andrew Hardman (Department of Employment) and David Wright (Cabinet Office).

Yours ever,

Richard Tolkien

R.I. TOLKIEN



Defence

Ref: A03566

R. P. ... MAR 17/46

MR ALEXANDEREngines for Tank Transporters

The Assistant Private Secretary to the Secretary of State for Defence sent you a copy of his letter dated 11 November to the Assistant Private Secretary to the Secretary of State for Industry about the Defence Secretary's proposed purchase of some 250 Cummins engines to power the Army's new tank transporters.

2. The difficulty about this proposal is that there is an alternative British engine produced by Rolls Royce which is technically very similar to the Cummins engine. The essential difference between these two engines is the price. The American Cummins engine is up to 36 per cent cheaper and, because it is smaller, it will be cheaper to run.

3. There is likely to be a direct clash between the Defence Secretary and Secretary of State for Industry on this. The Department of Industry are unlikely to reply to the Ministry of Defence before Monday but when they do it seems likely they will argue that on grounds of both public purchasing policy and because of the need to cherish British industry in general, and Rolls Royce in particular, the Rolls Royce CV 12 engine ought to be chosen. The Defence Secretary seems likely to stick to his guns in view of the current pressure on the Defence Budget and the fact that the cheaper American engine will satisfactorily meet his requirements. He is unlikely to be swayed by the argument that it is important to preserve Rolls Royce's capability in this field, since something like 40 per cent of the parts for the Rolls Royce CV 12 engines are in any event common to the engine which Rolls Royce are producing for the Challenger tank. From an export point of view, the CV 12 engine is scarcely worth encouraging since in view of its higher price it is unlikely to sell in competition with the Cummins engine.



4. This is a small but potentially complicated subject. The Chancellor of the Exchequer is likely to be in favour of the cheaper engine. The Cabinet Office suggest that it would be premature for the Prime Minister to intervene in this matter which may well be sorted out by the departmental Ministers directly involved in it. If the Prime Minister does decide to intervene, we would recommend that she should do so in support of the Defence Secretary unless the Secretary of State for Industry introduces a new argument in favour of the Rolls Royce engine. The Ministry of Defence have encountered considerable pressure in the past to accept cheaper weapon systems from abroad. In this present situation it does not seem right to press them to take a more expensive British system which offers nothing in terms of greater effectiveness.

A handwritten signature in dark ink, appearing to read 'D J Wright', is written over a horizontal line.

D J WRIGHT

14 November 1980

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COMMERCIAL IN CONFIDENCE



MO 26/4/2/1

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone J1-9387022 218 2111/3

11th November 1980

Ivan Cathman,

The Defence Secretary has asked me to write to let you know that he is considering the purchase of some 250 Cummins KTA 600 engines to power the Army's new tank transporter. He is inclined to favour the Cummins, which is manufactured in the USA, because of its substantial price advantage (the KTA 600 is up to 36% cheaper) over the alternative engine, the Rolls Royce CV12. A table demonstrating comparative costs is attached to this letter.

You will see from the table that we have been considering the possibility of Cummins manufacturing and assembling in this country up to 50% of the engine. This could create up to 18 jobs. There would, however, be a price disadvantage attached to this course. Our aim is, of course, to secure the right engine at the lowest possible price.

There is a further consideration which favours selection of the cheaper engine, which is that Cummins have indicated that an MOD order for the KTA 600 could accelerate their consideration of possibly using their factory at Shotts or at Daventry as a source of K6 engines for UK and European customers. We understand that this could create up to 150 more jobs.

My Pym, in favouring the Cummins engine, is particularly mindful of the fact that, he understands, Rolls Royce's military diesel engine capability will be maintained in the UK as a consequence of the selection earlier this year of the British MCV 80 for the Army and the decision to purchase the Challenger tank, as well as Khalid tank order for Jordan.

1

Mrs Catherine Bell

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE



Subject to Sir Keith's views my Secretary of State would propose at the end of this week to instruct officials here to negotiate further with Cummins on contract prices, but at the same time to ask officials to make a final effort with Rolls Royce to encourage them to bring down their prices. A final decision on which engine to procure would be taken in the light of the cost information to be obtained.

I am copying this letter to Mike Pattison (No 10), Richard Tolkien (Treasury), John Wilson (Scottish Office), Andrew Hardman (Employment) and David Wright (Cabinet Office).

Yours

Andrew Hardman

(J D S DAWSON)

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN
CONFIDENCE

Estimated Cost Comparison - £M at April 1980 prices (VAT exclusive)

<u>Item</u>	<u>Rolls Royce</u>	<u>Cummins</u>	
		<u>US Manufacture</u>	<u>50% UK Content</u>
Initial capital cost installation of validation and production engines (230)	4.850	3.100	3.476
Spare engines (20)	0.437	0.240	0.288
Spares and contract repair (20 year lifetime) - assumed costs	<u>4.850</u>	<u>3.100</u>	<u>3.476</u>
Total lifetime engine costs	10.137	<u>6.440</u>	<u>7.240</u>
		3.697 less	2.897 less

In addition the Cummins engine is significantly more economical, and fuel savings of up to 8%, ie. £1.7m over a 20-year lifetime, are thought possible.

CONFIDENTIAL



RP
Defence

10 DOWNING STREET

From the Principal Private Secretary

20 October 1980

Dear Brian,

TANK POLICY

The Prime Minister has seen your Secretary of State's minute of 16 October 1980 about future tank policy.

She agrees generally with the note which Mr. Pym sent with his minute and with the conclusions which he has come to, as set out in paragraph 2 of his minute. She has asked me, however, to stress the importance she attaches to the need to do all we can to achieve a successful collaborative arrangement for our main battle tank for the 1990s.

The Prime Minister is accordingly content for her brief for her forthcoming meeting with Chancellor Schmidt to reflect the general thrust of the note attached to Mr. Pym's minute.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

Yours ever,

Alvi Whitmore.

B.M. Norbury, Esq.,
Ministry of Defence.

CONFIDENTIAL

Ref: A03277

CONFIDENTIAL

MR. ALEXANDER

Tank Policy

Prime Minister.

I very much agree with
his minute. The MOD will need
a lot of pushing if we are to get
into a collaborative project with
the French and Germans.

Yes
Agree to X/ below?
17x.

attached

The Secretary of State for Defence sent a minute to the Prime Minister on this subject on 16th October to ask if she agreed with the general thrust of the note attached to his minute so that this might be reflected in the brief to be prepared for her use in the forthcoming session of bilateral talks in Bonn.

X

2. I recommend that the Prime Minister should be advised to agree generally but that she should stress the importance she attaches to the achievement of a successful collaborative arrangement, for our main battle tank in the 1990's. Our policy for the interim, i.e. the half fleet replacement to which OD gave its agreement at their meeting on 8th July will cost an estimated £315 million. But CHALLENGER is obviously less sophisticated than its successor will have to be, and in any case it was partly developed at the expense of the Iranians. If in the absence of a collaborative arrangement we were to develop a national successor, it could hardly cost less than £1000 million. Our main use, indeed almost our only use of this weapon system would be on the central German plain in circumstances identical to those which would be encountered by the West German and French Armies. Thus there is no logical justification for the British Army to require a different tank. But in fact there is a strong undercurrent of feeling in this direction in the Ministry of Defence, both within the Army and among the professional civilians involved in the development and production of armoured vehicles. Both our fundamental tank philosophy and much of our technical thinking, e.g. our belief in rifled rather than smooth bore tank guns, has markedly diverged from that of our continental allies.

3. If the Ministry of Defence on the one hand and the French and Germans on the other merely continue to work out what respectively they want, it will in 1981 be found that the requirements are either incompatible or very expensive to reconcile. A firm push is therefore needed to ensure that the Ministry of Defence recognise this as a case where, for resource reasons, the best would be the enemy of the good.



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4. OD has already agreed that we cannot continue to produce a full spectrum of military equipment on a purely national basis and that in the longer term we ought to try and concentrate on our maritime capability. Against this background the next generation of main battle tank is an obvious collaborative candidate which would show us behaving like a good NATO ally and good Europeans. In the collaborative negotiations we might also be able to take some offsetting credit for our BAOR stationing costs.

REA

(Robert Armstrong)

17th October 1980

CONFIDENTIAL



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PRIME MINISTER

TANK POLICY

You expressed interest in my exchange of minutes with the Foreign and Commonwealth Secretary about the possibility that our future requirement for tanks might be met by a collaborative project; and you indicated that you would like to raise the subject when you visit Bonn next month. I welcome this; it will make a valuable contribution to preparing the ground for the careful negotiations needed if there is to be a real chance of achieving worthwhile tank collaboration within NATO. I am in no doubt about the importance of this goal.

/ 2. I attach a note which sets out the present position of our planning; the work that is now going on to define our future requirement; the programme needed to meet the requirement on time; the considerations - political, military, financial and industrial - relevant to a collaborative solution; the possible problems; and the ways in which we can best overcome them. The main conclusions which I draw are as follows:

a. Our decision not to proceed with MBT 80, but to introduce Challenger in the nearer term, means that we are in line with our principal allies in requiring a successor tank in about 1995 - which is in any case the earliest that a collaborative new tank could be brought into service.

b. We must keep an open mind about the exact form of any future "tank", taking "tank" as the shorthand term for that part of our anti-armour capability which provides direct fire from positions adequately protected yet mobile, and at the same time provides the ability to counter-attack. But it will be helpful to know even at this early stage how our three principal allies see the requirement. It is therefore not too soon to start exploratory military discussion.

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COVERING SECRET



c. The Germans and French are for the time being locked into a bilateral arrangement to plan a future tank in collaboration with one another. This arrangement is showing signs of stress at the military and industrial levels but the political cement is still holding. We must be ready to take any opportunity that presents itself if wider rifts develop but we must be very careful not to incur the blame for causing them.

d. In the meantime our best tactic is to demonstrate that we are deeply interested in collaboration, that our timescale is right, that we shall have plenty to offer in the way of tactical doctrine and technology and that we are keen to talk as soon as others are ready.

3. If you and the colleagues to whom I am copying this minute agree with the thrust of the note - which I should be glad to discuss if you thought that useful - it will be reflected in your brief for Bonn.

4. I am sending copies to the Foreign and Commonwealth Secretary, the other members of OD, the Secretary of State for Industry; and Sir Robert Armstrong.

Ministry of Defence

16th October 1980

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COVERING SECRET

TANK POLICY - THE WAY AHEADIntroduction

CHIEFTAIN has been in service since 1966. Although its performance continues to be improved it will be increasingly outmatched by the new tanks which will be deployed by the Warsaw Pact in the 1980s. Following the failure of attempts in the mid-1970s to launch a collaborative tank development programme with the FRG (the FMBT project), a national development programme was started in 1978 to bring a successor to CHIEFTAIN (MBT-80) into service from the late 1980s. Earlier this year, however, it became clear that the MBT-80 development programme would take longer and cost more than had been expected. At the same time the cancellation of tank orders from Iran provided the opportunity to bring into service from the mid-1980s a new tank (CHALLENGER) which, although less advanced than MBT-80, nevertheless represents a substantial improvement in protection and mobility over CHIEFTAIN. Ministers decided to cancel MBT-80, to make an early purchase of CHALLENGER (planned as a half-fleet replacement) and to give further consideration to the means of meeting the longer-term requirement, including the replacement of the remaining CHIEFTAINS, from the mid-1990s.

The Requirement

2. Our studies have still to be completed but are likely to conclude that the threat posed by the Warsaw Pact in the Central Region in the 1990s will remain very much the same in its nature as today, in that their ground forces will rely for success on a continuing superiority in tanks and other armour with massive artillery and air support. The Soviet Union will undoubtedly continue to improve their armour and anti-armour capability including the quality of their tank fleet, and it is to meet this increasing threat that our own future anti-armour policy must be formulated.

3. Although it may be possible in the 1990s to destroy Soviet tanks with indirect artillery fire and air support, the ability to do so with direct fire will remain crucial. This can be achieved both by air and ground-launched

guided missiles and by very high velocity tank-gun fire. A mix of anti-armour systems will be required, in order to maintain tactical flexibility and to complicate the WP's tank design, but the exact proportions of the mix need more study; however the need to react to the enemy with initiative, to provide versatile and effective firepower with a high degree of survivability and to conduct offensive operations indicates that there will still be a need for the type of protected mobile weapon system currently provided by the tank. The exact form this future weapon system will take remains to be decided, but its primary target will be Warsaw Pact tanks; thus firepower will be its predominant though not exclusive characteristic.

4. In order to define the requirement more precisely studies are in hand to establish the main characteristics of our future anti-armour capability, whether there is a need for a totally new tank going beyond possible improvements to CHALLENGER, and if so what its role and capabilities would have to be. These studies are expected to be complete during next year.

National or Collaborative Development?

5. National development of weapons systems can carry with it certain advantages, especially in terms of design control and freedom of decision on third country sales. But to an increasing extent we have sought collaboration within NATO for the development of major weapon systems. There are a number of reasons for this: to spread the high cost of developing advanced weapon systems to meet our own relatively small production requirement; to achieve the operational and logistic advantages of commonality, or at least interoperability, of equipment; and to demonstrate the willingness of the NATO nations to work together in a practical and effective way. Collaboration with European partners also serves the aim of maintaining - though at some cost to our national industry - a viable and broadly-based European defence equipment industry in the face of American competition and of preserving, both nationally and in Europe, the technological base necessary to enable advanced military projects to be developed.

6. It was against this background that we sought to make a success of the Anglo-German FMBT project. But the essential basis of a collaborative project - agreement

on the characteristics of the weapon system, on the time-scale for its introduction and on industrial and financial arrangements - was lacking, mainly because the Germans (with a much larger fleet than ours) decided to introduce LEOPARD 2 as a half-fleet replacement to take them into the 1990s. We could not rest content as long as that with CHIEFTAIN's performance, and given that our policy was one of whole-fleet replacement, we therefore felt bound to go ahead with the MBT-80 project with an in-service date of the late 1980s. However our decision to cancel MBT-80, and to purchase CHALLENGER up to a half-fleet, for the first time brings our replacement pattern into line with that of the Germans; moreover, both the French and the Americans will require improved tanks in much the same timescale. The possibility of a collaborative project within NATO for the mid 1990s is thus opened up.

7. Our experience with the MBT-80 programme showed the risks inherent in attempting a national tank development project which involved a total re-design. In order to obtain the required operational performance, MBT-80's armour, engine and transmission, gun, fire control system and electronics were all aimed at achieving a significant advance over CHIEFTAIN. It became clear that this programme could not be achieved in the timescale required. A collaborative project would bring wider design and development resources into play and enable each country to concentrate on those areas where it had a technological lead though each would lose some of its design expertise.

8. The financial effects of a collaborative programme are virtually impossible to estimate at this stage. There can be no automatic presumption that collaboration is cheaper overall. It is however generally reckoned, on a rule-of-thumb basis, that a two-nation collaborative project typically costs in total some 30% or so more to develop than a national project, and this premium tends to increase with the number of major collaborative partners. The production cost of a future collaborative tank would probably not be less than that of a nationally produced tank. These assessments are, however, tentative and additionally the net financial effect of a collaborative project will depend on such factors as work sharing arrangements and the impact of differing inflation and exchange rates.

9. A full collaborative project automatically gives a high degree of standardisation and provides the opportunity



for joint spares support and reserves. Moreover each participant benefits operationally from the technological advances made by others. There is, on the other hand, some advantage in presenting the Warsaw Pact with a variety of different tanks with differing performance characteristics and armour distribution to counter on the battlefield. And a useful degree of interoperability, such as use of common fuel and ammunition, can still be achieved through co-operation at a lower level.

10. On the political front a successful NATO collaborative tank project would be a powerful and visible symbol of the cohesiveness of the Alliance: a European tank would symbolise European co-operation.

11. Industrially, we would stand both to gain and to lose from a collaborative project. In the normal way production work, including final assembly, would probably be shared between the participants in proportion to their offtake. The British Army's total requirement is slightly less than that of the French; about one-third of the Germans'; and an even smaller proportion of the Americans'. Our share of the work would therefore be less than 50% even on a bilateral project with the French and well below 25% in any trilateral or quadrilateral arrangement. If the full benefits of collaboration are to be achieved, the participating nations will need to specialise in particular aspects of the vehicle. While therefore British industry as a whole would get broadly the same amount of production work from a collaborative tank as a national tank, it would be concentrated in a few areas and major sectors of UK industry currently involved in tank development and production would lose that work and probably also the related capability.

12. Finally, there is the sales aspect. Our present level of industrial capacity cannot be maintained by orders for the British Army alone. ROF Leeds has the capacity to turn out more than twice as many tanks a year as we can afford to buy ourselves, and there is additional capacity at Vickers. The long term cost-effectiveness of the ROF ammunition factories depends on obtaining export orders for tank gun ammunition. A successful European or NATO tank, provided it is not too expensive, should have a better marketing potential in other NATO countries than a UK national tank: in fact, since the Germans have captured most of the European market for tanks already, collaboration with them should produce increased business



in Europe for those British companies involved. On the other hand, the present restrictive export policies of the German Government could reduce the opportunities for sale of the collaborative tank elsewhere, particularly in the Middle East.

13. The possible collaborative options could involve two, three or four nations. Internationally and operationally four would be best though there are formidable obstacles. We could probably agree a common requirement most easily with the US, but genuine collaboration with the US is always difficult and the disparity in numerical requirements would leave us so much the junior partner that we might end up doing little more than produce an American design under licence. It would be premature to rule out the possibility entirely, but it cannot be a preferred option. Collaboration within Europe depends principally on what happens to the Franco-German project, launched in 1979. The indications are that there is more political than military impetus and the problems are formidable. If it does go ahead, the current stated position of the two partners is that they do not wish to open matters more widely until they have finished the design concept stage next spring, and others joining thereafter would have to accept and not re-open work done. This might well not suit us militarily and industrially, but head-on challenge to the position now would be counter-productive. If the project collapses, the way would be more readily open for a new trilateral concept or a bilateral project with either country. The French would be numerically more equal, though also more difficult, partners; the German concept is more likely to resemble our own, although there would be problems of industrial work-sharing.

Timescale

14. As experience with MBT-80 showed, the development programme for a tank can be expected to take over ten years. The full timescale for a collaborative project is much longer, because of the need to reach agreement on essential points before development can begin. Previous experience has shown that there is a clear sequence which should be followed. First there should be military discussions aimed at establishing a common tactical concept. Common operational requirements can then be determined. These military contacts can be reinforced by contacts at the political level, and must be followed by an exploration of the procurement issues, in particular cost-sharing and work-sharing. Any industrial penalties would need governmental acceptance and political direction will be required to drive the



project forward and to resolve the difficulties that will inevitably arise.

15. Given all these stages, it is not too soon to initiate the preliminary discussions if a new tank is to be in service by 1995.

Tactics

16. We must take care not to appear to be seeking to undermine the existing Franco-German project; and we must maintain meanwhile some national work, both to qualify as a collaborative partner and to provide a fall-back if collaboration cannot be achieved.

17. We need to condition our Allies to the idea of a collaborative project involving us. This can be done at the political and the military/official level by explaining that we are considering our tank requirements in the 1990s, that our replacement timescale now coincides with that of our Allies and that we are in principle receptive to the idea of a collaborative project. This is as far as it would be appropriate or necessary to go politically at this stage. We must then concentrate on making progress at the military level in harmonising tactical concepts. Military discussions with all three nations are therefore the first priority, and at a recent four-power meeting the Chief of Defence Procurement made clear our readiness for these. Some dialogue is already in progress with the US. It may not be possible to draw the French and Germans into similar talks before the Spring, but we should continue to emphasize our own readiness (and if this leads one or both of them to see merit in involving us sooner, so much the better). In the light of such discussions and of what becomes of the Franco-German project it will be possible to assess the prospects of collaboration and to determine the way ahead.

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Deane

10 DOWNING STREET

From the Private Secretary

27 August 1980

The Prime Minister has seen your Secretary of State's minute of 14 August to the Foreign and Commonwealth Secretary, in response to Lord Carrington's minute of 23 July on co-operation with France and Germany over tanks.

She would like to take this problem up at the next session of bilateral talks in Bonn. She has commented that all we get from the Federal Republic of Germany for our considerable defence efforts on their soil is criticism, and that there are now neither orders nor offset. She does not wish to see this situation continue.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Martin Hall (HM Treasury) and David Wright (Cabinet Office).

M. A. PATTISON

David Omand, Esq.,
Ministry of Defence.

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NFGM

*We had better
 take this up at the
 next Bonn meeting. All in
 confidence
 get from the PRC for our
 defence effort - then said in
 consultation with the
 no other. It cannot go
 on. Prime Minister
 M.P.
 18/8.*

MO 26/4/2/1

FOREIGN AND COMMONWEALTH SECRETARY

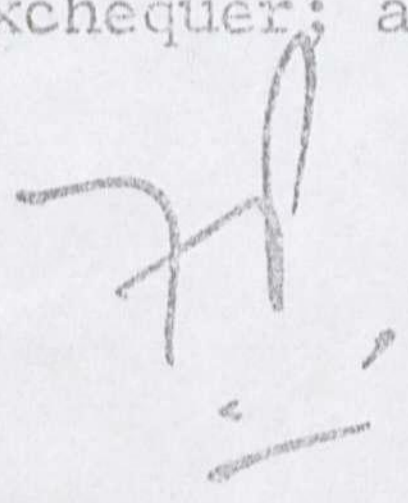
TANKS: CO-OPERATION WITH FRANCE AND GERMANY

Thank you for your minute of 23rd July. As you will know from our many conversations on the subject I agree with the spirit of what you say; what you are proposing is what I myself had in mind; but because of all the past history on equipment collaboration, particularly collaboration on tanks, I am not sanguine about the results even although I am determined to try to achieve some. It has been, and it will continue to be, an important aim of our policy to extend to London the Paris/Bonn entente and to establish a firm trilateral base for future equipment collaboration. A collaborative tank project would be a major step forward.

2. Following our recent decisions on tanks I have set in hand an urgent examination of our future tank policy. This study will look carefully at both the longer term requirement, as well as the more immediate question of how many Challengers to buy and what improvements to incorporate. The inter-relationship between these two aspects, including the question of the main armament for Challenger, is clear. The study, moreover, will also look very carefully at the prospects for a collaborative venture, either in conjunction with European partners or with the United States.

3. We shall need to consider carefully how we might approach possible partners over collaboration in order to retain an effective negotiating position. I think we should avoid immediately opening a discussion with potential partners at Ministerial level. Initial talks might usefully take place between senior officials in one of the Three or Four Power Groups where we are in regular contact with the nations concerned. I will let you know the outcome of our study when it has been completed; and I am asking my officials to keep in touch with yours.

4. I am sending copies of this minute to the Prime Minister and the Chancellor of the Exchequer; and to Sir Robert Armstrong.



Ministry of Defence
 14th August 1980



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Prime Minister

(1)

As Amtd - 24/7

It would greatly enhance the Alliance's military capability if agreement could be secured on the development of a single main battle tank.

Paul - 23/7

FCS/80/122

SECRETARY OF STATE FOR DEFENCE

Tanks: Cooperation with France and FRG

1. Your announcement on 14 July of the Challenger decision prompts me to set down a few further thoughts on the possible relevance of cooperation with our main European allies in this area to the topical issue of our relations with France and Germany.
2. President Giscard's state visit to the FRG has again focussed attention on the implications for the UK of the closeness of the Franco-German relationship, and in particular of the personal entente between President Giscard and Chancellor Schmidt. It would be wrong for us to react too emotionally to this by no means new development, particularly where defence is concerned. We should not forget that defence is one field where we have interests in common with both the FRG and France that they do not have with one another - above all our contribution to the front line defence of the Central Region in one case, and our status as a European nuclear power on the other. But if we want the trilateral relationship to remain a real influence in the defence field we shall have to exploit the positive factors in our relations with these two partners to the utmost.
3. I have no doubt that our tank decision, which appears to put our tank replacement timescale very much in line with that of France and Germany, as well as enhancing our armoured strength in Europe in the medium term, will have been generally welcome to our European allies. Little could be more immediately valuable in terms of our defence relationship with both the countries than an unequivocal statement of our determination to design and build a new tank with the French and the Germans in the 1990s. I appreciate of course that one does not buy tanks purely as a matter of political convenience, and also that our negotiating hand in exploring the possibility of cooperation will not be stronger if we are seen to have discarded all other options. But I do very much hope that a start can be made soon in talking to the French and the Germans on this subject, and that you will be ready to consider giving an early political

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impetus to this process. I would of course be very glad to help in any way I can in my own contacts with my French and German colleagues.

4. A single Western European main battle tank for the 1990s would not only be a success for trilateral cooperation, but a great step forward in terms of standardisation and interoperability in NATO. We shall be rightly criticised by our allies if we do not now make every use of the unexpected second chance that we have been given to achieve it. The longer the French and Germans continue to work together on their project without us, the greater the difficulty in establishing a full-scale trilateral venture.

5. In terms of interoperability, the armament of our next tank will be by far its most important single element. Here I notice that the development of a new high-pressure rifled bore gun, originally intended for MBT 80, is under consideration for later marks of Challenger. I understand the importance of keeping Challenger effective throughout its life. But I hope that decisions taken now about its improvement will not pre-empt decisions on the armament of its successor. This could be a most serious blow to the prospects of cooperation.

6. For all these reasons therefore, I was glad to see that in your statement to the House of Commons last Monday on the procurement of Challenger you mentioned the possibility of cooperation with our allies on the next generation of tank. I hope that an approach to the French and the Germans can be made soon, and that we can keep closely in touch on how the matter should be pursued.

7. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office
23 July 1980

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23/7
1140



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~836 7022~~ 218 2111/3

MO 26/4/2/1

14th July 1980

*B/f endway
for Hansard 14/7*

*Seen + approved
by PM
MS
4/7*

Dear Nick,

TANK PROCUREMENT POLICY

We spoke about the Parliamentary announcement which my Secretary of State is making this afternoon concerning changes in the Army's tank procurement policy, and about a replacement Armoured Personnel Carrier. It was originally envisaged (in Sir Robert Armstrong's minute of 7th July to Mr Whitmore) that these announcements would be made tomorrow, Tuesday, but since that is a day on which we are top for Questions Mr Pym felt it would be only courteous to the House to make the announcement before then. Although there are no direct links with the questions put down for Oral answer tomorrow it is possible that the Newcastle MPs may wish to press my Secretary of State tomorrow about the position of Vickers as a tank producer.

*See
Defence
Oct 79*

I attach a copy of the text of two Written Answers which Mr Pym has approved. These have been telegraphed to posts in Washington, Bonn and Paris and to UK Delegation NATO, Brussels. Mr Pym will also be writing to Sir Peter Matthews, Chairman of Vickers and to the Newcastle MPs.

I am sorry that you did not have earlier notice of these texts.

Yours ever
(D B OMAND)

N J Sanders Esq

MONDAY 14th JULY 1980

QUESTIONS

A. MR CRANLEY ONSLOW (CONSERVATIVE) (WOKING)

Mr Onslow - To ask the Secretary of State for Defence, if he will make a statement on tank procurement and deployment policy for the Army.

B. MR WARREN HAWKSLEY (CONSERVATIVE) (THE WREKIN)

Mr Hawksley - To ask the Secretary of State for Defence, what plans he has to meet the Army's requirement for a replacement armoured personnel carrier.

A N S W E R

(Mr Francis Pym)

ALFA. TANKS.

THE ARMY'S FUTURE MAIN BATTLE TANK REQUIREMENTS HAVE BEEN REVIEWED AGAINST THE LATEST ASSESSMENT OF THE WARSAW PACT THREAT AND THE PROGRESS OF PROJECT DEFINITION OF MBT-80. THE WARSAW PACT HAVE FOR MANY YEARS BEEN ABLE TO DEPLOY MORE TANKS IN WAR THAN NATO; THIS ADVANTAGE NOW STANDS AT SOME

PRECEDENCE Action / Info	SECURITY CLASSIFICATION	DATE—TIME—GROUP	MOD FORM 140A (continuation sheet)
PRIORITY	RESTRICTED	111910	

3 TO 1. IN ADDITION THE SOVIET TANKS THAT HAVE ENTERED SERVICE IN RECENT YEARS ARE TECHNICALLY ADVANCED AND HIGHLY EFFECTIVE. THERE IS EVERY INDICATION THAT NEW TANKS, INCORPORATING FURTHER IMPROVEMENTS, WILL COME INTO SERVICE IN THE 1980S.

BAOR'S PRESENT MAIN BATTLE TANK, CHIEFTAIN, HAS BEEN IN SERVICE SINCE THE 1960S. ALTHOUGH IT IS THE MOST EFFECTIVE NATO TANK OF ITS GENERATION AND CONTINUES TO BE IMPROVED, ITS PERFORMANCE WILL NOT BE FULLY ADEQUATE AGAINST THE INCREASING THREAT. UNDER EXISTING PLANS IT WOULD BE REPLACED BY MBT-80. BUT IT IS NOW CLEAR THAT MBT-80 CANNOT BE AVAILIABLE UNTIL THE EARLY 1990S AND IN ORDER TO MEET THE THREAT A MUCH EARLIER ENHANCEMENT OF BAOR'S ARMOURED CAPABILITY IS REQUIRED.

I HAVE THEREFORE DECIDED TO BRING INTO SERVICE BY THE MID-1980S A MODIFIED VERSION OF THE SHIR II TANK KNOWN AS CHALLENGER. CHALLENGER INCORPORATES A NUMBER OF TECHNOLOGICAL ADVANCES INCLUDING CHOBHAM ARMOUR AND A 1200 HORSE-POWER DIESEL ENGINE. ITS FIREPOWER WILL BE SIMILAR TO THE IMPROVED CHIEFTAIN'S BUT ITS LEVEL OF PROTECTION AND MOBILITY WILL BE MARKEDLY BETTER. AN IMMEDIATE ORDER IS TO BE PLACED WITH ROF LEEDS FOR ENOUGH CHALLENGERS TO EQUIP ONE OF BAOR'S FOUR ARMOURED DIVISIONS. THE ESTIMATED COST IS SOME £300M. THE FINAL NUMBER OF CHALLENGERS TO BE BOUGHT WILL BE THE SUBJECT OF FURTHER STUDY BUT THE PRESENT ASSUMPTION IS THAT THEY WILL REPLACE UP TO HALF THE EXISTING CHIEFTAINS IN BAOR.

THE MBT-80 PROGRAMME WILL BE DISCONTINUED BUT A PROGRAMME OF TANK DEVELOPMENT, BUILDING ON WORK ALREADY DONE FOR MBT-80, WILL CONTINUE. THE LONGER TERM REQUIREMENT INCLUDING THE REPLACEMENT OF THE REMAINING CHIEFTAINS WILL BE THE SUBJECT OF FURTHER STUDY, WHICH WILL ENCOMPASS THE POSSIBILITY OF SOME FORM

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OF COLLABORATIVE PROJECT WITHIN NATO AS WELL AS THE OPTION OF AN IMPROVED CHALLENGER.

THE PURCHASE OF CHALLENGER WILL LEAD TO A SIGNIFICANT QUALITATIVE IMPROVEMENT IN BAOR'S ARMoured CAPABILITY FROM THE MID-1980S AND, BY THE RETENTION IN SERVICE OF REPLACED CHIEFTAINS, WILL MAKE IT POSSIBLE TO DEPLOY MORE TANKS IN WAR. IN ORDER TO EFFECT AN IMMEDIATE ENHANCEMENT OF OUR ARMoured CAPABILITY I HAVE ALSO DECIDED THAT A NINTH ARMoured REGIMENT SHOULD BE FORMED IN BAOR THIS NOVEMBER BY REROLING AN ARMoured RECONNAISSANCE REGIMENT. IT WILL BE EQUIPPED WITH CHIEFTAINS CURRENTLY HELD IN RESERVE FOR WAR. THESE MEASURES ARE CONSISTENT WITH THE OBJECTIVES OF THE NATO LONG TERM DEFENCE PROGRAMME AND WILL, I AM SURE, BE WARMLY WELCOMED WITHIN THE ALLIANCE.

BRAVO. APCs.

THE ARMY'S PRESENT ARMoured PERSONNEL CARRIER, THE FV432 SERIES OF VEHICLES, HAS BEEN IN SERVICE SINCE THE 1960S AND WILL NEED TO BE REPLACED FROM THE MID-1980S. TWO VEHICLES HAVE BEEN CONSIDERED FOR THIS REQUIREMENT, THE MECHANISED COMBAT VEHICLE (MCV-80), DESIGNED BY THE BRITISH FIRM GKN-SANKEY, AND THE AMERICAN INFANTRY FIGHTING VEHICLE, WHICH WOULD BE MANUFACTURED UNDER LICENCE IN THIS COUNTRY.

AFTER A CAREFUL ASSESSMENT OF THE RELEVANT OPERATIONAL, FINANCIAL AND INDUSTRIAL FACTORS I HAVE DECIDED TO SELECT MCV-80 TO MEET THIS REQUIREMENT. THE TOTAL ESTIMATED COST OF THE REPLACEMENT PROGRAMME IS ABOUT £1000M AND FULL DEVELOPMENT WILL BE LAUNCHED SHORTLY.

RH

cc:- I Gow
MOD

Defence

24 March 1980

Dear Councillor Wood,

Thank you for your letter of 3 March.

I am aware of the situation at the Vickers Elswick factory and of the possibility of redundancies in the near future. I assure you that your concern over the social and industrial implications of any redundancies there for the Newcastle area is one we share.

You are right to say that there is a need for a replacement tank for the Army and we are already considering the possibility of an order for some new tanks as a means of strengthening our armoured capability. But, as well as the social and economic considerations there are other factors which we have to take into account and we are not yet, I am afraid, in a position to take a decision on these complex matters. Last month the Secretary of State for Defence had a meeting with the four Members of Parliament for Newcastle, Sir William Elliott, Mr Mike Thomas, Mr Harry Cowans and Mr Robert Brown, and he gave them an assurance that in coming to a decision we would take into account the strong representations which they made.

Yours sincerely,
Margaret Thatcher.

Councillor Douglas Wood

VLB



10 DOWNING STREET

From the Private Secretary

21 March 1980

The Prime Minister has received the enclosed letter from the Leader of the Opposition in Newcastle upon Tyne. She would be grateful if your Secretary of State would reply on her behalf.

I am sending copies of this letter and enclosure to the Private Secretaries to Lord Trenchard (Department of Industry) and Lord Bellwin (Department of the Environment).

T. P. LANKESTER

Brian Norbury, Esq.,
Ministry of Defence.

HS



10 DOWNING STREET

PRIME MINISTER

This letter from the Leader of the Opposition in Newcastle asks you to intervene with a tank order for Vickers factory at Elswick. This would apparently have to be at the expense of the Royal Ordnance Factory at Leeds.

Do you wish to reply? Or shall we ask Mr. Pym?

Francis Pym.

We acknowledge it.
me

20 March 1980

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20 March 1980

I am writing to acknowledge your letter of 17 March, which I have placed before the Prime Minister. A reply will be sent to you as soon as possible.

TIM LANKESTER

Councillor Bert Moore

RA



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 6169

19th March 1980

Dear Mike,

Thank you for your letter of 10th March sending me a copy of one which the Prime Minister had received from Newcastle City Councillor Douglas Wood about Vickers Ltd Elswick.

As you say, Councillor Wood's letter is a continuation of the correspondence which the Prime Minister had with Messrs Cowans and Brown towards the end of last year. Since then, on 7th February, my Secretary of State has had a meeting with the four Newcastle MPs to allow them a further opportunity to explain their concern at the possible closure of the Vickers Elswick works. As you can see from the attached record of the meeting Mr Pym said that the Ministry of Defence were considering some strengthening of the tank fleet, but we were still not in a position to take a decision. He undertook to take into consideration the points which the three MPs had made when the tank decisions come to be made. Mr Pym also explained, however, the problems facing our primary tank producer, the Royal Ordnance Factory at Leeds, following the cancellation of the Iranian orders for tanks.

In the circumstances the attached draft of a reply for the Prime Minister to send confines itself to an assurance that the regional and industrial policy considerations will be taken into account when decisions are made on possible orders for tanks.

Yours ever,

Allen Piper

(D T PIPER)

M A Pattison Esq



GR
type for PM
cc IG

DRAFT LETTER FROM THE PRIME MINISTER TO COUNCILLOR WOOD

Thank you for your letter of 3rd March.

I am aware of the situation at the Vickers Elswick factory and of the possibility of redundancies in the near future. I assure you that your concern over the social and industrial implications of any redundancies there for the Newcastle area is one we share.

You are right to say that there is a need for a replacement tank for the Army and we are already considering the possibility of an order for some new tanks as a means of strengthening our armoured capability. But, as well as the social and economic considerations there are other factors which we have to take into account and we are not yet, I am afraid, in a position to take a decision on these complex matters. Last month the Secretary of State for Defence had a meeting with the four Members of Parliament for Newcastle, Sir William Elliott, Mr Mike Thomas, Mr Harry Cowans and Mr Robert Brown, and he gave them an assurance that in coming to a decision we would take into account the strong representations which they made.



MO 26/4/21

NOTE FOR THE RECORD

RECORD OF A MEETING BETWEEN THE SECRETARY OF
STATE FOR DEFENCE AND NEWCASTLE MPs
AT 1500 HOURS ON THURSDAY 7th FEBRUARY 1980
IN THE HOUSE OF COMMONS

Present:

The Rt Hon Francis Pym MC MP

Sir William Elliott MP

Mr C T McDonnell
AUS(Ord)

Mr Harry Cowans MP

Mr H R Braden
AUS(Sales Admin)

Mr R C Brown MP

Mr J D S Dawson
APS/Secretary of State

Mr Mike Thomas MP

1. Sir William Elliott expressed the gratitude of his delegation to the Secretary of State for allowing them to explain to him their concern about the possible closure of Vickers Elswick works. The Minister of State had already seen them and had given them a full account of the position on tanks. Sir William recognised the situation at Elswick had been caused principally by the Iranian revolution. The works were now on the point of making substantial redundancies (500 in March and a further 275 in September, out of a total work force of 1,525) unless orders for armoured vehicles could be obtained quickly. The Vickers management was convinced that their last chance of avoiding redundancies in March was for the British Army to place an order for the 77 Chieftain tanks which they had been expecting last year. There were some prospects for foreign sales of tanks, in particular to Greece and Thailand, but these were far from certain. The purpose of obtaining an order would be to ensure the continuity of the Elswick works for the next two years, after which the management hoped to have achieved a substantial programme of diversification into civil products. Sir William commented that the unemployment position in Newcastle was extremely grave, running at more than 8.5%. He observed that the

/unemployment



unemployment rate in Leeds was substantially less than at Newcastle, and that it was essential for the North East as a whole to keep the Elswick works open.

2. Mr Cowans agreed with Sir William's assessment and noted that Vickers had already closed their Scotswood works in Newcastle. He was concerned about the failure to conclude the contract for the 77 Chieftain tanks, and urged the Secretary of State that the order should proceed as had been planned.

3. Mr Brown observed that when he was US of S(Army) in the previous Government the Army Board had strongly pressed the case for 77 Chieftains to be purchased to top up the War Maintenance Reserve. Vickers had tendered for the contract and had been on the point of winning the order when negotiations were suspended. He wanted to know whether the Army no longer needed the 77 Chieftains; or were they still required with the same urgency as previously.

4. The Secretary of State noted that, although no contract had been signed with Vickers for the 77 Chieftains, there had been some expectation at Vickers that they would be given the contract. However, he stressed that since taking office the Government had carefully examined the whole requirement for a further buy of Chieftains for the War Maintenance Reserve and the possibility of procuring a number of modified Shir tanks. (Challenger) instead, to enhance the operational capability of BAOR. He fully recognised the grave difficulties which Vickers Elswick faced and the very serious unemployment situation in Newcastle. However, he stressed that he was unable, because of severe financial constraints and also because of a careful review of the Army's tank requirements, to place any order for tanks in time to save any redundancies at Elswick. He observed that the Army's primary tank producer, ROF Leeds, had also been badly affected by the cancellation of the Iranian contract for tanks. Leeds had already made a proportion of its work force redundant; further redundancies might be required later. The Jordanian order for tanks was not as significant in terms of employment as it appeared; about half of the vehicles for the Jordanian Army were already almost complete because they had been originally destined for Iran.

5. Mr Brown said that he was surprised that there were financial constraints affecting the order for the 77 Chieftains because he understood that financial provision had already been made for them in the Army's Long Term Costing when he was in office. The Secretary of State commented that he had initiated a careful scrutiny of future tank policy and this was still in



progress. He did not expect to take a decision on this for several months. The difficulty was to balance the Army's pressing need for various items of equipment (including more tanks) with the financial provision that had been made, and which could not meet all of the Army's requirements. Priorities had to be established. The Secretary of State commented that one factor that would influence his consideration of the requirement for further tanks was the increasing tank threat, in particular the Russian T72, in comparison with which the Chieftain was becoming less effective.

6. Sir William Elliott commented that the Managing Director of Vickers Elswick had made a number of trips abroad to press urgently for foreign sales of the Vickers tank, and there were some prospects of possible sales contracts. He also raised the question of Challenger and MBT 80 and enquired whether there was any work for Elswick on either of these projects. The Secretary of State noted that there had been some delay in the MBT 80 programme. However, he stressed that the whole question of tank policy was extremely complicated; there were also considerable financial pressures. He was not prepared to take a decision at this stage on whether Challenger tanks or more Chieftains should be purchased.

7. Mr Brown enquired whether it might be possible to transfer part of the order for MCV 80 to Vickers. AUS(Ord) reported that a decision on this programme was still some way off. However, one of the possible solutions to the requirement could lead to some work in due course for Vickers in the design and construction of turrets.

8. The Secretary of State regretted very much that there was no way in the short term in which he could make available any work for Elswick. He recognised that there were real difficulties which were being faced by Vickers Elswick. The MOD had looked very carefully at its programmes to see if it could help, but he had been unable to come up with any means of providing assistance. The Secretaries of State for Industry and Employment were also extremely concerned at the situation in Newcastle. Mr Cowans, noting that the Secretary of State was unable to provide any immediate relief for Vickers, asked whether it might be possible to prevent the second tranche of redundancies planned for September. The Secretary of State said that there was nothing that he could do to stop the September redundancies. However he would be happy for Vickers to get in touch with the Defence Sales Organisation who would give them all the help they could in trying to secure overseas contracts for Vickers.



9. Sir William Elliott and his fellow Newcastle MPs thanked the Secretary of State for allowing them to present to him Vickers' problems at Elswick. They understood that there was no prospect of any order from the Army which was likely to be placed at Vickers in the near future. They were, however, grateful for his offer of assistance from the DSO and promised to report this to the Managing Director.

10. The Secretary of State asked whether the MPs would be making a press statement. He offered them a draft press statement (attached) which the MPs took away.

TASO

Ministry of Defence

8th February 1980

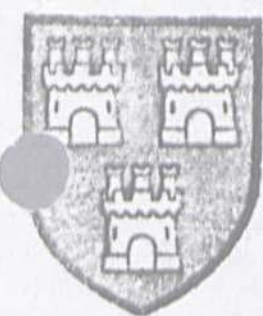
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PS/US of S(Army)	AUS(GS)
PS/PUS	AUS(Sales Admin)
PS/CDP	AUS(IP)
DCPR	DGFVE
MGO	Head of IP1
VCGS	Head of DS7
DUS(Army)	Head of ES(FVE)
DUS(Pol)(PE)	
DUS(PMS)	

DRAFT PRESS STATEMENT

1. The Members of Parliament for Newcastle constituencies, Sir William Elliott, Mr Mike Thomas, Mr Robert Brown, and Mr Harry Cowans, met the Secretary of State for Defence at their request today to express in the strongest possible terms the need for a Defence order for Vickers, Elswick. They explained fully to the Secretary of State the present situation at the factory, with short-time working, and prospects of redundancies. They underlined the regional importance of maintaining the factory until the programme for the diversification of production there, now in hand, could begin fully to take effect. They asked in particular that the representations they had made should be taken into account in any decision to place further tank orders for the British Army.

2. The Secretary of State said that his Department was considering some strengthening of the tank fleet, but was not yet in a position to take a decision. He undertook to ensure that the points made to him would be given full weight when tank decisions came to be made. He explained however the problems facing our primary tank producer, the Royal Ordnance Factory, Leeds, since the cancellation of the Iranian orders for tanks, and said that any orders that might be placed would take into account all the factors.



City of Newcastle upon Tyne

Original sent
to MoD.

Councillor Bert Moore,
Leader of the Opposition

Civic Centre
Newcastle upon Tyne NE99 2BM
Telephone Newcastle 0632 28520
Extension 5154

Our Ref AM/KVT

Your Ref

17th March, 1980

120

Dear Prime Minister,

May I please present to you the problem of Vickers on Tyneside and ask for some intervention to save our unemployment situation becoming very much worse.

Historically, the Vickers' factories in Newcastle - at Scotswood and Elswick - have been very big employers of engineering expertise and unskilled labour.

Last year, with the closure of Vickers, Scotswood, upwards of 1,000 were made redundant. Now 1,500 are in danger at Elswick and it is in an effort to save these jobs that I am appealing to you.

The possibility that an order for British tanks may be given to Vickers, Elswick, has been very much a serious issue in Newcastle for several months.

In an attempt to bring this about, contact has been made via Sir William Elliott, M.P. for Newcastle North, together with the Socialist M.Ps. in the City, with the relevant Ministers, including Lord Trenchard and Lord Bellwin.

In addition, Sir William has made recent contact with Mr. Francis Pym. The purpose of these contacts had been to try and obtain an order for some tanks for Elswick, these tanks, being part of the order which, we understand, would otherwise be carried out in its entirety at the Royal Ordnance Factory at Leeds.

We have been apprised of the difficulties in the way of such a decision but would urge that, even at this late hour, favourable consideration be given to our plea on behalf of Vickers at Elswick.

The Company is making intense efforts at diversification and is optimistic as to the ultimate success of these efforts.

We are assured that the tank order could be regarded as the essential breaching arrangement to maintain the work force until further orders, now energetically being pursued abroad, are obtained.

..... cont'd

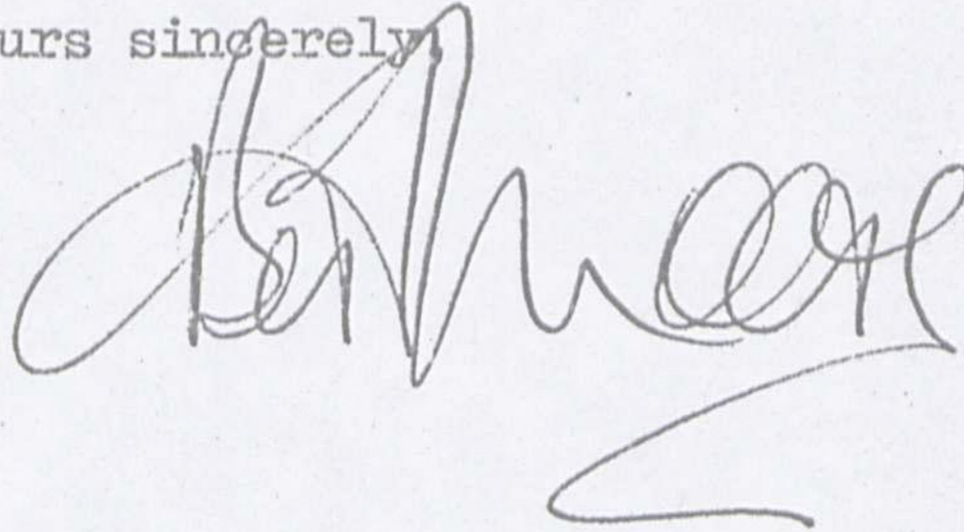
Without this assistance our fear is that there will be very substantial redundancies and that the work force could be dispersed.

It is needless, perhaps, to add that this circumstance would be the most serious economic and political consequence in our region.

It must be said that we would not seek your assistance were it not for the fact we have received absolute assurances from the Senior Management that with this support the Company will be completely viable in approximately 2 years time.

We ask, therefore, that you give urgent consideration to the state of affairs detailed here.

Yours sincerely,



The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
WHITEHALL.

file

JD

Defence



10 DOWNING STREET

From the Private Secretary

10 March 1980

BF/19 3.8

I enclose a letter to the Prime Minister from a Newcastle City Councillor. It is in fact a continuation of the Prime Minister's correspondence with Messrs Cowans and Brown. But I see that her last letter to Mr. Cowans was in November 1979 and I am therefore asking you for a fresh draft in the case of Mr. Wood, in case there have been any developments in the meantime.

I would be grateful for a draft reply for the Prime Minister's signature by Wednesday 19 March.

M. A. PATTISON

Derek Piper, Esq.,
Ministry of Defence.

TAC

file B

10 March 1980

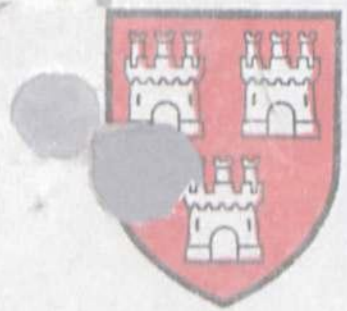
I am writing on behalf of the Prime Minister to thank you for your letter of 3 March about the Vickers Elswich Defence Division.

This is receiving attention and a reply will be sent to you as soon as possible.

MAP

Councillor D.R. Wood

HS



City of Newcastle upon Tyne

Members' Services Section.

Civic Centre
Newcastle upon Tyne NE99 2BM
Telephone Newcastle 0632 28520
Extension

Our Ref

Your Ref

3 MAR 80

Dear Mrs Thatcher.

I am very concerned, about the loss in jobs in the event of the closing of the Vickers Elswick Defence Division and enclose a document setting out the situation.

I do not know what the cost of a modern Tank amounts to, but I understand that there is a need for replacement Tanks for the British Army.

Could you give some good news for the N.E.

Yours faithfully
Douglas R Wood
City Councillor (Conservative)

THE CONSEQUENCES OF THE CLOSURE OF VICKERS ELSWICK DEFENCE DIVISION

INTRODUCTION

The shortage of defence work presently available has given rise to the possibility of redundancies and complete closure being experienced at the Vickers Elswick Defence Division.

The City Council recognising the damage that this eventuality would have in the City, have prepared this report which examines the likely financial social and economic consequences of the complete closure of the Vickers Defence Division.

The report is divided into three sections, describing firstly the industrial and social context of the possible closure, secondly the financial, social and economic costs of possible closure and finally an examination of the reallocation of productive resources which would result from the closure of this plant.

SUMMARY OF MAIN FINDINGS

1. Industrial and Social Context

- 1.1 Redundancies from the engineering industries have been pronounced in the Northern Region and on Tyneside in recent years. This trend has been strongly evident in West Newcastle where, if the Vickers Defence Division were to close, the number of jobs in engineering will have decreased from 3,500 in 1978 to between 800 and 1,000 in 1980.
- 1.2 The high level of male unemployment experienced by Newcastle residents will increase in the event of closure. Geographical concentrations of unemployment in the west end of the City would be likely to be compounded.
- 1.3 In contrast to other parts of the country, there is little evident demand locally for skilled and unskilled manual engineering workers. The closure of the Vickers Defence Division would represent a contraction of job opportunities in sectors of the local labour market where the overall level of opportunities is already low.

2. The Financial, Social and Economic Costs of Closure

Using data derived from a study of engineering workers made redundant in West Newcastle in 1978, a reasonable prediction can be made as to the likely re-employment prospects of the potentially redundant Vickers workforce. Using these figures it can be predicted with reasonable certainty that one year after closure:

- 2.1 The Financial Costs to the National Exchequer will be about £4.6m in tax and national insurance contributions lost and redundancy and welfare benefits paid.
- 2.2 The Social Costs will primarily be in terms of workers being made redundant and remaining unemployed. One year after closure:
 - . 500 men and women will be without a job at all.

- . 400 men and women will still be unemployed and looking for a job.
- . 440 men and women will never have worked since being made redundant.
- . 650 men and women will have been unemployed for over six months.

2.3 The Economic Costs can be measured in terms of the impact on the local labour market. There will be a wastage of skilled manpower, such that one year after closure it can be predicted that:

- . 135 (34%) time served tradesmen will not be working.
- . 100 (25%) tradesmen will be unemployed and looking for work.
- . 220 (54%) tradesmen will no longer be working in the engineering industry.
- . 190 (48%) tradesmen will not be working or will only be employed in a job below their current skill level.

3. The Reallocation of Productive Resources

Closure of the Vickers Elswick Defence Division will release land, labour and capital for alternative utilisation.

The utilisation of land and capital released is dependent upon the way in which the owners of those assets wish to use them.

It is apparent that the labour released through redundancy will enter a labour market which is already capable of supplying a demand for labour in those occupations or industries for which the Vickers workforce would be suited and that other sectors of local industry are not presently constrained by the absence of labour that could potentially be released from the Vickers Defence Division at Elswick.

Other resources implications that would arise as the result of closure will be:

- . the creation of a monopolist public sector manufacturer of armoured fighting vehicles.
- . a loss of export earnings and increase in import penetration.
- . a reduction of local authority income because of the non-payment of rates.

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Defence



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01 ~~XXXX XXXX~~ 218 2111/3

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MO 26/4/2/1

4 December 1979

L.S.

Prime Minister

(2)

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Dear Michael,

Thank you for your letter of 4th December about tanks.

The Defence Secretary has asked me to make it clear that there is no question of unnecessary delay now on a decision on future tank procurement, nor of consequent delays in the introduction of new tanks into service. As he explained at OD yesterday he is determined to ensure that the cost-effectiveness of any new equipment project is most stringently evaluated before proposals are put forward, particularly in the light of our real economic problems and the tendency for equipment projects to grow ever more sophisticated and costly.

In the case of Challenger some technical aspects of the design remain to be proven and the development cost plan is still in preparation. Work is also continuing on refining the cost and budgetary implications and identifying the items which would have to be displaced from the programme to pay for it (the cost of the Challenger project is currently estimated to be in the bracket of £300-400M). Project definition and some forward development, including provisions of trials vehicles, has already been authorised and this should result in the outstanding questions being answered early next year. This development work would be required in any case and no delay is therefore involved in the introduction of the Challenger tank into the front line, should this be what is decided.

I am sending a copy of this to the recipients of your letter.

Yours sincerely,
David Omand
(D B OMAND)
Private Secretary

CONFIDENTIAL

M O'D B Alexander Esq
10 Downing Street

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10 DOWNING STREET

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Defence

From the Private Secretary

B/F 2.12.79

4 December 1979

Dear Brian,

Tanks

The Prime Minister has seen the Defence Secretary's minute to her of 30 November.

The Prime Minister is unwilling to accept the delay envisaged by the Defence Secretary in paragraph 3 of his minute. She has asked me to say that the necessary decisions must be made quickly. Paragraph 2 of the Defence Secretary's minute makes it clear, in the Prime Minister's view, that there is considerable urgency in the matter. She has noted that every delay in decision-making now means a subsequent delay in equipping our forces properly.

I should be grateful if you could let me have an early reply indicating how soon a decision on the acquisition of the modified Shir II tank could be taken.

I am sending copies of this letter to the Private Secretaries to the other members of OD, and to Ian Ellison (Department of Industry), and Martin Vile (Cabinet Office).

Yours sincerely

Richard Alexander

B.M. Norbury, Esq.,
Ministry of Defence.

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5



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

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MO 26/4/2/1

PRIME MINISTER

TANKS

PRIME MINISTER 2.

Mr Pym reports that the Chieftain tanks could become unnecessary, because he may now want a new series of interim tanks for the late 80's. We will have to hold off the Newcastle MP's for some weeks more, pending a decision.

We really cannot delay like this. Please advise the defence to make their decision quickly. There really is some urgency on page 2 of this. When events. Every delay in our decision will cost us money. MPA

*30/4
delay in our decision will cost us money. MPA*

At the OD meeting on 11th June I was invited, in consultation with the Secretary of State for Industry, to examine the comparative costs of placing the proposed order for 77 Chieftains with Vickers Limited, Newcastle, and at the Royal Ordnance Factory Leeds; and to make a recommendation to the Committee which took account of the employment implications and the importance of preserving at Leeds the capability needed for future Army requirements. I should advise you why you have heard nothing further from me so far.

who?

2. When we came into office the only firm order in prospect for the British Army was for the 77 Chieftains to supplement BAOR's war reserve. Otherwise future tank production plans were centred on the national development of the next generation tank, MBT 80, which is a high quality weapon system required to meet the threat into the next century, and is the only tank in current development amongst the NATO nations which will meet this threat. It had been planned that it should start to enter service in 1987 but my enquiries reveal that this date is no longer attainable. 1989 appears to be the earliest date for it now. This delay causes me much anxiety on account of the disturbing enhancement in the quality of the Warsaw Pact armoured threat in Europe.

3. In the wake of the cancellation of the Iranian order a new option emerged which could provide the Army with an interim enhancement and help to bridge the gap from the early 1980s until MBT 80 can be brought into service. This would involve the acquisition of a slightly modified Shir II tank originally

/ under ...

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under development at Iranian expense (known as Challenger) mounting Chobham armour and having other very significant improvements over Chieftain. The 77 extra Chieftains would then not be required. There is much work still to be done before we can reach a decision on this option, and I expect to be in a position to inform the Committee of the complete picture in the early part of next year.

4. I am copying this minute to the other members of OD and to the Secretary of State for Industry; and to Sir Robert Armstrong.

77

30th November 1979

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FILE

VLB



cc HO
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HMT
LPO
LPSO

Defence

10 DOWNING STREET

D/T
D/I
D/M

From the Private Secretary

26 November 1979

Tanks for Jordan

The Prime Minister has seen the Secretary of State for Defence's minute of 22 November on this subject and has noted its contents.

I am sending copies of this letter to Private Secretaries to other members of OD, to Ian Ellison (Department of Industry) and Ian Fair (Department of Employment).

M. O'D. B. ALEXANDER

B. M. Norbury, Esq.,
Ministry of Defence.

26

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 26/9/19

Prime Minister (2)

Mo *Mo*

PRIME MINISTER

TANKS FOR JORDAN

We have made good progress on the sale of tanks to Jordan since you told HM King Hussein on 20th September of our readiness in principle to sell, subject to the negotiation of satisfactory terms. A draft contract was drawn up during a visit to Amman in early October by representatives of IMS Ltd, the Ministry of Defence and Royal Ordnance Factories, and last week officials agreed the terms of a government-to-government Memorandum of Understanding which sets out HMG's support for the project and our relationship with IMS Ltd.

2. Lieutenant General Abdul Hadi al Majali, the Chief of the General Staff of the Jordanian Army, arrives in London tomorrow for the final stages of negotiation and, if all goes well, I expect the Chief Executive of IMS to sign the main contract for the supply of 274 "Khalid" main battle tanks and Euan Strathcona to sign the MOU with the Jordanians on 28th November. Further contracts for spares, support equipment etc and for 21 Armoured Recovery Vehicles and 5 Bridgelayers are expected to be signed in the New Year.

3. The financial terms of the contract are summarised at Annex. Officials in other Departments have been kept in touch with progress of the MOU and contract negotiations. A price per tank of £820,000 (including radios) had essentially been agreed before your meeting with the King.

/The ...

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The Jordanians had subsequently declined to meet inflation increases on the quarter of the value of the contract covered by a downpayment. However, later negotiations have provided for the recovery of the greater part of this loss of income by means of three substantial progress payments.

4. In his letter of 1st October John Biffen referred to the risk of cancellation by the Jordanians in the event of excessive design delays and to possible losses through cost escalation. We now expect the contract to provide no right of termination but to require the payment of our full costs if the contract were to be terminated. This effectively deals with the first risk. As regards cost escalation we have found a way of offsetting most of the potential additional costs for which we would have thought ECGD cover appropriate. The risk of the Jordanians backing out has been reduced by the contractual funding arrangements and ECGD insurance is available to cover this risk. The cash flow for this project is such that, taking account of Jordanian advance payments, there should be no funding requirement from the ROF Trading Fund until the end of 1981 at the earliest, and the cash flow until then will be of benefit by way of advances held and interest earned. This contract is worth £ 266 M at current prices.

5. On the above terms, I believe that the benefits of this deal are such as to justify the acceptance of the residual risks on the defence programme, particularly in the light of the benefits for the defence industry and the development of future sales to Jordan and other Arab states. It may be possible to simplify the conditions of the main contract during the coming week's negotiations, but I do not expect any other significant alterations. If any serious difficulties were to arise, I would of course consult you and colleagues before the deal was concluded.

6. I am copying this minute to our OD colleagues, to the Secretaries of State for Industry and Employment, and to Sir Robert Armstrong.

22nd November 1979

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ANNEX

The Khalid Main
Battle Tank*



1. The total Contract Price will be £266 M.
2. A down payment of £56.170 M will be paid by direct transfer within 30 days of signature of contract in November 1979.
3. Progress payments of £20 M will be due on:
 - (a) 1st May 1980
 - (b) 1st September 1980
 - (c) 1st March 1981;and each will be payable within two weeks and will be made by direct transfer.
4. A confirmed irrevocable Letter of Credit for the remaining £149 M will be opened in April 1980.
5. Escalation at 8% compound will be calculated on a quarterly basis in accordance with deliveries.
6. The value of progress payments once made will carry escalation but only at two-thirds of the 8% from the date they are made.

* The Jōrdanian Government has named their new tank after one of the major Arab military commanders in the 7th century AD - Khalid ibn al Waleed. The name has not yet been officially promulgated in Jordan but is widely known.

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Reference

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

*NBPN**Am... 23/x1*

22 November 1979

Dear Francis,

BRITISH TANKS FOR JORDAN

I understand that a Jordanian delegation will be arriving in London this week for final negotiations on the sale of tanks and that the contract is to be signed on 28 November. In my letter of 1 October I said that I had no objection to this deal provided that you were able to assure me that in the event of any losses resulting either from delays caused by design problems or from cost escalation, the net costs arising would be a charge on the Defence Budget within the ceilings fixed for the relevant year. My concern was and is to avoid any increase to total public expenditure. I should be grateful if you would confirm that you accept that if the deal is now completed it is on this basis.

I am copying this to the Prime Minister, other members of OD, the Secretary of State for Trade and the Secretary of the Cabinet.

*Jans**John Biffen*

JOHN BIFFEN



10 DOWNING STREET

THE PRIME MINISTER

13 November 1979

Dear Mr. Cowans,

Thank you for your letter of 23 October about the possible order of Chieftain tanks for Vickers. As I said in the House on 8 November, the question of an order is still under consideration, but is linked with many other issues. At the same time I fully appreciate your concern about Vickers' need for orders.

I know that you have also written to Francis Pym who is arranging for you together with Shop Stewards from Vickers at Elswick to have a meeting with Defence Ministers in the near future.

Harry Cowans, Esq., M.P.

*Yours sincerely,
Royce Robertson*

cc MOD
19.

JS

JS



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~230 7822~~ 218 2111/3

MO 26/4/2/1

9th November 1979

Dear Nick,

I attach a suggested reply for the Prime Minister to send to Mr Cowans' letter of 23rd October about the order of Chieftain tanks for Vickers.

The Defence Secretary hopes to circulate papers to colleagues in the near future concerning some aspects of this problem, and particularly the question of what additional tanks, if any, might be provided for BAOR in the mid-1980s.

In the meantime Mr Cowans has written to ask Mr Pym if he will receive a deputation of Shop Stewards from Vickers, Elswick. In fact Mr Pym believes it would be preferable for the Minister of State, Lord Strathcona, to receive them and the meeting would be arranged for two to three weeks time when it may be possible to say more than could be said now. The draft reply attached accordingly refers to this meeting.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Pete Stredder (Department of Industry) and Martin Vile (Cabinet Office).

Yours sincerely,

John Gutteridge.
(J D GUTTERIDGE)

N Sanders Esq
No 10 Downing Street



GR
pl type for PM

sig

cc I Gow

DRAFT LETTER FROM THE PRIME MINISTER TO MR HARRY COWANS MP

Thank you for your letter of 23rd October about the possible order of Chieftain tanks for Vickers. As I said in the House on 8th November the question of an order is still under consideration but is ~~inter-related~~ ^{related to} ~~with~~ ^{linked with} many other ~~problems~~ ^{issues}. At the same time I fully appreciate your concern about Vickers' need for orders.

I know that you have also written to Francis Pym who is arranging for you together with Shop Stewards from Vickers at Elswick to have a meeting with Defence Ministers in the near future.

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Defence

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

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MO 26/9/19

Print

FOREIGN AND COMMONWEALTH SECRETARY

TANKS FOR JORDAN

In your minute of 23rd October you drew attention to the importance of our meeting the delivery dates for the Jordanian tank programme. I agree that we must not fall behind schedule both for the political reasons that you emphasise and because there are significant financial penalties if we do. The Jordanians have insisted on a contract price that contains a fixed element for inflation up to the date of scheduled delivery.

2. As Douglas Hurd learned from the IMS team that was in Jordan during his visit the principal uncertainty lies in the performance of the gearbox. It is of an advanced design and several problems were encountered during the development phase. Most of these have now been solved and we believe that a modified box which is due to be delivered for trials at the end of next month will prove satisfactory. I attach a technical Annex on the gearbox so that you and your officials will be fully aware of the difficulties. Incidentally the gearbox is not only an important aspect of the Jordanian programme it is also essential to the future tank programme for the British Army although in a slightly later timescale.

3. The Military Vehicles Experimental Establishment is confident that all will be well when the modified gearbox undergoes its trial and that it will be cleared for

/ production ...

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2.

production to the timescale required by the Jordanian contracts. We are doing all we can by way of management effort and by speculative funding of materials to achieve this objective.

4. I am receiving regular reports of progress and I will certainly let you and other colleagues know if any problems arise.

5. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

72

2nd November 1979

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Note on TN 37 Development

The TN 37 transmission is a complex equipment the development of which was put in hand (from the drawing board stage) to a tight timescale for Project 4030.

2 Such equipments of necessity incorporate complicated lubrication circuits, clutches in the range change pack which depend upon friction properties, hydrostatic components, as well as numerous gear trains, bearings, etc.

3 The TN 37 performs very well but as yet it does not have adequate reliability. No trouble has been experienced with any gears and only very minor trouble with one bearing. However considerable troubles have arisen with those aspects which are difficult to design and produce accurately and which always have to be "developed out" of equipments of this type. These aspects are friction materials and patterns for clutch plates and brake plates, special surface finishes for adequate wearing properties in swash plates and pistons in pumps and detailed lubrication path performance.

4 Such problems are investigated in separate rig tests but cannot be fully cleared until representative durability running is done in a vehicle.

5 Various problems of this type have been encountered and overcome both in test rigs and finally in vehicle running. These have involved materials and surface finishes for adequate wear properties in components of the hydrostatic steer units, of the brakes (internal to the transmission) of the many clutches incorporated in the transmission.

6 The present criterion for acceptance is a 2000km (100 hours) vehicle running trial.

7 In early 1979 a transmission completed 940km of the trial before failure. This transmission was found to be in very good condition except for the premature failure of one clutch with signs of deterioration in another. Signs of similar failures had been obtained in rig tests but at much longer equivalent life. As a result designs for suitable modifications had been put in hand. These designs are known as the Stage 2 modifications.

8 Due to the intervening repudiation of the Iranian contract and consequent cancellation of contracts in UK the next transmission to undergo the 100 hour test (with Stage 2 modifications) will not be ready until end November 1979.

9 If all goes well the 100 hour trial will be completed in February/March 1980. In view of the previous good condition of the remainder of the transmission confidence in this design proving successful is good.

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However as an insurance and to improve further the durability of the transmission the design of a further improved lubrication system together with other desirable improvements has been started. This is known as Stage 3 but could not be tested until the Autumn 1980.

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10 DOWNING STREET

From the Private Secretary

29 October 1979

BF 6.11.79

I wrote to you on 17 October to tell you that Harry Cowans, M.P., had telephoned about the possible Chieftain order for Vickers at Elswick. His letter has now arrived, and I attach a copy. I should be grateful if you could let me have a draft reply for the Prime Minister to send to Mr. Cowans, to reach us here by Tuesday 6 November.

N. J. SANDERS

J.D. Gutteridge, Esq.,
Ministry of Defence.



10 DOWNING STREET

From the Private Secretary

29 October 1979

I am writing on behalf of the Prime Minister to thank you for your letter of 23 October about the Chieftain tank order. I will place your letter before the Prime Minister and you will be sent a reply as soon as possible.

N. J. SANDERS

Harry Cowans, Esq., M.P.

Defence

2



10 DOWNING STREET

PRIME MINISTER

This letter from Harry Cowans follows up a telephone call he made, asking about progress on the placing of the order for Chieftain tanks. No decision has yet been taken, but we will let you have a draft reply to send.

[Handwritten signature] MJS

29 October 1979

FROM: HARRY COWANS, M.P.

cc I Gow



HOUSE OF COMMONS
LONDON SW1A 0AA

23rd October, 1979

Dear Prime Minister,

Re: The Order of Chieftain Tanks

Further to your letter of the 28th August, the position at Elswick Vickers is now reaching a very critical stage regarding the tank orders. Certainly if nothing is forthcoming in the near future the work will have run out and that will mean possible redundancies. Whilst I appreciate the many problems, are you yet in a position to indicate when this order will be placed, and hopefully a proportion of it with Vickers at Elswick as this will allow them to keep their skilled workforce and also possibly to diversify into other projects. To do this, this order is crucial.

Yours sincerely,

Harry Cowans

Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
S.W.1.

Defence
(2)



FCS/79/170

SECRETARY OF STATE FOR DEFENCE

Tanks for Jordan

*As Paul
Prime Minister
Are the tanks
kept much at Paul?
This is different
establishment
of so - kind
the number
to Francis
ref.*

1. As you may know Douglas Hurd visited Jordan from 9 - 11 October, and his visit coincided with that of the IMS mission negotiating the sale of Shir tanks to Jordan.
2. It was clear from Douglas's conversations there that King Hussein himself is deeply committed to this deal and that he sees its success as a touchstone for Anglo/Jordanian relations.
3. One of the residual problems in these negotiations is, as you know, the delivery schedule for the tanks and it was the King himself who intervened in the negotiations last week to press for deliveries to begin in the first, rather than the second, quarter of 1981. He feels himself to be under pressure to meet the expectations of the Army and his Arab backers to obtain early delivery. You will also recall that late delivery was one of the reasons he gave publicly for not preferring the American M60 tanks. It now seems likely that the King will be prepared to accept the later delivery dates we have offered. But if so it will clearly be most important that these dates do not slip.
4. I understand that the principal uncertainty lies in design problems encountered in the gearbox for the Shir I tank and that, if the delivery schedule is to be met, these will have to be overcome by February or March of next year. There would be major financial penalties if this deadline were not met. But I think I should emphasise that, quite apart from this the King's personal commitment is such that even a relatively short delay could have wider and damaging implications for our political and commercial relations with Jordan.

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5. As you know the reasons for embarking on this deal were not primarily political. But once it is concluded, it will be essential from the political as well as from the industrial and commercial standpoint that the equipment should be supplied promptly and without serious defects. If we were to fall down on this contract the consequences would be felt beyond the frontiers of Jordan. I know I can look to you to keep a close eye on the matter.

6. I am sending a copy of this minute to the Prime Minister and to Sir John Hunt.

A handwritten signature, appearing to be 'C', written in dark ink.

(CARRINGTON)

Foreign and Commonwealth Office

23 October 1979

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Defence

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CF PPA

17 October 1979

As I told you on the telephone, Harry Cowans, M.P. rang me today to ask whether decisions had yet been taken on the possible Chieftain order for Vickers at Elswick. After consulting you, I told Mr. Cowans that no decision had yet been taken and that we could not give him any indication of when final decisions would be reached - but that he and the other interested constituency members would of course be informed when that day came. He said that his constituents were very anxious and he thought he would have to write again to the Prime Minister. We await his letter.

N. J. SANDERS

J.D. Gutteridge, Esq.,
Ministry of Defence.

BK.

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(2)



Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

I managed that we cut money to make a hell was cheap
Christie
John, Mike
1 October 1979
LA
Pym

Dear Francis,

BRITISH TANKS FOR JORDAN

I have seen your minute of 21 September about the negotiation with the Jordanians. My officials have been in touch with yours. This letter is to confirm the points which have been put.

The Prime Minister told King Hussein on 20 September that HMG are prepared to supply the tanks at cost price. As my officials have told yours, I am concerned at the possibility that they may in fact be sold not at cost price but at a loss. In his letter of 6 August to Euan Strathcona, Geoffrey Howe had already expressed concern at this possibility, and indicated his wish that public expenditure implications should be fully considered.

For the Treasury the crucial point is that this transaction should not result in a net increase in public expenditure. I therefore seek your assurance that any net costs arising will be met from within whatever ceiling is set for the Defence Budget in the relevant year.

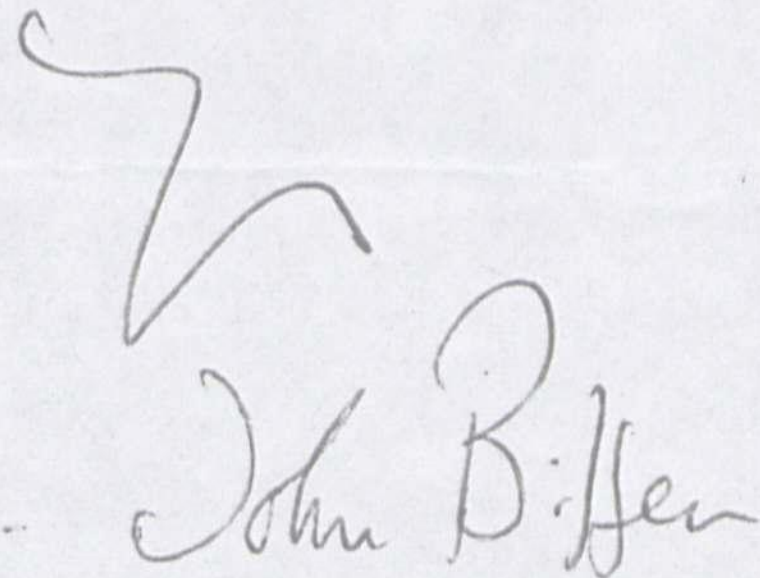
I am advised that, on the terms currently envisaged, net costs could arise in two ways, which our officials have discussed. First, if as a result of design problems the programme became seriously delayed, the Jordanians would have the right to cancel the deal and have their payments refunded. If this were to happen at the time of maximum commitment, the cost could be some £150 million.

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Second, losses could arise as a result of cost escalation. I understand that the Jordanians have said that they would not be prepared to pay escalation on the 25 per cent down payment, but that your negotiators hope to offset costs on this score by adjustments to the schedule of subsequent payments. However, the Jordanians also insist that they will not pay more than a fixed escalation rate of 8 per cent per annum on the balance: thus if the cost of the tanks rises by more than 8 per cent per annum the bill for the difference would have to be picked up in London. It might amount to some £30-40 million. It has been suggested that ECGD cost escalation cover might be made available to this extent. But the provision of such cover would result in a corresponding, and in my view unacceptable, increase in the totality of public expenditure. To avoid this, any losses under this head also will have to be a charge on the Defence Budget, within the ceilings fixed.

I make no objection to conclusion of the Jordanian deal on the terms envisaged, provided that you give me these assurances so as to ensure that, if losses in fact result, total public expenditure will not thereby be increased.

I am sending copies of this letter to the Prime Minister, to the other recipients of your minute of 21 September, and to John Nott, who of course has a major interest in the cost escalation question.



John Biffen

JOHN BIFFEN

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Ants
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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

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MO 26/9/19

Prime Minister

Ants

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PRIME MINISTER

BRITISH TANKS FOR JORDAN

Following your extremely helpful talk with King Hussein last evening, we had highly productive discussions in the Ministry of Defence today with the Jordanian Commander-in-Chief. I was able to repeat to Sherif Zeid bin Shaker the assurance you gave the King, that we were anxious to see the negotiation on the sale to Jordan of 274 Shir I tanks successfully completed.

2. We have agreed in principle with the Jordanians that we will conclude a deal; and Sir Ronald Ellis has secured agreement on price; cost escalation; and specifications. What remains essentially to be worked out is a schedule for the Jordanians to make payments, but the small team from IMS Limited, which the Jordanians have agreed to receive in Amman next week, should secure agreement also on this.

3. I also told General bin Shaker that we would certainly like to help if we could in providing assistance in training the Jordanian Armed Forces, particularly since we, like the Jordanians, would like to reaffirm the traditional friendship between the Armed Forces of both countries; we have suggested that an officer should go out from the Ministry of Defence to try to refine the requirement on the spot.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, our other OD colleagues and the Secretary of the Cabinet.

Ants

21st September 1979

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Subject on Jordan: June 79
Visit to London by King Hussein file 100



10 DOWNING STREET

From the Private Secretary

20 September 1979

Dear Brian,

King Hussein's Call on the Prime Minister

You wrote to me earlier today giving an amended line for the Prime Minister to use with King Hussein in respect of the possible sale of British tanks to Jordan.

The Prime Minister raised the question with King Hussein. I enclose a copy of the relevant extract from the record.

The Prime Minister was inclined to think that even the revised line contained in your letter displayed too much reluctance on our part. She has asked me to ensure that the Defence Secretary is aware of her wish that the deal should be concluded. She does not agree that the question of the application of cost escalation to down payments should be allowed to cause difficulties.

The Prime Minister also hopes that we will be able to respond favourably to the request made by the Jordanian Commander-in-Chief for assistance in training the Jordanian armed forces.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

Yours ever

Richard Alexander

SL

B.M. Norbury, Esq.,
Ministry of Defence.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

CONFIDENTIAL

20th September 1979

MO 26/9/19

For Pym 20/9

Dear Richard,

KING HUSSEIN'S CALL ON THE
PRIME MINISTER

You told me this morning that the Prime Minister wished to take a more forthcoming line with King Hussein in respect of the possible sale of tanks to Jordan than was envisaged in the brief sent you by Paul Lever (Foreign and Commonwealth Office) under cover of his letter of 19th September. We have now secured a copy of Paul's letter; and I have consulted my Secretary of State.

/ Mr Pym strongly supports the Prime Minister's desire to be as positive as possible with King Hussein; and I attach a revised line to take which has been agreed between FCO and MOD officials accordingly. You will note that the Prime Minister is now being advised to express HMG's willingness to conclude a deal provided that we are not asked for further concessions on price, and to seek the King's agreement to further negotiations to re-arrange the proposed financial package in a form more acceptable to Jordan, and still acceptable to us in terms of the eventual financial return.

Mr Pym has asked me to add that in his view this is an important deal that could show substantial long term

/ profits ...

M O'D B Alexander Esq.,
10 Downing Street

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profits. This sale presents the first opportunity for many years to get a commercial foothold in Jordan, with all the advantages that could give us, and while there remain a number of problems to be resolved, Mr Pym believes that we have the basis of a deal on the price and conditions under discussion.

Mr Pym would propose to speak in similar terms to the Jordanian Commander in Chief when the latter calls on him tomorrow morning; I should accordingly be most grateful for urgent advice on the outcome of the Prime Minister's discussion with King Hussein.

I am sending copies of this letter to Paul Lever (FCO); the Private Secretaries to the other members of OD, and to the Private Secretaries of the Secretaries of State for Industry and Employment; and to Martin Vile (Cabinet Office).

Yours sincerely
Brian Norbury

(B M NORBURY)

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KING HUSSEIN'S CALL ON THE PRIME MINISTER
ON 20TH SEPTEMBER

Points to Make

Tanks

I assure you that we have every intention of concluding the sale of these 274 Shir I tanks to you.

However, this cannot be at the expense of the British taxpayer.

~~The concessions on price so far amount to £260m and there is no room for any more.~~

But, we stand ready to negotiate on the overall financial arrangements to make these more acceptable to you.

I hope you can agree that our people should now get together quickly to resolve these final details of the deal on this basis.

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Subject on Jordan: ~~At~~ ^{June 79}
Visits to London by King Hussein

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND KING HUSSEIN OF JORDAN AT 10 DOWNING STREET ON 20 SEPTEMBER 1979 AT 1800 HOURS

Present:

Prime Minister	King Hussein of Jordan
Mr. J.C. Moberly	Sherif Abdul Hamid Sharaf
Mr. Michael Alexander	Sherif Zeid bin Shaker
	H.E. Ibrahim Izziddin

* * * * *

The Middle East Situation

King Hussein said that he thought there was a growing understanding of the need to take another look at the situation in the Middle East. The Camp David process had reached the limits of its possibilities. Mr. Strauss would get no further. Egypt had already exceeded all the limits of what might have been expected. The prestige of the United States had suffered greatly. What was required was a different approach. It would need to involve other nations and the Palestinians themselves. In this way a means of extricating the United States from its present position might be found. The Jordanian Government was in direct touch with the Palestinian Liberation Organisation (PLO).

The Prime Minister asked whether there were any signs that the PLO were prepared to place less reliance on terrorism and more on negotiation. She was one of those who recoiled somewhat from the idea that the PLO should be accepted as the sole representative of the Palestinians. Were there no spokesmen who were not terrorists? King Hussein said that he had been trying to distance the PLO from some Arab states and also to make them more representative of the Palestinians as a whole. He had recently been pleasantly surprised by the attitude being adopted by the PLO. Their approach was more mature than in the past. They had raised specific issues with him, particularly in relation to the future relationship between a West Bank controlled by the Palestinians and Jordan. King Hussein said that he was unwilling to take the lead in the discussion of future options. He was for Palestinian self-determination. Whatever the Palestinians decided the Jordanian Government would accept. He was

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was very ready to pursue the dialogue with the Palestinians and had told them he awaited their proposals about the future. Mr. Arafat had said the previous day that he intended to resume discussion of this subject as soon as King Hussein returned from the General Assembly. The Prime Minister asked whether King Hussein would accept a loose federal relationship between the West Bank and Jordan. King Hussein said that the relationship would certainly pose problems for Jordan but that his people felt very close to the Palestinians. They had a duty to them, as members of one family, to aid them in seeking the recovery of their land. Sherif Abdul Hamid Sharaf said that the Jordanian Government was willing to consider any relationship with whatever entity resulted from the free choice of the Palestinian people. The King was prepared to give this message to everyone.

The Prime Minister asked how progress could be made in the immediate future. King Hussein said that he was trying to formulate the new Arab position. He hoped that a cross-section of Arab representatives would soon be able to discuss together how far Resolution 242 was still valid; what changes should be made in it; and what principles a new settlement should incorporate. He thought this work could be done reasonably quickly. He intended to bring forward in New York the outline of a new Resolution or at least the principles on which it might be based. He did not wish to push ahead too rapidly. Indeed, he had been urging on the PLO for some time the need to go slowly in order to avoid a confrontation with the United States and a possible veto on a Resolution incorporating moderate Arab views. The Prime Minister agreed about the need not to make matters too difficult for the United States.

The Prime Minister asked whether the PLO still had difficulty in recognising publicly the right of Israel to exist. King Hussein said that there had to be a balanced approach to the problem. On the one side the Israelis had to recognise the rights of the Palestinians to self-determination and agree to withdraw from the occupied territories; on the other side, the Palestinians would have to recognise the right of Israel to exist. Sherif Abdul Hamid Sharaf said that King Hussein had been focussing on moderating the position of the PLO. The Palestinians had for many years asserted their rights to all the territory of Israel. The acceptance of an Israeli

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state, eg through an amended Resolution 242, presented major psychological and political difficulties for them. However, they were moving in that direction. So was Arab opinion in general as could be seen by the contrast between the present position and that at the time of the rejectionist Arab summit a year ago.

Sherif Abdul Hamid Sharaf went on to say that there was, however, another side to the question where European Governments, and in particular the United Kingdom, could help. The necessity for Israel to accept the right of the Palestinians to self-determination had not been sufficiently stressed. If Western Governments did not try now to break the deadlock there was a risk that the opportunity would be lost. The present powerlessness of the United States increased the significance of Europe's position. The United Kingdom had been lagging behind some of its partners. If the United Kingdom were to push in the direction of a more explicit recognition of Palestinian rights and of the need for Israel to move, this would be of great assistance. If Israel came to realise that the position of her principal supporters in Western Europe and North America was shifting, this would make an enormous difference.

The Prime Minister said that she had told Mr. Begin during his visit to London that political autonomy on the West Bank was meaningless unless it meant autonomy over the territory as well. However, it was very hard for the Israelis, after generations of suspicion, to adjust to a new situation. It was difficult for them to believe that the Arabs genuinely accepted their right to exist. But a stable solution to the problems of the Middle East was of the greatest importance both for the West and for Israel itself. Jordan's doubts about the Camp David process appeared to have been justified and another approach might have to be found. If there were to be mutual assurances about self-determination for the Palestinians and Israel's right to exist they would have to be given simultaneously.

The Prime Minister asked King Hussein about the American position and his Government's contacts with the United States. King Hussein said that, as a result of Camp David, the United States was no longer able to play its proper role in the Middle East.

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Their political and material commitment to Israel was too great to enable them to be neutral. It would be a service to them to find a new approach. Sherif Abdul Hamid Sharaf said that the Jordanian Government had been promised by President Johnson that the United States would throw its weight behind the implementation of Resolution 242 but nothing had happened. They were now therefore less interested in formulations than in intentions. What was needed were binding commitments. Recent contacts between the United States and Jordan had been difficult and unsatisfactory. There had been a good deal of confusion.

The Prime Minister asked whether the Jordanian Government had given any thought to the details of the self-determination process. What question would be put to the Palestinians; would the process be in one or more stages? Many Western Governments would, for instance, be happier if they knew that the results of self-determination would be a federal relationship between the Palestinian West Bank and Jordan. King Hussein said that this would be a question for negotiation. The Jordanians had written a paper on the subject. They had discussed this with the United States before Camp David. They had come to the conclusion that there were dangers in being too specific. The King did not dissent when the Prime Minister said that she had the impression the Jordanian Government were thinking in terms of a two-stage process ie agreement on withdrawal and self-determination followed by a decision about the nature of the Palestinian administration. Sherif Abdul Hamid Sharaf said that agreement on the basic issue would create a new climate. But he said that if Jordan were to be asked to take responsibility for the Palestinians, Jordan would need to be strengthened. He did not see any difficulty, however, in principle about developing a programme to absorb the Arab labour at present being employed on Israeli construction projects.

Sherif Abdul Hamid Sharaf concluded the discussion of the Middle East problem by reiterating that Jordan hoped for the help of the United Kingdom in pushing for an alternative approach to the problem. This approach should have concern for the Palestinians at its heart. The PLO had agreed not to force the issue. They were willing to accept co-existence with Israel but now they wanted to know what to do next. A special effort was needed.

CONFIDENTIAL / Tanks

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- 5 -

Tanks

The Prime Minister referred to the discussion which Sherif Zeid bin Shaker would be having at the Ministry of Defence the following day about the sale of British tanks to Jordan. She said she was anxious to see the negotiation successfully completed. HMG were prepared to supply the tanks at cost price. The Prime Minister said she was advised that an agreement could be concluded. It was her wish that it should be concluded. She wished to see the historic ties between the United Kingdom and Jordan in this field restored. She intended to ask later the next day about the progress that had been made. Sherif Zeid bin Shaker said that he hoped it would prove possible to complete the negotiations at his meeting.

He said that his Government were also looking for political agreement on the despatch of a number of British training missions to Jordan. He envisaged the training teams spending six months to a year in Jordan. The details could be worked out after the decision of principle had been taken. The Prime Minister said she favoured the idea and would take an interest in the progress of the discussions about it.

The discussion ended at 1910.

Handwritten signature

20 September 1979

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UK EYES ALPHA

DESKBY 170930Z FCO

FM AMMAN 151045Z SEP 79

TO IMMEDIATE FCO

TELNO 361 OF 15 SEP 79

INFO MODUK (FOR HDS AND DI 4) AND WASHINGTON

MY TELNO 357 OF 13 SEPTEMBER (NOT TO WASHINGTON):

TANKS FOR JORDAN

1. I SAW THE COMMANDER-IN-CHIEF THIS MORNING AT HIS REQUEST. GENERAL SHAKER CONFIRMED THAT, AS KING HUSSEIN HAD ALREADY TOLD ME, THE PURPOSE OF HIS OWN VISIT TO LONDON WAS TO TRY TO CONCLUDE THE TANK DEAL AS SOON AS POSSIBLE AND THAT HE WOULD BE RETURNING TO JORDAN AFTER HIS TALKS IN LONDON.
2. GENERAL SHAKER SAID THAT HIS OWN CLEAR PREFERENCE AND THAT OF HIS HEADQUARTERS WAS TO BUY BRITISH TANKS, BUT THAT HE WAS UNDER GREAT PRESSURE FROM KING HUSSEIN TO BRING MATTERS TO A RAPID CONCLUSION. WITH NO DELIVERY POSSIBLE UNDER 31 MONTHS, US TANKS WERE NOT REALLY A SERIOUS ALTERNATIVE. BUT AS HHE HAD ALREADY TOLD SIR RONALD ELLIS, THE RUSSIANS WERE PUTTING CONSIDERABLE PRESSURE ON THE JORDANIANS TO BUY T72S AND OFFERING AN ATTRACTIVE PRICE WITH A PROSPECT OF FURTHER REDUCTIONS IF THE DEAL WENT THROUGH. NEITHER HE NOR KING HUSSEIN WANTED TO TURN TO THE RUSSIANS IF THEY COULD HELP IT. I TOLD GENERAL SHAKER THAT I WAS VERY GLAD TO HEAR THIS. IF I WERE THE RUSSIANS, I WOULD GIVE THE TANKS TO THE JORDANIANS FREE OF CHARGE BECAUSE OF THE DAMAGE THEIR SALE WOULD CAUSE JORDAN'S RELATIONS WITH THE US, PARTICULARLY IN THE CONGRESS SEMICOLON THE VERY KEENNESS OF THE RUSSIANS TO SELL TO JORDAN SHOULD BE SUFFICIENT TO MAKE THE JORDANIANS EXTREMELY WARY OF THEIR MOTIVES. GENERAL SHAKER PROFESSED AGREEMENT WITH THIS, BUT SAID THAT JORDAN'S POSITION WAS ALSO DIFFICULT WITH T72S ALREADY DELIVERED TO LIBYA AND IN THE PIPELINE TO BOTH SYRIA AND IRAQ.

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3. GENERAL SHAKER SAID THAT KING HUSSEIN, WHILE ANXIOUS TO CONCLUDE THE DEAL DURING HIS VISIT TO LONDON, WAS VERY RELUCTANT TO BECOME PERSONALLY INVOLVED IN A HAGGLE OVER PRICE. I SAID I UNDERSTOOD THAT SIR RONALD ELLIS HAD ALREADY DEMONSTRATED TO GENERAL SHAKER THE VERY CONSIDERABLE CONCESSIONS ON PRICE WE HAD MADE TO THE JORDANIANS AND I DID NOT THINK WE COULD OFFER MUCH MORE SEMICOLON ALREADY THERE WAS A RISK THAT WE MIGHT ACTUALLY LOSE MONEY ON THE DEAL. GENERAL SHAKER SAID HE UNDERSTOOD OUR POSITION, BUT THAT WE MUST ALSO UNDERSTAND THEIRS: THE CONTRACT HAD TO BE CLEARED BOTH INTERNALLY WITHIN THE JORDANIAN GOVERNMENT (THE PRIME MINISTER IN PARTICULAR WAS BEING EXTREMELY STICKY OVER IT) AND ALSO WITH OTHER ARAB COUNTRIES WHO WERE CONTRIBUTING TO THE COST OF THE TANKS. IF THE CONTRACT SHOWED THAT THE JORDANIANS WERE BEING CHARGED A PERCENTAGE FOR ESCALATION ON MONEY THEY HAD ALREADY DEPOSITED WITH THE UK AS A DOWN PAYMENT, THEY WOULD BE HELD UP TO RIDICULE. I SAID WE HAD UNDERSTOOD THE PRIME REQUIREMENT ON THE JORDANIAN SIDE WAS TO KEEP THE ESCALATION PERCENTAGE FIGURE AS LOW AS POSSIBLE AND THE SPREADING OF THE COST ESCALATION FIGURE ACROSS THE WHOLE PACKAGE HAD BEEN A DEVICE TO DO JUST THIS. IF THIS WAS UNACCEPTABLE TO THE JORDANIANS, COULD GENERAL SHAKER SUGGEST OTHER WAYS IN WHICH THE PACKAGE MIGHT BE REARRANGED SO THAT IT WERE PRESENTATIONALLY DOORE ACCEPTABLE? FOR EXAMPLE, COULD THE INITIAL DEPOSIT BE INCREASED OR FURTHER PAYMENTS ACCELERATED, OR WOULD THE JORDANIANS BE PREPARED TO CONTEMPLATE A HIGHER PERCENTAGE FIGURE TO COVER ESCALATION? PROVIDED THAT WE WERE NOT FINANCIALLY THE LOSERS, I FELT SURE THAT THE MINISTRY OF DEFENCE WOULD DO EVERYTHING POSSIBLE TO SHOW FLEXIBILITY IN HELPING TO MEET JORDANIAN REQUIREMENTS. GENERAL SHAKER DID NOT GIVE ME ANY DIRECT ANSWER ON THIS, OTHER THAN TO REITERATE HIS OWN WISH TO COME TO AN AGREEMENT IF AT ALL POSSIBLE DURING HIS VISIT TO LONDON AND THE HOPE THAT WE COULD GO A LITTLE FURTHER TOWARDS THE JORDANIANS ON PRICE.

4. GENERAL SHAKER SAID HE UNDERSTOOD FROM THE JORDANIAN AMBASSADOR IN LONDON THAT HE WOULD BE SEEING SIR RONALD ELLIS FIRST AND WOULD THEN BE HAVING A MEETING WITH THE SECRETARY OF STATE FOR DEFENCE. I SUGGESTED THAT EVEN IF IT DID NOT PROVE POSSIBLE AT THESE MEETINGS TO CLOSE THE GAP, SIR RONALD ELLIS MIGHT BE ABLE TO COME OUT TO JORDAN AGAIN TO CLEAR UP ANY FINAL DETAILS. GENERAL SHAKER AGREED, BUT REITERATED THAT HE MUST CONCLUDE THE BUSINESS QUICKLY.

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CONFIDENTIAL

/5

CONFIDENTIAL

5. GENERAL SHAKER SAID THAT HE WOULD ALSO WISH TO RAISE WITH MR PYM THE POSSIBILITY THAT BRITISH SERVICE TRAINING TEAMS MIGHT COME OUT TO JORDAN FOR PERIODS OF 3-6 MONTHS IN CERTAIN SPECIALIST FIELDS. HE WANTED BOTH TO INCREASE EFFICIENCY IN THE JORDANIAN ARMED FORCES AND TO BRING IN SOME NEW THINKING. WHAT HE HAD IN MIND WAS SMALL SPECIALIST TEAMS TO HELP IN A FEW KEY AREAS AND EMPHASISED THAT THIS WAS SEPARATE FROM ANY TECHNICAL ASSISTANCE WHICH MIGHT BE REQUIRED FOR THE TANKS. I TOLD HIM THAT I WOULD WARN THE MINISTRY OF DEFENCE OF HIS INTENTION TO RAISE THIS MATTER AND FELT SURE THAT THEY WOULD LOOK AT IT SYMPATHETICALLY.

URWICK

[COPIES SENT TO NO 10 DOWNING ST]

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PS/MR HURD
PS/PUS
SIR A. DUFF
MR J.C. MOBERLY
MR P. H. MOBERLY

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ASSESSMENTS STAFF
CABINET OFFICE



10 DOWNING STREET

THE PRIME MINISTER

10 September 1979

Dear Sir,

Thank you for writing to me on 5 September about the future of Vickers in Newcastle.

You will probably know that, in reply to Mr. Brown and Mr. Cowans, I have been unable to give a definite timetable for a decision on the Chieftain order. The position on this is a complicated one, and there are a number of uncertainties over the production of main battle tanks following the changes in Iran which should be resolved first. But I certainly hope that a decision can be reached in the coming months. I am grateful to you for writing as you did, and I will ensure that the bipartisan support expressed by the Tyneside MPs is taken fully into account when decisions are reached.

Yours sincerely

Margaret

Sir William Elliott, M.P.

Defence TW
cc (MAD)

15

PRIME MINISTER

cc. Mr. Gow

Sir William Elliott adds his views to the representations about the future of Vickers in Newcastle.

You have had several letters from the two Labour M.P.s for Tyneside pressing for the defence tank order to go to Vickers, and Sir William also argues that this order, or a part of it, would be a lifeline. Defence have advised that a substantive answer can not yet be given.

Would you therefore like to reply as in the attached draft letter to Sir William Elliott? (I have not mentioned in this letter your forthcoming visit to Newcastle, as this might well lead Sir William to ask that you visit Vickers. It would be best for you to avoid that as long as there is controversy over this order.)

MAD

7 September 1979

FILE

VLS



10 DOWNING STREET

From the Private Secretary

7 September 1979

I am writing on behalf of the Prime Minister to acknowledge your letter of 5 September.

I will bring this to her attention immediately, and you will be sent a reply as soon as possible.

M. A. PATTISON

Sir William Elliott, M.P.

SIR WILLIAM ELLIOTT, M.P.

cc 19 ✓



HOUSE OF COMMONS
LONDON, SW1A 0AA

5th. September, 1979.

My dear Prime Minister.

I am aware that Labour Members from Tyneside, including Robert Brown and Harry Cowans, have written to you regarding a possible order of Chieftain tanks being awarded to Vickers Elswick, Newcastle upon Tyne.

I have had regular meetings with the management on this order in particular and the future of this important firm in general. My discussions have been free from Trade Union influence.

I should like to emphasise at once that my representations on the potential tank order have been most sympathetically received at M.O.D.. I accompanied the joint Managing Directors to a meeting in the Department with Lord Strathcona in July. The Minister of State on that occasion gave the Vickers officials a full hearing, and they were most impressed with him.

I write to you on the broader issue of Vickers future. As you know, C.A.Parsons were fortunate earlier this year in obtaining DRAX B Power Station order. The considerable firms of Clark-Chapman and Reyrolles, now under the able directorship of Sir James Woodeson, seem to have a reasonable future ahead. Vickers constantly stress to me that their aim is diversification of production. They have very substantial plans in this regard. Their great need is the breathing space which the order, or part of it, for the British Army, would give them. I do feel that if this firm can be kept in being, it will substantially contribute to the longer term employment prospects in Newcastle upon Tyne.

I thought it right to convey my view to you at this time.

The Prime Minister,
Downing Street,
London, S.W.1.

Yours sincerely,
Bill



10 DOWNING STREET

THE PRIME MINISTER

28 August 1979

Mr. H. Cowans

Thank you for your letter of 7 August about a possible order for Chieftain Tanks. I do of course recognise the problems to which you refer and I hope that a decision will not be delayed too long into the autumn. You will understand, however, that the position is a complicated one and that there are a number of uncertainties over the production of Main Battle Tanks post-Iran which have to be resolved first.

*Yours sincerely
Margaret Thatcher*

Harry Cowans, Esq., M.P.

hw

*Temp
cc MOD
Press Off.
Defence*

3



10 DOWNING STREET

PRIME MINISTER

Mr. Cowans wrote to you again on 7 August about the order for Chieftain Main Battle Tanks. Defence advise (Flag A) that decisions will not be reached before the autumn.

Are you therefore content to send a further non-committal reply to Mr. Cowans?

A handwritten signature in blue ink, appearing to be 'MAD'.

24 August 1979



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~9367022~~ 218 2111/3

MO 26/4/2/1

21st August 1979

Dear Nick,

Thank you for your letter of 9th August enclosing a further letter from Harry Cowans MP.

As John Gutteridge explained in his letter of 20th July, the requirement for the 77 Chieftains has had to be placed in abeyance while the possibility is examined of buying modified Shir II tanks for the British Army. The latest position is summarised in the Defence Secretary's minute of 25th July, of which you have a copy. You will have seen from the Chief Secretary's letter of 8th August that there is agreement that decisions ought to be deferred on the Chieftain order for the time being. A further interim reply to Mr Cowans is therefore indicated. We cannot say when a substantive reply can be given, but we would hope that the decision will not be delayed too long into the autumn.

*Yours ever,
David*

(D B OMAND)

Nick Sanders Esq
10 Downing Street



Dobson

DRAFT TO HARRY COWANS ESQ MP

Thank you for your letter of 7th August about a possible order for Chieftain Tanks. I do of course recognise the problems to which you refer and I hope that a decision will not be delayed too long into the autumn. You will understand, however, that the position is a complicated one and that there are a number of uncertainties over the production of Main Battle Tanks post-Iran which have ~~got~~ to be resolved first.

LONDON

tmw

BF 22/8/79

Defence

9 August 1979

I attach a further letter the Prime Minister has received from Harry Cowans M.P. about the placing of the Chieftain tank order. Could you please let me have a draft reply for the Prime Minister to send to Mr. Cowans, to reach us here by Wednesday 22 August?

NJS

J.D. Gutteridge, Esq.,
Ministry of Defence.

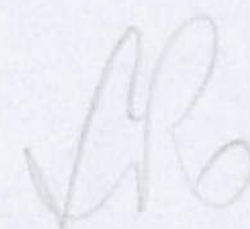
CRB

9 August 1979

I am writing on behalf of the Prime Minister to thank you for your letter of 7 August about the order for Chieftain tanks. I will of course place your letter before the Prime Minister at once and you will be sent a reply as soon as possible.

NJS

Harry Cowans, Esq., M.P.



2



10 DOWNING STREET

PRIME MINISTER

Here is another letter from Harry Cowans about the placing of the Chieftain tank order. For the time being there are no developments on this front.

I have asked the Ministry of Defence to suggest a suitably temporising reply for you to send.

MS

A handwritten signature in black ink, appearing to be 'MS' with a flourish.

9 August 1979

DEFENCE



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

8 August 1979

P.A.
G.M.
9/8

Dear Secretary of State

THE 77 CHIEFTAIN ORDER: VICKERS/ROF LEEDS

I have seen Keith Joseph's reply of 31 July to your minute of 25 July.

It seems right to defer decisions on the Chieftain order for the time being.

I am copying this letter to the Prime Minister, members of OD, the Secretaries of State for Industry and Employment and to Sir John Hunt.

Yours sincerely
John Biffen

PP JOHN BIFFEN
[Approved by the Chief Secretary
and signed in his absence]

FROM: HARRY COWANS, M.P.

cc: I Gow 9.8



HOUSE OF COMMONS
LONDON SW1A 0AA

7th August, 1979

R9

Dear Prime Minister,

Thank you for your previous letters concerning the order for the Chieftain Main Battle Tanks. Could I stress that the delay in making a decision in placing this order is creating uncertainty and hardship at the Elswick Works of Vickers Limited in my constituency. Is there any early indication when the decision will be made?

Yours sincerely,

Harry Cowans

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
S.W.1.

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877

BF to BGC 10/viii -
to see Chie & American
papers. MAP 8/10



CONFIDENTIAL

From the Secretary of State

Lord Strathcona
Minister of State for Defence
Ministry of Defence
Whitehall
SW1

6 August 1979

Dear Minister

SALE OF TANKS TO JORDAN

Thank you for your letter of 3 August following Francis Pym's minute of 31 July. I have also seen Ian Gilmour's minute of 2 August. I think that before we can take any decision about the use of the ECGD Cost Escalation Scheme we must first decide whether it is desirable to commit a significant amount of public expenditure to this sale. On the figures currently available to ECGD, the contingent cost to public funds of providing support to enable the kind of fixed price deal you suggest to be offered could be in the region of £35-£45 million. Public expenditure would arise to the extent that actual cost increases incurred during the manufacturing period rose above the price variation provisions the Jordanians had accepted in the contract. I think that any decision about the desirability of making a sale at the kind of prices Ian Gilmour quotes needs to be considered against the background of these figures. I confess to some doubt about this and also about the precedent which fixed price contracts with unrealistic escalation provisions might set for Arms sales generally.

I am copying this letter to OD colleagues, to the Secretaries of State for Industry and Employment, to the Attorney General and to Sir John Hunt.

Yours sincerely
J Dynes

pp JOHN NOTT
(approved by the Secretary of State and
signed in his absence)

CONFIDENTIAL



u
CS
FST
MST (C)
MST (L)
✓ MAP
SIR D. WARR
SIR K. COLENS
SIR A. RAWLINGS
MR BARRAN
MR HANSFORD
MR WOODP
MR LOWON
MR R. WAT
MR BENT
MR W. G. W. P.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 August, 1979

Dear Euan

SALE OF TANKS TO JORDAN

I have seen your letter of 3rd August to John Nott urging him to agree at once that cost escalation cover should be given to this order, so that the Head of Defence Sales might immediately be authorised to conclude a deal while on his present visit to Jordan.

I understand that ECGD estimate that to grant cost escalation cover on the terms being proposed by IMS Ltd might cost in the region of £45 million between now and 1985. This figure is highly uncertain but it is a measure of the extent of the loss that might arise on the deal. Any such loss would be a cost to the Government whether it was covered by ECGD insurance or was met directly by IMS and/or your department.

This puts a new complexion on the proposal. When we considered the matter in OD on 11th June we did not consider the possibility that the tanks would be sold to Jordan at a loss. I would certainly not be prepared to agree to such a proposal until officials had been able to consider its implications more fully, in particular the consequences for public expenditure.

I do not think, therefore, that there can be any question of our giving the Head of Defence Sales the authority you seek to conclude a deal on his present trip to Jordan. It will, however, be useful if he is able to get a clearer idea of the likely price range that the Jordanians may be prepared to accept. In particular, he may be able to discover whether there is really no chance of persuading the Jordanians to accept a variation of price contract of the kind that IMS and the Royal Ordnance Factories normally seek for deals of this nature. It is largely the fixed price element in what

/ is

Lord Strathcona
Minister of State for Defence

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is at present being proposed which causes the public expenditure difficulties and which, incidentally, could set a very undesirable precedent. On the basis of his report of the Jordanian position, and of further clarification by officials of the options and their implications, we will be able to decide whether or not to go ahead with the deal.

I am copying this letter to the recipients of yours.

A handwritten signature in dark ink, appearing to read "Geoffrey Howe", written over a horizontal line.

(GEOFFREY HOWE)

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NBPM yet
Dance
MAJ



MINISTER OF STATE FOR DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/ES/3/1

CONFIDENTIAL

3 August 1979

Dear John.

You have received a copy of Francis Pym's minute of 31 July to his OD colleagues and are aware that officials have been discussing the question of cost escalation cover for which IMS have applied to ECGD.

Unless it proves possible to limit the escalation of the basic price of the 4030/2 tank to a figure of about 8% per annum it is very unlikely that the Jordanians will regard the tank as a sufficient improvement on the American M60-3A which is on offer at about half the price of the 4030/2.

It has been established in the discussions between officials:

- a. that IMS Ltd are in principle eligible for the grant of cover;
- b. that, notwithstanding Jordan's normally low rating for Schedule 2 cover, insurance against customer default could be granted provided the deal is underwritten by the Arab State which is funding the purchase;

/c.

The Rt Hon John Nott MP
Secretary of State
Department of Trade

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c. that, in terms of value and delivery time, the project qualifies under the provisions of the legislation.

I understand that, given the above, the grant of cover is at your discretion.

The background to this sale, which is taking place in the wake of the collapse of the original tank project with Iran was set out in the papers which Ministers considered at the meeting of OD on 11 June 1979 (OD(79)2nd Meeting). There is little doubt that King Hussein and his senior Army officers are attracted by the British tank and the King has said as much both to British Ministers of the previous Administration and to his Arab allies. He is thus, to a considerable extent, personally committed to a purchase from Britain and is likely to regard the quotation of too high a price as an indication that we have political reservations against selling him tanks.

For all these reasons and for the simple commercial reason that this project, which is itself worth some £380M, will bring with it future sales of spares, ammunition etc worth several millions of pounds a year, I am most concerned that the sale should succeed. It will serve to re-establish our position, which we have lost to the Americans in recent years, as the traditional supplier of defence equipment to Jordan. This is extremely important at this time when Jordan is being provided with substantial funds by her rich Arab neighbours.

The Head of Defence Sales has now ^(today!) gone to Jordan and in the absence of approval to offer a price based on the provision of cost escalation cover, will be limited to discussing a range of prices with the Jordanian Commander-in-Chief against the background that he will need to seek Ministerial approval before firmly agreeing a price. It would clearly strengthen his negotiating position immeasurably if he had authority to

/conclude

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conclude a deal and I hope it may be possible to have your approval to cost escalation cover later today so that this can be conveyed to Amman in time for the negotiations. The Head of Defence Sales will, of course, be making it plain to the Jordanians that these arrangements will depend on the provision of underwriting by the benefactory country.

I apologise for this haste, but I only became aware late yesterday afternoon that the question of ECGD cover would need to be referred personally to you.

I am copying this to members of OD, to the Secretaries of State for Industry and Employment, to the Attorney General and to Sir John Hunt.

Yours
Euan

Lord Strathcona

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Secretary of State for Industry

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MAP 1/11/79
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

31 July 1979

Rt Hon Francis Pym MC MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2 HB

Mr Francis,

THE 77 CHIEFTAIN ORDER: VICKERS/ROF (LEEDS)

Thank you for your letter of 25 July. I note that you propose to defer any decisions on the Chieftain order for the time being.

When the decision on the location of any such order has to be taken, it would of course be right to take account also of regional policy considerations, especially if as seems likely any price difference between the two tenders was very small. Moreover, if the Jordanian order did not materialise, you would no doubt want to be satisfied that sufficient other orders would be forthcoming for ROF (Leeds) to maintain the essential capacity there. I understand that the Chieftain order alone would not be sufficient for this.

I am copying this letter to the recipients of yours.

Ever,

Kevin

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NBPM yet MAP 2/1/68
Defence



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-2182111/3

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MO 26/9/19

FOREIGN AND COMMONWEALTH SECRETARY

SALE OF TANKS TO JORDAN

At its meeting on 11th June OD agreed in principle that negotiations to sell tanks to Jordan should proceed, but in view of the uncertainty over price, the possible complications created by Iranian prefunding, and the risk of reaction by other Middle East states, the Committee asked to be informed of the outcome of the negotiations before the sale was completed.

2. The Head of Defence Sales (HDS) has now been asked to return to Amman on 3rd August to resume negotiations. He will be accompanied by the Chief Executive of International Military Services Ltd (IMS) who will be prime contractor for this project. Officials are considering the basis of our negotiating position, and a number of pricing options based on current prices have been established. Ideally we would wish a sales agreement to provide for price escalation to take account of inflation through an agreed formula, but it is likely that the Jordanians will seek a firm price with no provision for escalation. IMS are therefore discussing with ECGD the possibility of covering excess inflation by insurance. This would enable Head of Defence Sales to offer a firm price. It is likely, however, that the Jordanians will still find this price higher than they can afford and HDS will then need to be able to make further concessions. We know that they have received quotations from the Americans and it is believed that the price being quoted for the American M.60-3A is approximately half of the firm price of very nearly £1M which we shall need to quote. It can also be assumed that the Russians will be ready to make an attractive offer..

/3. ...

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3. The firm price we shall begin by quoting contains provision for the repayment to Iran of all the money advanced by the previous Iranian Government in respect of materials and production work for the first 125 Shir I tanks - a total of £44M. However, legal opinion is that under the terms of the contract with Iran we have no obligation to make any refund, and I would therefore propose to authorise the Head of Defence Sales to eliminate this compensation from the price quoted to the extent necessary to complete a sale. This would mean that the selling price would be negotiated on a commercial basis as far as possible.

4. The question of giving Iran a greater measure of compensation than their legal entitlement, for political reasons, should be considered separately if need arises.

5. I am not aware of any adverse reaction to these proposals from other states in the Middle East, and I would therefore be grateful for your agreement to authorise negotiations on the lines indicated above and for a similar Letter of Intent to be concluded if that stage can be reached.

6. I am sending copies of this minute to OD colleagues, to the Secretaries of State for Industry and for Employment, to the Attorney General, and to Sir John Hunt.

Handwritten signature

31st July 1979

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CONFIDENTIAL



cc Mr. Cowans tmp
la

Defra

10 DOWNING STREET

THE PRIME MINISTER

25 July 1979

Dear Mr. Brown

You wrote to me on 26 June about the order for Chieftain tanks, and you raised it with me at Questions.

It is still true that no final decision on this order can yet be taken. We shall of course give full weight to the employment issues involved, along with all the other relevant factors that arise from the Iranian cancellation.

I am sending a copy of this letter to Mr. Cowans.

Yours sincerely

MT

Bob Brown, Esq., M.P.

jfh

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Defence

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

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MO 26/4/2/1

OK from you.

*Blu
20/7*

SECRETARY OF STATE FOR INDUSTRY

THE 77 CHIEFTAIN ORDER - VICKERS/ROYAL
ORDNANCE FACTORY LEEDS

At the OD meeting on 11th June, I was invited to examine, in consultation with you, the comparative costs of placing an order for 77 Chieftain tanks with Vickers Limited at Newcastle and with the Royal Ordnance Factory Leeds. I was to take into account both the employment implications and the strategic importance of ROF Leeds to our future tank production. Officials of our two Departments and the Department of Employment have since been in touch and have discussed the matter.

2. It is not possible at present to make a proper comparison of the cost of placing the order with Vickers or with ROF Leeds, since we have not had true competitive tenders from them; however, the indications are at present that the difference between the two prices would be so small as to render inappropriate a decision on the grounds of price alone.

3. The question of employment at ROF Leeds and at Vickers is complicated by the fact that we do not yet know whether Jordan will buy Shir I tanks, and we are still considering whether to acquire Shir II tanks for the British Army: if we do, the additional 77 Chieftains will not be needed.

4. If an order for Shir I is forthcoming from Jordan, it will be placed with ROF Leeds. In this event, the

/ question ...

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question of whether Vickers or Leeds should have the order for 77 Chieftains, should it still need to be placed, ought to be decided on the basis of competition between the two. We would hope to have decisions by about September on the Jordan order and on whether the British Army is to take Shir II. It is an important defence interest to maintain the essential capacity for manufacturing the new tank for the British Army (MBT 80) which we shall need in the late 1980s and if, therefore, neither the Jordan order nor the order for Shir II for the British Army is forthcoming, on general defence grounds I would wish to place the Chieftain order with Leeds.

5. I am copying this minute to the Prime Minister, my OD colleagues and the Secretary of State for Employment, and to Sir John Hunt.

25th July 1979

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 017837022 218 2111/3

CONFIDENTIAL

Mr. Sanders.

MO 26/4/2/1

20th July 1979

6/21
20/7

Dear Nick,

Thank you for your letter of 29th June, enclosing a further letter from Harry Cowans MP and Bob Brown MP about the Chieftain tank order.

You will recall that this matter was discussed by OD on 11th June in the context of the proposed sale of Shir I tanks to Jordan. OD agreed that negotiations for the sale to Jordan should continue and that the Defence Secretary, in consultation with the Industry Secretary, should examine the comparative costs of placing the order for 77 Chieftains with Vickers at Newcastle and in the Royal Ordnance Factory, Leeds, and should make a recommendation to the Committee which took account of the employment implications and of the importance of preserving at Leeds the capability needed for future Army requirements.

Negotiations are continuing on the sale of Shir I tanks to Jordan, and the next step will be a visit by Sir Ronald Ellis, Head of Defence Sales, to Jordan beginning on 3rd August during which he expects to hand over our detailed proposals to the Jordanian Commander in Chief. All the indications are that the Jordanians are still very serious in their interest in Shir I, though we expect there to be some difficult negotiations over price.

It is not at present possible to complete the examination of comparative costs in respect of the 77

/ Chieftains ...

Nick Sanders Esq.,
10 Downing Street

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Chieftains and to reach a recommendation about where the order should be placed. Urgent consideration is being given to the possibility of buying 200-250 modified Shir IIs as an interim enhancement of BAOR's armoured capability against the increased Soviet threat. This raises major issues of resource allocation and funding and would involve a substantial change in the balance of the Army equipment programme. The matter is being considered urgently but necessarily affects the Vickers' order as the 77 Chieftains would not be needed if Shir II were purchased.

/ In these circumstances a further interim reply to the MPs is indicated and I enclose a draft accordingly.


Yours sincerely,

John Gutteridge

(J D GUTTERIDGE)

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Thank you very much for your further letter of 26th June about the order for Chieftain tanks.

2. My earlier letter was indeed an interim reply and I am afraid that no final decision on this order can yet be taken. I am, of course, aware of the employment issues involved and these will be given their full weight along with all the other relevant factors that arise from the consequences of the Iranian cancellation.

3. I am writing in the same terms to Mr Brown.

CONFIDENTIAL

SRS 330

CONFIDENTIAL

FM TEL AVIV 100800Z JULY

TO TOUTINE FCO

TELNO 321 OF 10 JULY

INFO AMMAN, CAIRO, DAMASCUS, WASHINGTON, MODUK (DS13), MODUK

(D SALES 1).

2 Defence

Prime Minister

by 1/1

YRTEL 128 SALE OF TANKS TO JORDAN.

1. THE ISRAEL MINISTER OF DEFENCE SUMMONED ME ON 9 JULY. SPEAKING, HE SAID, ON THE PRIME MINISTER'S AND THE FOREIGN MINISTER'S BEHALF AS WELL AS HIS OWN, MR WEIZMAN EXPRESSED TO ME HIS DEEP CONCERN AND DISPLEASURE THAT THE UK WERE PROPOSING QUALITATIVELY TO STRENGTHEN THE JORDANIAN ARMED FORCES BY THE SUPPLY TO THEM OF A DIVISION OF CHIEFTAIN TANKS. HE SAID THAT THE ISRAEL GOVERNMENT FELT DEEP UNEASINESS LEST THE PROVISION OF THESE TANKS MIGHT TEMPT KING HUSSEIN INTO A MORE ADVENTUROUS POSTURE VIS-A-VIS THE ISRAELIS. THEY FORESAW THAT THEY MIGHT BE USED IN THE FUTURE, IN CONJUNCTION WITH SYRIAN AND IRAQI FORCES, TO MENACE ISRAEL'S SECURITY. MR WEIZMAN, HOWEVER, DID NOT ASK THAT WE SHOULD RECONSIDER OUR DECISION TO SELL THE TANKS.

2. IN REPLY, I COVERED ALL THE GROUND PERMITTED TO ME IN T U R, EMPHASISING IN PARTICULAR WHY WE HAD NOT BELIEVE THAT THE SUPPLY OF THESE TANKS WOULD BE A THREAT TO ISRAEL. I WENT ON TO SAY THAT KING HUSSEIN HAD A RIGHT TO MODERNISE HIS ARMED FORCES: IF WE DID NOT SUPPLY HIM WITH MODERN TANKS, HE MIGHT BE DRIVEN INTO THE ARMS OF THE RUSSIANS. I ADDED THAT, SPEAKING PERSONALLY, IT SEEMED TO ME THAT KING HUSSEIN WANTED THE TANKS AT LEAST AS MUCH FOR POSSIBLE USE AGAINST SYRIA AND IRAQ AS AGAINST ISRAEL.

3. I TOLD MR WEIZMAN THAT WE MUCH HOPED THAT THE INFORMATION WHICH HAD COME INTO HIS HANDS (FROM WHAT SOURCE I DID NOT ENQUIRE) SHOULD NOT ALSO FALL INTO THE HANDS OF THE PRESS. MR WEIZMAN SAID THAT HE HAD NO INTEREST IN HAVING THE PROPOSED SALE PUBLICISED, AND WOULD DO HIS BEST TO ENSURE THAT IT WAS NOT.

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1/4. IT WAS VERY

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4. IT WAS VERY HELPFUL TO ME TO HAVE THE FULL INFORMATION IN T U R FOR DEPLOYMENT WITH MR WEIZMAN. I SHOULD BE GRATEFUL TO BE KEPT FULLY ABREAST OF DEVELOPMENTS, SO THAT I CAN SPEAK AGAIN WITH AUTHORITY SHOULD MR WEIZMAN REVERT TO THE MATTER IN THE FUTURE.

M A S O N

FILES

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NAD

MR J MOBERLY

[COPIES SENT
NO 10 DOWNING ST]

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B.F. 20/7

29 June 1979

I attach a further letter to the Prime Minister from Harry Cowans, M.P. and Bob Brown, M.P. about the Chieftain tank order.

In acknowledging it, I have said that I am sure that the Prime Minister will want to write again once a decision has been reached.

I should be grateful, therefore, if you could let me have a suitable draft reply once Ministers have reached a decision on this matter. If things are still uncertain as the Recess approaches, we should send a second holding reply. Perhaps you could let me have a further draft for that purpose, if necessary, on Friday 20 July.

N.J. SANDERS

John Gutteridge, Esq.,
Ministry of Defence.

JGS

HS

29 June 1979

I am writing on behalf of the Prime Minister to thank you for your letter of 26 June about the Chieftain tank order. I will place your letter before the Prime Minister as soon as she returns from Tokyo and I am sure she will want to write to you again when a decision has been reached.

I am sending a copy of this letter to Mr. Brown.

N.J. SANDERS

'''

Harry Cowans, Esq., M.P.

Handwritten initials

FROM: HARRY COWANS, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

PPS
cc I Gow
R28/6
26th June, 1979

Dear Prime Minister,

Thank you for your letter of the 11th June about the order for 77 Chieftain tanks.

I hope this was only an interim reply and that you will let me know the final outcome and the decision reached on this very vital and important matter that has serious implications for my constituents.

Yours sincerely,

Harry Cowans
Bob Brown

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.



file of B
Defence

TOP COPY ON:

JORDAN,

JUNE 79,

King Hussein visit

10 DOWNING STREET

From the Private Secretary

18 June 1979

Dear Paul,

THE PRIME MINISTER'S DISCUSSION WITH KING HUSSEIN OF JORDAN
AT 10 DOWNING STREET ON 18 JUNE 1979

The Prime Minister entertained King Hussein of Jordan at a working lunch at No. 10 today. The King was accompanied by his Foreign Affairs Adviser, Sharif Abdul Hamid Sharaf; by the Commander in Chief of the Jordanian Armed Forces, Sharif Zeid bin Shaker; and by the Jordanian Ambassador. The Secretary of State for Defence, the Lord Privy Seal, Mr. Douglas Hurd and Mr. John Moberly were present. The following is a summary of the main points which arose in discussion during the meal.

The Prime Minister gave King Hussein an account of her conversation with Mr. Begin over lunch at No. 10 on 23 May. King Hussein commented that the US had in his view given away all the cards which would have enabled them to bring pressure to bear on Mr. Begin, including the possible withholding of military equipment and of oil supplies. Mr. Sharaf expressed the view that the Europeans should adopt a stronger position with regard to Israeli policies which would, in turn, help the US to stiffen its stance on the issues of withdrawal, Jerusalem and Palestinian rights. King Hussein said that he had taken up with the Israelis the question of withdrawal and the implementation of Resolution 242 on numerous occasions but had always been given a negative response, even before Mr. Begin took office. The Prime Minister told King Hussein what Vice President Mubarak of Egypt had said to her about Mr. Begin's brinkmanship at Camp David and said that it might be necessary for the negotiators on the West Bank issue to go to the brink before Mr. Begin would move. The Prime Minister went on to say that, as she had told Vice President Mubarak, it was very important for all those concerned to keep close to Saudi Arabia although she recognised that President Sadat had made some ill-considered remarks about the Saudis. Mr. Sharaf recalled that King Hussein had stood alone in giving a public welcome to President Sadat's original initiative, while at the same time stressing the need for an appropriate response from the Israelis; this response had, however, never materialised and President Sadat's clumsiness in handling his relations with the Arab world had contributed further to the deterioration of the situation. The Prime Minister pointed out that President Sadat was confronted with economic problems of immense gravity, including a rapid increase in the population of his country; these difficulties had spurred him on in the search for a settlement. King Hussein repeated that the Americans had now given the Israelis everything for which they could have asked and found themselves unable to influence Israel any more.

/King Hussein

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- 2 -

King Hussein added that, throughout the quest for a settlement, he had constantly stressed that it was essential to involve all parties in it. He had recently been in touch with the Soviet Government about the implementation of Resolution 242 and a possible return to Geneva. The Soviet response had indicated that the Soviet Union was now opposed to a revival of Geneva: they simply wanted abrogation of the peace treaty and the replacement of President Sadat. King Hussein commented that the Russians clearly thought that time was on their side, that Arab and Israeli positions would harden and that this would eventually bring the regional instability from which they would hope to profit. This was one reason why he saw the revival of the peace process as a matter of such urgency. When Mr. Hurd asked the King whether it might be possible to reopen the Geneva negotiations without the Soviet Union, King Hussein replied that if all those concerned agreed to resume these negotiations, the Soviet Union would have to do so too.

The Prime Minister said that Mr. Begin clearly believed that he had succeeded in splitting the Arab world, that he had in his pocket an agreement which would protect Israel from combined Arab attack and that, consequently, he could afford to stand pat on what he had achieved and make no effort to move on to the next stage. Mr. Sharaf said that King Hussein had been saying for years that this was the Israeli tactic. In the long term, however, the tactic was mistaken since it ruled out the comprehensive settlement which alone could give Israel security. The Camp David Agreements had reinforced Mr. Begin's divisive course while making a comprehensive settlement virtually impossible to achieve.

King Hussein said that Jordan now found herself in a difficult position since both the United States and the Soviet Union were opposed to going back to the Security Council and Geneva. The breakdown of the negotiations on the West Bank could be quite close and he therefore believed that the Arab world should before long make a restatement of its position. In preparing for this, the Arabs should keep in close touch with their European friends in order to be sure of making their move at the right time. It would not, however, be a good idea to remain inactive for too long.

When Mr. Hurd asked King Hussein whether he expected trouble on the West Bank, the King confirmed that the period of relative quiet there was coming to an end. Mr. Sharaf pointed out that, despite Israeli propaganda to the contrary, the Israeli occupation was by no means benevolent. The West Bank was subjected to chronic exploitation of its water resources and its labour: Jordan had taken the firm decision to help the West Bankers by, for example, purchasing their produce and paying municipal salaries; this constituted a drain on Jordan's resources. East Jerusalem and a growing area around it had been incorporated into Israel and the character of the city transformed. General Shaker said that Israel's "security measures" on the West Bank included the collective punishment of the local population; in a recent incident, school children had thrown themselves out of top storey windows in order to escape a search of their school by Israeli troops. There was, however, a news blackout on episodes of this kind. Mr. Sharaf said that if present Israeli policies on the West Bank continued, the whole area would have been transformed, and depopulated of its Arab inhabitants to such an extent by the time the negotiations came to any conclusion that the need for them would have disappeared. King Hussein said that before his departure people had told him jokingly in Amman that he should urge the Americans to stop making statements criticising Israeli settlement policy, since such statements invariably resulted in the creation of

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a new settlement. There were large numbers of teachers and students in Jordan who had been obliged to leave the West Bank because their colleges and schools had been closed down.

The Prime Minister asked what was the best result which could be expected from the talks on the West Bank. Mr. Sharaf said that, according to Camp David, the next steps would be the creation of the self-governing authorities, the establishment of political autonomy and then a further round of negotiations about the future status of the West Bank. One of King Hussein's fundamental objections to the Camp David Agreements was that they said nothing about the future status of the Palestinians; they contained no assurance of ultimate self-determination for the Palestinians. Mr. Hurd pointed out that the Americans argued that once an autonomous community had been established the local people would quickly begin to demand sovereignty as well. Mr. Sharaf replied that Mr. Begin had said recently that he would arrest any local people who did so. Mr. Sharaf went on to say that it was now up to the Europeans and others to create an atmosphere which would compel Israel to change her policies. When the Lord Privy Seal said that it would be important for the Europeans to avoid doing anything which could undermine Mr. Strauss' efforts by casting doubts on the validity of the current negotiations, Mr. Sharaf said that the Jordanians wanted to build on the Camp David process rather than upset it but pointed out that it should be possible for the Europeans to support the negotiating process while calling upon Israel in strong terms to allow it to produce results. King Hussein said that everybody regarded Resolution 242 as the right basis for any settlement, but the Resolution itself was being eroded by the passage of time.

King Hussein said that he would be talking to the Syrians about the redefinition of the Arab position which he had in mind; these discussions would take place within a small group of Arab states and would not include all the participants in the Baghdad Conference. Mr. Sharaf explained that King Hussein believed that unless a unified Arab position could be maintained, radical opinion in the Arab world would become even stronger. King Hussein confirmed that he saw his main task as being to keep the Arab world together, which was an essential pre-condition of frustrating Communist plans for the extension of their influence in the region. A just settlement would help the moderate elements among the Arabs.

The Lord Privy Seal said that the Palestinians had moved towards at least a position of de facto recognition of Israel; it would be very helpful to their position viz a viz the West if they were to move one step further. King Hussein agreed but pointed out that Israel, too, had to make a move. Palestinians in Lebanon were now under daily attack; the King recalled arguing at the very first Arab Summit, in 1964, that the Arab/Israel conflict should not be allowed to spill over into the Lebanon. He thought that the Syrians should announce a deadline for their withdrawal, thus giving the Lebanese an incentive to find their own solutions to their problems. Mr. Sharaf commented that Lebanon had virtually been partitioned and King Hussein added that the Israelis might be pursuing a long term plan for controlling the Litani River.

/Mr. Sharaf

Mr. Sharaf emphasised once more the view he had expressed at the outset, namely that pressure from outside would be needed to achieve acceptable results from the peace process and that there should be a demonstration of the collective will of the West to give Israel what she needed for her security but insisting that the Palestinians should be given their legitimate rights as well. In the present situation, the position of the moderate Arabs was gradually being eroded and the rejectionist case was being proved. The Prime Minister said that all that could be done for the moment was to wait and see what came out of the negotiations on the West Bank. When King Hussein asked whether consideration could be given to ways in which Europeans could help the situation, the Prime Minister said that this could indeed be discussed both in Strasbourg and in Tokyo. The Jordanian Ambassador said that any statements would have to embody a more explicit emphasis on self-determination than had previous statements. King Hussein indicated that the UK should be able to exercise a helpful and very necessary influence on the US in these matters.

In a reference to Jordan's requirement for UK Shir I tanks, Mr. Sharaf said that Jordan needed to be strengthened by her traditional allies. The Prime Minister replied that the British Government recognised that the UK was Jordan's traditional friend and supplier and that they would, therefore, negotiate the sale of the Shir tanks. The Defence Secretary confirmed that negotiations were already under way. Mr. Sharaf said that King Hussein had been telling all the Arab Governments that the UK tank was the best one.

After King Hussein's departure, the Prime Minister indicated that she would be quite prepared to ask President Carter, when she met him in Tokyo, to exert pressure on Mr. Begin to put an end to his policy on settlements and to accept the principle of Palestinian sovereignty for the West Bank. Mr. Moberly gave her a summary of current attitudes within the Nine to a possible statement on the Middle East. Mr. Hurd told the Prime Minister that it would be a mistake for the Nine to rush into a statement for the sake of making one; the time for this would be when the current negotiations showed signs of running into the sand. I should be grateful for advice on whether, in the light of the Prime Minister's talk with King Hussein, the brief on the Middle East which has been provided for the Prime Minister's use at Strasbourg needs any revision; and on the terms in which the Prime Minister might raise the Middle East issue with President Carter in Tokyo.

I am sending copies of this letter to Roger Facer (Ministry of Defence) and Martin Vile (Cabinet Office).

*Yours ever,
Brian Carrivick.*

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

THE PRIME MINISTER

11 June 1979

Mr R. Brown,

Thank you for your letter of 31 May about the order for 77 Chieftain tanks.

We are considering the serious consequences of the cancellation by Iran of their large order for tanks and we are not yet in a position to decide where the order to which you refer should be placed. We shall, of course, take fully into account the impact on employment, as well as all the other relevant factors.

I am writing in the same terms to Mr. Cowans.

Yours sincerely
Margaret Thatcher

R.C. Brown, Esq., M.P.

—
tw



TT
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fres

10 DOWNING STREET

THE PRIME MINISTER

11 June 1979

Dear Mr. Cowans,

Thank you for your letter of 31 May about the order for 77 Chieftain tanks.

We are considering the serious consequences of the cancellation by Iran of their large order for tanks and we are not yet in a position to decide where the order to which you refer should be placed. We shall, of course, take fully into account the impact on employment, as well as all the other relevant factors.

I am writing in the same terms to Mr. Brown.

Yours sincerely,

Harold Wilson

H. Cowans, Esq., M.P.

—
tw

Hussein is here on 18 June.

Should the order be followed up with
him directly (he is keenly interested)
or left to Defence Sales? There
could be some mileage in giving
the first news to him: ✓ then
leaving Defence Sales to follow up
the negotiations.

See J Hunts note
in O D order for 11/6/79

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-~~9XXXXX~~ 218 2111/3

CONFIDENTIAL

MO 10/4

8th June 1979

Dear Sir,

ROYAL ORDNANCE FACTORY - LEEDS

Thank you for your letter of 5th June about the Chieftain order. I appreciate the Newcastle problem, and quite see its importance. But I also see difficulties on a larger scale altogether if this order does not go to ROF Leeds. I am however happy to discuss this at OD next week, as you suggest.

I am sending copies of this letter to the Prime Minister, other OD colleagues, Sir Keith Joseph and Sir John Hunt.

James Prior

Francis Pym
Francis Pym

The Rt Hon James Prior MP

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Ref: B05751

PRIME MINISTER

Sale of Tanks to Jordan
(OD(79) 6 and 8)

The Defence Secretary is seeking in his memorandum the approval of OD to the sale to Jordan of up to 274 Shir I tanks and 26 other armoured vehicles with the possibility of a further order from Jordan later. In OD(79) 8 the Foreign and Commonwealth Secretary supports this recommendation but points out the political problems which will be created by the sale. He concludes that the sale to Jordan "should be exceptional" and that the Committee's approval should be sought for the supply of any additional tanks to Jordan.

2. The importance of this sale in industrial terms derives from cancellation by the Iran Government of their major tank order and the consequential need to find alternative work for the Royal Ordnance Factory Leeds, so as to preserve its capability to meet the requirements of the British Army in the early 1980s for its next generation of main battle tanks (MBT 80). As a first step towards this the Defence Secretary intends (paragraph 2 of OD(79) 6) to switch to Leeds an order for 77 Chieftains for BAOR which was to have been placed with Vickers, Newcastle. The Secretary of State for Employment has expressed concern at this (his letter of 5th June to the Defence Secretary) and has asked that it should be discussed in OD at the same time as the proposed sale to Jordan. He has been invited to attend.

HANDLING

3. I suggest you should first ask the Defence Secretary to introduce this subject and that the Foreign and Commonwealth Secretary should be invited to speak next. The discussion might then concentrate first on the practical points raised in the Defence Secretary's paper and by the Secretary of State for Employment, and then deal with the wider political considerations raised by the Foreign and Commonwealth Secretary.

4. The following points might be covered:

- a. If the sale to Jordan is concluded, will this provide the assurance of continuity to ROF Leeds or will further overseas sales be necessary to fill the remaining gap before MBT 80 comes into production?

D.S.
F.C.



M.B. fo.

b. How firm is the Jordanian intention to complete the sale? Is the price they are likely to pay one which can be easily defended in public as a fair one in view of the fact that they are obviously in a very strong bargaining position?

c. Does the fact that Iran has prefunded the production of these tanks give them any basis for a claim against the United Kingdom if we sell the tanks to another customer? The Iranian position as set out in the Defence Secretary's letter of 7th June to the Foreign and Commonwealth Secretary suggests that the answer is no, but you may wish to ask Mr Pym to confirm this.

d. If the Jordanian sale does not go through, what other export markets for these tanks are likely to be found? If none can be found, how can the capability of ROF Leeds be preserved?. How important is the switch of the BAOR order from Newcastle to Leeds in this context, given the employment problem in Newcastle to which Mr Prior has referred?

5. The Foreign and Commonwealth Secretary argues that we could sustain a case for selling tanks to Jordan and refusing to sell to other Arab States and Israel. The Americans will probably welcome a sale to Jordan as a means of maintaining Jordan's links with the West. It should not be difficult to refuse Syria. But given our support for the Egypt/Israel Treaty would it really be easy to deny them the same treatment as Jordan, which has joined the opponents of the Treaty? Surely refusal of a subsequent Israeli or Egyptian request could seriously damage our relations with those countries and we might then be forced to reconsider the decision. In order to forestall this, is there not a case for explaining to both why we are selling to Jordan and why we do not think it appropriate to sell to them? Of course before doing this we should need to be sure of the Jordan contract and determined that no objections from Israel or Egypt would cause us to reconsider it. This may be a difficult line to put across but you may wish to ask the Foreign and Commonwealth Secretary for his views.



CONCLUSIONS

6. Subject to the discussion you might guide the Committee to conclude that:

- i. negotiations for the sale of the 274 tanks and 26 other armoured vehicles to Jordan should go ahead;
- ii. this should not be regarded as a precedent for sales to other Arab countries or Israel;
- iii. the Committee's approval should be sought before any commitment is accepted to supply additional tanks to Jordan;
- iv. the order for Chieftains for BAOR should be placed with ROF Leeds.

If the Foreign and Commonwealth Secretary agrees that there would be advantage in saying something to Egypt and Israel (paragraph 5), the Committee may wish to invite him to proceed accordingly, in consultation with the Defence Secretary.

8th June 1979

CLIVE ROSE

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 702X~~ 218 2111/3

CRS

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MO 26/4/2/1

7th June 1979

Dear Mike,

Thank you for your letter of 4th June, in which you asked for a reply for the Prime Minister to a letter from Mr R C Brown MP and Mr H Cowans MP about Chieftain tanks.

The Army have an approved requirement for 77 new tanks for the War Maintenance Reserve; it was originally intended to place the order, worth some £50m, with Vickers, Elswick, because our principal tank supplier, the Royal Ordnance Factory (ROF) Leeds, was fully occupied with the order for Shir tanks for Iran. The cancellation of the Iranian order led us to stop negotiations with Vickers, because of concern about work loading at the ROFs in the future. The ROF at Leeds is the only factory capable of producing the next main battle tank (MBT 80) on plan and we have to maintain capacity at Leeds at a level which will enable the build-up to MBT 80 to be achieved in a timely and economical fashion. We are therefore looking for other work for the ROF and on 11th June OD is to consider a possible sale of Shir I tanks to Jordan. There are further prospects for Shir production, but these are not yet clear, and so we need to reserve the order for 77 Chieftains for Leeds, in addition to the Jordan order, in the interests of MBT 80. It is of the highest operational importance to produce MBT 80 to plan, and this can only be done by keeping ROF Leeds properly loaded until the new tank comes "on stream" in the 1980s.

/ The ...

Mike Pattison Esq.,
10 Downing Street

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The Prime Minister will have seen from Mr Prior's letter to Mr Pym of 5th June that the regional and operational arguments as to whether the order should be with Vickers or the ROF do not point in the same direction. Mr Prior has therefore suggested that this issue should be discussed at OD when the Jordan order for Shir I is considered. The Defence Secretary has no objection to this.

Mr Pym suggests that until Ministers have considered the Jordan order collectively it would be appropriate for the Prime Minister to send only a holding reply for which I attach a suggested draft.

I am sending copies of this letter and the attachment to Peter Mason (Department of Industry) and John Anderson (Department of Employment) whose Departments have been consulted on the proposal to send this holding reply.

Yours sincerely,

John Gutteridge

(J D GUTTERIDGE)

CONFIDENTIAL

CONFIDENTIAL

Thank you for your letter of 31st May about the order for 77 Chieftain tanks.

2. We are considering the serious consequences of the cancellation by Iran of their large order for tanks and we are not yet in a position to decide where the order to which you refer should be placed. We shall, of course, take fully into account the impact on employment, as well as all the other relevant factors.

I am writing in the same terms to Mr { Brown
Cowan

LONDON

Ref. A09728

MR. CARTLEDGE



Prime Minister

Agree X?
yes sub. by
6/6

Invitees for OD

At its meeting next Monday OD is to consider two items - Defence Sales to China and Tanks for Jordan. The Prime Minister has already agreed that the Secretary of State for Industry should be invited for the first item. There is also a strong industrial interest in the second item, where one of the issues is whether some of the tank manufacture should be done in the public sector in Leeds (Royal Ordnance factory) or by the private sector (Vickers) in the North East. You will also have seen the Secretary of State for Employment's letter of 5th June to the Secretary of State for Defence in which the former is concerned about the employment implications of decisions on whether work on the tanks should be done in Newcastle or Leeds, and has asked if he may attend the OD discussion.

[Vile]

yes X |

I would be grateful if you would let me know if the Prime Minister is content for the Secretary of State for Industry to be invited for both items, and for the Secretary of State for Employment to be invited for Tanks for Jordan.

I should add that although the Prime Minister agreed to the Chief Secretary attending this meeting in place of the Chancellor of the Exchequer in view of the fact that the Budget is on the following day, the Chancellor has said that he wishes to attend himself, and will be so doing.

M.V.

(M.J. Vile)

6th June, 1979

Cabinet Office
informed. by
P.A. 7/6

CONFIDENTIAL



Thank you MS
NJS to see - esp. for
MP's letter below.

MAF

8 ST. JAMES'S SQUARE LONDON SW1Y 4JB
Telephone Direct Line 01-214 6025
Switchboard 01-214 6000

MA
MAF

Rt Hon Francis Pym MC DL MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON SW1

5 June 1979

Francis

ROYAL ORDNANCE FACTORY - LEEDS

I understand that the cancellation of the Iranian order for Shir tanks has caused capacity problems for the ROF at Leeds, and that a programme of voluntary redundancies has already been introduced there. My officials tell me that your Department is considering means of finding new orders for the ROF, including the possible sale to other countries of tanks which were to have gone to Iran. I gather that you may be seeking a discussion in OD on this subject in the near future.

Of course I welcome any means of sustaining the workload at Leeds, but one suggestion that I understand has been mooted does cause me concern. This is the idea that a contract for 77 Chieftain tanks for the BAOR, which it was originally envisaged would be placed with Vickers' Elswick plant at Newcastle, should be diverted to ROF Leeds. (I see from No 10's letter of 4 June to your Private Secretary that 2 Newcastle MPs have written to the Prime Minister about this). I would be unhappy about this proposal on two grounds: first, it would involve transferring work from a Special Development Area with high unemployment to a place where unemployment is below the national average; and secondly, it seems to me to be a questionable principle that public sector facilities should have the first call on available work and private companies be left to bear the brunt of reductions. Of course if it were shown that there were significant savings in cost, or other sound reasons for the transfer, that would be another matter.

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If when you have considered these aspects of the question you still favour the transfer of this contract from Newcastle to Leeds, I hope that you would agree that it merits collective discussions. If such a discussion were to take place in OD, perhaps alongside your proposals about sales of tanks to other countries, I would aim to ask the Prime Minister if I might attend.

I am sending copies of this letter to the Prime Minister, other members of OD, Sir Keith Joseph and Sir John Hunt.

Leeds
T
un



Mr. BROWN
Mr. COWANS

10 DOWNING STREET

Chieftain Tanks

4 June 1979

From the Private Secretary

I enclose a copy of a letter addressed to the Prime Minister by Messrs. Brown and Cowans, two Newcastle MPs, about an order for Chieftain tanks.

The Prime Minister wishes to reply personally, and I would be grateful for a draft by 7 June.

I am sending copies of this letter and enclosure to Peter Mason (Department of Industry) and John Anderson (Department of Employment), whose Departments will need to be consulted.

M. A. PATTERSON

J.D. Gutteridge, Esq.,
Ministry of Defence.



10 DOWNING STREET

From the Private Secretary

1 June 1979

I am writing on behalf of the Prime Minister to thank you for your letter of 31 May, about a tender by Vickers for 77 Chieftain tanks. I will place this before the Prime Minister at the first opportunity.

I am writing in similar terms to Mr. Brown.

M. A. PATTISON

H. Cowans, Esq., M.P.



10 DOWNING STREET

From the Private Secretary

1 June 1979

Thank you for your letter of 31 May, about a tender by Vickers for 77 Chieftain tanks. I will place this before the Prime Minister at the first opportunity.

I am writing in similar terms to Mr. Cowans.

M. A. PATTISON

R.C. Brown, Esq., M.P.

PRIME MINISTER

The attached letter from Messrs R.C. Brown, M.P. and H. Cowans, M.P. bids for the allocation to Vickers of an order for 77 Chieftain tanks.

The argument about this order between Vickers and the Royal Ordnance factory at Leeds is long running. Mr. Brown may have been party to it as a Junior Defence Minister.

Shall I ask the Ministry of Defence to provide a draft reply, after consultation with the Departments of Employment and Industry?

MA

*Yes please
not.*

1 June 1979

FROM: Mr. R. C. Brown, M.P. and Mr. H. Cowans, M.P.



R/C

May 31st, 1979

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
10, Downing Street,
LONDON, S. W. 1.

Dear Prime Minister,

We have today met the Joint Managing Directors of Vickers, on Tyneside, Mr. Noel Davies, Scotswood works and Mr. Peter Crowther, Elswick works. They both expressed serious concern that the tender they submitted for seventy-seven Chieftain tanks to the previous government has not yet met with a response. They are both extremely anxious that Vickers should in fact be awarded this contract since failure to obtain this work will result in an immediate 200-300 redundancies at the Elswick works.

This, coming on top of the closure of Scotswood works with a loss of 750 jobs would be an absolute body blow to Tyneside.

Whilst we appreciate that events in Iran have caused difficulties for the Royal Ordnance factory at Leeds, we are sure you will agree that the employment situation on Tyneside is such that this order really must, in the interests of maintaining existing jobs, be awarded to Vickers.

Whilst it is the long term aim of Vickers management to diversify their products at Elswick following the final closure of Scotswood in September, failure to obtain this contract will deprive them of this opportunity.

We hardly need tell you that unemployment on Tyneside is currently more than twice that of the Leeds area and hope that you will give this matter your immediate and sympathetic consideration.

Yours sincerely,

Handwritten signature of R. C. Brown in blue ink.

R. C. BROWN, M.P.

Handwritten signature of H. Cowans in blue ink.

H. COWANS, M.P.