

MO 26/9/15/1



W. J. H. C. P. C.  
Await FCS reply.

FOREIGN AND COMMONWEALTH SECRETARY

LIBYA - CURRENT DEFENCE SALES BUSINESS

In Cabinet on 3rd May it was agreed that a review should be undertaken of current defence sales business with Libya, with the aim of terminating any contracts which might be of potential benefit to terrorist activity but allowing other business to continue.

2. This review, carried out by our officials in consultation with the FCO and DTI, is now complete. A detailed schedule of eleven defence contracts which are either in progress or under negotiation with Libya is enclosed, with an assessment of the potential benefit to terrorism, the scope for bringing pressure to bear on Libya and the commercial implications of cancellation in each case. The schedule also includes agreed recommendations by our officials.

3. None of the contracts already signed are of potential benefit to terrorism. The only one which might provide a means of exerting pressure on Libya is Marconi's contract to supply Martello surveillance radars for air defence. But these are being supplied to Libya through Yugoslavia and cancellation would do more to upset our political and trading relations with the Yugoslavs than influence the Libyans. Moreover cancellation would allow firms in either France or Italy, who were strong competitors for this contract, to replace Marconi.

4. Against the criteria agreed in Cabinet, there is one item which should clearly not be sent to Libya. This is Item 11, the indoor shooting range, which could be of potential benefit to terrorist training. However no contract has been signed nor has an export



licence been issued. There are therefore no commercial or political implications in withholding a licence for this item.

5. Our officials were prepared to agree that Item 7, Ferranti's equipment for shell muzzle velocity calculations, should be stopped on the grounds that, although an export licence has been issued, no contract has been signed and this could therefore be regarded as new business which might be politically sensitive. I understand that negotiations have been dormant for some time and that a contract now looks unlikely, but I feel that there is little to be gained and much to be lost, in a situation where British subjects are at risk of arbitrary arrest, in withdrawing the export licence at this stage.

6. Our officials were unable to agree on Item 10, Vehicle Radios, where, although Plessey have signed the contract, the Libyans have not yet done so and no export licence has been requested. While it could be argued that this contract represents new business and should therefore be refused, Plessey are concerned that they will be at risk under Libyan law if the Libyans sign and that performance bonds and stage payments on their other business in Libya (civil as well as defence) could also be at risk. Since the equipment is of no benefit to terrorism, I suggest that this contract should be allowed to continue if the Libyans sign, even though no export licence has yet been issued.

7. On the remaining contracts I support the recommendations that they be allowed to continue, with export licences being renewed when necessary for items 2, 5, 6 and 8, unless relations with Libya deteriorate significantly. In this event we would need to review the position again.



8. I would be glad to have your agreement to these proposals and that of my OD colleagues and the Home Secretary, to whom I am copying this minute and enclosures. A copy also goes to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "H. H. H.", written in a cursive style.

Ministry of Defence  
6th June 1984

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SUPPLY OF MARCONI MARTELLO RADARS TO LIBYA VIA YUGOSLAVIA

Summary Contracts for this order worth £87M have been signed and an export licence has been issued. Because of Libyan prevarication Marconi are not yet committed to delivery and ECGD would not be liable if an export licence was revoked. On the other hand our trading relations with Yugoslavia would be badly damaged and the industrial consequences for Marconi would be severe.

Contractual Details

A contract was signed between the Government of Yugoslavia and Libya on 5 June 1983 for the supply of air defence radars and associated communications equipment, this being one element of an agreement made in 1981 between the two countries for the supply of defensive military equipment and services to Libya. In July 1983 Marconi signed a back to back contract with the Yugoslav Federal Directorate of Supply and Procurement (FDSP), the nominal value of which was for £87M comprising £70M radars, £17M communications equipment.

The Marconi/FDSP contract envisages a 15% downpayment, 25% of contract value to be paid after 9 months and the balance on shipment of the equipment. The Yugoslav/Libyan contract was ratified on 17 January 1984, to be effective on 1 February, and the Marconi/FDSP contract was then ratified in turn.

The conditions set out in the contract for it take effect are:-

- a. The Yugoslavs must hold a copy of the UK export licence
- b. The 15% downpayment must be made to Marconi
- c. A letter of credit must be opened by 1st March 1984

Although a UK export licence has been issued, the Libyans are not satisfied with some aspects of the Yugoslav Letter of Guarantee and have not yet made the 15% downpayment or opened the letter of credit. Thus although both the Marconi/Yugoslav and Yugoslav/Libyan

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contracts have been signed there is no commitment to delivery.

ECGD Position

The ECGD has provided Marconi with a letter of intent covering the conditions for credit cover. A final exchange of letters between the company and ECGD has been held up pending Libya's opening of the letter of credit. Thus the ECGD has yet to enter into a commitment and would therefore not be affected by a revocation of the export licence issued to Marconi.

Marconi Position

Because of Libya's failure to meet the contractual conditions Marconi would not be financially at risk if their contract with the FDSP were to be revoked. However, the knock-on effects would be considerable:-

- a. Industrially. The total Marconi employment expected from this contract over the next 4½ years amounts to some 1100. Similar numbers are expected to be engaged in sub-contractual work. Failure to implement this contract would result in the closure of Marconi's factory in either Gateshead or Leicester with some 500 redundancies. Loss of jobs could also be expected amongst sub-contractors.
  
- b. Future Trade with Yugoslavia (Excluding Marconi Avionics)  
Apart from the contract under discussion Marconi has further outstanding enquiries from Yugoslavia for equipments valued at some £400M. These include tropospheric scatter communication equipment and low-looking radars. Some are intended for Yugoslav use and others for onward sale to 3rd countries. Revocation of the contract with the FDSP would put this potential work at risk, particularly since French and Italian companies would undoubtedly exploit the opportunity created by Marconi's enforced withdrawal from the deal with Libya - both Selenia and Thomson - CSF have equipments which could replace the Marconi equipment.

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- c. Future Trade with Libya. Marconi currently have enquiries from Libya amounting to £140M for civil projects and £100M for defence equipment. Although we will not be approving further defence orders all the civil work would be at risk by a revocation of the contract with the Yugoslav FDSP.

Anglo-Yugoslav Defence Relations

The accord between Libya and Yugoslavia is regarded as very important by the latter, not least because of the contribution it would make to the currently ailing Yugoslav economy. If HMG were to be seen to be undermining this agreement - worth some £1000M in total - a bitter reaction from Yugoslavia could be anticipated. The Yugoslavs have already committed significant resources to this project and although there is no legal liability, it is not beyond the bounds of possibility that they would seek some compensation.

Over the past 10 years or so Yugoslavia has been a useful, if not large, market for UK defence equipment (£20M pa) and UK companies are generally well regarded. In addition to the various projects being progressed by Marconi, other British companies have made a significant commitment to Yugoslavia, in particular British Aerospace and Rolls Royce are seeking to collaborate with the Yugoslav Air Force in the design, development and production of the YAF's new fighter aircraft. They face French competition in this potentially lucrative collaboration.

Revocation of Marconi's contract with the Yugoslav FDSP as a means of showing displeasure with Libya would cast doubt in Yugoslav eyes, on the reliability of the UK as a supplier of defence equipment and could effectively close this otherwise useful market.

## LIBYA - CURRENT DEFENCE SALES BUSINESS

Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
1. July 83	Broadcasting Communication Equipment (Racal Comms)	£9M	£0.75M of spares	None	None	All equipment delivered and paid for except £750K of spares (of which £500K stock items easily sold elsewhere). Racal have performance bond of £300K and advance payment bank guarantee of £2.25M. Both would be at risk and neither is covered by ECGD.	Allow contract to be completed.
2. July 83	'RAMPART' Passive Defence Equipment (Wallop Industries)	£ 3.8M	Option for further £1M of equipment until July 84	None	None	Equipment delivered and paid for. But Wallop have binding contractual agreement allowing Libyans option on further £1M of equipment until July. Option covered by ECGD. Performance bond of £400K and coverage by ECGD will expire in December 84.	Issue further export licences if Libyans take up option before end July.
3. July 83	Ground Mobile '405' Jammers. (Plessey Radar)	£1.7M	None	None	None	Contract completed and paid for but provides for a warranty until August 1985 keeping 2 Plessey engineers in Libya. Performance bond of £760K covered by ECGD expires July 1984.	Allow company to honour their warranty.
4. August 83	'Manpack 320' Radio Equipment (Plessey)	£11M	£3M	Infantry System too bulky for use by terrorists	None	Deliveries of £3M to be completed by July 84. Contract and £1.1M performance bond covered by ECGD. Warranty continues until July 85. Resident engineer in Libya.	Allow contract to be completed and warranty to be honoured.
5. November 83	Spares for Saladin Armoured Cars (Alvis/USH)	£8.1M	£8.1M	None	Possible	Contract signed September 83 and export licence issued but letter of credit delayed and deliveries still to commence. No ECGD liability but performance bond of £800K insured commercially. £8M order is high proportion of Alvis' annual turnover of £50M and urgently needed to fill gap in production line. Possible redundancies if licence revoked.	No direct assistance to terrorism. Severe industrial consequences if licence revoked.  Issue further export licences to enable deliveries to be completed.

No.	Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
6.	February 84	'Martello' Surveillance Radar and associated equipment (Marconi)	£93M	£93M	None	Strong competition from France and Italy so Libya could turn elsewhere. Cancellation would do more to offend Yugoslavia than apply pressure.	See separate brief enclosed. No ECGD capability yet but cancellation would have severe industrial consequences and damage our relations with Yugoslavia.	Allow contract to continue, renewing licences if required.
7.	September 83	Electronic equipment for shell muzzle velocity calculations (Ferranti)	£9.8M	No Contract Signed	None	Very little	No contract yet signed, there is no financial risk to the company.	Revoke export licence since this equipment would improve offensive capability of Libyan Armed Forces and represents new business, No industrial penalty.
8.	Licence expired March 84 Revalidation sought 9 March 84	Spares for Tank Transporters (Scammell)	£3.5M	£3.1M	None	Possible	Contract signed January 83 and export licence, issued March 83, now expired. Libyan letter of credit delayed until August 83 and deliveries delayed in consequence.  Only £350K of spares delivered so far. Company applied for revalidation of export licence but was held up as a result of bombings in UK on 10/11 March.  Company have £600K of spares awaiting delivery, performance bond of £350K (not covered by ECGD since no licence at present) and £1M of commitments to suppliers. Serious industrial consequences if licence not renewed.	Renew export licence in view of serious industrial consequences to company and lack of any direct relevance to terrorism.
9.	July 83	'Owl' Radar Display Units (Plessey)	£3.3M	£0.26M	None	None	Contract signed 1981 for 6 stations. 1 completed and paid for. 4 more completed. Total payments of £213K outstanding. Contract completion date November 84. Performance bond of £326K covered by ECGD.	Allow contract to continue, renewing licences if required.
10.	No application yet made	Vehicle Radios (Plessey)	£2.7M	£2.7M	None	None	Contract signed by company and with Libyans for signature. If Libyans sign, company could be liable to penalty payments of 10% under Libyan law. Libyans could also retain performance bonds or final payments on other Plessey business totalling some £3M.	Ministers to consider whether contract should continue if Libyans sign.



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No.	Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
11.	No licence yet applied for.	Indoor Shooting Range (Visual Training Systems)	£16.7M	£16.7M	This facility could be of assistance in training terrorists.	None	No contract yet signed and hence no financial liability.	Withhold export licence

Defence Pt 4  
Sales



FCS/84/177

SECRETARY OF STATE FOR DEFENCE

Libya: Current Defence Sales Business

1. I agree with most of the points in your minute of 6 June on current defence sales business with Libya.
  
2. Specifically, I share your views about the Marconi contract for Martello surveillance radars (item 6). I agree that the licence for an indoor shooting range (item 11) should be withheld. I also agree, with reluctance, that although the Libyans have not yet signed a contract we should if necessary allow Plessey to go ahead with their contract for the supply of vehicle radios (item 10), in view of the potential damage to the company's other business interests in Libya if a licence were to be withheld. I am even less happy about the supply of Saladin spares (item 5). We could be open to criticism for allowing the supply of spares which enhance Libya's offensive capability. But in view of the importance of the contract to Alvis, and the need not to damage our reputation as reliable suppliers, I am willing to agree that supplies could go ahead.
  
3. I do not, however, agree that Ferranti's licence for the supply of equipment for shell muzzle velocity calculations (item 7) should stand. Here too we could be exposed to criticism for licensing equipment which would improve the offensive capability of the Libyan Armed Forces. I am not persuaded that revocation of the export licence would increase the risks to the British community in Libya. The negotiations have been dormant for some time and a contract now looks unlikely. I very much doubt either that the Libyans expect this to go ahead or that they would react badly to its cancellation. Presumably

/all



Presumably all we need do is tell Ferranti, who have no need to inform the Libyans. On the contrary, if we do allow Ferranti to proceed to sign a contract, we risk encouraging the Libyans to think wrongly that we are willing to resume business as usual in the defence field. Such a misunderstanding could increase our difficulties with Libya.

4. I see no difficulty with the other recommendations made by officials.

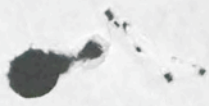
5. Provided you and others can accept the revised line over item 7 spelled out in my paragraph 3 above, I believe we can regard this exercise as complete.

6. I am copying this minute to the Prime Minister, to our other colleagues on OD, and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
15 June 1984

Defence : Sales Pt 4



15 JUN 1984

HOUSE OF LORDS,  
SW1A 0PW

13 June 1984

My dear Michael:

Libya - Current Defence Sales Business

Thank you for copying to me your minute to Geoffrey Howe of 6th June.

I believe we should act, and be seen to act on principle. My first principle is that it is wrong to put lethal weapons in the hands of criminal lunatics. It follows that we should sell no further arms to Libya at all. My second principle is that where a contract has been concluded in good faith, it should be carried out. Even with the Libyans we should abide by our agreements, even if they do not.

Applying these principles, there are two items listed in the Schedule to your minute on which my conclusions might differ from yours. The first is Item 6, the Martello Surveillance Radar. I appreciate that in this case contracts have been concluded, but the Libyans are in breach of the conditions which must be satisfied for it to take effect. I appreciate too the very serious consequences which would flow from cancellation: redundancies, adverse affect on our trade with Yugoslavia, and adverse effect on Marconi's potential civil projects. Moreover, I would not suggest that this contract should be revoked if the only result would be for a French or Italian company to take Marconi's place. But I do feel that, particularly so soon

/after

The Right Honourable  
Michael Heseltine MP  
Secretary of State for Defence

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after this subject was discussed at the Summit, the very least we can do to avoid arms sales of this type to Libya is to approach the French and Italian Governments and attempt to obtain from them undertakings that, if we revoked the contract and French or Italian firms were approached instead, France and Italy would both refuse export licences. If however either France or Italy refuses to give such an undertaking, I would agree that you have no alternative but to allow the contract to continue.

The other item on which I <sup>might</sup> ~~would~~ differ is Item 7, the supply by Ferranti of electronic equipment for shell muzzle velocity calculations. No contract has been signed. There is no financial risk to the company, and the equipment would improve the offensive capability of the Libyan Armed Forces. Officials have therefore recommended that the export licence should be revoked. You say you feel there is little to be gained and much to be lost in withdrawing the export licence at this stage. But the reason you give is that British subjects are at risk of arbitrary arrest.

I do not see why the revocation of this particular export licence would cause more offence to the Libyans, and hence put British subjects at greater risk, than any other action we might see fit to take. But even if you are right, I would have thought that the appropriate action to take would be, not to withdraw the export licence at this stage, but for your officials to approach Ferranti and say that they should not resume these negotiations, because if they do attempt to conclude a contract the export licence will be revoked. If no contract is concluded, the Libyans will never know that you were intending to take action which might have caused them offence. It would only be if they resumed

/negotiations

negotiations that you would be obliged to disclose your intention to withdraw the export licence.

Subject to my points on these two items, I agree with your proposals.

I am copying this letter to Geoffrey Howe and other members of OD Committee, to Leon Brittan and to Sir Robert Armstrong.

Yrs:

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.



Defence Sales Pt 4



15 JUN 1984

*apc*



Chancellor of the Duchy of Lancaster

*Await FCS reply.*

SECRETARY OF STATE FOR DEFENCE

*ML 11/6.*

LIBYA - CURRENT DEFENCE SALES BUSINESS

The only comment I have to make on your minute of 6 June to the Foreign Secretary is that presumably the potential contractors for item 11 (paragraph 4) and item 7 (paragraph 5) should be warned off to prevent them signing a contract and thus precipitating us in the difficulties we now face on item 10 (paragraph 6).

I am copying this to the other recipients of your minute.

*11 JUN 1984*

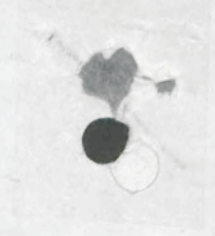


*A.C.*

A C

11 June 1984

Defence : Sales Pt 4.



W 1 JUN 1984

