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From: James Harrison, Assistant Private Secretary

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MINISTRY OF DEFENCE  
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Minister of State  
for Defence Procurement  
D/MIN/AB/6/3

Prime Minister  
Agreed that this contract  
can go ahead, in view  
12th November 1984  
of Sir Ray Lygo's advice?

Dear Mr Powell,

CDP

13 XI

Yes MS

OVERHAUL CONTRACT FOR PHANTOM ENGINES

Thank you for your letter of 29th October, in which you notified me that the Prime Minister wished the award of the Phantom maintenance contract to Greece to be suspended until the fate of the Tornado contract with Turkey was known.

I understand that the Cabinet decided on 1st November that the proposal to commit credit liability of £228M to the sale of Tornado aircraft to Turkey should not be accepted. I have also spoken to British Aerospace about the Phantom contract. They were already aware of the situation, and I understand that the views of Sir Raymond Lygo are that: the award of the Phantom contract to the Greek firm, HAI, is both justifiable and explicable; that it would not affect their prospective sales of equipment to Turkey; and that, on the contrary, it could assist them with prospective business in Greece.

In view of the above circumstances, and the operational urgency for the award of the Phantom contract, which I explained in my previous letter, Mr Butler would be grateful for the Prime Minister's agreement that the award of this contract should now proceed.

I understand that the British Ambassador in Athens is anxious that we should award this contract as soon as possible; the Greek firm has already incurred significant expense in preparing for this contract, and the Ambassador believes that, if the decision is further delayed, the United Kingdom will fail to capitalise on the goodwill which would otherwise accrue.

Yours,

James Harrison

C D Powell Esq  
10 Downing Street

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Minister of Defence  
The Defence Procurement Agency

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10 DOWNING STREET

*From the Private Secretary*

14 November 1984

Overhaul Contract for Phantom Engines

Thank you for your letter of 12 November conveying the Minister of State for Defence Procurement's advice that the award of the overhaul contract for Phantom engines to the Greek firm HAI should now proceed.

The Prime Minister agrees to this.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and Bryan Cartledge (Cabinet Office).

C D Powell

James Harrison, Esq.,  
Ministry of Defence

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Minister of State  
for Defence Procurement

D/MIN/AB/6/3

26th October 1984

Prime Minister  
Agree award of  
UK contract to  
Greece?

C.D.P. 26/10.

Dear David,

Mr Butler attended a meeting of OD on Monday 22nd October, at which credit arrangements for the sale of Tornado aircraft to Turkey were discussed. Mr Butler also mentioned at the meeting the imminent award of a small contract to Greece for the overhaul of RAF Phantom F4J J79 engines. Some disquiet was expressed that the contract was not being awarded to a British firm, and Mr Butler has asked me to set out the reasons for this decision.

In Cmnd 8758 (the Falklands Campaign - The Lessons) the Government announced its intention to purchase additional Phantom aircraft from the USN to replace UK air defence Phantoms committed to the South Atlantic. Approval was given in March 1983 to the purchase of 15 F4J Phantom aircraft together with a support package at a total estimated project cost of £125M. Six aircraft have now been delivered to the RAF and the balance of aircraft deliveries is due to be completed by the end of this year.

The General Electric J79-10B propulsion unit for the Phantom F4J(UK) will require access to an industrial overhaul and repair facility and the MOD has sought competitive tenders from both UK and overseas contractors for this work. In the event only three companies responded to the invitation to tender. These were Hellenic Aerospace Industries (HAI) of Greece, Motoren Turbinen Union (MTU), West Germany and Fiat, Italy, all of whom have existing facilities for the overhaul of this type of engine. The business involved is small (£6.25M over five years) and unattractive to Rolls-Royce (and to British Aerospace) who would have had to set up new facilities for a very small turnover. (The existing UK Phantoms are all equipped with Rolls Royce Spey engines). Unfortunately, therefore, there was no British contender for the contract.

/ The ...

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The MOD's assessment is that HAI are the winners of the competition, as they offer the lowest estimated expenditure over the five year duration of the contract, a quicker turn round time on engine overhaul (60 days in comparison with 100 days offered by the competition) and are the only contender whose proposal covers the procurement of spares through the United States Government Foreign Military Sales System which offers pricing safeguards not available by the alternative of direct ordering on the US manufacturer.

Mr Butler was concerned lest the award of the J79 overhaul contract prejudice the current effort to sell Tornado to Turkey. The British Embassy in Ankara is not unexpectedly worried about this business going to Greece, when it is seen as just the sort of work we ought to try to put Turkey's way as a counter to the large defence contracts (Rapier as well as Tornado) we are seeking from her. However, the advice of General Electric (the J79 manufacturer) is that Turkey could not be recommended for consideration because the engine overhaul capability for engines in their own F4s was not wholly satisfactory. Improvements are being made but even so there does not seem to be any practical possibility of diverting this work to Turkey on a satisfactory technical basis or of Turkey meeting the timescales involved.

There are strong operational arguments for placing the overhaul contract as quickly as possible. Any further delay in placing this contract for engine repair would risk the flying programme being seriously disturbed, with a consequent effect on the operational capability of the Royal Air Force.

If the Prime Minister is content, the Minister proposes to authorise the release of the contract to HAI. British Aerospace are already aware of the proposal, and Mr Butler intends to notify Sir Raymond Lygo when the decision is made.

Yours,

*James Harrison*

*I think we should  
await the decision on  
Tornado first  
ml*