

SPC



Chancellor of the Duchy of Lancaster

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16 December 1986

Ian C F Andrews Esq
Private Secretary to the
Secretary of State for
Defence
Ministry of Defence
Main Building
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CDD
17/ki

Dear Ian,

ALARM

Thank you for your letter of 9 December. The Chancellor of the Duchy has also seen Timothy Walker's letter of 10 December to John Howe.

The Chancellor shares the concern of the Secretary of State for Trade and Industry that BAe should not suffer as a consequence of problems largely not of their making. Similarly, the Chancellor would wish careful consideration to be given to the industrial implications of any decision on the future of the ALARM contract.

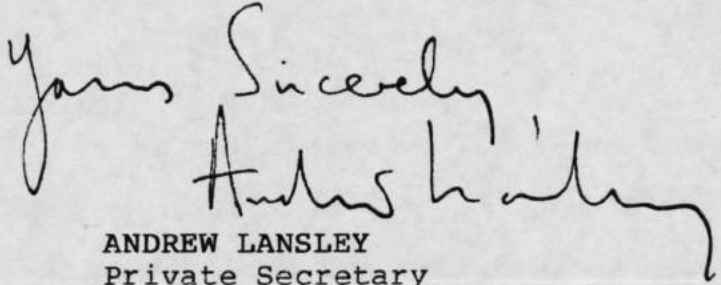
The possibility of a BAe bid for RO has further complicated matters. While the Chancellor accepts the need for the cost to public funds of any settlement to be kept to a minimum, it is arguably unreasonable to insist on a prior acceptance by BAe of an arrangement to limit MOD's liability on a timescale of MOD's choosing, and to penalise BAe in the bid for RO on account of their legitimate pursuit of a claim.

The Chancellor would like to know whether, in these unusual circumstances, your Secretary of State would consider remitting the question of a claim arising from the difficulties with the rocket motor to an independent arbitrator, with guarantees of full disclosure of necessary information from all parties.

The negotiation of a new revised fixed price contract, with BAe accepting all further risk, would remain, but would not necessarily

be prejudiced if RO were in BAe's ownership. Indeed, MOD's position as customer might even be simplified.

I am sending a copy of this letter to the private secretaries to members of OD, the Chief Secretary and to Sir Robert Armstrong.

Yours Sincerely,


ANDREW LANSLEY
Private Secretary

DEFENCE: Procurement: A4

