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Mr Powell No 10 DS
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SECRET UK EYES ALPHA
FM WASHINGTON

TO IMMEDIATE FCO
TELNO 2712
OF 271850Z SEPTEMBER 85
AND TO MODUK (FOR PRIVATE SECRETARY AND HEAD OF DEFENCE
EXPORT SERVICES)

INFO PRIORITY OTTAWA (FOR PRIVATE SECRETARY)
MY TELNO 2689: MSE

1. THE CURRENT EXPECTATION HERE IS THAT THERE WILL NOW BE NO MSE ANNOUNCEMENT BEFORE 4 OCTOBER.
2. THE QUESTIONS PUT TO THE ARMY AT TAFT'S MEETING ON 23 SEPTEMBER APPEAR TO HAVE BEEN SUBSTANTIVE, RATHER THAN MERELY PRESENTATIONAL. THIS WAS A SETBACK FOR GTE (WHO EXPECTED THAT A WIN FOR RITA WOULD BE ANNOUNCED ON 25 SEPTEMBER, AND HAD SET UP CELEBRATIONS). BUT THE ARMY'S ANSWERS TO TAFT, DUE TO REACH HIM TODAY, ARE RUMOURED TO REFLECT NO CHANGE OF HEART, AND THEREFORE STILL TO FAVOUR RITA.
3. SOME OF OUR US INTERLOCUTORS HAVE ARGUED THAT A SECOND ROUND OF BEST AND FINAL OFFERS WOULD NOT BE FEASIBLE SINCE BOTH US PRIME CONTRACTORS FACE CHARGES OF MALFEASANCE. ROCKWELL HAVE IN FACT NOW SETTLED OUT OF COURT IN THEIR CASE, CONCEDED RESPONSIBILITY FOR OVER-CHARGING (OF SOME DOLLARS 0.2 MILLION) ON A PREVIOUS ORDER, RATHER THAN RISKING SUSPENSION BY GOING TO COURT. THE CHARGES TO WHICH GTE PLED GUILTY ARE OF COURSE MUCH MORE SERIOUS. ROCKWELL'S SETTLEMENT WILL NOT BE ANNOUNCED BEFORE 27 OCTOBER. HDES HAS MORE DETAILS ON THESE CASES.
4. ALTHOUGH THE WHITE HOUSE/NSC WILL NO DOUBT CONTINUE TO TRY TO DISTANCE THE PRESIDENT FROM THE MSE DECISION, AND MAINTAIN THAT THE RESPONSIBILITY IS WEINBERGER'S ALONE, MCFARLANE, AND TO A LESSER EXTENT, REGAN, ARE IN PRACTICE INVOLVED. STEPS HAVE BEEN TAKEN TO BRIEF REGAN. THE PRIME MINISTER'S MEETING WITH MCFARLANE TOMORROW PROVIDES THE IDEAL OPPORTUNITY TO KEEP UP OUR PRESSURE ON MCFARLANE.
5. MY ADVICE IS STILL THAT THE PRIME MINISTER SHOULD SAY THAT IF PTARMIGAN CANNOT BE SELECTED STRAIGHT AWAY, THE BEST AND FAIREST COURSE WOULD PRESUMABLY BE FOR THE COMPETITION TO BE POSTPONED, RE-BID AND RE-EVALUATED, ON A BASIS OF PROPER COMPARABILITY.
6. PLEASE PASS ADVANCE COPIES TO POWELL, NO 10 AND MOTTRAM, MOD.

WRIGHT