PREM 19/691

Part 1

CONFIDENTIAL FILING

REPLACEMENT OF RAF COMMUNICATIONS AIRCRAFT (JETSTREAM)

THE PURCHASE OF TWO NEW BAC 1-11s FOR THE QUEEN'S FLIGHT.

DEFENCE.

NOVEMBER 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~21.10.82~~							
~~22.11.82~~							
~~9.12.82~~							
24.11.82							
-Part Ends-							

PREM 19/691

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(80) 7th Meeting, Minute 1	27.3.80
E(EA)(80) 29	16.6.80
E(EA)(80) 12th Meeting, Minute 2	19.6.80

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 OWayland Date 27 August 2013

PREM Records Team

The National Archives

LETTERCODE/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Butler to Evans dated 24 November 1982	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	OWayland 27 August 2013
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Butler to Evans dated 22 November 1982	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 C Wayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
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NUMBER NOT USED	

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Manuscript note to Prime Minister from Butler dated 22 November 1982	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 CWayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter to Butler dated 19 November 1982	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 C Wayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Butler dated 16 November 1982	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 C Wayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Evans to Butler dated 12 November 1982, with enclosed draft letter	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 CWayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
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cc Queen · Audiences: Pl

CONFIDENTIAL

Defence

MR BUTLER

Mr. Flesher
Pl. note x|
FCO 14.10.

RAF Transport Aircraft

The Prime Minister discussed the attached minute (— S/S MOD to PM of 8/10) with the Secretary of State for Defence this afternoon.

Mrs Thatcher expressed the view that the proposal to buy two 146 aircraft for use initially by the RAF Communications Squadron, and to swap them later for the executive model for use by senior members of the Royal Family and the Government was sensible.

Mr Nott said that he hoped the fact that £15m would be spent on these two aircraft this year would not be turned against him by critics with the argument that the money should be spent on items of more military relevance. The Prime Minister said that she doubted if that argument would be mounted. There was a clear need for better short haul aircraft for the Royal Family.

It was agreed that there would need to be a carefully concerted public line about the purchase.

Passages deleted and closed, 40 years, under FOI Exemption.
CWayland
27 August 2013

A. J. C.

14 October 1982

CONFIDENTIAL

1) Mr. Duffy to see
2) Prime Minister
Agree to have a private word with the Defence Secretary?

Yes

A.J.C. 8/10

MO 35/5

PRIME MINISTER

RAF TRANSPORT AIRCRAFT

We have discussed on a number of occasions the problem of providing suitable aircraft for use by senior members of the Royal Family and by yourself and other senior Ministers. The burden of short haul trips, particularly in Europe, with a team of officials, is increasing - and time is an expensive commodity.

2. As you will recall, in searching for a possible replacement for the Andover, we have been trying to find an aircraft of British manufacture which has accumulated several years of safe operation and which meets a number of other criteria in terms of range, take-off from short runways, compliance with noise regulations at civil airports and so on. There are three possible contenders which meet some of these requirements: the BAe 111, the HS 125 and the BAe 146. The 111 does not meet noise requirements at civil airports and is now such old technology that it is hardly suited to a "prestige" task. The HS 125 is, of course, already in service and used for a number of "VIP" journeys but it lacks the capacity for longer hauls with larger numbers of people. This leaves the 146 as the only serious contender. The present versions are rather large and lack range but a future executive version is projected with a configuration and fuel capacity much closer to our requirements. What the 146 lacks is "proving time" of safe operation of the sort that we require before we would allow the aircraft to be used by the Royal Family.

3. I understand that there are two 146 (100 series) aircraft currently available for purchase for around £15M for the two. We might buy these two aircraft as additional assets for the

RAF communications squadron, prove them in RAF operation, and then at a later date swop them for the executive model which could then be made available, if required, for use by senior members of the Royal Family. The purchase would not be for the Queen's flight as such - as I have doubts whether we should continue the Queen's flight in the medium term - but we would explain that the 146 has been bought by us for potential use by The Queen in due course. I need not add how very greatly such an RAF purchase would add to the international sales prospects for the BAe 146.

4. This is a highly sensitive subject for all sorts of reasons and, if you thought it was an option worth pursuing, we should need of course to take soundings of the Royal Family. I am also concerned that my willingness to contemplate buying these aircraft should not be misrepresented in the context of our current discussions on defence expenditure. Before making any formal proposition, I should, therefore, welcome a private word with you.

SW

Ministry of Defence
8th October 1982

Defence Duty
Check to note
PT.

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

SECRETARY OF STATE

MO 35/5

21st October 1982

Mr. Fletcher
Pl. arrange for it to BFd accordingly.
FERB 21.10

Mr. Butler
This would be worth taking to the next Audience.
A.J.C. 21/10.

Dear J Shan,

Last Thursday my Secretary of State discussed with the Prime Minister the possibility of the MOD purchasing 2 BAe 146 aircraft as additional assets for the RAF Communication Squadron with the option, at a later date, of swapping them for the executive model which could then be made available for use by the Royal Family. During the discussion Mr Nott said that he would let the Prime Minister have further details of the aircraft and I now enclose a brochure which gives full details of the BAe 146.

Yours ever

Nick Evans

(N H R EVANS)

A J Coles Esq

CONFIDENTIAL

Defence: Purchasing 2 BAC's 1-11's
11/79

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

11 October, 1982

RAF Transport Aircraft

The Prime Minister has seen Mr. Nott's minute of 8 October about the problem of providing suitable aircraft for use by senior members of the Royal Family and by the Prime Minister and other senior Ministers. Mrs. Thatcher would be glad to have a private word with your Secretary of State about this matter. We will make arrangements separately for an early meeting.

A.J.C.

16.40 on Thursday 14 Oct. CL.

Richard Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL

MAP

✓MAD

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 19/1

20th January 1981

Dear George,

RAF COMMUNICATIONS AIRCRAFT: JETSTREAM 31

Thank you for your letter of 14th January. I understand your disappointment at the loss of work for British Aerospace's Prestwick factory. We can only hope that the Jetstream 31 has a firmly based commercial future irrespective of any RAF order. My officials will be meeting the Chairman of BAe's Aircraft Group to explain our position.

My Statement to the House today made it clear that we have taken our decision on this (together with many decisions) in response to budgetary pressures. I can also say that we have no provision in our forward budgets over the next three years for expenditure on any replacement for the Devons and Pembrokes whether an interim solution or otherwise There is just no money to spare.

I would rather not give any commitment at this stage about what might happen in three years time. So many things could have changed; but clearly we would look favourably on any British contender and give it what support we could.

The Rt Hon George Younger TD MP

Finally, you mentioned the question of possible refurbishment of the RAF's Devon and Pembroke aircraft. We have no plans for this at the moment though of course we will be giving some consideration to it. If we did decide to undertake some refurbishment we would aim to place the work with British Aerospace; it would then be for the company to decide where the work should be carried out.

I am copying this letter to the Prime Minister, to members of E(EA) and to Sir Robert Armstrong.

Yours ever

John.

John Nott

IND
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SO
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TRADE
ENG
CSO
NIO
CO

FH

Defence

10 DOWNING STREET

From the Private Secretary

16 January 1981

Thank you for your letter of 15 January, confirming that the Secretary of State for Defence endorsed the recommendation about RAF communications aircraft set out in his predecessor's minute of 5 January.

The Prime Minister has also seen Mr. Tebbit's minute of 15 January and a copy of the Secretary of State for Scotland's minute to your Secretary of State of 14 January.

She has agreed that your Secretary of State should now inform British Aerospace of the decision to postpone action on replacement of the present RAF communications aircraft, thus leaving the company to decide on the future of the Jetstream 31 project as a commercial proposition.

I am sending a copy of this letter to the Private Secretaries to members of E(EA) and to Mike Hopkins (Northern Ireland Office) and David Wright (Cabinet Office).

M. A. PATTISON

J.D.S. Dawson, Esq.,
Ministry of Defence.

FH

PRIME MINISTER

Mr. Pym (Flag A) sought agreement to the indefinite postponement of the replacement of RAF communications aircraft. You asked that Mr. Nott should have a chance to consider the papers, although you did not expect a different conclusion.

Mr. Nott's letter below confirms the recommendation. Mr. Tebbit argues (Flag B) that there should be some understanding that Jetstream will be front-runner if BAe go ahead now on a commercial basis, and it is available as an option when MOD return to the subject. Mr. Younger (Flag C) asks for a more specific guarantee that Jetstream will be given priority if it still exists when a decision is taken, and that there will be no attempt to seek an interim solution before 1984/85.

Agree the decision not to go ahead at present? Yes

Do you wish to make any comment on Mr. Younger's request about the position of Jetstream for the future? No.

MAP

15 January 1981

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 26/11/17

15th January 1981

Dear Mike,

Thank you for your letter of 9th January. Mr Nott has now had an opportunity to look at the papers concerning the question of a replacement for the Devons and Pembrokes of the RAF communications fleet. Mr Nott has asked me to tell you that he confirms Mr Pym's recommendation.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours sincerely

(J D S DAWSON)
Private Secretary

M A Pattison Esq
10 Downing Street

Await further MoD minute
MAP

PRIME MINISTER

JETSTREAM 31 AND THE REPLACEMENT OF RAF COMMUNICATIONS AIRCRAFT

I have seen a copy of Francis Pym's minute of 5 January to you recording his view that a decision to replace the existing communications fleet should be deferred for at least three years.

2 While I am sorry that an early purchase of Jetstream 31 for this purpose is unlikely I can well understand why the Ministry of Defence give priority to projects which have a front line role. Moreover, I do not regard the Jetstream 31 as a particularly crucial project to the future of British Aerospace. While I am anxious that industrial considerations should be given full weight in the difficult choices which the Ministry of Defence have to make, there are other projects, such as the Sea Eagle missile, to which I would ascribe much greater industrial significance. I do not consider, therefore, that I can disagree with the recommendation on Jetstream.

3 While this decision will of course be a disappointment to British Aerospace, it will not be a surprise. They have been undertaking a full market and project appraisal of the Jetstream and I expect that the Board will reach a decision on the future of the project this month on the assumption that an early MOD order will not be forthcoming. The results of BAe's appraisal are not yet available.

4 BAe were not obliged to seek the Government's approval as costs were estimated to be below the £25m limit applying to projects requiring approval. The Department of Industry has not therefore been involved in detailed financial appraisals of the project and I cannot comment formally on the likely financial success of the project, although I have seen nothing which would lead me to disagree with the Chairman's own judgement earlier this summer that financially the project was marginal.

5 Department of Industry officials have, however, carried out a market survey to estimate the sales prospects of the aircraft, a copy of which is enclosed. Copies of this have already been circulated to officials in the Scottish Office, the Department of Employment and MOD. The survey indicates that there is a large and continuing market for aircraft of the Jetstream general type up to 1990 and probably beyond. While there will be considerable competition in this market, if Jetstream is brought on to the market as soon as possible and relative prices are maintained at current comparative levels, estimated sales would amount to about 300 aircraft over a 10-year period. This compares with BAe's earlier estimates of about 200 aircraft over a similar period. On the Department's estimates BAe could sustain a higher production rate than they last indicated. The Board's own latest estimates, based on discussions with prospective customers, may be different.

6 When the MOD come to reconsider their choice of communications aircraft, they will have to do so on the merits of the aircraft then available. I hope, however, that, if the Jetstream project does go ahead on a commercial basis and is available as an option at that time, the MOD will keep in mind the conclusions which we reached earlier and that purchase of a foreign competitor aircraft would not be recommended.

7 I am sending copies of this minute to the members of E(EA), to the Secretary of State for Northern Ireland and to Sir Robert Armstrong.

NT

NT

Department of Industry

15 January 1981

CONFIDENTIAL

Mr Pryor

(Julie - please return this copy if you already have one.) Vera

AE/326/088

JETSTREAM 31 1980 MARKET FORECAST

1 Introduction

The previous market forecast produced by Air 3 (then Air 4a) was published in February 1979 and since that time BAe have been slowly developing the aircraft without firmly commiting themselves to a go-ahead for the programme and until recently, without actively canvassing orders. The prototype, a converted Jetstream 200, flew on 28 March 1980 and the present timescale calls for a C of A by Spring 1982 with deliveries following shortly thereafter (7 in 1982). A recent evaluation of various turbo-prop aircraft by the MOD for replacement of the Devons and Pembrokes in service with the RAFconcluded that the Jetstream would meet most of the requirements and was the best engineered aircraft but because of the Jetstream's relatively high price, the Beech King Air 200 would be the best choice. The MOD were prevented from making an order for the King Air by the direct intervention of the Prime Minister who called for a further evaluation, of which this exercise is part.

The usual complete market forecasting exercise has been undertaken in so far as all parts of required data inputs have been covered but lack of time and staff has meant considerable lack of refinement and a failure to provide tolerance estimates at this stage. A simplistic approach has been adopted in all the forecasts and in the penetration estimates with the assumptions that growth rates will maintain historical trends and that today's occupants of the marketplace will continue throughout the forecast period (1981-1990 inclusive) unaltered. What this last assumption means in effect is that all the changes made to the Jetstream 31 and to its competitors in the future will not alter the relative market penetrations.

2 The Potential Markets

The Jetstream is a suitable vehicle for both airline and corporate use and we have looked at both market segments therefore. Previously we concluded that the aircraft suited the airline market slightly better than the corporate market but that the latter was the best bet because it was larger. Our current estimates confirm the suitability of the Jetstream as an airliner but that the corporate market will not now be its best area as the trend here towards smaller turboprops has exceeded our previous expectations. BAe have always maintained a concentration on the airline market.

2.1 The Corporate Potential Market

This market segment has been maintaining a strong growth, particularly amongst the turboprop and business jet aircraft. We forecast a continuing strong growth of 9.5% on average, per annum in North America and 10.3% on average in the rest of the world from 1981 to 1990 inclusive. However, we found in 1978 that the Jetstream class comprised about 45% of the fleet whereas now it is only some 38%. We have taken the (probably) pessimistic view that this trend will continue and that by 1990 it will be down to around 32%. It is fairly certain that turboprops will encroach further down the aircraft size spectrum as time goes on but of course, it would be expected that this would be by encroachment on the piston market thus causing a higher growth rate in the turboprop fleet than would be given by a straightforward projection of history.

The result of the assumptions given above and taking an attrition rate of 0.75% gives the following forecast of demand for corporate turboprops in the Jetstream class from 1981 to 1990 inclusive:-

Year end	1981	'82	'83	'84	'85	'86	'87	'88	'89	'90	Total
North America	134	140	144	148	151	154	154	155	154	154	1,488
Rest of World	52	55	57	56	56	55	53	51	48	44	527
Total	186	195	201	204	207	209	207	206	202	198	2,015

Table 1 New Aircraft Required in the Corporate Market, Jetstream Class

We have not received detailed market estimates from BAe since 1978 (they are promised by the end of 1980) but they have given some overall figures in a letter from Mr R A Watt to Mr J R Collingbourne dated 9/10/80. This indicates a potential market for all turboprops up to Jetstream size of 4000 up to 1985 (presumably 5 years from 1981 to 1985 inclusive) and 600-700 in the 19 seat commuter market, (see below for our estimates of this). Thus they evidently expect around 3000 aircraft to be required in the corporate/private and (perhaps) military markets by 1985 (allowing for some smaller than 19 seaters in the commuter market). Over the same timescale we forecast that nearly 3200 aircraft will be required in the same market areas, excluding military, hence there appears to be good agreement between us. However, we suspect that BAe would have a more optimistic view of the proportion of this demand to be satisfied by the Jetstream class of aircraft than ourselves (31%).

2.2 The Airline Potential Market

The commuter airlines, particularly in the USA, have been enjoying high growth rates in a period when the major airlines have been suffering from the effects of economic recession. We do not know if this increased activity translates into satisfactory profits as commuter airline costs have risen along with those of the large airlines and possible at a slightly higher rate in the case of fuel supplies.

Following our usual practice we have studied the commuter market in two segments - North American (USA actually with an allowance for Canada) and the rest of the world and by splitting the fleets into segments determined by seating capacity. Finally we have added an additional market segment provided by the employment of small aircraft by the large airlines which occurs almost entirely outside of the USA. This has been taken, unaltered, from the 1978 work as there was insufficient time for a reappraisal.

2.2.1 USA and Canada

Total available seats have grown at an average rate of 8.5% over the past 9 years whereas the passenger boardings growth rate has been nearly 11% and the passenger mile growth rate (over 8 years) has been about 13%. We have projected a constant available seat growth rate of 8.5% over the next ten years. Analysis of the constituents of the commuter airlines' fleets indicates some unexpected changes recently. 5-10 seats are continuing to fall as a percentage of the total, as expected, but 11-20 seaters also show a long term decline, which is surprising. 21-40 seaters show a long term slow growth, again as expected, but over the past 2 years to mid 1979 there has been a marked decline, presumably due to retirements of DC3s. Aircraft larger than 40 seats have shown a slow growth with considerable acceleration over the past year to mid 1979, the date of the most recent set of CAB statistics to hand. Statistics covering the period since the airline deregulation statute was executed in the USA have not yet been received and indeed if the set for mid 1980

were available it is doubtful if any trends indicated could be relied upon. In such a situation the future has been forecast by judgement using the past trends as a basis but assuming that all the constituents of the commuters' fleets above 11 seats grow at the expense of the smaller aircraft ie in particular, relative to this study, the 11-20 seater proportion does not continue to decline but actually reverses eventually into a modest growth.

With these assumptions and an attrition rate of 1% of the current fleet and an allowance of an extra 18% on total seats available for Canada (based on old work), the future requirements for 11-20 seat aircraft have been forecast as shown in Table 2 below.

2.2.2 Rest of the World

Here, as is always the case, we lack statistics but a recent review of operators outside of North America conducted by the magazine Commuter Air has been analysed. Unfortunately it was presented in 3 parts spread over 3 monthly issues and we are still awaiting the 3rd issue some two months after publication. We have thus had to make an estimated adjustment to the statistics to allow for the missing data and this has been done by assuming that the proportions of seats available, numbers of aircraft in each class, etc in the missing part have remained the same since 1978.

The current review indicates that there are about the same number of seats available in the commuter airline fleets outside North America and that the fleet size is similar also. However the available seat growth rate has been higher at around nearly 19% over the past 6 years and the fleet constituent changes more pronounced. Again there has been a marked decline in the 5-10 seaters as a proportion of the fleet and a corresponding growth in 11-20 seaters. 21-40 seaters have stayed almost constant but larger aircraft have grown to nearly the same proportion as 21-40 seaters. We have continued these trends with the judgement that the trend in 21-40 seaters reflects the non-availability of suitable aircraft and that there will be a growth here at the expense of the 11-20 seaters.

The available seat growth has been taken as 12.8% on average to 1990 (a falling growth rate with time has been taken), a 1% attrition rate has been used and the table below gives the forecast requirements for 11-20 seat aircraft in this segment of the market.

Table 2 also gives the potential for 11-20 seat aircraft amongst the large airlines in both scheduled and non-scheduled services and these figures have been taken from our previous work (1978), reduced slightly to allow for some double counting due to the different standards of the basic data. Note there are no airlines in the USA included in this forecast.

Year end	1981	'82	'83	'84	'85	'86	'87	'88	'89	'90	Total
North American Commuters	19	26	35	38	45	43	60	59	76	87	488
Rest of World "	84	98	94	94	97	88	96	82	77	74	884
Large Airline	44	47	48	50	53	52	52	54	52	52	504
Total	147	171	177	182	195	183	208	195	205	213	1,876

Table 2 New Aircraft Required in the Airline Market, Jetstream Class

The above shows total requirements in the commuter airline market for 630, 11-20 seat aircraft to 1985 which is apparently in good agreement with BAe who gave a total of 600-700 for "19 seat aircraft". We do not know how rigid their "19 seats" is to make a definite comparison.

2.3 Summary

Bringing together the above results gives a total potential market for the Jetstream as shown in Table 3 below. Obviously there should be tolerance bands on this but there has been insufficient time for the required analysis.

Year end	1981	'82	'83	'84	'85	'86	'87	'88	'89	'90	Total
Corporate	186	195	201	204	207	209	207	206	202	198	2,015
Airline	147	171	177	182	195	183	208	195	205	213	1,876
Total	333	366	378	386	402	392	415	401	407	411	3,891

Table 3 New Aircraft Required in the Jetstream Class

We have the results of a NASA study of commuter airline requirements forecast for the period 1980 to 2000 and for the 15-19 seat bracket they estimated 1050 in the USA and 1140 in the rest of the world. A very rough extrapolation of our results would suggest 1400 (USA + Canada) and 1560 for the rest of the world, hence we are evidently more optimistic than NASA but 20 years is a long time for forecasting.

3 Competition

A full discussion of all the competing aircraft would take too long since there are 10 in the airline role and 11 in the corporate field and they are not all the same for each use. Any one of the aircraft on our lists (see tables 7 and 8 which list the aircraft we have used for each role and some of their characteristics) could be used for either purpose, as indeed we are assuming that the Jetstream is so to be used. In order to reduce the amount of work (and stay within the size limitations of our computer programmes) we have excluded those aircraft we regard as least likely to be adopted for the role under consideration. For example the King Air 200 could be used in the airline role to carry 12 people but it would be very cramped and is unlikely to be chosen for this purpose (although we believe there are one or two being used in this way). Similarly the unpressurised Twin Otter, Bandierante, Skyliner, Arava, Nomad, Dornier 228 and Beech C99 are unlikely to be used for corporate aircraft not only for lack of pressurisation but because most of them are slow and they are designed for short ranges.

We have, as usual, attempted to compare all the aircraft on a common basis of equipment and furnishing but because of the variety of sources used for the data, including our own estimates, this will not have been achieved. Indeed for some of the new aircraft under development there has been considerable estimation which inevitably involves a large margin of possible error not only due to lack of sufficient basic information but because of design changes which will occur during development.

The tables show the aircraft known to us at present but this is a very dynamic segment of the manufacturing industry and over the timescale of our forecasts considerable changes to the data shown will occur. Some aircraft may disappear ie go out of production and some new ones currently unknown to us might appear;

So most aircraft remaining will undergo development. For simplicity we have assumed that all changes balance ie that the relative competitive positions of the aircraft remain the same over the next 10 years. This implies a policy of continuing development for the Jetstream and of similar inflation rates in the manufacturing countries and similar exchange rates between them.

Some brief comments on some of the aircraft are:-

i Beech A100 King Air could have been dropped from production by Beech as it has not been enjoying a reasonable sales level and does not appear in a recently published 1981 price list.

ii Beech 1200 King Air has not been defined in detail yet. It is based on the 1900 model which is a stretched King Air 200 but Beech are evaluating market requirements. It is scheduled for deliveries in 1983 as is the 1900.

iii Beech C99 is an up-dated, re-engined version of the B99 which was produced in the first half of 1970s (about 160 were made), then Beech took it out of production, despite having a few orders, in order to concentrate on the King Air Line. It is scheduled for first deliveries in 1981.

iv Embraer Bandeirante P3 is the pressurised version of the Bandeirante and this is expected to achieve its first deliveries in 1983. As the table shows the level of pressurisation is quite modest but what is surprising is that the fuselage length has been shortened whilst maintaining an 18-seat passenger capacity. The object is to save weight because with the extra weight of pressurisation, the difference between the maximum design zero fuel weight (limited to 12500 lb for certification to the US SFAR41 standards) and the aircraft prepared for service weight was insufficient to allow carriage of 18 passengers. We have used the firm's quoted weights adjusted to our equipment standard but we believe they might be optimistic.

v The DHC6 Twin Otter is now quite an old design but is still selling fairly well. With DH Canada's commitment to the Dash 8 and doubtless being still "in the red" on the Dash 7, it is unlikely that they could afford to do a replacement until late in the decade.

vi Shorts keep threatening to drop the Skyvan/Skyliner from production but as they continue to get a few orders they keep it going. It is about the same age as the Twin Otter and will probably be discontinued soon. This will have a negligible effect on the market penetration of the remaining aircraft.

vii The Dornier 228 is a new venture for that company, although it owes a lot to their Skyservant. An experimental aircraft is flying but we believe a decision on a firm commitment to the programme has yet to be made.

viii It is known that Rockwell had plans to develop their twin turboprop line of aircraft beyond the model 1000 but now that this part of the company has been acquired by Gulfstream American the future is less certain. The 1000 model has been included to represent these future aircraft.

Figs 1 and 2 show how the Jetstream measures up to its competition in respect of the chosen parameters in both the corporate and airline roles respectively. They show that it compares quite well in a number of respects; the following are its strengths and weaknesses:-

Strengths		Weaknesses	
Corporate	Airline	Corporate	Airline
Cabine volume	Economical cruise speed Pressurisation* Rates of Climb Productivity	Max range Price	Baggage volume Price

Table 4 Jetstream Strengths and Weaknesses compared with its Competitors

* This is an arguable parameter as pressurisation is unnecessary for many commuter airline operations.

The comparisons indicate that in the corporate role the aircraft appears to be a good design compromise while in the airline role it has more advantages than disadvantages but both are spoilt by its high price.

4 Market Penetration

We have converted the results shown on Figs 1 and 2 into a merit rating for the Jetstream and its competitors and have used a similar set of parameters for the corresponding aircraft on the market in 1978 to produce a rating for them. The results shown in Figs 1 and 2 give no indication of the relative importance of each of the parameters listed to a prospective aircraft purchaser. Hence the historical merit ratings were weighted in such a way that when converted into a market penetration value for each aircraft, that value as nearly as possible matched the actual penetration achieved in the following year (ie a one year lag was assumed between orders and deliveries). We are aware that our choice of parameters is arbitrary and that a number of factors not easily reduced to numerical values influence sales, also there are market forces unknown to us eg special discounts or trade-in allowances, financing arrangements, etc which are important but cannot be accounted for. We have added an allowance for the manufacturer standing in the market based on the numbers of similar aircraft already in service. We would like to incorporate this as a dynamic factor in future sales forecasting (ie the idea that nothing generates sales better than sales) but there has been insufficient time to develop the computer software.

By repeating the work described above with different prices for the Jetstream we have established a view on the price sensitivity of the market and have been able to apply different levels of penetration to the North American and rest of the world market areas corresponding to BAe's policy of differential pricing.

The results of the work are shown below:-

1.	Corporate	version	in the	NA	market,	price =	$2.55M[1]	penetration	=	5.62%
2.	"	"	"	R of W	" ,	"	= $2.233M[2]	"	=	6.0 %
3.	Airline	"	"	NA	" ,	"	= $1.8M[3]	"	=	8.74%
4.	"	"	"	R of W	" ,	"	= $2.013M[4]	"	=	8.35%

Table 5 Jetstream Price and Market Penetration Forecast

Notes: 1 BAe quoted the price of a "green" aircraft as $1.7M. Furnishings, avionics, etc have to be added in the USA. We have little idea what this will cost and have taken a published cost for the BAe 125 which is marketed in a similar manner.

2 BAe quote a price for an equipped aircraft as £950,000. We have added some minor extras and converted this to $ at $2.3 = £1.

3 BAe quote a price for an equipped aircraft for the USA as $1.8M. We have accepted this.

4 BAe quote a price for an equipped aircraft for the non-american market as £875,000. We have accepted this and converted it to $ as above.

Year end	1981	'82	'83	'84	'85	'86	'87	'88	'89	'90	Total
NA Corporate	8	8	8	8	8	9	9	9	8	9	84
R of W Corporate	4	3	3	3	4	3	3	3	3	3	32
NA Commuters	2	2	3	3	4	4	5	5	7	8	43
R of W Commuters	10	8	8	8	8	7	8	7	6	6	76
Other Airlines	5	5	5	5	6	5	5	6	6	5	53
Total Corporate	12	11	11	11	12	12	12	12	11	12	116
Total Airline	17	15	16	16	18	16	18	18	19	19	172
Total	29	26	27	27	30	28	30	30	30	31	288

Table 6 Estimated Future Jetstream Sales

Thus the total yearly average of sales for the Jetstream over the next 10 years is estimated to be nearly 29, which is considerably less than our 1978 forceast of nearly 50. The main reason for this decline is the appearance of more competitors, some of which, along with changes to existing aircraft, are more attractive than Jetstream although it must be remembered that our work is based on mathematical juggling with a number of parameters several of which must be subject to some doubt due to the present status of some of the aircraft designs. It is always the case that simplistic market forecasts produce smooth forward projections of the potential market and future sales of a given product, whereas this does not occur in practice of course. Thus weight should not be given to the figures for each individual year listed in the above tables but rather to the totals over a span of years.

Our previous work on the Jetstream indicated little sensitivity in price and the present study has produced a similar result. Accoridng to our estimates an increase of 20% in the price in each market segment produces a loss of only 7.3% of sales but this latter figure may be subject to a fairly wide margin of error.

BAe have implied that they expect the Jetstream's market acceptance to sustain a production rate of 25 per year, with planned expansion capability, (7 in 1982, 18 in 1983, 25 thereafter) to achieve total sales of about 200, 100 in the airline market, 70 corporate and 30 military. This total will be achieved during 1982-90 inclusive at the production rate postulated and, in terms of sales (ie orders) it relates to our sales estimates for 1981-89 inclusive. To compare with our estimates therefore our total to end-1989 is 257, 153 in the airline market 104 in the corporate. This is obviously more optimistic than BAe although we forecast exactly the same proportions in the two non-military markets. We see no reason for the aircraft not continuing to sell beyond 1989 and perhaps a little into the '90s when "Learfan technology" will probably overtake it.

We have not addressed the military market although there is obviously a potential there (excluding the known UK requirement) some of which even over the past two years has been lost to Jetstream because of BAe's failure actively to market the aircraft or firmly commit it to production. It might not have succeeded anyway, for the same reasons as the RAF chose the King Air 200, ie price and BAe should pay particular attention to their military pricing policy.

Conclusions

1 We estimate that there is a potential civil market for about 4000 turboprop aircraft of Jetstream size from 1981 to 1990 inclusive.

2 There will be extensive, strong competition in the market and although the Jetstream has some advantages its price is on the high side.

3 We estimate sales of about 300 Jetstreams in the 10 year period studied which is more optimistic than BAe but below the level we previously forecast (as is theirs). The main reason for the drop in forecast sales is the emergence of more competitors and improvements to existing designs not all of which were known to us when the previous study was done. The longer BAe procrastinate the less worthwhile it will be continuing with the Jetstream. They have already lost some military potential sales and the same thing will occur in the civil market as other manufacturers gain acceptance.

P. A. Smith

P A Smith
Air 3

5 December 1980

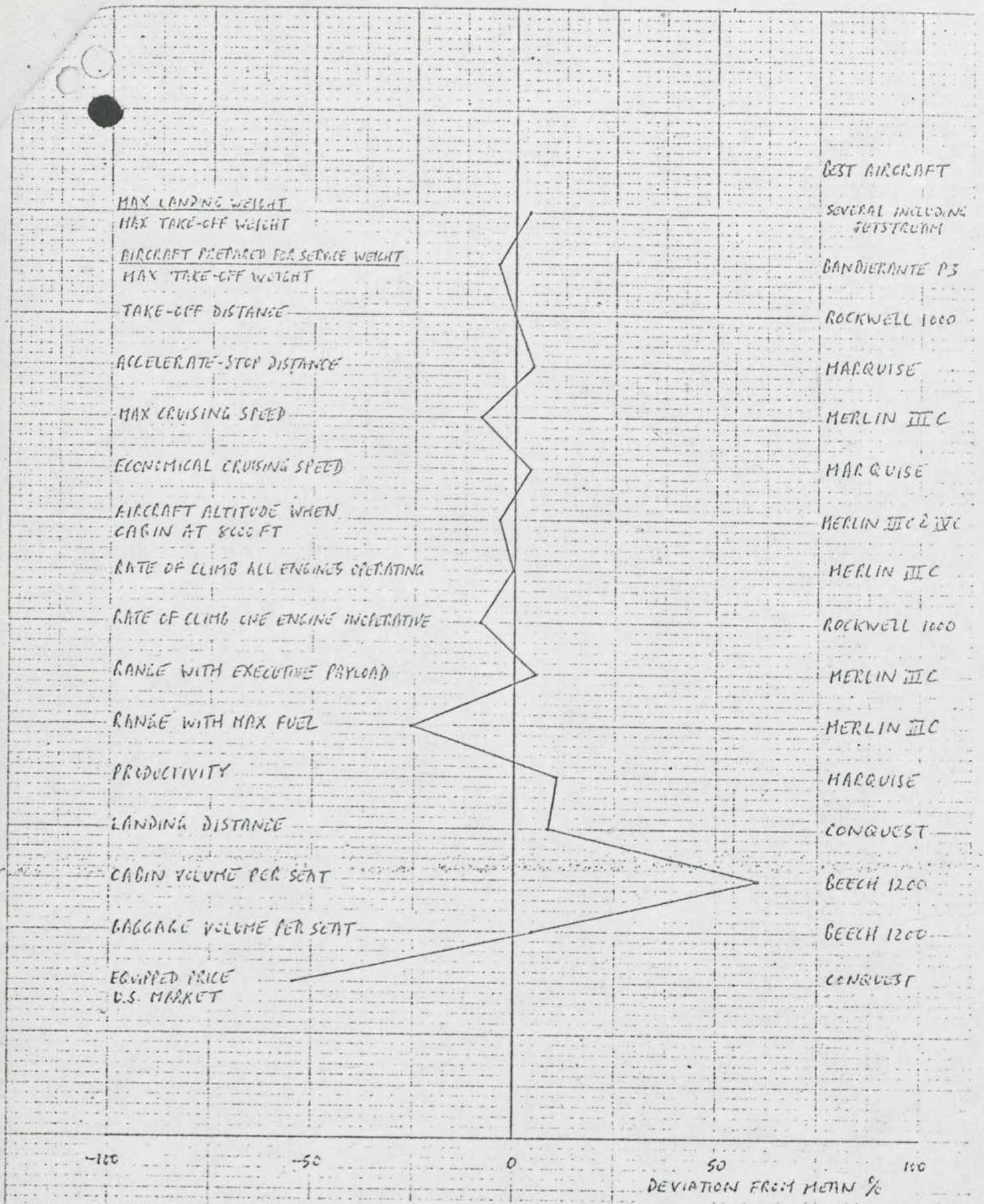

FIG 1 COMPARISON OF JETSTREAM WITH ITS COMPETITORS IN THE CORPORATE ROLE

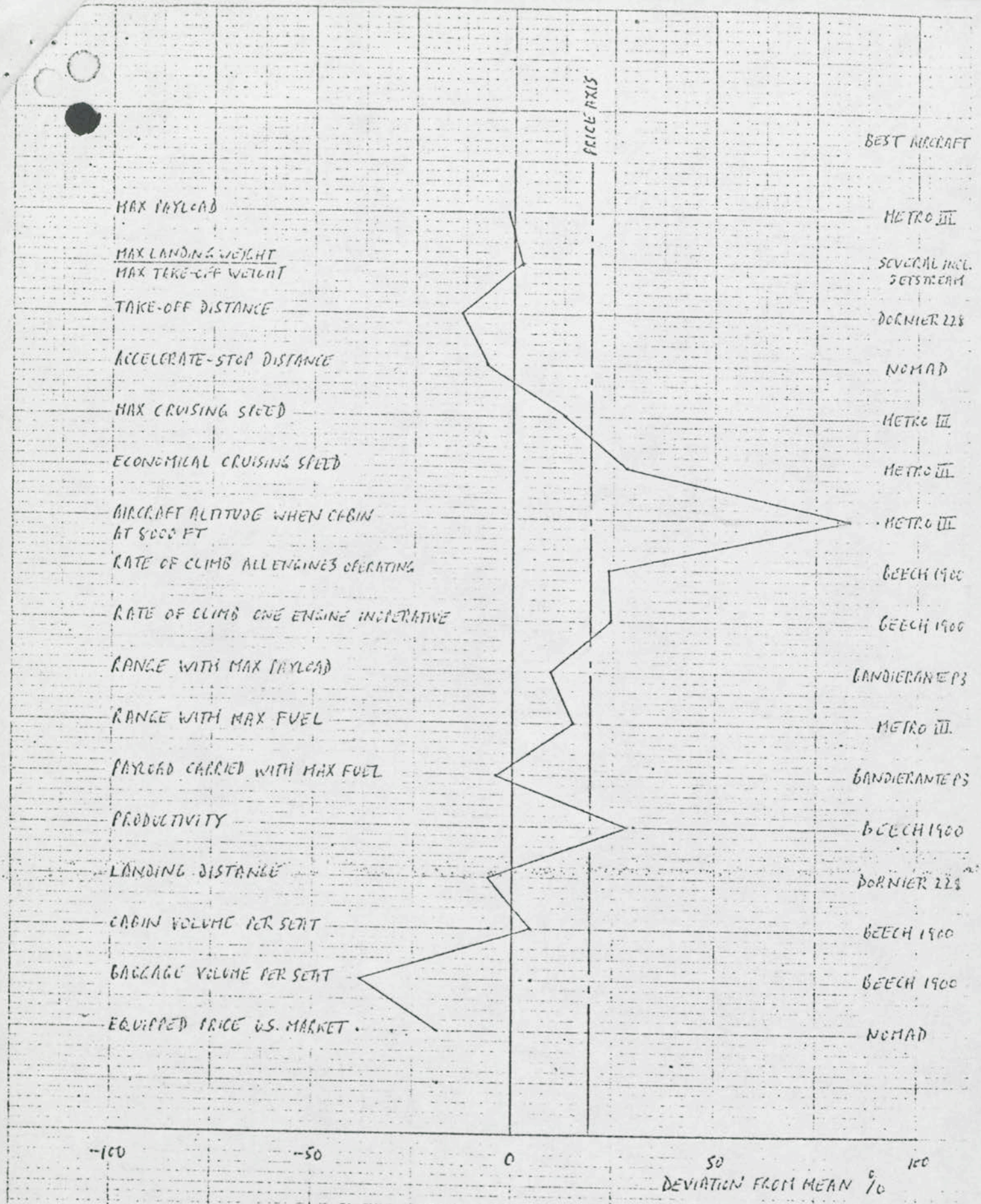

FIG 2 COMPARISON OF JETSTREAM WITH ITS COMPETITORS IN THE AIRLINE ROLE

CONFIDENTIAL

Aircraft Manufacturer		BRIT. AERO.	BEECH	BEECH	BEECH	BEECH	SWEARINGEN	SWEARINGEN	MITSUBISHI	CESSNA	EMBRAER	PIPER	ROCKW.
" Designation		HP 137	200	A 100	B100	1200	SA 226	SA226T	MU2	C 441	EMB 110 P3	PA 31 T	1000
" Name		JETSTREAM 31	SUPER KING AIR	KING AIR	KING AIR	KING AIR	MERLIN IIIC	MERLIN III C	MARQUISE	CONQUEST	BANDEIRANTE	CHEYENNE III	COMMAND
Engine Manufacturer		GARRETT	PRATT + WHITNEY	PRATT + WHITNEY	GARRETT	PRATT + WHITNEY	GARRETT	GARRETT	GARRETT	GARRETT	PRATT + WHITNEY	PRATT + WHITNEY	GARRETT
" Designation		TPE 331-10	PT6A-41	PT6A-28	TPE 331-6	PT6A-35	TPE 331-11U	TPE 331-10U	TPE 331-10	TPE 331-8	PT6A-65	PT6A-41	TPE 331-
Max. Rated H.P.		900	850	620	715	1000	1000	900	715	636	1170	720	980
Aircraft Max. Weight (AUW)	lb	14110	12500	11500	11800	15245	14000	13230	11575	9850	15435	11285	1125[illegible]
" prepared for service Wt. (APS)	lb	9454	8110	7330	7610	9245	9410	8330	7910	6150	9054	7320	7173
" Max. Zero fuel wt.	lb	12500	10400	9600	9600	12500	12500	12500	9950	8500	12500	9750	9220
" Max. Landing Wt. (MLW)	lb	14110	12500	11210	11210	14480	14000	13230	11025	9360	14774	10330	1054[illegible]
" Max./Executive Payload	lb	3046/1600	2290/1600	2270/1600	1990/1600	3255/1600	3090/2200	4120/1600	2040/1600	2350/1600	3446/1600	2430/1600	2048/14[illegible]
Max. number of seats assumed		8	8	8	8	8	11	8	8	8	8	8	7
Max. Fuel	lb	3079	3645	3149	3149	2800	4312	4312	2700	3183	2980	2613	2848
MLW/AUW		1·0	1·0	0·97	0·95	0·95	1·0	1·0	0·95	0·95	0·957	0·92	0·94
APS/AUW		0·67	0·65	0·64	0·64	0·61	0·67	0·63	0·68	0·62	0·59	0·65	0·64
Take-off Distance, all engines	Feet	2886	2580	3200	3000	3360	2850	3150	2700	2465	2848	3230	2100
Accelerate - Stop Distance	Feet	3936	3400	4300	4920	4670	3650	4200	3300	3665	4800	4300	4185
Max. Cruise Speed	Kt	254	287	248	268	260	283	299	294	293	273	283	290
Economical Cruise Speed	Kt	249	222	206	231	240	240	265	271	251	234	225	250
Aircraft altitude for 8000 feet cabin height	Feet	25000	27360	21200	21200	22300	32300	32300	27360	28700	14700	28700	30700
Max. Rate of Climb, all engines	Ft/min	2300	2450	1963	2139	2370	2330	2540	2200	2435	2139	2400	2520
Max. Rate of Climb, one engine	Ft/min	560	740	452	501	700	620	630	410	715	542	565	930
Range with Exec. Payload	nm	1120	1364	1055	891	830	870	1735	938	1418	813	425	1250
Range with Max. Fuel	nm	1120	1759	1337	1238	880	1875	2330	1313	1982	813	1970	1495
Payload on Max fuel Range	lb	1600	835	1089	1116	1600	330	590	1015	592	1600	110	1280
Productivity lb nm/hr × 10^{-4}		79·7	67·2	63·9	70·8	76·8	81·5	78	82·2	73·1	74·9	45·7	69·5
Landing Distance	Feet	2525	2545	2246	2246	3430	3980	3300	2200	1875	2930	3017	2370
Cabin Volume	cu ft	598	393	393	393	698	490	306	260	195	410	264	209
Baggage Volume	cu ft	81·5	53·5	53·5	53·5	250	143	75	40	50	70·8	50	50
Cabin Volume / seat	cu ft	74·75	49·1	49·1	49·1	87·1	44·5	38·3	32·5	24·4	51·3	33	26·1
Baggage Volume / seat	cu ft	10·19	6·7	6·7	6·7	31·3	13·0	9·4	5·0	6·3	8·8	6·3	6·3
Equipped price f.a.f.	1980 $M	2·55 (USA)	1·595	1·239	1·312	1·9	2·1	1·89	1·355	1·105	1·956	1·285	1·330

TABLE 8 Leading Characteristics of Corporate Role Competitors

Aircraft Manufacturer		BRIT. AERO.	BEECH	BEECH	EMBRAER	EMBRAER	D.H. CANADA	SWEARINGEN	SHORTS	I.A.I	DORNIER	G.A.F.
" Designation		HP 137	1900	C99	110 P2	110 P3	DHC6-300	SA 226	SC7	201	228-200	N24A
" Name		JETSTREAM 31			BANDEIRANTE	BANDEIRANTE	TWIN OTTER	METRO III	SKYLINER	ARAVA		NOMAD
Engine Manufacturer		GARRETT	PRATT & WHITNEY	PRATT & WHITNEY	PRATT & WHITNEY	PRATT & WHITNEY	PRATT & WHITNEY	GARRETT	GARRETT	PRATT & WHITNEY	GARRETT	ALLISON
" Designation		TPE 331-10	PT6A-65	PT6A-36	PT6A-34	PT6A-65	PT6A-27	TPE 331-11	TPE 331-201	PT6A-34	TPE 331-5-252	250-B-17C
Max. Rated H.P.		900	1000	715	750	1170	620	1000	715	750	715	385
Aircraft Max. Weight (AUW)	lb	14110	15245	11300	12500	15435	12500	14000	13700	15000	12570	9400
" prepared for service Wt. (APS)	lb	9066	8974	7240	8515	8372	7726	8510	8780	9569	7330	5820
" Max. Zero Fuel Wt.	lb	12500	12500	10440	12015	12500	N/A	12500	N/A	14000	10950	9150
" Max. Landing Wt. (MLW)	lb	14110	14480	10900	12015	14774	12300	14000	13300	15000	12570	9400
Max. Payload	lb	3434	3526	3200	3200	3623	3600	3800	3600	3600	3620	3200
Max. number of seats assumed		17	17	16	16	18	18	19	18	18	18	16
Max. Fuel	lb	3079	2800	2466	2884	2980	2546	4342	2320	2928	4330	1770
MLW/AUW		1·0	0·95	0·96	0·96	0·957	0·98	1·0	0·97	1·0	1·0	1·0
Take-off Distance, all engines	Feet	2886	3360	3420	2356	2848	1875	2850	2200	2770	1720	1725
Accelerate-Stop Distance	feet	3936	4670	3800	3911	4800	3250	3650	3350	3070	3000	2950
Max. Cruise Speed	kt	254	260	250	226	273	185	290	169	170	233	163
Economical Cruise Speed	kt	249	240	195	177	230	137	260	144	165	179	135
Aircraft altitude for 3000 feet cabin height	feet	25000	22300	8000	8000	14700	3000	32300	8000	8000	5000	3000
Max. Rate of Climb, all engines	ft/min	2300	2370	2120	1787	2139	1600	2330	1400	1240	2050	1100
Max. Rate of Climb, one engine	ft/min	560	700	570	428	542	340	620	330	180	530	180
Range with Max. Payload	nm	390	715	170	85	770	250	524	270	150	524	70
Range with Max. Fuel	nm	1120	715	790	930	785	700	1940	560	650	1380	670
Payload on max. fuel range	lb	2029	3526	1650	1167	3583	2228	1198	2650	2553	910	180
Productivity lb nm/hr x 10^{-4}		148·2	169·2	101·1	80·6	166·9	87	148·2	97	105	94·6	70·2
Landing Distance	Feet	2525	3430	2790	2444	2930	1940	4050	1550	1540	1500	1350
Cabin Volume	cu ft	501	698	382	340	410	384	463	620	400	480	410
Baggage Volume	cu ft	69	250	66	113	70·6	106	181	60	92	112	70
Cabin Volume / seat	cu ft	27·8	41·1	23·9	21·3	22·78	21·3	24·4	34·4	22·2	26·7	25·6
Baggage Volume / seat	cu ft	3·8	14·7	4·1	7·1	3·9	5·9	9·5	3·3	5·1	6·2	4·4
Equipped Price f.a.f.	1980 $M	1·8 (USA)	1·8	1·25	1·33	1·6	1·25	1·96	1·43	1·7	1·5	1·09

TABLE 5 Leading Characteristics of Airline Rolt Competitors

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NBPM yet

(MAP)

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

14 January 1981

Dear John,

RAF COMMUNICATIONS AIRCRAFT
JETSTREAM 31

I have seen a copy of Francis Pym's minute of 5 January to the Prime Minister in which he recommends advising British Aerospace (BAe) of the decision to take no action on the replacement of communications aircraft until 1984/85 at least.

I am naturally very disappointed to learn of this postponement, not least because of the very significant economic and social impact which the activities of the Scottish Division of BAe have upon the Prestwick area and the way in which Jetstream 31 bears upon those activities. However, I am bound to accept the realities underlying Francis Pym's conclusion; and I agree that BAe should be told of the decision as soon as possible so that they may exercise their commercial judgement on whether to continue production of the aircraft with the benefit of full information.

Clearly it will be in BAe's interest to have the minimum of publicity for this decision. But if you feel the need for any announcement, I hope it can be couched in terms to make it absolutely clear that the decision is entirely for reasons of lack of finance in the face of greater priorities and that it does not reflect in any way upon the suitability of Jetstream 31 for MOD purposes.

I should also like confirmation that I am correct in assuming that there is now no question of <u>any</u> replacement for the Pembrokes and Doves before 1984/85 and that there will be no attempt to seek an interim solution, particularly by the purchase of foreign aircraft. When, in due course, replacements can be contemplated, I would expect that Jetstream 31, if still in the field, will be given priority of consideration over any foreign contenders: if, meanwhile, refurbishment of the Pembrokes and Doves is required, I hope that the Scottish Division of BAe will be given opportunity to undertake the work.

I am copying this letter to the Prime Minister, to members of E(EA) and to Sir Robert Armstrong.

Yours ever,

George.

JMP

9 January 1981

The Prime Minister has seen Mr. Pym's minute of 5 January, about the replacement of RAF communications aircraft.

She has asked that Mr. Nott should have an opportunity to consider these papers and confirm the recommendation made by his predecessor before she responds to it.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. A. PATTISON

D.B. Omand, Esq.,
Ministry of Defence.

JS

10 DOWNING STREET

PRIME MINISTER

The Secretary of State for Defence now wishes to tell British Aerospace that he has indefinitely postponed action on replacement of the RAF communications aircraft, given the many problems of reconcilingdefence spending plans with the money available.

Mr. Younger has argued strongly in favour of the Jetstream project in the past, but I understand that he does not intend to oppose this decision.

Subject to any intervention from Keith Joseph, content that the Secretary of State for Defence should now inform British Aerospace of his decision, as suggested in paragraph 5 of his minute?

I think we should let J.N. look at these matters when he returns from Indonesia - although I believe he will reach the same decision anyway

MT

6 January 1981

MO 35/5

PRIME MINISTER

JETSTREAM 31 AND THE REPLACEMENT OF RAF COMMUNICATIONS AIRCRAFT

I minuted you on 16th July last year to suggest that we should not proceed with the proposed RAF order for Jetstream 31 whilst problems in connection with the defence cash limit for the current year remained to be settled. In a subsequent exchange of correspondence between Private Secretaries it was agreed that no communications aircraft would be ordered while the moratorium on new defence commitments remained in force. Additionally it was noted that you were not satisfied that Ministers had adequate analysis available to them on the commercial prospects for Jetstream 31, and the Department of Industry undertook to carry out a market analysis.

2. Two factors make it appropriate for me now to bring this subject to your attention. We have looked again at our forward equipment programmes in the light of Cabinet decisions on the level of defence expenditure; and the DOI survey has also just been made available. As you know, there are going to be very severe difficulties in funding our programme not only this year but also the next financial year and in at least the two following years, and you have already taken note of the measures I am proposing to bring our future spending within the level approved by the Cabinet.

3. Important though the communications aircraft may be, we cannot claim that they would have anything other than a secondary role in time of war and there is very little operational case for going ahead with their replacement when other programmes more essential to our front line capacity are being cut. Action on this required was accordingly deferred for three years as part of the measures required to finalise our Estimates for 1981/82 set out in my minute to you of 23rd December. On considering our programme for later years I cannot rule out the possibility that this

requirement would be further set back.

4. The DOI has circulated its market survey at official level and Keith Joseph will be reporting its conclusions. British Aerospace are best placed to pronounce on how far the aircraft would be an economic proposition and I understand that they are also carrying out a market survey. No doubt British Aerospace would continue to argue that an RAF order now would help the aircraft over the difficult initial launch period and give an extra boost to its sales. I should, therefore, like it to be quite clear that there is no way that we can make defence funds available for an early order except at the expense of some other equipment programme more vital to our defences.

5. I recommend that we inform British Aerospace as quickly as possible of the decision to postpone action on replacement of the Devons and Pembrokes and leave it to them to decide as a commercial proposition whether they will nevertheless go ahead with the Jetstream 31 project.

6. I am copying this letter to the members of E(EA), to the Secretary of State for Northern Ireland and to Sir Robert Armstrong.

FP

Ministry of Defence

5th January 1981

Defence

Foreign and Commonwealth Office

London SW1A 2AH

19 December 1980

fw
19xii

Dear Brian

'The Queen's Flight

I have seen a copy of your letter of 16 December to Clive Whitmore. I am sorry to say that this misunderstanding arose from a typing error in this office: the third sentence of my letter to you of 12 December should have read:

> 'The Ministry of Defence pay for RAF aircraft and the Department of Trade pay for commercial aircraft used by The Queen, the Duke of Edinburgh and the Prince of Wales when they travel overseas on public duty.'

Unfortunately the words underlined were inadvertently omitted. I apologies for all the confusion and misunderstandings.

I am copying this letter to Clive Whitmore and the other recipients of your letter.

Yours ever

GGH

(G G H Walden)
Private Secretary

B M Norbury Esq
Ministry of Defence
Main Building

Defence

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 3022~~ 218 2111/3

MO 35/5

16th December 1980

Dear Clive,

THE QUEEN'S FLIGHT

I fear that George Walden's letter to me of 12th December, to which he has given a wide circulation, may tend to mislead rather than elucidate. I should burden you, therefore, with a further letter on this subject.

The costs of flights by The Queen, The Queen Mother, the Duke of Edinburgh and the Prince of Wales when travelling overseas on public duty in RAF planes are met from Defence Votes. My letter to you did not say otherwise. When, however, their flights are made by chartered commercial aircraft (which is the point with which my letter was concerned) the costs are met by the Department of Trade; the costs of commercially chartered flights by other members of the Royal Family on public duty are met by the sponsoring Department (as they would be for Ministers making similar official visits).

I am sending copies of this letter to George Walden, and to the other recipients of the correspondence.

Yours ever,
Brian

(B M NORBURY)

C A Whitmore Esq

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Whitmore dated 16 December 1980	
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JU

2.

Prime Minister.

Sir Keith Joseph suggests in his minute that it should be possible to re-equip the Queen's Flight with the BAe 146 in 4-5 years' time; whereas the MoD view hitherto has been that 8 years was a more realistic estimate. The Cyan will be commenting on Sir Keith's minute.

16xii

MT

PRIME MINISTER

THE QUEEN'S FLIGHT

I accept the conclusion reached after various Ministerial exchanges that there is no alternative but to shelve for the time being the proposal to re-equip the Queen's flight with one or two new BAe 1-11s.

2 I would, however, like to register my concern over the suggestion that, if the purchase of the 1-11s is not made now, there is unlikely to be another opportunity to buy an up-to-date British-built aircraft for the next eight years. This is a long time, and I do not believe it necessarily need be so. The BAe 146 which is due to receive certification and enter the market in mid 1982 would appear to be a suitable aircraft. Although its range and speeds are not directly comparable with the 1-11 its capacity is similar while its airfield performance and noise levels should significantly improve its attractiveness.

3 While I fully understand the need to ensure that an aircraft is proven before it is used for the Queen's flight, eight years seems excessive. In only three years the 146 should be in full airline service and by 1985 should have had ample opportunity for proving its reliability. In addition to the operational

/benefits ...

benefits there would be an important and valuable promotional aspect to a purchase of the 146 for the Queen's flight.

4 Clearly, there is no question that a decision should be made now but I believe ~~that~~ serious consideration needs to be given to the possibility of purchasing 146s for the Queen's Flight in 1984 or 1985, and to the need to make financial provision now for such a purchase. If the Royal Family has to suffer continued inconvenience, there are strong grounds for minimising it as much as possible.

5 I am sending copies of this minute to other members of the Cabinet, the Minister of Transport, the Chief Whip and the Secretary of the Cabinet.

14

K J

15 December 1980

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

12 December 1980

Dear Brian,

The Queen's Flight

In your letter of 5 December to Clive Whitmore you said that the costs of commercial charter flights used by The Queen fall on the sponsoring Department. I am told that this is not in fact so. The Ministry of Defence pay for RAF aircraft used by The Queen, the Duke of Edinburgh and the Prince of Wales when they travel overseas on public duty. This is set out in para 5 of the Annex to the memorandum issued by the Royal Visits Committee on 3 December 1979.

I am copying this letter to Clive Whitmore and the other recipients of your letter.

Yours ever

(G G H Walden)
Private Secretary

B M Norbury Esq
Ministry of Defence
Main Building
Whitehall

CONFIDENTIAL

Defence

10 DOWNING STREET

Clive

Adam Butler's office are writing to us, floating the idea that BAe 146 might be a good purchase in 2-3 yrs time.

MT

Interesting. We've always been told that the BAe 146 – assuming it goes into production – would not be available for several years – see, for example, paragraph 11 of the report attached to Norway's letter of 11 August 1980.

8/XII.

Take

8 XII

CONFIDENTIAL

10 DOWNING STREET

From the Principal Private Secretary

8 December 1980

Dear Brian,

THE QUEEN'S FLIGHT

I have shown the Prime Minister your letter of 5 December 1980 about The Queen's Flight setting out your Secretary of State's reaction to the comments made by the Chancellor of the Duchy of Lancaster in his minute of 25 November and by the Lord President of the Council in his minute of 3 December.

The Prime Minister agrees that, in present economic circumstances, there is no alternative but to shelve for the time being the proposal to re-equip The Queen's Flight, whether with one or two new BAe 1-11s. She also shares Mr. Pym's view that, for the reasons given in your letter, it would not be appropriate to buy and refurbish a second-hand aircraft. She agrees, however, that we should continue our present practice of hiring BAe 1-11s as and when necessary.

Passage deleted and closed, 40 years, under FOI Exemption. OWayland. 27 August 2013

I am sending copies of this letter to the Private Secretaries to other members of the Cabinet, to the Minister of Transport, to the Chief Whip and to David Wright (Cabinet Office).

Yours ever,

Clive Whitmore.

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

CONFIDENTIAL

CONFIDENTIAL

Agreed mb.

PRIME MINISTER

The Queen's Flight

Mr. Pym minuted you last month saying that, in the light of the reductions in the defence budget agreed in Cabinet, he saw no alternative but to abandon the proposal to re-equip The Queen's Flight with two BAe 1-11s. He also pointed out that to buy these aircraft for The Queen's Flight at a time of deep economic recession would be open to attack.

You agreed to wait a little time before replying to the Defence Secretary to see whether any other members of the Cabinet reacted to his minute to you. Only two colleagues have responded so far. You saw the Chancellor of the Duchy's minute of 25 November (Flag A) in which he proposed that we should buy one new aircraft for The Queen's personal use or, failing that, a second-hand BAe 1-11 which could be refurbished. You commented that the cost might come off the Arts budget! We have now had the minute from Lord Soames at Flag B in which he suggests that if The Queen's Flight cannot be re-equipped with new aircraft, BAe 1-11s should be hired ad hoc as necessary.

Mr. Pym's Private Secretary has now written responding to the suggestions made by the Chancellor of the Duchy and the Lord President (Flag C). The Defence Secretary is no more prepared to provide the money for one aircraft, whether new or second-hand, than he was for two. Moreover, he does not like the idea of buying a second-hand aircraft, because not only would it be second best, but it might quickly prove impossible to maintain it to the appropriate safety standards for The Queen's Flight. On the other hand, Mr. Pym goes along with Lord Soames' suggestion that aircraft might be hired from time to time, since this is something which is occasionally done already. (A British Airways BAe 1-11 was hired, for example, for the recent State Visit to Italy.)

CONFIDENTIAL / Are

Are you content that I should now reply to Mr. Pym's Private Secretary saying that you go along with Mr. Pym's reaction to the Chancellor of the Duchy's and the Lord President's minutes, and that you agree with him that the question of the re-equipment of The Queen's Flight should not be pursued further for the time being.

AW.

5 December, 1980.

C

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~830 7622~~ 218 2111/3

MO 35/5

5th December 1980

Dear Chris,

THE QUEEN'S FLIGHT

My Secretary of State has seen the comments made by the Chancellor of the Duchy of Lancaster (his minute of 25th November) and the Lord President of the Council (his minute of 3rd December) on his minute to the Prime Minister of 20th November.

As regards the suggestions by Mr St John Stevas that we should limit the re-equipment to one new plane, or buy a second-hand one, my Secretary of State has asked me to observe that the fact is, and as he explained in his minute, that there is absolutely no money available for any re-equipment: this applies to a less expensive purchase than the purchase of the two new BA 1-11s which was originally under consideration. Furthermore, he does not believe that it would be appropriate for the Flight to make do with a second-hand aeroplane; not only would this be clearly second-best, it is also relevant that the components and equipment in a second-hand aircraft would not meet for long (if at all) the stringent standards required of Queen's Flight aircraft. As regards the suggestion by Lord Soames that some flights made by The Queen should be by a specially chartered aircraft Mr Pym agrees that this should be done, and indeed it is already done when the circumstances make this appropriate. The cost of such charter falls on the sponsoring Department.

C A Whitmore Esq

My Secretary of State concludes with much regret that, as he said in his minute of 20th November, the re-equipment of the Queen's Flight must be shelved.

I am sending copies of this letter to the Private Secretaries to the Lord President and the Chancellor of the Duchy and to the Private Secretaries of the other recipients of my Secretary of State's minute.

Yours ever,
Brian Norbury

(B M NORBURY)

B

The Defence Secretary will be responding in due course to his minute and to the CDS's minute of 25 November.
NBPM for the time being.
AcS
4xii

PRIME MINISTER

THE QUEEN'S FLIGHT TPM.

I have seen a copy of the Defence Secretary's minute to you of 20 November.

I quite see why he has been forced to the conclusion that now is not the time to completely re-equip the Queen's Flight. But I think we need to make a distinction here between travel by members of the Royal family and senior members of the Government within the United Kingdom, and visits abroad. In the latter case it is surely right that the prestige of such visits should not be undermined by the use of conspicuously old-fashioned aircraft. An Andover may be all right for a visit to Aberdeen, but not, I submit, for a State Visit to Paris. I hope therefore that agreeing as I fear we will have to that the Queen's Flight cannot be re-equipped for the time being, BAe 1-11s will be hired on an ad hoc basis as necessary.

I am copying this to Cabinet colleagues, the Minister of Transport, the Chief Whip and to Sir Robert Armstrong.

S

SOAMES

3 December 1980

Defence A

Prime Minister.

I think have stronger but the public expenditure arguments against buying the 2 BAe 1-11 would apply also to the Chancellor of the Duchy's proposal. Moreover, I doubt whether it makes any operational sense to have only one aircraft of a particular type in The Queen's flight.

I suggest we wait to see whether any other members of the Cabinet press to the Queen's moment. No need to argue for to respond at this or later stage.

PRIME MINISTER

The Defence Secretary has sent me a copy of his minute of 20 November about the possible re-equipment of The Queen's Flight.

I entirely agree that it is not unreasonable in our present circumstances that senior members of the Government should be expected to put up with the existing Andovers, despite the penalties in terms of comfort, efficiency and national prestige to which the Defence Secretary draws attention. But I think that we should consider very carefully whether it is right and sensible to ask Her Majesty to continue to tolerate this rather ageing form of transport. * * I cannot believe that it does our international standing any good for her to have to accept significantly lower standards than those enjoyed by other Heads of State of major countries. I fully understand and accept the arguments against a complete re-equipment, but I hope very much that we shall be able to find the resources for buying at least one up to date aircraft for The Queen's personal use or, if all else fails, for buying and refurbishing a second-hand BAe1-11 for this purpose.

Agreed 26xi

I am copying this minute to the other members of the Cabinet, the Minister of Transport, the Chief Whip and Sir Robert Armstrong.

NSHJS.

N StJ-S

25 November 1980

~ Passage deleted and closed, 40 years, under FOI Exemption.

CWayland
27 August 2013

£1½ million spite this budget?!

Prime Minister.

This is the report to Cabinet which you agreed the Lord Privy Seal should make.

I will chase a few days if you to see whether any colleagues wish.

MO 35/5

PRIME MINISTER

THE QUEEN'S FLIGHT

The Under Secretary of State for the Royal Air Force and I have discussed with you the options for a possible re-equipment of the Queen's Flight with two BAe 1-11s and the factors affecting such a decision; the purpose of this minute is to report to the Cabinet that I have concluded that it would not be right, at any rate in the immediate future, to proceed with any re-equipment.

2. The Queen's Flight consists at present of three Andover Mark II aircraft and two Wessex helicopters. Additionally there is a VIP communications squadron which consists of four HS 125 400 Series aeroplanes, two HS 125 600 Series, three more Andover Mark II aircraft and two Whirlwind and one Gazelle helicopters For long distance travel recourse may be made to RAF VC10s diverted from their regular military flying; as an alternative to the use of an RAF VC10, civil aeroplanes have been chartered for some State visits. The proposition I have been considering is whether to replace the three Queen's Flight Andovers by two BAe 1-11s, the latter being the only suitable British aircraft, two of which are currently available and are the last that will be manufactured in this country.

3. There is no doubt that there is a very good case for replacing the Andovers in the Flight with BAe 1-11s. The Andover by modern standards is of out-dated design; it is slow, of poor range and (as you and other members of the Cabinet who have travelled in it will know) uncomfortable because it cannot fly "above the weather". If we were to make a purchase of BAe 1-11s now we would be taking the last opportunity (short of buying second hand aircraft in the future) which is likely to arise for the next eight years to bring up to date an increasingly out-moded means of air transport for The Queen and senior members of the Government; a re-equipment would also make a distinct contribution to the British aviation industry. There would also be considerable export advantages for British Aerospace in particular and the British aviation industry in general (points which have been made to me by, in particular, the Secretaries of State for Industry and for Trade) if, on overseas visits, The Queen and senior members of the Cabinet were to be seen to be using a modern British aeroplane.

* ~ * Passage deleted and closed, 40 years, under FOI Exemption. CWayland, 27/8/13

4. These arguments are cogent, but the simple fact of the matter is that I cannot, particularly in the light of the decisions about future defence expenditure reached at Cabinet this week, undertake to bear on Defence Votes any of the costs of such a re-equipment. Re-equipment would cost as a minimum, and allowing for some offset in sales, some £14M and although there would be some savings in running costs I could not confidently expect this to be a large sum and it would in no way compensate me for the capital expenditure at a time when very significant reductions will have to be made in the forward equipment programme of the RAF (and of the other two Services). There is also the political dimension of a re-equipment of the Queen's Flight, which would be readily liable to misinterpretation at a time of grave economic recession.

5. My reluctant conclusion is that the re-equipment of the Flight must be shelved.

6. I am sending copies of this minute to the other members of the Cabinet, the Minister of Transport and the Chief Whip; and to the Secretary of the Cabinet.

FH

Ministry of Defence

20th November 1980

CONFIDENTIAL

Defence

10 DOWNING STREET

From the Principal Private Secretary

18 November 1980

Dear Brian,

THE QUEEN'S FLIGHT

I have shown the Prime Minister your letter of 12 November 1980 about The Queen's Flight.

In the light of your letter and of Mr. Pattie's minute to your Secretary of State, the Prime Minister thinks that we now have no alternative but to decide that we cannot acquire the two BAe 1-11s for The Queen's Flight, even though this appears to mean that we shall almost certainly have to replace the Andovers in due course with foreign aircraft. She agrees that it would be helpful if Mr. Pym could make a brief report to the Cabinet, as he has suggested.

Passage deleted and closed, 40 years, under FOI Exemption.
OWayland, 27 Aug. 2013

Yours ever,

Clive Whitmore.

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

CONFIDENTIAL

Covering SECRET

CONFIDENTIAL

Prime Minister -

I think we now have to come to a firm conclusion that we cannot acquire the two BAe 1-11s; even though this almost certainly means that eventually we shall have to buy foreign aircraft to replace the Andovers. Agree?

* ~ * do you want Mr Lyne to report briefly to Cabinet, as he suggests? — Yes pls.

Dear Clive,

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

MO 35/5 12th November 1980

THE QUEEN'S FLIGHT

The Prime Minister asked after her meeting on 22nd October - your letter of the same date - that my Secretary of State should set out for her as fully as possible the economic arguments for buying two BAe 1-11s for the Queen's Flight. My Secretary of State has asked me to let you have the report which follows, which is an estimate of the savings in running costs which we might expect to make with some reference also to capital costs.

Cost Savings

There are three possible areas of savings:

a. Lower fuel costs in operating BAe 1-11s instead of VC10s for Royal/Ministerial travel beyond the range of the present TQF aircraft;

b. Savings in charter flying now made necessary by Royal/Ministerial travel;

c. Overall savings resulting from a reorganisation of TQF/32 Sqn.

On (a), first, the annual cost of operating the two BAe 1-11s would be somewhat higher than the cost of the three TQF Andovers (to the tune of some £200,000 a year); but we would gain significantly in speed and payload and one BAe 1-11 could on occasions do the job for which two Andovers or HS125 are needed at present. Secondly the BAe 1-11 uses less fuel than the VC10 (burning it at the rate of 3.16m^3 per hour compared to the VC10's 8.865m^3 per hour at a price of about £150 per/m^3). Our estimate is that over a five-year period, on past patterns and the most favourable assumptions, the saving involved in using the BAe 1-11 might amount to up to £620K, say £125,000 a year.

* ~ * Passage deleted and closed, 40 years, under FOI Exemption.
C Wayland
27 August 2013

C A Whitmore Esq

CONFIDENTIAL

Covering SECRET

On (b) there are two aspects - extra charter flights on MOD account made necessary by the diversion of RAF VC10s for Royal/Ministerial flights; and extra charter flights on DoT account for civil air travel by Royalty when the RAF cannot provide aircraft. The former cost us about £160,000 between June 1978 and June 1979 (all Ministerial flights) and nothing since. It is impossible to say for the future how far the availability of BAe 1-11s in TQF would reduce the demand for VC10s and consequently the need for extra charter on MOD account.

As regards (c), and as was illustrated in the working party report, a copy of which I sent you earlier, there are potential savings to be made from a reorganisation of the Royal/VIP fleet of a sort which buying the BAe 1-11s would make possible; one such scheme could produce overall savings of nearly £250,000 a year, though like all the options examined it had disadvantages.

In summary, as regards running costs, the purchase of two BAe 1-11s might save us up to £400,000 a year on the most favourable assumptions; but in practice the saving might be a good deal less, particularly in view of the point about comparative BAe 1-11 operating costs made in my third paragraph. As regards capital costs, the sale of three Andovers and an HS125 might raise enough to offset the latest increase in the estimate of the cost of refurbishing and equipping the BAe 1-11s; in which case the net cost of purchase would remain at say £14M. Overall, therefore, if we had to make an estimate of the period over which the new BAe 1-11s would "pay for themselves" by savings on running costs, it would be something over thirty years, considerably more than the likely life of the aircraft for Royal purposes. The annual saving would be of insignificant benefit to the defence budget in the years 1981/82 and 1982/83 when the purchase price would have to be paid.

Costs of Purchase of BAe 1-11s

The Under Secretary of State for the Royal Air Force has had a further look, in the light of the Prime Minister's meeting, at the implications of purchasing two new aircraft, and my Secretary of State has asked that the Prime Minister should see the enclosed minute which Mr Pattie has sent him in which Mr Pattie records his view, in which Mr Pym concurs, that it is not now possible to contemplate any purchases from the Defence Budget.

Perhaps you would let me know what action the Prime Minister would now like taken. If she would like my Secretary of State to make a brief report to the Cabinet, he would, of course, be very ready to minute accordingly.

Yours ever,

Brian

(B M NORBURY)

PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE FOR THE ROYAL AIR FORCE

US of S(RAF)/1/25/2

→ Secretary of State

Copy to:

Minister of State
PUS

THE QUEEN'S FLIGHT - RE-EQUIPMENT

As you know, this is a subject in which I have taken a keen and abiding personal interest. I and my officials over the months have investigated the various possibilities by which the two remaining BAe 1-11 aircraft could be secured for the Queen's Flight. The various permutations considered have ranged over outright purchase, leasing, deferred payment and the bartering of existing RAF aircraft assets. The last two elements are included in the latest, and first formal, offer from Sir Freddie Page of BAe in the attached letter. I believe that better terms might have been achieved, in the shape of reducing and further spreading payments, but the current financial situation is such that even such an improved offer could not be contemplated as a possibility at the present time.

Even since our visit to No 10, the implications of our current budgetary difficulties have become more apparent. My own department is now under very great pressure to make big reductions in next year's sketch estimates involving:

Deferring purchase of 18 Hawk jet trainers;

Deferring a planned purchase of Jet Provost trainers;

Deferring purchase of 14 Jetstream 31 communications aircraft;

Reviewing the Sea Eagle anti-ship missile programme;

The possible cancellation of the third Lightning Air Defence Squadron, (which formed a major element of our commitment to improve the Air Defences of the UK base, in the package announced to the House in July of last year, and which I believe it would be politically difficult to concede),

and many more cuts in the equipment programme.

/I cannot

I cannot see how expenditure of some £14M on the BAe 1-11s, at such a time, could possibly be justified in terms of relative priorities - either to our Service colleagues or the House. Even were they to be purchased from other Government funds there would be those who would rightly contend that if money were to be 'given' to Defence, then there are more deserving causes than the replacement of a totally airworthy and capable aircraft.

The Prime Minister asked at our last meeting for an analysis of the economic case for the purchase of the BAe 1-11s. Following my description of the present financial situation this becomes a task of a rather academic nature. Whilst the BAe 1-11s would have offered some economies, AUS(AS)'s examination has shown that the level of operational useage is likely to be such as to need some 30 years to recoup the capital costs of the re-equipment. I did also consider whether there were possible economies to be found in the VIP fleet, by amalgamation of the Queen's Flight into a single dedicated communications squadron at RAF Benson, and the sale of RAF Northolt, as a further offset. Whilst I am advised that this would be impracticable, and am prepared in the current difficulties to accept this, I feel that this is an area which will require further detailed study in the not too distant future. However, at this time, these various economic elements are not such as to provide the necessary justification sought by the Prime Minister which would permit the re-equipment to proceed.

It is therefore with deep personal regret that I have, inexorably been led to the conclusion over the last few days that there is no room to accommodate the TQF re-equipment proposals in a budget in which there has never been any allocation for this purpose. Other than receiving the aircraft as an outright gift, which common sense dictates would be an extremely unlikely possibility, I am afraid that we shall have to accept that the BAe 1-11s will, as a commercial fact of life, soon cease to be available to us. Should circumstances dictate that the aircraft be replaced at a later date then the simple fact is that we shall have to opt for a foreign purchase. My final concern now is that we should ensure that the loss of this opportunity at this time is recognised at the highest level throughout the Government, and that we should not be held to book at some future date for having let it slip through our fingers.

7th November 1980

US of S(RAF)

1/25/2

British Aerospace

AIRCRAFT GROUP
HEADQUARTERS
RICHMOND ROAD, KINGSTON-UPON-THAMES, SURREY KT2 5QS

5th November, 1980.

Dear Geoffrey,

We are pleased to offer for sale two green BAC 1-11 aircraft series 475 subject to the following conditions:-

1. A firm fixed gross price for the two green aircraft of £8.5m. (Eight and a half million pounds).

2. That no cash payment is made in the current financial year but in lieu HMG shall pass to BAe title in three HS 748 aircraft and one HS 125-400, all such aircraft to be delivered to BAe within thirty days of acceptance of this offer.

3. That 25% of the purchase price of £8.5m, abated as indicated by paragraphs 8 and 9 hereafter, be paid to BAe by the 1st May, 1981.

4. That on delivery of the first green aircraft in the first quarter of financial year 1981/82 BAe be paid 25% of the net contract price as defined in paragraph 7.

5. That on delivery of the second green aircraft in the third or fourth quarter of financial year 1981/2 BAe is paid 25% of the net contract price as defined in paragraph 7.

6. That on delivery of the finalised equipped version of each aircraft 12½% of the net contract price shall be paid. Such payments to attract interest at normal commercial rates from the date of delivery of each green aircraft.

7. The net contract price shall be the sum of £8.5m abated as indicated in paragraphs 8 and 9 as follows.

8. If the three 748 aircraft have been operating in the Queens Flight immediately before transfer to BAe, the gross price of £8.5m will be reduced by £1.5m to a net price of £7m.

4397

cont.....

From: SIR FREDERICK W. PAGE, C.B.E., M.A., F.Eng., F.R.S., F.R.Ae.S., CHAIRMAN & CHIEF EXECUTIVE Aircraft Group

TELEPHONE: 01-546 7741 TELEGRAMS: BRITAIR KINGSTON-UPON-THAMES TELEX: 23726

9. If the three 748s have been operating in the RAF VIP Flight immediately before transfer to BAe, the gross price of £8.5m will be reduced by one million pounds to a net price of £7.5m.

10. Within sixty days of acceptance of this offer both parties will finalise the specification and fit of equipment and furnishings required to progress the aircraft from the green to the acceptance standard.

11. The method of recompensing BAe financially over years 1981/3 undertaking the work involved in converting the aircraft from the green to the acceptance standard, see paragraph 10 above, will be agreed by both parties within 60 days of acceptance of this offer and will be subject to progress payments from MOD consistent with past custom and practice.

12. This offer, subject to contract, is valid until the 31st December, 1980.

13. The two aircraft in question are at present on the market world-wide and we would appreciate hearing from you at your earliest convenience.

Needless to say, we are most ready to vary any of the foregoing conditions to suit your needs provided the broad outline of our proposal is acceptable and maintained. We hope you will agree that the above offer is exceptionally keen and attractive in both price and payment terms.

Yours sincerely,

Freddie

Mr Geoffrey Pattie, MP;
Parliamentary Under-Secretary of State for Defence (RAF)
Ministry of Defence,
Main Building,
Whitehall,
London S W 1A 2HB.

From: SIR FREDERICK W. PAGE, C.B.E., M.A., F.Eng., F.R.S., F.R.Ae.S., CHAIRMAN & CHIEF EXECUTIVE Aircraft Group

TELEPHONE: 01-546 7741 TELEGRAMS: BRITAIR KINGSTON-UPON-THAMES TELEX: 23726

File

Defence

SUBJECT.

cc. Master set.

10 DOWNING STREET

From the Principal Private Secretary

22 October 1980

Dear Brian,

QUEEN'S FLIGHT

The Prime Minister held a meeting this morning with your Secretary of State, Mr. Pattie and the Chief of the Air Staff to discuss the possible re-equipping of the Queen's Flight.

The Defence Secretary said that although the Andovers of the Queen's Flight still had a lot of life left in them, they were ageing and the opportunity to replace them with BAe 1-11s, once lost, would not recur. Moreover, the operating costs of BAe 1-11s would be lower than those of the VC10 and of the Andover. It was important that when The Queen and senior Ministers went abroad, they travelled in high quality modern British aircraft. On the other hand, the present pressure on the Defence Budget made it virtually impossible for the Ministry of Defence to find the £14m capital cost of the two aircraft, and if it were decided to go ahead with their purchase, he would expect other departmental budgets to contribute towards their cost. But even if some arrangement for sharing the capital costs on these lines could be agreed, there remained the question whether it would be politically wise to spend money buying the BAe 1-11s at a time when there were severe constraints on public expenditure generally. On balance, his instinct was against acquiring the aircraft now.

Mr. Pym added that it had been suggested that rather than buy the two new aircraft which British Aerospace had available, we should re-equip the Queen's Flight with second-hand BAe 1-11s which would be brought up to standard by refurbishment. But he personally did not like this idea: sending The Queen and senior Ministers abroad in second-hand aircraft would not improve our standing overseas.

Mr. Pattie said that not only would the BAe 1-11s be cheaper to operate than both the VC10 and the Andover but it was likely that the capital cost of the aircraft would be partly offset by selling to British Aerospace three Andovers and possibly one HS125. We did not yet have a firm figure for the price we would get, but £3m was the outside figure and it was more likely to be

/£2m or less.

£2m or less. More generally, it might be possible to make out a better case for buying the BAe 1-11s if the re-equipping of the Queen's Flight was seen as part of a wider reorganisation of the RAF's communications aircraft capability as a whole. It was desirable to come to a fairly early decision about the purchase of the BAe 1-11s because British Aerospace had had an enquiry from another potential customer and had made them an offer for the sale of the aircraft which they were now considering.

The Chief of the Air Staff said that there was no defence requirement as such for the BAe 1-11s. If the Air Force Budget had to bear the capital cost of these aircraft, this would mean that there would be less money to spend on the RAF's operational capability.

The Prime Minister said she was in favour of re-equipping the Queen's Flight with the two BAe 1-11s provided their purchase could be justified on economic grounds. She would therefore be grateful if the Defence Secretary could set out as fully as possible the economic arguments for buying the aircraft. In particular it would be important to show how quickly the capital costs could be recovered by savings in running costs. If it was eventually decided to acquire the aircraft, it would be important to bring out that this was the last opportunity for many years to re-equip the Queen's Flight with modern British aircraft.

Yours ever,

Steve Wharton.

Brian Norbury, Esq.,
Ministry of Defence

Miss Stephens: To note. Defence

3 October 1980

MR WHITMORE

cc PHO. MW 6x.

Any idea when the meeting on Queen's Flight and SSPF with Francis Pym is likely to happen?

JOHN HOSKYNS

Mr Hoskyns.

It will be at 1045 on Wednesday 22 October.

Would you like to be there?

MW 6x.

Yes please - I think I should be, having got P.M. involved in the SSPF thing. CR

In diary 8.10.

CONFIDENTIAL

Arranged for 1600 on Monday 20 October.

MISS STEPHENS

Ch. 30/9.

10 DOWNING STREET

Defence

From the Principal Private Secretary

29 September 1980

Dear Brian,

THE QUEEN'S FLIGHT

I have shown the Prime Minister your letter of 18 September, 1980 which sets out clearly the issues on the question of re-equipping The Queen's Flight.

She agrees that we should now try to bring this matter to a conclusion and to that end she would like to have a meeting with your Secretary of State, Mr. Pattie and the Chief of the Air Staff.

She proposes to take advantage of that occasion to discuss with the Defence Secretary Mr. Warwick Collins' proposal for a Single Seater Propeller Driven Fighter (SSPF) about which you wrote to me on 7 July 1980 and on which there has been correspondence recently in The Times, together with an article by Mr. Collins himself in the Daily Telegraph of 22 September.

We will be in touch with your office to arrange a time for the meeting.

Yours ever,

Clive Whitmore.

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

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

The Queen's Flight

The attached letter from the MOD sets out the issues for and against buying the two BAe 1-11s very clearly (it rules out leasing on what seem to me to be sound grounds). The cost would be at most £14 million spread evenly over 1981/82 and 1982/83.

If we are to go ahead with the purchase, Mr Pym seeks your support in trying to persuade Sir Keith Joseph and Mr Nott to find at least some of the money. No doubt they would resist such a suggestion; and I detect that Mr Pym is not toally determined about it. Nonetheless, as he points out, now would be a difficult time - with the cuts being made in the defence programme - for the the defence budget to be seen to be bearing the cost of these aircraft.

We now need to decide in principle whether we are going to buy the BAe 1-11s or not. I think that it would be helpful if you were to discuss this with Mr Pym. We might usefully have Mr Pattie and the Chief of the Air Staff there as well; and we could deal with the SSP Aircraft Project at the same time (there are papers on this elsewhere in this box). Shall we arrange such a meeting?

Yes MT

AWL.

27 September, 1980

CONFIDENTIAL

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

MO 35/5

18th September 1980

Dear Clive,

My Secretary of State has looked into the queries on the possible re-equipment of The Queen's Flight (TQF) recorded in Mike Pattison's letter of 13th August and yours of 10th September.

Mr Pym has concluded from his enquiries that leasing is neither practicable nor necessary. The advice he has been given (on which please see the note at Annex) is, in fact, that leasing would defeat the purpose of the exercise because it would be very considerably more expensive than outright purchase. Various schemes would be possible, but in broad terms the lease would become as expensive as outright purchase after about five years, and tax law requires that a lease should last for ten years (thus ruling out the option of a one year lease). During the lease the aircraft would belong to a finance house which would be subject to the normal risks of business, and a coat of red paint could not necessarily convert them into RAF aircraft for legal purposes. My Secretary of State does not consider that it would be appropriate to hire the principal aircraft for TQF in this manner; and the Treasury will not normally agree to leasing as a means of meeting a continuing commitment at a higher overall cost than outright purchase. As regards the need for any such arrangement in order to keep a lien on the aircraft there must, of course, always be some risk that a customer will make an offer which BAe are bound to entertain, and this risk will increase the longer we delay. On the other hand the firm is well aware of our interest and they would tell us of any enquiries, so that we have a good early warning system; nor would it be right to make a formal arrangement involving a degree of liability (and penalty payments for withdrawal) unless we had a reasonable prospect of going ahead.

C A Whitmore Esq

Against this background my Secretary of State has asked the Under Secretary of State for the Royal Air Force to have yet another look at the possibility of purchasing the aircraft outright. As the Prime Minister has recognised, there can be no question of purchasing the two BAe 1-11s from this year's Defence Budget but Mr Pym has considered whether, with a degree of hard bargaining with BAe, an acceptable purchase scheme could be devised for the future. He understands that we might be able to persuade the firm to agree to reduce the price of the two 'green' aircraft to £8.5M, to spread the purchase price evenly over two years with the first payment in April 1981, and to buy from us at a fair price the aircraft which would be displaced from TQF and 32 Squadron by the BAe 1-11s (as explained in the working party report which the Prime Minister has seen). Allowing for the cost of bringing the aircraft up to TQF standard, this suggests a gross cost of about £7M in each of the years 1981/82 and 1982/83, partly offset by the proceeds of selling the displaced aircraft; BAe cannot yet put a figure to the amount they would be prepared to offer. In broad terms the annual cost of outright purchase might thus be about twice the annual cost of leasing the aircraft; overall, outright purchase is clearly the better solution. At first sight such a deal would be not unattractive although it would still represent an unacceptably high charge to the Defence Budget, and my Secretary of State would be prepared to consider, if that was the Prime Minister's wish, whether it could be confirmed with the firm and, in that event, whether, and notwithstanding the very acute pressures to which he fears the Defence Budget will continue to be subject in the coming years, Government money could be found to pay for them.

The arguments both for and against re-equipment have been fully rehearsed in previous correspondence, and Mr Pym assumes that the Prime Minister would not wish to see a full restatement of them in this letter. In brief the arguments in favour are that if we purchased two BAe 1-11s we would be taking the last opportunity which seems likely to arise for the next eight years to bring up-to-date an increasingly outmoded means of air transport for the Queen and senior members of the Government; and we would be making a distinct contribution to the British aviation industry. Against that, heavy costs would fall on the Defence Budget and Mr Pym has asked me to emphasise that he cannot commit himself to meeting even a part of them and that there is no Defence argument as such in favour of so doing; and we would be equipping the Flight with aeroplanes which are not ideal, and will fairly quickly become outdated. In general, Mr Pym considers that it would be reasonable for a contribution to be made from other budgets for this purchase, particularly from those of the Secretaries of State for

Industry and for Trade who have both represented to him the industrial, commercial and non-defence advantages of equipping the Flight with more up-to-date aircraft, and bearing in mind the use made of TQF aircraft by other senior Ministers; and he would look for support from the Prime Minister in this. There is also the political dimension. On this the question is quite simply whether the risk of adverse publicity to the Queen, and the Government, that could arise from a non-essential re-equipment of the Queen's Flight at a time of acute economic difficulty for the country, and of large, and rising unemployment, would be such as to outweigh any tangible gains. Public interest could extent into other questions, such as the maintenance of HMY Britannia. My Secretary of State would himself also have to bear in mind the possible - perhaps probable - criticism of such a use of defence funds at a time when the equipment programmes of all three Services are being severely constrained. The timing of any announcement would, of course, be relevant but it would not be practicable to think in terms of deferring an announcement once serious negotiations with British Aerospace had begun: they would be virtually certain to leak.

My Secretary of State would be most grateful for the Prime Minister's advice, and is, of course, at her disposal if she would like a word: if she did judge that the doubts rehearsed above notwithstanding it would be right to make an attempt now to secure a re-equipment, he would like further to examine the ideas above (and any others that may be offered) and bring forward firm proposals. Otherwise it would be best to regard the matter as closed in the shorter term,

Passage deleted and closed, 40 years, under FOI Exemption.
CWayland
27 August 2013

Yours ever.
Brian

(B M NORBURY)

ANNEX

COST OF AIRCRAFT LEASE

Assuming that a Finance House is prepared to operate a leasing scheme for two BAe 1-11 aircraft bought "green" and then converted to TQF standard, there are several possible schemes including the following:

a. Immediate Single Stage Lease - The aircraft are sold to the Finance House by BAe on signature of contract, BAe finance work in progress from the balance between contract price and cost-to-date, HMG starts payment of premiums immediately;

b. Two Stage Lease - HMG leases the aircraft "green" and pays premiums on the "green" price at once; on completion of modifications the premiums are increased to cover full value;

c. Single Stage Lease on Delivery - HMG pays a peppercorn at once, BAe pays the cost of work in progress, and HMG pays premiums to cover full cost from delivery.

2. Assuming the 25% writing-down allowance in the latest Finance Act, a London Interbank Offered Rate of 13% and a 10-year full pay-out lease, half-yearly payments per £1,000 of value will be £90 for premiums paid in arrears and £85 for premiums paid in advance. The cost of leasing the BAe 1-11s would depend on the scheme adopted (para 1 above), the rate of interest charged, the method of payment, and any commitment or allied payments charged by the Finance House. For illustration, scheme a. above might cost about £3 - 3.5M a year; scheme b. might cost about £2 - 2.5M a year to start with and £3 - 3.5M a year thereafter; and scheme c. might cost about £3.5 - 4M a year.

CONFIDENTIAL

FT-19-9-80

10 DOWNING STREET

From the Principal Private Secretary

10 September 1980

Dear Brian,

THE QUEEN'S FLIGHT

This is to confirm what I said to you when we spoke on the telephone this morning about The Queen's Flight.

The Prime Minister knows that you are already considering, in accordance with Mike Pattison's letter of 13 August, the alternatives of purchasing the two BAC 1-11s from next year's defence budget or of leasing the aircraft over a period of time. She would now like you to look not only at the broad option of leasing but also at the suggestion that we might lease the two aircraft for a period of one year, at the end of which we would decide whether to buy them outright or to return them to British Aerospace. You agreed to deal with this further option in the note which you hope to let us have towards the end of next week in response to Mike Pattison's letter of 13 August.

Yours ever,

Alex Atwood.

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

CONFIDENTIAL

CONFIDENTIAL

cc Press Office

Defence

MAD

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

MO 26/11/17

21st August 1980

Dear John,

RAF COMMUNICATIONS AIRCRAFT

Thank you for your further letter of 21st August which incorporated a revised comment from your Secretary of State which you would give to your Press Office to release if and when your Secretary of State was approached for his comment on my Secretary of State's announcement on Jetstream. We are content with the terms of your line to take, though as I have told David Reid on the telephone this afternoon we see the principal comment from your Secretary of State being that contained in the final sentence of your suggested text - that is on the employment and the industrial prospects for British Aerospace Prestwick. The preceeding three sentences would be more by way of recapitulation of what the MOD press release had said and would be used in that spirit. I note that your text has been cleared with the Department of Industry.

I have already confirmed to you that we shall be issuing our press release in the course of tomorrow, Friday 22nd August.

I am copying this letter to Mike Pattison (No 10), Pete Stredder (Industry), John Anderson (Employment), Nicholas McInnes (Trade) and David Wright (Cabinet Office).

Yours ever
John Dawson

(J D S DAWSON)

J S Wilson Esq
Scottish Office

CONFIDENTIAL

With the Compliments

of the

Private Secretary

Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU

✓ MAP Defence

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc Press

CONFIDENTIAL

Jonathan Dawson Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

21 August 1980

Dear Jonathan,

RAF COMMUNICATIONS AIRCRAFT

Thank you for your letter of 20 August in reply to mine of the same date. We discussed the issues again on the telephone this morning and I explained that there is certainly no doubt in my Secretary of State's mind of the need for him to make a separate statement if and when he is approached for comment on Mr Pym's announcement. We do however accept your reservations on our original draft and have, as you suggested, consulted with the Department of Industry, sponsoring Department for the BAe, and produced the following amended version:-

> "The moratorium on new defence contracts which affects replacement of RAF communications aircraft is a necessary consequence of the Government's efforts to control public spending in the national interest. This does not imply any change in the Government's view that Jetstream 31 would meet the RAF requirements. The effect of the moratorium on specific contracts is a matter for the Ministry of Defence and any detailed inquiries should be addressed to that Department.
>
> We shall however be keeping in touch with British Aerospace about development work on Jetstream, and the employment situation generally at the Prestwick plant."

Finally, I note your request that any inquiries about the defence budget and the requirement for a replacement communications aircraft for the RAF should be referred to the MOD Press Office.

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I am copying this letter to Peter Stredder (Industry), John Anderson (Employment), Nicholas McInnes (Trade), Mike Pattison (No 10) and to David Wright.

Yours sincerely,

John Wilson

JOHN S WILSON
Private Secretary

P.S. You also very helpfully agreed to yet another deferment of the announcement by holding until tomorrow morning (Friday

JP

cc Press

MAN

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

MO 26/11/17

20th August 1980

Dear John

RAF COMMUNICATIONS AIRCRAFT

Thank you for your letter of earlier today which we have subsequently discussed on the telephone. I can confirm that we can accept the terms of the announcement incorporated in paragraph 1 of your letter. We will, in line with your wishes, be issuing this in the course of Friday 22nd August. For the record I attach a copy of the agreed text, together with, as you had also requested, a copy of our Question and Answer brief for our Press Office.

You also mentioned in your letter that your Secretary of State had it in mind to issue his own statement after the MOD statement was issued, and you forwarded a possible draft. I have explained to you on the telephone our doubts about the need for a separate statement and the reasons why the text of the statement you offered were not acceptable to us. You agreed that you would recast the draft to reflect some further instructions from your Secretary of State, and in particular his own interests in the employment and industrial prospects for British Aerospace Prestwick. You will, I assume, wish to clear a revised text with the Department of Industry; I should be grateful, too, if we could see an advanced copy. Your Department should, of course, mark to the MOD Press Office any enquiries about the defence budget and the requirement for a replacement communications aircraft for the RAF.

I should also record that DOI officials have agreed with ours that the DOI will take the lead in preparing

J S Wilson Esq
Scottish Office

CONFIDENTIAL

the analysis of the Jetstream 31's commercial prospect called for in Mike Pattison's letter of 13th August.

I am copying this letter, with its enclosures to Mike Pattison (No 10), John Anderson (Employment), Pete Stredder (Industry), Nicholas McInnes (Trade) and David Wright (Cabinet Office).

Yours sincerely

(J D S DAWSON)

ANNEX A

PRESS RELEASE - RAF COMMUNICATIONS AIRCRAFT

"As a result of the moratorium placed on new defence contracts, announced by the Secretary of State for Defence on 8 August, it is not possible at the present time to take action to replace the Devons and Pembrokes of the RAF Communications Fleet. The Jetstream 31 would fully meet the RAF requirement. However, the steps needed to restrain defence spending rule out for the present the placing of any order for communications aircraft."

SUPPLEMENTARY QUESTIONS

Q. Does this mean that MOD will not order the Jetstream?

A. A decision to buy a replacement for the RAF's communications fleet will have to await an assessment of the MOD's budgetary position when the effects of the moratorium are known.

Q. Does this mean that an order for Jetstream will be placed when the moratorium is lifted?

A. Not necessarily. It is not possible to anticipate the situation which we shall face when the moratorium is lifted. Clearly this will depend on the effects of the moratorium on the MOD's budgetary position.

Q. Does the MOD intend to buy the Beech aircraft instead of the Jetstream?

A. The Jetstream would meet the RAF's requirement. However, we are not taking action on the replacement of the RAF's communications aircraft in view of the moratorium.

Q. Effect of the moratorium on other Ministry of Defence Orders?

A. Detailed assessments of individual requirements are being made to determine the industrial and operational effects of the moratorium. Until this is complete it is not possible to say which projects will be held up as a result of the moratorium.

jm

Defence

Department of Employment
Caxton House Tothill Street London SW1H 9NA
Telephone 01-213 3000 5949

Minister of State

Jonathan Dawson Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

20th August 1980

Dear Jonathan,

RAF COMMUNICATIONS AIRCRAFT

Lord Gowrie has seen the correspondence about the announcement your Secretary of State is proposing to make on the order for RAF Communications Aircraft and would support the wording proposed in John Wilson's letter of 20 August.

Lord Gowrie accepts that it would be wrong to suggest in the announcement that an order for Jetstream will automatically be placed when the moratorium on new defence orders is lifted, but equally, he wishes to ensure that there is no suggestion that Jetstream is out of the running.

I am copying this letter to John Wilson (Scottish Office) Peter Stredder (Department of Industry) Nicholas McInnes (Department of Trade) Mike Pattison, and David Wright.

Yours sincerely,

Leila Phoenix.

L C PHOENIX
Asst.Private Secretary

cc Press Office

Defence

MAP 20/8

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Jonathan Dawson Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

20 August 1980

Dear Jonathan,

RAF COMMUNICATIONS AIRCRAFT

Thank you for your letter of 18 August about the timing and terms of the draft press release on Jetstream. We discussed the matter yesterday and you thought your Secretary of State would have no objections to a further deferment of the announcement - at least until Thursday. As regards the final text of the announcement we thought that the following revise might meet with agreement:-

> "As a result of the moratorium placed on new defence contracts, announced by the Secretary of State on 8 August, it is not possible at the present time to take action to replace the Devons and Pembrokes of the RAF Communications Fleet. The Jetstream 31 would fully meet the RAF requirement. However, the steps needed to restrain defence spending rule out for the present the placing of any order for communications aircraft."

My Secretary of State will undoubtedly be asked for a comment when Mr Pym's announcement is made. We have it in mind to offer him the following draft statement:-

> "While the delay in finalising the contract for new RAF communications aircraft is regrettable, it is a necessary consequence of the Government's efforts to control Government spending in the national interest. The delay does not imply any change in the Government's view that Jetstream 31 would meet the RAF requirement. The effect of the moratorium on specific contracts is a matter for the Ministry of Defence, and any detailed inquiries should be addressed to that Department."

Perhaps you would confirm during the course of today that Mr Pym would be content with such a response. At the same time it would be useful if my Secretary of State could have a copy of any Question and Answer brief prepared by your Ministry to hold against press inquiries. It is of

course essential that replies to supplementaries should be absolutely consistent with the terms of the full announcement and not stray beyond the terms of the Prime Minister's decision.

I am sending copies of this letter to John Anderson (Department of Employment), Peter Stredder (Department of Industry), Nicholas McInnes (Department of Trade) and to Mike Pattison (with a copy of your letter of 18 August) and David Wright.

Yours sincerely,

John Wilson

JOHN S WILSON
Private Secretary

PS/Mr Fletcher
PS/Mr Soft
PS/SEPD
SEPD(E)
DIR S10

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

MO 26/11/17

18th August 1980

Dear John,

RAF COMMUNICATIONS AIRCRAFT

Thank you for your letter of 15th August, which I have discussed with our officials, who themselves have been in contact with your officials over the terms of the draft press release on Jetstream. First, I should say that we are content to accept your request - mentioned to our officials - that the press announcement should be deferred until Wednesday 20th August.

We have also looked carefully at the two formulations of the press release which you mentioned in your letter. You have made three changes to the draft release which was prepared by our officials viz:

a. "It is not possible at the present time to take action . . ." vice "no longer possible to take action".

b. "While the Jetstream 31 would fully meet . . ." vice "While the Jetstream 31 would have fully met . . ." and

c. "This order is not being placed whilst the moratorium lasts in view . . ." vice "No order can be placed in view . . .".

We would be prepared to accept the first and second of these proposals. However, the defence budget is likely to remain under severe pressure for the rest of this financial year (and beyond) and it would be wrong to imply (as your formulation does) that the Jetstream order would proceed when the moratorium was lifted. We would therefore see difficulty in accepting your third proposed drafting amendment. (In any case, of course, the moratorium is already mentioned in line 1 of the draft text.) In view of this, would your Secretary of State

John Wilson Esq
Central Office

be prepared to accept the hybrid text that would result from applying amendments a. and b. to our draft?

I am sending a copy of this letter to Richard Dykes (Employment), Peter Stredder (Industry), Nicholas McInnes (Trade) and David Wright (Cabinet Office). "

Yours ever
Jim Dawson

(J D S DAWSON)

Defence MAP

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Brian Norbury Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
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SW1A 2HB

15 August 1980

Dear Brian,

RAF COMMUNICATIONS AIRCRAFT

Mr Clarke, Head of Air (PE)1 at the Ministry of Defence, conveyed to me this afternoon the terms of a draft press release which your Secretary of State hopes to issue early next week. It was as follows:-

> "As a result of the moratorium placed on new defence contracts, announced by the Secretary of State (for Defence) on 8 August it is no longer possible to take action to replace the Devons and Pembrokes of the RAF Communications Fleet. While the Jetstream 31 would have fully met this RAF requirement, no order can be placed in view of the steps needed to restrain defence spending."

In my Secretary of State's absence I consulted Mr Alexander Fletcher MP, Minister for Industry and Education at the Scottish Office, who suggested a re-draft on the following lines:-

> "As the result of the moratorium placed on new defence contracts, announced by the Secretary of State (for Defence) on 8 August it is not possible at the present time to take action to replace the Devons and Pembrokes of the RAF Communications Fleet. While the Jetstream 31 would fully meet this RAF requirement, this order is not being placed whilst the moratorium lasts in view of the steps needed to restrain defence spending."

Mr Fletcher also asked me to say that no press statement should issue from your Ministry until my Secretary of State has personally had the opportunity to consider it. This may not be possible before Monday. I should add that my Secretary of State is aware of the Prime Minister's decision as conveyed in Mike Pattison's letter to you of 13 August and was content with her wishes regarding the terms of the announcement. Given the wording of the last sentence of the second paragraph of Mike's letter my view is that my Secretary of State would not agree to anything less than that suggested above by Mr Fletcher. I have informed Mr Clarke accordingly.

I am sending copies of this letter to Richard Dykes (Department of Employment), Peter Stredder (Department of Industry), Nicholas McInnes (Department of Trade) and to Mike Pattison and David Wright.

Yours sincerely,

John Wilson

JOHN S WILSON
Private Secretary

CONFIDENTIAL

File
b.c. CO

10 DOWNING STREET

From the Private Secretary

13 August 1980

I have written to you separately today about RAF communications aircraft. In your letter of 11 August to Clive Whitmore, you also covered the question of The Queen's Flight.

The Prime Minister recognises that there can be no question of purchasing the two BAC 1-11s from this year's defence budget. She nevertheless recognises the difficulties which would be encountered in re-equipping the Flight in the future once the last two 1-11s have been sold elsewhere.

The Prime Minister noted in the paper enclosed with your second letter of 11 August a brief reference to the possibility of a leasing arrangement to secure the two remaining aircraft (paragraph 24). Before reaching a final decision to reject the option of securing these two remaining aircraft, the Prime Minister would therefore like to see an analysis of the possibilities of purchasing them from next year's defence budget, or of entering into a leasing arrangement with the costs met over the relevant period from the defence budget. We will also need to consider what, if anything, ought to be done by way of preserving an option on these aircraft, pending a final decision.

M. A. PATTISON

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

CONFIDENTIAL

CONFIDENTIAL

HS

File

cc: SO
D/Emp
D/I
D/T
DOE
WO
D/N
Chief Sec
CO
Press Office

Defence

10 DOWNING STREET

From the Private Secretary

13 August 1980

Dear Brian

Thank you for your letter of 11 August, about the questions of communications aircraft and The Queen's Flight in the light of decisions on the defence cash limit for 1980/81. The Prime Minister has also seen the Secretary of State for Scotland's minute of 8 August and Lord Gowrie's minute of the same date.

The Prime Minister agrees that the moratorium on defence contracts must apply to communications aircraft. Quite apart from this aspect of the question, the Prime Minister understands that there are still doubts as to whether Jetstream can sell enough to break even let alone to make a profit. She feels that, if this aircraft was clearly going to be a commercial success, British Aerospace would have demonstrated much greater enthusiasm than has been the case. She is not yet satisfied that Ministers have had adequate analysis available to them on this point, and she would not therefore wish to announce finally at this stage that there will be no Jetstream order. For the present, therefore, she would wish an announcement simply to cover the fact that no communications aircraft will be ordered whilst the moratorium lasts, and she would not wish any such announcement to imply that the Beechcraft rival to Jetstream is once again being treated as a serious option.

I am sending copies of this letter to John Wilson (Scottish Office), Richard Dykes (Department of Employment), Peter Stredder (Department of Industry) and Nicholas McInnes (Department of Trade), whose Departments will need to be consulted about the wording of the announcement, and to the Private Secretaries to the other members of E(EA) and to David Wright (Cabinet Office).

I shall be writing to you separately about The Queen's Flight.

Yours ever

Mike Pattison

Brian Norbury, Esq.,
Ministry of Defence

CONFIDENTIAL

DSG

CONFIDENTIAL

Defence.

Department of Employment
Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

Minister of State

Tim Lankester Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

12th August 1980

Dear Mr. Lankester,

RAF COMMUNICATIONS AIRCRAFT

Lord Gowrie has seen the Secretary of State for Scotland's minute of 8 August to the Prime Minister and also the letter of 11 August from the Secretary of State for Defence's Private Secretary to Clive Whitmore.

Lord Gowrie accepts that the order for Jetstream cannot be placed during the moratorium on new defence contracts, but he is concerned that when the order for a new communications aircraft is placed, the Ministry of Defence will not re-open the question of principle and revert to the idea of buying American.

He also appreciates Mr Younger's concern that the deferment of the order might lead British Aerospace to cancel the Jetstream project. He very much hopes that this will not happen and that British Aerospace will be encouraged to keep the project going on the understanding that the MOD order for Jetstream will in due course be placed with them.

I am copying this letter to Ian Ellison (Department of Industry) the private secretaries to the other members of E(EA), George Walden (FCO) and David Wright (Cabinet Office).

Yours sincerely,

Lela Phoenix

pp DAVID FRASER
Private Secretary

PRIME MINISTER

Jetstream and the Queen's Flight

I attach Cabinet Office advice following the latest exchanges on RAF communications aircraft. You said earlier today that you saw no way in which an order could go ahead now. The recent Ministerial exchanges, flagged below, have also covered the issue of how to announce this. Content to go ahead on the basis of points (a), (b) and (c) in Cabinet Office advice below?

On the question of the Queen's Flight, the Cabinet Office suggest that the Ministry of Defence should be asked about the scope for purchasing the remaining 111's next year. In the Defence Paper on the Queen's Flight, there is also a passing reference to a possible leasing arrangement. If you wanted Defence to consider possible future purchase of the 111's, this might be another option. * ~ *

Do you want to decide firmly that there is no scope for purchasing the 111's, or would you like Defence now to consider purchase next year or a leasing alternative?

Jetstream. Agree moratorium must apply to communications aircraft. Quite apart from the need for economies, I understand the need to keep a low profile. Trouble is that it is doubtful whether Jetstream will sell enough to break even let alone make a profit. Had it been a winner it seems to me that B Aero should have been a lot more enthusiastic about it than they have been to date. Until that point is properly sorted out I should delay a final decision.

MAP

Queen's Flight. * ~ * Is it possible to keep an option to purchase PTO.

* ~ * Passages deleted and closed. 40 years, under FOI Exemption.

C Wayland
27 August 2013

12 August, 1980

next year, is to enter into a leasing arrangement. I understand there would also be very convenient for Ministerial flying and cheaper than taking a VC10 out of service.

MT.

Ref. A02879

MR. PATTISON

MOD Cash Limit 1980-81: Jetstream and The Queen's Flight

In his letter of 11th August to Mr. Whitmore, the Private Secretary to the Secretary of State for Defence raises two separate issues: the purchase of Jetstream and the purchase of two new BAC 1-11s for The Queen's Flight.

Jetstream

2. Mr. Pym proposes deferring a decision on a replacement RAF communications aircraft until next year - i.e. after the moratorium on new defence contracts has ended, if it is not extended from its minimum 3 months. He also proposes to announce now "that we will not place the order for Jetstream". Both the Secretary of State for Scotland and Lord Gowrie have argued (in minutes of 11th and 8th August respectively) for retention of the Jetstream project, with the Secretary of State for Scotland proposing funding from the Contingency Reserve.

3. There are three available options:

A.

(i) To confirm that the replacement RAF communications aircraft is covered by the moratorium on contracts, but not to announce - or decide - at this stage that Jetstream will not be ordered. This is probably the easiest course, and the Secretaries of State for Scotland and Employment may accept it, although with some reluctance. They may recall your letter of 17th July to Mr. Pym's office, in which you recorded that the Prime Minister has suggested that MOD was unlikely to be able to afford any replacement aircraft at present. Any announcement should not imply that the Beechcraft rival is a likely runner. The main difficulty about this option is that BAe may say they need to know now whether it is worth spending any more money keeping the project alive.

(ii) To decide now that there should be no replacement RAF communications aircraft for the foreseeable future from any source. This would have the merit of being definite and conclusive, but would provoke maximum political opposition, and BAe might invoke the Prime Minister's earlier indications to them in favour of Jetstream (as recorded in Mr. Sanders' letter of 1st July to Mr. Pym's office).

(iii) To decide that the Jetstream should go ahead now, as an exception to the moratorium. In that case Mr. Pym will argue that MOD's share of the costs should be funded from the Contingency Reserve. This in turn will be opposed by the Treasury, on the grounds that the Reserve is now fully committed.

4. On balance, (i) seems the best course. It effectively defers a decision and makes it easier to consider further the possibility of either cancellation or the eventual purchase of Jetstream.

The Queen's Flight

5. Mr. Pym argues that the MOD cannot now meet the cost of the proposed two BAe 1-11 replacement aircraft from their own budget, although this is how they would normally be expected to be financed. But he points out that, if the aircraft are then sold to another buyer, the existing Queen's Flight aircraft would have to remain in service for some 8 years more before the 146s are available (assuming Romanian-built 1-11s are ruled out).

6. The main options here are:-

(i) To insist that the two BAe 1-11 aircraft should be bought now. If so, Ministers will have to decide whether this means a call on the Contingency Reserve, despite existing commitments.

(ii) To ask MOD to reserve the aircraft now for ordering next year (e.g. through a letter of intent). This will then need to be taken into account in discussions next year about Defence cash limits.

(iii) To agree to no early replacement aircraft.

7. On the whole (ii) seems the most acceptable option. In that case MOD should be asked to explore the possibilities of a reservation in advance of an order next year. But in view of the public expenditure implications implicit in this option, the Prime Minister may want to consider whether the Palace should be consulted again on the need for replacements.

8. You might consider replying along the following lines:

(i) On Jetstream, the MOD should make clear that the RAF communications aircraft order is covered by the general defence contracts moratorium. Mr. Pym should bring the issue back to his colleagues in the context of seeking decisions on the resumption of defence contracts after the end of the moratorium. Any announcement should be agreed not merely with the Treasury and Scottish Office but also with the Departments of Industry and Employment.

(ii) On The Queen's Flight, the MOD should explore the scope for reserving replacement BAe 1-11s for delivery next financial year

Passage deleted and closed, 40 years, under FOI Exemption. CWayland, 27 August 2013

D.J. Wright

(D.J. Wright)

12th August, 1980

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 8/2/12

11th August 1980

Dear Clive,

MOD CASH LIMIT 1980/81: JETSTREAM AND THE QUEEN'S FLIGHT

In his minute to the Prime Minister of 16th July my Secretary of State explained the difficulties in view of our forecast overspend that we would face in proceeding with the purchase of any aircraft to meet the RAF requirement for a new communications aircraft. Decisions have now been reached on the defence cash limit for this year, as a result of which my Secretary of State has imposed a moratorium on new defence contracts and is also - and as he explained to the Cabinet on 7th August - having to make a wide range of other cuts in activity by the Forces.

In these circumstances, foreshadowed in paragraph 4a of my Secretary of State's minute of 16th July, a decision on any purchase to meet the RAF communication requirement will need to be postponed until next year. This also rules out the possibility which was mentioned of proceeding with the cheaper Beech aircraft coupled with placing an early order for the last two available BAC 1-11s for The Queen's Flight. The note at Annex describes the position regarding new aircraft for The Queen's Flight. My Secretary of State recognises that there would be advantages in purchasing the BAC 1-11s for the improvement they would provide for The Queen's Flight, the trade advantages of seeing members of the Royal Family and Ministers travelling in new British aircraft, and the relief which this

C A Whitmore Esq

order would give to British Aerospace. There is also the consideration that, if we let the BAC 1-11s go to another buyer, we will have to live with the present situation for about the next 8 years. Mr Pym is clear, however, that there can now be no question of the defence budget meeting the cost of such a purchase.

Following my Secretary of State's announcement (in his written Answer) on 8th August on the imposition of a moratorium, initially for three months, on new defence contracts we are for the present taking the defensive line with the press that in principle new contracts will not be let while it is in operation (the inference will be that this includes Jetstream). My Secretary of State believes, however, that the time has now come to make it clear that we will not place the order for Jetstream, and we would propose to agree with the Treasury, and the Scottish Office the terms of public advice accordingly.

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

Yours ever
Brian

(B M NORBURY)

ANNEX

REPLACEMENT AIRCRAFT FOR THE QUEEN'S FLIGHT

The Andovers of The Queen's Flight are old and slow. Although they are perfectly safe and with careful maintenance could be kept in service for many more years, their use by the Sovereign, other members of the Royal Family and senior Ministers does not project abroad the best image of the capabilities of British industry.

2. It would obviously be preferable for any replacement aircraft to have been both designed and built in the United Kingdom. In order to obtain an aircraft of the right size and performance characteristics this must mean either waiting until the BAe 146 has proved itself in service - perhaps towards the end of the decade, or taking the two new BAe 1-11a that are already available. The RAF assessment is that the BAe 1-11s would serve The Queen's Flight better than the BAe 146 on current forecasts of the latter's performance. Any further BAe 1-11s would be built in Romania, and the two already completed but not yet sold are the last available British built aircraft.

3. The two available BAe 1-11s would cost £16½M (at September 1979 economic conditions). There is no public expenditure provision for such a purchase.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 8/2/12

11th August 1980

Dear Clive,

THE QUEEN'S FLIGHT

Further to my letter to you (and others) of earlier today about Jetstream and The Queen's Flight, you may like to have, enclosed, the report of the working party on The Queen's Flight and related VIP flying matters which earlier looked into the possibilities of re-equipping the Flight if it proved that money was available for this purpose.

Yours ever
Brian

(B M NORBURY)

C A Whitmore Esq

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REPORT OF THE WORKING PARTY ON THE QUEEN'S FLIGHT AND RELATED VIP FLYING MATTERS

Introduction

1. In October 1979 US of S(RAF) invited the Air Force Department to undertake a review of the arrangements for Royal and other VIP flying in the light of likely future VIP flying requirements and in particular to examine the case for replacing some or all of the Andovers of The Queen's Flight (TQF) and the scope for organisational changes that might permit VIP flying tasks to be met more efficiently or economically. At the request of the Minister of State it was later agreed that the study should take into account the operational advantages for VIP flying that would accrue from replacement of the RAF's Devons by more modern aircraft. The review was entrusted to a working party under my chairmanship.

The Present Royal/VIP Communications Fleet

2. A pool of VIP Communications aircraft is essential to the efficient conduct of public business and to provide suitable, safe and secure transport for members of the Royal Family travelling to official engagements. At present the need is met by:

a. The Queen's Flight, based at RAF Benson, Oxfordshire and equipped with three Andover Mk 2 aircraft and two Wessex helicopters; use of these aircraft on which the Royal Family have first call is limited to a short list of named Ministers and very senior officers.

b. 32 Squadron RAF, based at RAF Northolt, with four HS 125 400 Series (5 seats), two HS 125 600 Series (two extra seats and longer range), three Andover Mk 2, and two Whirlwind and one Gazelle helicopters; these aircraft are for the use of 3-star officers and above.

3. For long distance travel by the Queen or Senior Ministers beyond the range of these aircraft recourse may be made to RAF VC10s diverted from their regular military flying. The resulting adjustment of VC10 tasking can be extensive (particularly when a back up aircraft has to be prepared to Royal standards). The VC10 is a large and hence expensive aircraft for the transport of small parties and civil charter is sometimes needed to make good the loss of VC10 capacity. As an alternative to the use of an RAF VC10, civil airliners have been chartered for some State Visits.

4. The RAF Communication fleet also includes a squadron (No 207) of thirteen Devon aircraft, based in the UK, nine of them at Northolt. These have an important operational role in transition to war; in peacetime they are used by officers of 2 star rank and below (occasionally up to 3 star) and for ferrying aircrew, groundcrew and urgently needed equipment between stations. The Devons are not suitable for VIP use. If they are replaced by a more modern type - as proposed in ASR 408 - these will be required primarily for their RAF tasks outlined above, though, if peak VIP demand dictates, theywill be considered for VIP tasking as happens at present. We are currently (May 1980) trying to negotiate the purchase of BAe Jetstream 31 aircraft to ASR 408, but we shall not know for some time whether it will be possible to make a contract on acceptable terms, or when the aircraft will be available.

5. For shorter distances 32 Sqn has for a long time had two Whirlwind helicopters but in 1977 a Gazelle helicopter was added to the establishment, providing a more economic and direct of travel for journeys of up to 200 miles with one or two passengers.

The Demand for Royal/VIP Flights

6. The aircraft of The Queen's Flight and 32 Sqn provide on average a total of 8 fixed wing and 5 helicopter airframes available for tasking each day. Up to about a year ago this was insufficient to meet the demand and serious consideration was being given to the possibility of acquiring an additional HS 125. However, economies in travel costs have led to a reduction of demand and as a result overall usage of the fleet over the year 1979-80 dropped to some 75% of the authorised flying task.

7. Within this total, however, the volume of Royal Flying has remained fairly constant; utilisation of Queen's Flight aircraft last year was about 100% of established capacity.

8. For longer journeys beyond the range of the Andovers and HS 125s there were in 1979 14 taskings involving special VC10 flights totalling 500 flying hours; this flying, along with preparation of tasked and reserve aircraft, took up 200 airframe days. Additionally a further 5 long distance Royal Flights were made using chartered civil airliners.

9. It is unusually difficult to predict the likely demand for Ministerial/VIP special flights in future years. The level of demand is influenced considerably by policy on the method of travel to be used and the rate which MOD must charge other Government Departments for use of communications aircraft; and the Treasury instruction that all repayment services should be on a full cost basis from April 1981 may well lead to a reduction in demand.

The Case for New Aircraft

10. It follows that a case for re-equipment of any of the fixed wing aircraft of The Queen's Flight or 32 Squadron does not rest on the need for additional aircraft; and none of the existing aircraft has yet reached the end of its economic life. However, the Andover is by modern standards an outdated design, slow, of poor range, and uncomfortable because it cannot fly 'above the weather'. Its use as VIP transport for the Head of State and the Prime Minister, for example, involves a loss of valuable time and does nothing to enhance national prestige. Andovers compare badly with the more modern aircraft used by other Heads of State and Government. They do not have the number of seats or the baggage capacity needed by some parties, and their poor range means recourse has often to be made to uneconomic use of a VC10 or charter of a civil airliner. Therefore, while by our normal criteria it is too soon to consider replacement of the Andovers, the standards which apply to Royal and very senior Ministerial flying call for special consideration; and there is an additional reason for taking a decision without delay, namely, that we may soon lose the opportunity of a suitable British replacement.

11. Any replacement for the Queen's Flight Andovers should clearly be larger, faster and have substantially longer range than the Andover but a similar short field performance. It must also be British. The HS 125s already in RAF Service and the Jetstream 31 which may be procured to replace the Devons (but see para 4 above) lack the performance needed for the longer range/higher payload part of the task. The B Ae 146 is not yet in production, it lacks the necessary range, and it could not be considered for Royal use until its safety and reliability had been proven in several years of regular passenger service. The only other candidate is the B Ae 1-11-475 series. This aircraft offers a capacity of about 30 in a VIP fit, a stage length of 2400 nautical miles, and a short field performance; these characteristics make it a very suitable aircraft for the role. To ensure availability of at least one aircraft whenever required, while providing for crew training and route proving flying, a minimum of two aircraft are necessary; and the last two 111 aircraft likely to be available from new production in this country are currently awaiting purchases at BAe's factory.

12. From the financial point of view, the capital cost would be significant [£16.5M] for two B Ae 1-11 aircraft plus approximately [£150K] for associated works services and special ground equipment for which no provision is made in current Estimates or in the forward costings. The current year's out-turn looks like a heavy overspend; and the forward costings are currently under review as a result of the work of the Defence Programme Working Party. For these reasons it will not be until the Autumn of 1980 that we will know whether the Air Force Target Heading could accommodate such a purchase and what offsetting reductions in the equipment programme might have to be made. However, the

acquisition of such aircraft would allow the RAF to offer a higher and more impressive standard of transport for Royalty and very senior Ministers, and it would provide greater operational flexibility thus reducing the number of calls for special VC10 flights and the consequent effect on military tasks. Clearly there are also political considerations which are not our business and which we have not addressed.

A Re-shaped Royal/VIP Communications Fleet

13. We have however considered, assuming the acquisition of two B Ac 1-11 aircraft, how the Royal/VIP Communications fleet and its control might be re-shaped. The additional capacity provided by the new aircraft, and our judgement about future demand, would allow us to withdraw some of the existing fixed-wing aircraft. We therefore propose that the overall size of TQF/32 Squadron be reduced by retiring 3 of the 6 Andovers and one of the HS 125-400s. The subsequent use of these aircraft would need to be considered in the context of the communications fleet as a whole; see paras 21 and 22 below. It is already planned that the 32 Sqn Whirlwinds should be replaced in 1981 by Wessex withdrawn from the tactical role when this type is succeeded by the Chinook. However, on present estimates one extra Wessex beyond those of the Queen's Flight should be sufficient to meet the demand for transport of parties of 3 or 4 passengers rather than the two in the RAF's current forward plans. The requirement to transport one or two passengers can be met more economically by substituting a second Gazelle which can be made available from existing resources.

14. If this pattern were adopted the aircraft maintained for Royal and VIP Flying would include:

2 B Ae 1-11s

5 HS 125s

3 Andovers

3 Wessex

2 Gazelles

Basing

15. Like others who have studied this question previously, the Working Party were attracted by the idea of integrating the aircraft used for Royal and Ministerial flying into a single unit and co-locating them at RAF Northolt since most of these journeys start or end in London. This would result in lower operating costs, cutting out much expensive positioning flying (though some positioning in the opposite direction would be necessary for training) and allowing greater flexibility of operation.

16. However, to do this would mean either moving 207 Sqn elsewhere, or extensive works services at Northolt to provide an additional hangar and technical and perhaps domestic accommodation. Both options would be expensive. For

example, if 207 Sqn were based at Benson the 9 Devons which presently operate from Northolt would have to fly nearly 200 extra hours each year on positioning flights with commensurate shortfall in passenger carrying capacity, which outweighs the saving which would result from locating TQF at Northolt. The major works programme needed to accommodate both the Royal/Ministerial unit and 207 Sqn at Northolt would probably cost well over £10M.

17. The Working Party therefore concluded reluctantly that co-location at Northolt was not a realistic option in present circumstances.

Use of HS125s for Royal Flights

18. Whether or not BAe 1-11s are acquired, and recognising that the Andovers are becoming increasingly out-dated for Royal and VIP use, the Working Party saw advantage in using HS 125s (which are also cheaper to operate) for part of the Royal flying task; for example for journeys within the UK, beyond helicopter range, of small parties with little or no baggage.

19. This proposal raises several questions. To base the HS 125s away from London would result in the extra expense of positioning flying, we calculate a net increase of over 150 hours costing some £0.34M per year if they were based at RAF Benson. A more

fundamental point is that engineering support for the HS 125s (and the Devons of 207 Sqn and certain other services at Northolt) is contracted out to Field Aircraft Services Ltd, and the engines of the HS 125 are leased from Rolls Royce on an 'hours flown' basis, which saves the expense of provisioning spares. While it would, in principle, be feasible to operate the VIP 125s to TQF standards, it would not be possible to do this while they were detached at a base removed from other elements of TQF; and if these aircraft were taken out of the contract servicing arrangements, it is doubtful whether the remaining work would be sufficient in Field's view to justify their continuing at Northolt. If civilian contract servicing ceased, it would be necessary to provide Service personnel for this task, at a manpower cost of 7/20 posts.

20. Some members of the Working Party have questioned the need to continue to apply separate safety standards for aircraft used for Royal flying. Aviation safety and aeronautical engineering practices have advanced considerably in recent years, and the RAF's general transport aircraft are operated to standards which are equivalent to those of British Civil Airworthiness Requirements. This being so, it is worth considering whether the distinction between aircraft used for Royal and those used for other VIP flying any longer needs to be maintained. We noted that BAe have supplied BAe 1-11s for use by other Heads of State and that these appear to be operated perfectly satisfactorily to normal airworthiness standards. The Working Party feels that this question deserves further study, although it does not affect the substance of the recommendations on the re-equipment of TQF.

VIP Fleet Operations

21. The current equipment programme provides for the acquisition of Jetstream 31 aircraft to replace the Devons in the communications fleet. The outcome is not yet certain; it has so far proved impossible to negotiate the industrial support from other Departments which BAe have demanded as a condition, and the Secretary of State has declined to meet the whole of the extra cost from the Defence budget. It is therefore not possible at this stage to propose a final organisation for the whole of the Royal/VIP/ Communications fleet.

22. If BAe 1-11s were procured we propose they should operate and be based at RAF Benson in TQF. It is also clear that if only one additional Wessex and Gazelle are added to the communications fleet in place of the Whirlwinds use should be made of the established servicing facilities for these types at Benson and Northolt respectively. Whether the three Andovers which would be retained if BAe 1-11s were procured would be best operated in future by The Queen's Flight at Benson or 32 Sqn at Northolt, and to what engineering standard, is best decided when it is known whether it will be possible to make use of the HS 125s for Royal travel in future. If the HS 125s and perhaps on occasions the Jetstream 31 can be used for those journeys where the B Ae 1-11 would be unnecessarily large, then the Andovers would be used for that part of the Communications task which involves the transport of fairly large parties (often not particularly senior in status) on stage lengths of approx 500 miles. They would

be unlikely to be used for Royal Flying, and it might be more appropriate for them to be operated by 32 Sqn or 207 Sqn. We believe that a decision on which three Andovers to retain is best deferred until the point about Royal flying engineering standards raised in paragraph 20 above has been considered further.

Operational Control

23. However, irrespective of the way in which a fleet of the size proposed is based or divided up into Flights or Squadrons, it will only be possible to meet the overall task in the most cost-effective way if the allocation of the operator's daily "offer" of aircraft is decided centrally. This will be particularly important in that the B Ae 1-11s would be used for the longer range journeys and so would not be reserved for Royal use, though some understanding on allocation will need to be reached with the Royal Household. Clearly The Queen, who almost invariably needs to travel with more staff and baggage than the HS 125s can accommodate, should have first call on a BAe 1-11 at all times, and an agreed number of other airframes per day, or flying hours per year, would be budgetted for Royal travel. Precise details would need to be worked out but control would best be exercised by ACAS(Ops) in MOD; in this way the most suitable and economic aircraft would be used for each journey. The Captain of TQF and the PAS/US of S(RAF) would continue to act as ACAS(Ops)'s "agents" for Royal and Ministerial flights respectively.

Costs

24. The capital cost of acquiring two BAe 1-11s and associated spares and equipment is estimated at [£16.5M]. This may be modified in negotiation, and according to the method of procurement: for example, BAe have very recently suggested that we might lease the aircraft rather than buy them outright, which would probably increase the cost overall but would spread it more manageably, and this possibility is being investigated.

25. The annual operating cost of these two aircraft would be some £1.8 million; this is some £0.2M higher than the cost of the present TQF Andovers but the BAe 1-11s would provide significantly greater annual capacity given their higher speed and payload and one aircraft would be able, on occasions, to do the job for which two Andovers or HS 125s are needed at present; there would also be a small saving on MOD Votes on account of special VC10 flights and associated civil charter, and it should not be necessary in future for the Department of Trade to charter civil airliners so often for Royal visits.(1)

26. There are also potential savings resulting from a reorganisation of the Royal/VIP fleet of a sort which this acquisition of BAe 1-11s would make possible. Various plots have been costed; attached at Annex A is a table comparing current annual operating costs with the costs under two options for basing, either of which would show savings, albeit modest, compared with the present arrangements.

27. As regards manpower costs, Annex A shows that it would also be possible to save on these by reorganisation. However, a move to Service engineering support for the HS 125 (para 19 above) would involve a considerable increase in terms of Service manpower, if not necessarily in financial cost.

(1) Operating B Ae 1-11 will not entirely eliminate the need to use RAF VC10s or chartered civil aircraft for VIP journeys on occasions. Of the 14 VC10 tasks mentioned in paragraph 8 above the BAe 1-11 could have undertaken nine with no significant increase in journey time. With a range of some 2400 nautical miles against the VC10's 4000 between stops the B Ae 1-11 is clearly unsuitable for very long journeys when time is valuable eg to Australia, and in other cases its use, while cheaper in direct cost than a VC10, would necessitate a refuelling stop which the VC10 would not need, eg London-Washington. However, the B Ae 1-11 is designed for very quick turnaround on the ground and the increased journey time involved is very small.

Conclusions and Recommendations

28. We conclude that:

a. There is a need to provide for TQF at least two up-to-date aircraft with better performance than that of the Andover, which by modern standards is slow, of poor range, uncomfortable and unimpressive;

b. The only suitable British aircraft is the BAe 1-11, two of which are currently available but may not remain so for long and are the last that will be manufactured in this country;

c. We shall not know until the autumn of 1980 what are the prospects that the Air Force Target Heading will have the means to procure two BAe 1-11s at a capital cost estimated at [£16.5M] (LTC 80 prices VAT inclusive);

d. While uncertainties remain on aircraft complement, types and servicing standards, we cannot usefully make recommendations for a comprehensive reorganisation of the whole of the TQF/VIP/Communications fleet, but should determine how best to incorporate any new acquisitions on an interim basis at minimum cost and with maximum effectiveness;

e. To minimise capital cost, TQF should remain at RAF Benson for the time being, and 32 Squadron and 207 Squadron should remain at RAF Northolt to carry out their presently established commitments;

f. To maximise the effectiveness of TQF, three Andovers would be replaced by 2 BAe 1-11s, and their future use decided in the context of the Royal/ VIP/Communications task as a whole;

g. The Whirlwinds of 32 Squadron should be withdrawn as planned and replaced by one Wessex and a Gazelles;

h. A total fleet of 2 BAe 1-11s, 5 HS 125s, 3 Andovers, 3 Wessex and 2 Gazelles could undertake the prospective Royal/VIP flying task more efficiently and more cheaply than the present TQF and 32 Squadron; estimated running costs of possible options are shown at Annex A;

i. As a general rule, all tasking for TQF/VIP/Communications flying should be carried out under the Control of ACAS(Ops), with the Captain of TQF and PAS/US of S(RAF) acting (as regards Royal and Ministerial flights respectively) as his agents.

29. We recommend that the Air Force Board be invited to take note of our conclusions, endorse them in general as the basis for further action, and give directions on the following specific points of immediate concern:

a. Should any formal request be made to BAe to earmark the remaining two 1-11 aircraft in advance of a Ministerial decision to go ahead with modernisation of TQF and a consequent allocation of funds?

b. Should a Ministerial decision on modernisation of TQF be sought before we know how seriously the Air Force Target Heading will be affected by the prospective overspend in 1980/81, and by the outcome of current defence programme studies for the next three years?

28 May 1980 ACAS (Ops)

ANNEX A

Current Establishment	Station	Unit	Aircraft Type	AE	Annual SD9/FPR	Establishment Officers	Establishment Airmen	Establishment Civilians	COST Officers	COST Airmen	COST Civilians	Utilities	Total Manpower Cost	POL	Spares Repairs	Cost of Contract Services	Total	Variation
	Benson	TQF	Andover	3	1512													
		"	Wessex	2	840													
	Northolt	32 Sqn	Andover	3+1	1422													
		" "	HS 125	6	2592													
		" "	Whirlwind	2+2	624													
		" "	Gazelle	1	228													
	Northolt	207 Sqn	Devon	13+2	4212													
					Total	124	542	107	1,278,812	3,267,718	479,030	809,190	5,834,770	1,158,847	2,813,003	655,814	10,462,434	NIL
Ops (AT) Option C	Benson	TQF	BAe 1-11	2	960													
		"	Andover	3	1512													
		"	Wessex	3	1260													
	Northolt	32 Sqn	HS 125	6	2592													
			Gazelle	2	456													
	Northolt	207 Sqn	Devon	13+2	4212													
					Total	117	510	107	1,206,621	3,074,790	479,030	761,805	5,522,246	1,381,760	2,874,028	655.814	10,433,484	-0.03
DS8 Option	Benson	TQF	BAe1-11	2	960													
		"	Wessex	3	1260													
	Northolt	32 Sqn	Andover	3	1512													
		" "	BS 125	5	2160													
		" "	Gazelle	2	456													
	Northolt	207 Sqn	Devon	13+2	4212													
					Total	115	507	104	1,185,995	3,056,703	479.030	755,730	5,477,458	1,302,778	2,772,828	655,814	10,218,484	-0.24

HS

BF 12/8/80

MR. WRIGHT
CABINET OFFICE

RAF Communications Aircraft

You will have seen copies of minutes to the Prime Minister of today's date on RAF Communications Aircraft from the Secretary of State for Scotland and the Minister of State at the Department of Employment.

I assume that we may expect comments from the Chancellor and the Secretary of State for Defence in the light of this week's decisions on the defence cash limit. I should be grateful for advice in the course of Tuesday 12 August as to what response the Prime Minister might make.

M.A. PATTISON

8 August 1980

PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT

In view of your decision to suspend action on the Jetstream purchase while the review of the defence cash limit was proceeding (Mr Pattison's letter of 17 July), I did not react at the time to Francis Pym's minute of 16 July. Now that the review has been completed, however, I must say that I very much hope there is no question of our accepting the third option put forward in that minute - to buy United States aircraft instead of Jetstreams. It is now more than four months since you decided that "it is in the national interest for the RAF to buy the British Aerospace Jetstream aircraft in preference to the Beechcraft Air 200". (Mr Lankester's letter of 31 March). If the RAF are to buy any aircraft in this category they must surely, in view of this, be Jetstreams. Mr Sanders's letter of 1 July shows that you told the Deputy Chairman of British Aerospace on 27 June that this decision had been taken, against the advice of the Ministry of Defence - indeed it has since been well aired in the press - and it would be very hard to explain how Beechcrafts came to be bought after all. Nor am I clear why the question of aircraft for the Queen's Flight has been re-injected into this debate by the Ministry of Defence; as you also told the Deputy Chairman on 27 June this matter, though important, was irrelevant to the Jetstream issue.

The other two options which Francis Pym put forward were a decision to buy Jetstreams now, or a decision to put off any purchase until at least the 1981-2 financial year. Before the latter is regarded as a fair alternative, however, I think we need to know whether if it were adopted the inevitable result would be that British Aerospace would decide, reasonably enough, that its tender price would have to be increased. (I believe that their current offer was supposed to expire on 30 June, though it had been extended several times in the expectation of an early decision). I am concerned that if they did so, the Ministry of Defence might use

this as an argument for re-opening the question of principle which you decided and revert to the idea of buying American.

I can well imagine that as a result of the review the Ministry of Defence's cash needs will have to be constrained even more tightly than before. But if I am right in thinking that the RAF's present fleet of communications aircraft is nearing the end of its life, there is presumably no alternative to its being replaced in the near future. And whatever the constraints of the cash limit, the price differential between Jetstreams and Beechcrafts must be viewed in the context of total defence spending this year of some £10,500 million. There is also the consideration that both the Department of Industry and my Department (which has no formal remit for this purpose) have offered funds so that the contract can go through.

I believe that it would be difficult to reconcile what we have said about a revision of public purchasing policy with a reversal of the decision to buy British in this case. I feel that our friends and supporters would find it particularly hard to understand why we are prepared to spend very large sums to persuade people to buy British ships, but not a relatively tiny sum in order to induce the RAF to buy British aircraft, particularly in view of what should be a bright future for British Aerospace.

For all these reasons I hope very much that you will agree to an early confirmation of your view that the RAF should buy Jetstreams.

I am sending copies of this minute to members of E Committee, to the Secretaries of State for Scotland and for Defence, and to Sir Robert Armstrong.

GY.

LORD GOWRIE
Minister of State
Department of Employment

8 August 1980

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT - JETSTREAM 31

I understand that the outcome of the review of the defence cash limit is shortly to be announced and that, at best, it will point to a postponement by a considerable period of the order for a replacement of the RAF's communications aircraft. The consequence to be expected is that British Aerospace will cancel the Jetstream project, leaving its American rival as the only contender in the field when the order is revived.

I need not tell you how seriously I would regard such an outcome. The progress of our consideration of this order has been extensively - and accurately - reported in the press. And your own instruction earlier this year that Jetstream should be purchased in preference to the American aircraft has received prominent coverage. I receive almost daily representations from individuals, Trade Unions and Staff Associations which spell out the important job implications of Jetstream for Scotland, refer to Geoffrey Pattie's announcement of the decision in principle to order it for the RAF and to your support for that course, and ask the reason for the delay in bringing the matter to a conclusion. I have been asked to meet representatives of senior management at Prestwick who are well aware that, without Jetstream, the future of their plant is in jeopardy. They are as capable as I am of drawing the inference that prolonged delay in ordering is tantamount to a decision, in due course, to purchase its American competitor, despite your known preference for buying British, and of publicising the conclusion.

I fully recognise that the Ministry of Defence will have great difficulty in finding the cuts necessary to meet their cash limit. We have been told in the past that the need for replacement of the communications aircraft in the RAF was urgent (one of the reasons given earlier for taking a rush decision to purchase the Beechcraft King Air). Taking account of this, and of the importance of keeping the Jetstream project in being for reasons of regional policy and employment, I see no alternative but to suggest that the purchase price of Jetstream should be found from the contingency reserve. The contributions to launching costs already on offer from other Departments, including the substantial contribution from Section 7 assistance on my part, would stand against our existing PESC provision.

I am convinced that, unless such positive action is taken, we shall stand accused of indecisiveness, and of disregard of the needs of British industry and of employment in the regions. Such criticism will focus on the insignificance of the sum involved in relation to overall defence spending and to the scale of the Trident programme, and will be all the

more valid and damaging if the money is eventually diverted to a foreign manufacturer or to aircraft for the Queen's Flight which do not offer assurance of a single job.

If there is any question of a decision going against the Jetstream project then I would ask that any announcement is delayed until I have first had the opportunity to discuss with Francis Pym on my return from leave.

I am copying this minute to members of E(EA), Francis Pym, Christopher Soames and to Sir Robert Armstrong.

A.S. Wilson

(Approved by the Secretary of State and signed in his absence.)

8 AUGUST 1980

From: Geoffrey Pattie, M.P.

1.

Prime Minister.

I mentioned this to you this afternoon. I should very much like to see us buy the BAC-111s: I doubt whether the BAe-146 is going to be ready as early as is now forecast. But if the MOD have to make substantial cuts in the defence programme to help solve the problem of this year's cash limit, I see no hope of persuading them to find the £16 M for the BAC 111s (or for yet more cash). In that event I am not sure that there would be much point in pursuing Geoffrey Pattie's attractive idea of borrowing a 111 for your trip to Greece and Yugoslavia. To do so might be to raise false hopes unfairly.

AJ 30 viii

We have a word not

House of Commons,
LONDON, SW1A 0AA.

Clive Whitmore Esq.
No 10. Downing Street
LONDON S.W.1.

24 July 1980

Dear Clive,

I thought it might be helpful for you to have a copy of the enclosed paper on the Queen's Flight which forms part of a larger work sent by me last week to my Secretary of State. Francis Pym will, I am sure, be minuting the Prime Minister shortly on the subject but in the meantime,

Passage deleted and closed, 40 years, under FOI Exemption.

CH Wayland
27 August 2013

Incidentally, we are having considerable difficulties with our transport fleet tasking in September because of Exercise Crusader and the extra VIP flights including my own Secretary of State who is planning a trip to the Antipodes, and I wondered if the Prime Minister would be interested in taking a BAe1-11 for her visit to Yugoslavia and Greece. Please do not misunderstand me on this, if the Prime Minister wants a VC10 that is what she will have, it is just that the range requirement for her visit to Yugoslavia and Greece is tailor made for the 1-11 and if we could get one on loan from BAe, which I am sure we could, it would enable the.../

NOTE FOR THE RECORD

At Mr Whitmore's request, I told Geoffrey Pattie's office (Mr Fuller) on 11/8 that the PM did not wish to take a 1-11 to Yugoslavia and Greece and wished to use a VC-10

AJC 11/8

the Prime Minister to see at first hand what the Queen's Flight proposal is all about.

There is the further point that presentationally and in reality, any new aircraft for the Queen's Flight would be extensively used by the Prime Minister and other Ministers and, if there was to be a chance of proceeding with re-equipment, this flight could be shown as something of a proving flight and could give the whole exercise a somewhat lower Royal profile. If you thought there was any substance in this suggestion (which I have also put in another note to my Secretary of State) then I would gladly approach British Aerospace informally.

Yours sincerely

Jeffrey Pattie

Secretary of State (through Minister of State)

Re-equipment of the Queen's Flight

The Assistant Chief of the Air Staff (Operations) has chaired a working party on 'The Queen's Flight and Related VIP Flying Matters' and the working party's report has been presented to me by Vice Chief and is attached to this covering note.

The operational, engineering and basing aspects of this problem are well covered in the report. The basic question of whether new equipment is to be procured must be a political decision for Ministers. It might be helpful therefore if I rehearse the options as I see them.

1. The excellent standard of maintenance by T.Q.F. personnel means that there is no question of the flight safety factor arising. Indeed I am advised that the Andovers could comfortably last right through the 1980s. The first option therefore is to do nothing, accepting that the Queen will be perfectly safe in the Andover with the use of a VC10 for longer distance tasks.

2. If the option in 1)above is acceptable it must be appreciated that no British built equipment will be available for T.Q.F. (once the last two BAe 1-11s are sold) until the BAe 146 has had some years of proven service which would take us to about 1988 or 1989. The BAe 146 prototype will.../

will fly in 1981.

3. Once the last two BAe 1-11s are sold the next 1-11s will be built in Romania and I am taking it as axiomatic that the Queen should only fly in British aircraft. The TIMING OPTIONS therefore are

a) to acquire the last two BAe 1-11s while they are available;

OR

b) to wait until the BAe 146 is available towards the end of the decade.

Ways of acquiring the two BAe 1-11's for T.Q.F.

1. By outright purchase for a sum of £16.2 million. This can be done

a) by the Air Force Board affording the project the highest priority and agreeing to the whole cost falling on the Air Force budget;

b) by the Ministry of Defence responding to a Prime Ministerial directive to find the money from within the MOD's overall budget;

c) by MOD and other Departments who use the VIP fleet responding to a Prime Ministerial directive in the same sort of 'hand the hat round' fashion as the Jet-stream decision.

2. By a leasing arrangement. A proposal on these lines has been submitted informally by BAe but the predictable.../

predictable Treasury objection is to the higher overall cost involved.

Acquisition of the two BAe 1-11s for the RAF

This option is the possibility of the RAF purchasing the aircraft in order to augment the transport fleet with a view to making the aircraft available to T.Q.F. at a later date when the timing was deemed to be politically judicious.

The advantages of this option are

a) it secures the aircraft and prevents them being sold elsewhere

b) it avoids the political problem of justifying the purchase at a time of national economic recession.

The disadvantages are

a) as a strategem, it could well be rather transparent

b) the RAF would have to write a new staff requirement and give the purchase priority at a time when budgets are under severe constraint. There is, however, no doubt that the RAF could make good use of the aircraft if the Air Staff chose to do so.

Summary

I think that in a severe overspend situation, it is probably unreasonable to expect the RAF to give T.Q.F. aircraft priority and in all honesty, it is hard to envisage a situation arising when things would be different. In a sense.../

sense it will never be the right time to re-equip T.Q.F. given that safety is not a consideration. I have left on one side questions of prestige and appropriateness because these are largely subjective matters but one has to say that the operational shortcomings of the Andover will presumably seem more marked rather than less over the next eight to ten years.

If the Government allows the BAe 1-11s to go then we will have to live with the current situation for at least eight years. I want you and the Prime Minister to be aware of that. In my view the continuation of the present situation will not be acceptable over a period of time and I hope that a suitable directive will be forthcoming.

cc Press

Agreed with MoD as amended

MAP 21/VII

CONFIDENTIAL

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

Defence

MO 26/11/17

21st July 1980

Dear Mike,

Following your letter to me of 17th July about the suspension of action on the proposed Jetstream purchase, our respective Press Offices have been in touch about the line to be taken with the Press. They agreed that the answer to enquiries over the weekend would be "The matter is still under consideration and no decision has yet been reached".

Enquiries from the Press continue, and we feel that it may now be right to be slightly more forthcoming in order to prevent undesirable speculation about the reason for the delay in settling this issue. Subject to your view, we would propose to take the line, in answer to questions, that:

> "~~The extent of~~ the Ministry of Defence's cash ~~limit~~ flow for the current year is under ~~consideration~~ review and, until this is ~~settled~~ concluded, it would not be prudent to reach a final decision on the replacement of the present RAF communications aircraft."

This would be supplemented by the attached material including the final paragraph which so far our Press Office have not used.

Perhaps you could let me know how you feel about this.

Yours ever,

David Omand

(D B OMAND)

M A Pattison Esq

CONFIDENTIAL

SUPPLEMENTARY MATERIAL

RAF requirement

The RAF requirement still stands to replace the existing fleet of Devon and Pembroke communications aircraft. Communications aircraft are used in both the United Kingdom and Germany for a range of duties including aero medical evacuation and the urgent ferrying of senior staff, aircrew, equipment and spares between bases.

Beech King Air 200C

The Department is no longer in negotiation with Beech.

Relative costs of Beech and Jetstream

The prices available to the Department resulted from a competitive tendering exercise and for reasons of commercial confidentiality these cannot be disclosed.

Suitability of Jetstream 31

The Jetstream 31 would meet the requirements of the RAF and it is a development of an already tried and tested aircraft; we understand that test flying with the first prototype is going well.

Cash Limits

The Ministry of Defence has an agreed procurement programme to carry through, but, with capacity available within UK

industry, contractors have been making faster progress on Defence work than expected. The Ministry must, therefore, examine what steps are necessary to restrain expenditure against the background of the cash limit, ~~now under consideration.~~

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

I agree with the sentiments expressed by G.Y. This should come to me as a minister which had to be decided within 24 hours! MT

Prime Minister
For the record, as you have agreed that cash limit issue must be resolved first.
MAP 18/VII

CONFIDENTIAL

Prime Minister

JETSTREAM 31

I have seen Francis Pym's minute of 16 July which, in effect, invites us to re-open the decision taken and recently re-affirmed to order Jetstream rather than an American aircraft for the RAF communications requirement.

I am not familiar with the details of the cash limit constraints which inhibit action by the Ministry of Defence, but it seems to me that there are inconsistencies in the argument presented to you. We have been told hitherto that the need for a replacement communications aircraft for the RAF is urgent and that that is a consideration in favour of the American machine: yet Francis is now counselling further delay with the clear implication that one option is to postpone indefinitely any order. I am bound to ask whether a replacement aircraft is being sought because it is needed, or because money was expected to be available in the defence vote, and also whether the review of the cash limit is to be confined in its practical effects to this particular order only?

I observe also that the possibility of buying BAC1-11 aircraft for the Queen's Flight is advanced yet again. I do not see how this proposition can seriously be considered in what is said to be a position of extreme financial stringency, or how the purchase of two aircraft off the shelf, largely to suit the convenience of British Aerospace and to fit expenditure within constraints imposed at our own hand, could be allowed to crowd out a project which offers 1,000 jobs for a considerable period of time and assurance of the future of a factory in an area of acute unemployment.

As to which quotation by British Aerospace for the Jetstream is to be preferred, I would regard this for decision by Francis in consultation with Treasury Ministers rather than for collective consideration. My concern is our apparent inability to implement your clear, firm instruction that Jetstream should be ordered - an instruction based, in my view, on overwhelming arguments of advantage to the national economy. We shall be accused, rightly, of vaccillation and infirmity of purpose unless this order is confirmed without further delay.

I am copying this minute to Francis Pym, Sir Keith Joseph, other members of E(EA) and to Sir Robert Armstrong.

G.Y.

CONFIDENTIAL

BK 17/7

cc D/Ind D/N
Emp CSO
DoE CO
SO
WO
DOT

10 DOWNING STREET

From the Private Secretary

17 July 1980

The Prime Minister has now seen your Secretary of State's minute of 16 July, about the proposed purchase of the Jetstream in relation to the cash limit for 1980/81.

In the light of recent developments over the cash limit, the Prime Minister agrees that action on the proposed Jetstream purchase should be suspended pending settlement of the cash limit issue.

The Prime Minister has noted your Secretary of State's suggestion that the opportunity of this delay should be taken to look again at the alternatives open to us. She is prepared to look at any alternative, although she has expressed her doubt as to whether the defence budget has room for any replacement aircraft of this kind at present.

I am sending copies of this letter to the Private Secretaries to the members of E(EA) and to David Wright (Cabinet Office).

M. A. PATTISON

David Omand, Esq.,
Ministry of Defence

CONFIDENTIAL

Prime Minister.

(1) Agree that action on the Jetstream order should be suspended until the problem of the MOD's cash limit for 1980/81 is settled?

(2) As regards paragraph 4 below, do you want to stand firmly by your decision that if any aircraft is to be bought, it is to be Jetstream? Or would you like a review of all the options, as Mr Lyne suggests. If you do, I think the MOD should produce a paper setting out the alternatives, with costs and timescales. This could then serve as the basis for a meeting of all the Ministers concerned. How would you like to proceed?

TBW 16 VII

MO 26/11/17
MO 8/2/12

(1) Yes

(2) I am prepared to look at any alternatives but I doubt whether personally they can afford any replacement aircraft

PRIME MINISTER

MOD CASH LIMIT 1980/81: JETSTREAM

In his letter of 10th July to Mr Sanders, my Private Secretary explained where matters stood on the contract for the purchase of the Jetstream. of this kind of expenditure. MT.

2. We have now completed discussions with British Aerospace on an alternative form of contract and I attach a note which sets out the outcome. I am myself clear that if we were to proceed now with the Jetstream purchase, we should do so on the basis of the revised quotation. This would help us over the amount of expenditure in the current financial year and get round the potential difficulty of my having to instruct the Accounting Officers to proceed with a contract which they regard as contrary to proper practice. There would remain the need for me to issue a formal direction to the Chief of Defence Procurement to buy other than in the most economical fashion but this is not an overriding consideration.

3. There remains however the question of whether we should now proceed with the purchase of any aircraft to meet the RAF requirement until we have reached a view on the uplift of the defence cash limit in the current year, taking account of the forecast overspend and of our commitment to NATO of 3% real growth. Defence and Treasury officials have been instructed to analyse the very latest forecasts of out-turn for the rest of the financial year, and we should be able to reach decisions, on the basis of their detailed report, within the next three weeks. Until then I do not believe I would be justified in proceeding with this order. The indications are that British Aerospace will be prepared to extend both quotations for at least a further week until 23rd July. If we are to delay a decision as I propose, we should need to seek to extend the quotations for a further period.

4. I wonder whether we should not use the time available while we are reviewing the defence cash limit to look again at the alternatives open to us. There are three possible outcomes:

a. If the adjustment to the cash limit is such that

no new orders are possible for the remainder of the financial year, a decision on any purchase from British Aerospace or from overseas to satisfy the RAF requirement will need to be postponed once more.

b. Providing the cash limit is sufficient to allow some new orders to go ahead this year, we could proceed with the Jetstream on the basis of the revised quotation.

c. If the cash limit outcome is satisfactory and adequate arrangements can be made for sharing the cost, we might look again at the possibility of proceeding with the purchase of the much cheaper alternative, the Beechcraft, coupled with placing an early order for the last two available BAC 1-11s for the Queen's Flight. (We could not absorb all of the cost of the 1-11s in the current financial year but such an order might be sufficiently attractive to British Aerospace for the phasing of expenditure to be agreed in a proper and mutually satisfactory way.)

5. I am conscious that all these options have already been looked at over a long period of time. Nevertheless, I do not believe we should go ahead now and you may feel it will be worth having a further discussion of the alternatives open to us.

6. I am sending copies of this minute to the Secretary of State for Industry, the other members of E(EA), and to Sir Robert Armstrong.

Ministry of Defence

16th July 1980

JETSTREAM 31

A revised quotation has been received from British Aerospace (BAe) for the procurement of fourteen Jetstream 31 aircraft based on more normal stage payment arrangements as opposed to the advanced payment scheme which underlies their existing offer.

Revised quotation

2. The revised quotation was received on Monday evening from BAe. In the time available it has been possible to carry out only a limited evaluation of their new offer. BAe have quoted a revised fixed price of £16.352M, including the £0.625M due from DOI and the Department of Employment, with provision for price variation to take account of inflation over the period of the stage payments from February 1980. A number of the detailed contractual proposals made by BAe are unacceptable. It would be necessary to undertake further negotiations on these points if this course were to be followed. The particular points of difficulty are:

a. BAe's stipulation that a down payment should be made to the Company on acceptance of the offer;

b. the BAe proposal that incidence of payments should be aligned with particular dates rather than achievement of work;

c. the scope and details of the Variation of Price proposals in that BAe wish to apply these to the total price when it is Ministry practice to have a fixed element of usually 10%, and the Company have proposed an excessive period for the application of these arrangements.

Our success in negotiating a concession on these issues would have a considerable effect on the relative cost advantages of the two offers now on the table, although knowledge of the Government's support for the Jetstream 31 is bound to weaken our negotiating position.

Estimated cost differences between the two quotations

3. By applying discounted cash flow techniques on the basis of the best though informal advice available from the Treasury and our own Economic Adviser as to future inflation and interest rates over the period of the stage payments, the cost comparison of the two

COMMERCIAL-IN-CONFIDENCE

quotations is as follows:

£M	80/81	81/82	82/83	83/84	Total
Existing Quotation	16.5	-	-	-	16.5
Revised Quotation (Discounted to present value)	3.4	7.1	8.1	0.2	18.8

In calculating the above comparison, an average interest rate of 15% has been assumed over the period 1979/80 to 1982/83 and inflation rates of 20% for 1979/80, 17% for 1980/81, 15% for 1981/82 and 12% for 1982/83 have been used. The precision of the above comparison depends on these assumed inflation and interest rates over the next four years, and the difference between the two quotations could be narrowed both by changes in these assumptions and by progress on the contractual points made in the previous paragraph. As an illustration of the effect of possible changes, a reduction of 3% in assumed inflation rates, coupled with a successful re-negotiation of a fixed price element within the price, would reduce the gap between the two quotations from £2.3M to as little as £0.5M.

4. It is, moreover, right to point out that a calculation on these lines depends upon the assumption that money is freely available at the assumed interest rate for either course of action. Given the pressure on our cash limit, the £16.5M for Jetstream in 1980/81 could be made available only by deferring expenditure on some other project or projects, which would then suffer a similar DCF diseconomy. That is to say, we might save on the Jetstream only at the expense of paying more on some other project.

Conclusions

5. Taking into account the current severe cash problems, the impropriety of making advance payments to BAe under the first quotation, and the uncertainty over the precise balance of cost advantage between the two quotations, the Accounting Officers consider it would be preferable to proceed with any Jetstream purchase on the basis of the revised quotation. The first step would be to place an Intention to Proceed while seeking to renegotiate the points of contractual detail to the best advantage of the Department.

Ministry of Defence
16 July 1980

COMMERCIAL-IN-CONFIDENCE

2.

MS.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7822~~ 213 2111/3

MO 8/2/12

10th July 1980

PRIME MINISTER

Jetstream purchase has yet to be finalised. Mr Pym will minute you next week confirming that he is about to instruct his Accounting Officers to proceed, despite the obstacles noted here.

MT 11/VII

Dear Nick,

MOD CASH LIMIT 1980/81: JETSTREAM

In your letter of 1 July you said that the Prime Minister was watching progress on the contract for purchase of the Jetstream. This is a progress report on where matters stand.

The Defence Secretary has very recently been reviewing again the trend of expenditure in the current year in relation to the MOD cash limit. There are indications of an increasing volume in procurement expenditure as industry, for lack of other orders, gives increasing attention to defence work and submits bills faster. On top of this prices are increasing at a very much higher rate than was allowed for when the cash limit was set (for example, increased oil prices will cost us £130M more than was allowed for). The Defence Secretary has therefore taken steps to restrain the volume of the programme within the totals by making programme cuts of £150M. It may be necessary for more cuts to follow. It seems likely that most, if not all, of the new projects which were due to start later this year will not now go ahead. Discussions with the Treasury are, of course, taking place.

Against this background my Secretary of State would not normally have agreed to the purchase of a replacement aircraft at this time because this

N J Sanders Esq
10 Downing Street

is not a requirement of the highest priority. The decision to buy the much more expensive British aircraft makes the issue no easier. The Defence Secretary has been advised that in order to comply with their obligations to Parliament he must instruct the Accounting Officers to buy other than in the most economical fashion.

There is a second difficulty. The existing British Aerospace quotation rests on our making a large payment in advance of the work done. This is contrary to proper practice. The Accounting Officers would not be willing to proceed on this basis without a further direction covering this point, which is likely to need special notification to the Comptroller and Auditor General. Against this background, Mr Pym has instructed his officials to obtain a revised quotation based on progress payments related to the manufacture and delivery of the aircraft, so that we can assess the contractual and financial merits of proceeding with this course as compared with the existing proposal. British Aerospace hope to produce a revised quotation on this basis by 16th July. We will keep you informed.

I am also told that some of the other Departments involved have a problem over the propriety of their expenditure.

I am sending copies to the Private Secretaries to the Secretary of State for Industry and the other members of E(EA), and to David Wright in Sir Robert Armstrong's office.

Yours ever,

David Omand

(D B OMAND)

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

1 July 1980

RAF Communications Aircraft

I am writing to put on record a conversation between the Prime Minister and the Deputy Chairman of British Aerospace, Mr. Alan Greenwood, at the British Aerospace Bitteswell Works on 27 June.

The Prime Minister told Mr. Greenwood that she had personally taken the decision that the Jetstream should be purchased, overridng the advice she had received from the Ministry of Defence and the Treasury. She was appalled that it had taken so long to settle the details. She said that she was disturbed to hear that British Aerospace might not want to give the project their full backing, and also worried by reports that there might be some slippage in the delivery dates for the aircraft. She said that she wanted to make it clear that the Government was spending money on this project which could not be devoted to desirable ends such as special school or hospitals, and that in consequence she expected the company to resist excessive pay claims and not to become soft. She said that she had been surprised to receive information that the question of aircraft for The Queen's Flight was being raised in this conext; although important, it seemed to her to be irrelevant to the Jetstream issue. She added that she intended to watch the progress of the contract every day.

In reply, Mr. Greenwood said that the British Aerospace Board had decided to go ahead with the Jetstream project, despite doubts by some members of the Board. He said that they did want the programme of Jetstream aircraft, and that they were confident that 220 aircraft could be sold in 10-12 years. He said that the Scottish factory had been loss-making and that British Aerospace had decided to keep it open. It was true that weekly pay rates had risen by something like the figure the Prime Minister had mentioned, but British Aerospace had no intention of becoming soft.

No doubt you will take these comments into account.

I am copying this letter to Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), Mike Hopkins (Northern Ireland Office) and David Wright (Cabinet Office).

N. J. SANDERS

J.D.S. Dawson, Esq.,
Ministry of Defence.

CONFIDENTIAL

JU

c/Pres

NBPM until a further note comes from MOD

Defence

MRP

PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT

You will have seen Adam Butler's letter to me of 26 June.

The discussions on the remit set out in your Private Secretary's letter to mine of 31 March have thus been concluded.

I am copying this minute to the other members of the E(EA), the Secretaries of State for Defence and Northern Ireland and Sir Robert Armstrong.

K J

1 July 1980

Department of Industry
Ashdown House
123 Victoria Street

B/F 3-7-80

10 DOWNING STREET

Mike

I have spoken to MOD. We still await promised minute from DOI. MH

RAF Communications Aircraft: this is attached.

MOS (Strathcona's Office) are being pressed for information by the Scottish Daily News amongst others. However they do not want to commit themselves to paper until they have some idea of the PM's reaction to all this. He can find no trace of a letter from MS. yesterday.

Perhaps you or he could have a word with MOD. TEL 218 6621

Teresa 1-7-80

Defence NBPM yet

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

CONFIDENTIAL

The Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

30 June 1980

RAF COMMUNICATIONS AIRCRAFT

Adam Butler copied to George Younger his letter to you of 26 June and I have seen Grey Gowrie's response of 27 June.

I am writing to confirm our wholehearted support for Grey's remarks about the conclusion reached by Adam. Ministers have complied with the Prime Minister's decision, which was made with the full knowledge of the relative costs involved. As Grey says, the question of the two BAC 1-11's is entirely separate. I hope, therefore, that we can now proceed in accordance with the Prime Minister's directive of 31 March.

I am copying this letter to the recipients of Adam's.

ALEX FLETCHER

CONFIDENTIAL

① MAP to see
② PA
MS

Computer Defence Equipment Trade with USA (extract) Dec 79

NOTE OF A MEETING AT BRITISH AEROSPACE, BITTESWELL, ON FRIDAY 27 JUNE 1980

Present: Prime Minister
Mr. Nigel Lawson
Mr. Ian Gow, M.P.
Mr. Derek Howe
Mr. Neville Gaffin
Mr. N.J. Sanders

Mr. Greenwood (Deputy Chairman, British Aerospace)
Senior managers from Bitteswell

* * * * * * * * * *

The Prime Minister said she understood that Mr. Greenwood might want to raise the question of the purchase of Jetstream aircraft. She said that she thought she might say a few things herself before he did. She said that she had personally taken the decision in favour of Jetstream, overriding advise she had received from both the Ministry of Defence and the Treasury. She was appalled that the details had not yet been settled. She said that the Government was going to spend £10 million on Jetstream, which was money it therefore could not spend on special schools, the disabled or hospitals.

She said that she had been disturbed to learn that wage costs had risen by 50% at the factory concerned in the last 18 months and that there might be some slippage in the delivery dates of the aircraft. She said that she had also been worried by reports that had reached her that the Corporation might not want to proceed with the project. She said that she looked to them to make it clear that they did want the work, and that it was essential that firms who benefited from public purchasing decisions such as this one should not become soft as a result. She said that everyone had to co-operate, and in particular excessive pay claims had to be resisted. She said that she had received a message, which seemed to her to be irrelevant, that people wanted to go ahead with buying two 1-11 aircraft for The Queen's Flight. She added that she would watch the progress of the contract every day.

In reply Mr. Greenwood said that the British Aerospace board had decided the previous Tuesday to go ahead with the Jetstream project despite a lot of doubts from some members of the board. He

CONFIDENTIAL

/ said

said that they were determined not to be soft. He said that weekly labour rates at the Scottish factory had indeed risen by something like 50%, but that the factory had been loss-making and British Aerospace had taken the decision to keep it open. He said that they did want the programme of Jetstream aircraft. They hoped to sell 220 aircraft in 10-12 years and that the programme would be profitable.

The Prime Minister said that she recognised that it was not easy to hold wages down but that it had to be done.

The local representatives said that the RAF was considering paying £60-90 million extra to buy Sea Harriers from America rather than Britain and that there was a delay over the decision on buying 10 more Harriers in addition to the original order. The Prime Minister said that she had mentioned the Harrier issue to Harold Brown while he had been in London and that she would look further into it.

The British Aerospace representatives said that the Navy needed another 10 aircraft and that the decision appeared to be stuck at the political level in the Ministry of Defence. The Prime Minister said that the decision-making process in the Ministry of Defence was not of the best. The Chiefs of Staff appeared to want everything, and did not realise that life was an either/or business. She said that it was difficult to decide these big issues, but that she was dissatisfied with the way that decisions were being reached at present.

MJS

30 June 1980

CONFIDENTIAL

NBPM yet

Department of Employment
Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

Minister of State

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

27 June 1980

Dear Keith,

RAF COMMUNICATIONS AIRCRAFT

TPM

Adam Butler copied to me his letter to you of 26 June. I have no serious quarrel with the first three pages of this, but as one of those most closely involved in the closing stages of the argument over the division of costs I really must protest at his "conclusion" that what is now required is a decision on which aircraft to buy - with the implication that it should be the Beech.

The Prime Minister ruled on 31 March that the Jetstream should be bought "in the national interest", with the RAF paying the purchase price and "the other Government Departments concerned" paying the launching aid.

The division of the latter sum has now been agreed. In the light of this I really cannot understand why Adam is seeking to re-open the question of which aircraft should be bought. He justifies this by comparing the price of the Beech with the price of the Jetstream plus the latter's launching costs, thus setting alongside like and unlike, and by introducing the entirely separate question of an order for 2 BAC 1-11s for the Queen's Flight.

The only new factors that have emerged since the Prime Minister's decision of 31 March are that British Aerospace have told us that without an RAF order for the Jetstream they would definitely not proceed with this project; that the total of jobs to be created or preserved by the project has now risen to 1,000; and that British Aerospace have made a small reduction in the total of launching aid they require.

I should mention that our financial people have been in touch and have confirmed that our inter-departmental transfer of funds on the lines envisaged is practicable, but would need Treasury agreement. This is being sought urgently.

I would like to repeat for the sake of emphasis my earlier comment that the political reaction to MoD buying Beech at a cost of jobs to Scotland at a time of the highest unemployment since the War would be devastating. Even worse, it would undermine the credibility of our necessarily tough stance on unemployment. People's preparedness to put up with hard for the sake of attainably better times would come to an end as the sum involved - and it would be easy enough to calculate - would make us look impossibly doctrinaire.

I am copying this letter as Adam did his.

Yours,

Greg

LORD GOWRIE

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

From the
Minister of State
ADAM BUTLER

26 June 1980

Nick Sanders Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Nick,

... I attach as requested brief background notes for the Prime Minister's visit to Bitteswell tomorrow.

I understand that Mr Alan Greenwood, the Deputy Chairman, is meeting the Prime Minister there and that the subject of the BAe bid to meet the RAF requirement for 14 communications aircraft with their own Jetstream aircraft may arise.

[at Y] The Prime Minister will already have seen the Secretary of State's report (dated 24 June) of the last E(EA) meeting on this matter. The meeting referred to has now been held by Mr Butler and there are indications that it will be possible to resolve the financial difficulties involved in meeting British Aerospace's request for an additional £6.5 million assistance over the £16.2 purchase price. Mr Butler will be reporting the outcome to the Secretary of State and other [at X] members of E(EA) today, and a copy is being sent direct to the Prime Minister.

In brief BAe have offered to absorb almost £300,000 (£700,000 including increased interest charges needed because the finance will be spread over three years, and not received before March 1981 as they had originally requested). The Scottish Office have been able to increase their offer of regional assistance in the light of changed circumstances at Prestwick where the aircraft is built, and the other Departments involved expect to provide the remainder.

If Mr Greenwood raises this subject and asks whether a decision has yet been reached, the Prime Minister may wish to tell him that:

A final decision has yet to be reached but the position seems a good deal more promising, not least because of British Aerospace's co-operation. I very much hope that a UK solution can be achieved in the next few days.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON

BRIEF FOR THE PRIME MINISTER'S VISIT TO BAE, BITTESWELL ON FRIDAY 27 JUNE 1980

1 BRITISH AEROSPACE: BITTESWELL

British Aerospace's site at Bitteswell is part of the Kingston-Borough Division. It is among BAe's smallest sites, employing just over 1000 people, a level that has been more or less constant over the last ten years. The site carries out overhaul and conversion work on a range of military aircraft - a "spares and repairs site". It is also engaged on small-scale manufacture of components, and is used for "overflow" production work from other BAe sites. It now has no design staff, and has not produced a new aircraft since 1958 (the Argosy). In addition to modification work and servicing on the following planes (Vulcan, Gnat, Buccaneer, Harrier), Bitteswell is also partially responsible for final assembly of the Hawk ground attack trainer. Some 90% of the site's work comes from MoD contracts, and it is held in high regard by MoD for the quality of its work and for achieving promised delivery times. Although the RAF recently announced an order for a further 18 Hawks, there have been fears for some time among the workforce that Bitteswell might be particularly vulnerable to closure under any BAe plans for rationalisation. However, the DoI know of no such plans. The Prime Minister might ask BAe about the future loading of the site, and in particular about the export potential of the Hawk to the USA. /The US Navy may have a requirement for 300 plus new trainers, and is considering purchase of the Hawk, to be jointly constructed with McDonnell Douglas./

2 BRITISH AEROSPACE FLOTATION

Background Note

The British Aerospace Act, which enables the business of British Aerospace to be transferred to a successor company, British Aerospace Ltd, received the Royal Assent on 1 May. The Government's position has been, and remains, that a flotation will take place at the earliest appropriate opportunity after Royal Assent; and no figures for British Aerospace for 1980-81 were included in the public expenditure White Paper on the assumption of a sale of shares in the present financial year. However, it is now clear that a flotation will not be possible this Summer; and there are major uncertainties - the possibility of changes in defence programmes affecting BAe, and the financial position of the corporation - about a flotation later in the year. (Because of the Stock Exchange requirement that an offer for sale must be based on results for a period ending not more than six months previously, the only potential "window" in 1980-81 is the period end-October to end-1980).

Speaking Note

A sale of shares will take place at the earliest appropriate opportunity. There are many factors to be taken into account, including for example the state of the market, and there is a great deal of preparatory work still to be done. It would be wrong to speculate on the exact timing, which will be settled in the light of all these factors, and which has to be right to ensure the success of the flotation.

26.6.80

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212-6401
SWITCHBOARD 01-212 7676

From the
Minister of State

The Hon Adam Butler MP

The Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

26 June 1980

Dear Secretary of State,

RAF COMMUNICATIONS AIRCRAFT

In accordance with the conclusions of E(EA) (E(EA)(80)12th M), I took the chair at a meeting with British Aerospace (BAe) to discuss the Jetstream project. The Minister of State for Defence, the Minister of State, Department of Employment, and the Parliamentary Under-Secretary of State, Scottish Office (Mr Fletcher) were present. BAe were represented by their Chairman, and the Chief and Deputy Chief Executives of the Aircraft Group.

BAe attitude to the Jetstream project

BAe said that in their view the Jetstream 31 had reasonable sales prospects. However, since the decision to launch, costs at Prestwick had increased considerably (labour rates had risen by about 50% in 18 months); and the prospects for inflation and the dollar exchange rate (a large part of the market for the aircraft would be in North America) were more uncertain. Financially, the project was marginal. If BAe secured the RAF order for 14 aircraft, this would give the Jetstream a certain 'cachet'; and they would expect to sell about 200 aircraft over the next 10 years. The project would still only break even on this basis; but in the interests of strengthening their long-term position in the civil aircraft market and keeping Prestwick in business BAe confirmed that they wished to go ahead. If, however, they failed to secure the launch platform of an RAF order, the sales prospects would be worse; and the risks would be too great to justify proceeding.

/Situation.....

Situation at Prestwick

If the Jetstream went ahead, BAe expected to be able to put enough work into Prestwick to preserve or create employment involving an addition of about 640 to the labour force. On this basis, the Scottish Office had offered financial assistance of £3.9 million (£1.3 million regional development grants and £2.6 million selective financial assistance); and the Scottish Office officials had informally indicated that a total of £4.5 million might be available on the assumption that the addition could be as high as 800 jobs as a result of work no longer being put into Northern Ireland. But BAe thought that it would be difficult to achieve even the target of 640, and were not willing to assume that they could generate more employment: shortages of key skills were one possible obstacle which they mentioned.

If the Jetstream did not go ahead, there would be a difficult period of some 9 to 18 months, during which there would be idle labour and machine time at Prestwick, and job losses would occur through natural wastage; BAe would hope to avoid compulsory redundancies. During and after this period work would be transferred from other BAe projects, in an attempt to ensure that the factory remained viable.

Further information from BAe has revealed that as far as they can quantify the future employment picture, the difference between Jetstream proceeding and not would involve about 1000 jobs. In the light of this, as explained in Alex Fletcher's letter, Scottish Office might be able to find a total of £5.3 million.

Offset

While we would naturally expect Beech to be asked to agree to place offset work into this country as a condition of securing an order from the MoD , BAe did not rate their chances of securing work through any such agreement very highly. They pointed out that any commitment would be subject to competitive prices and delivery dates being quoted; and that this would be difficult to achieve, for a variety of reasons, on Beech's current and prospective aircraft projects. If BAe did not secure sufficient work in this way, Beech should be pressed to place work elsewhere in the UK, and MoD believe such prospects to be more promising than with BAe.

Finance

This was the crux of the meeting. In April this year BAe lowered their bid to £16.2 million for 14 aircraft, plus immediate financial assistance of £6.5 million. When it became

/ ... clear that

clear that financial assistance could not, under the very clear existing rules, be paid immediately but would have to be phased over a period, they raised this request by £0.4 million (representing interest charges) to give a total of £23.1 million. On the information available at the meeting, it was shown that Government could offer only the £16.2 million purchase price plus £3.9 million financial assistance - leaving a gap of exactly £3 million. Under heavy pressure from me and the other Ministers present, BAe indicated that they would be prepared to reduce their requirement by £0.5 million; and the Minister of State, Department of Employment and I indicated that we would try to identify some form of additional financial assistance which would yield, say, £¼ million from each of the Departments; and Minister of State, Ministry of Defence, whilst emphasising that his Department was already being required to find an extra £4.7 million, accepted tht it would be difficult to refuse adding £¼ million to the purchase price if that was all that was needed to resolve the problem. But, even on this basis, a gap of £1¾ million remained.

Since then Alex Fletcher has written to indicate that on the basis of the 400 existing jobs at risk, over and above the new jobs - now revised down to 600 - he believes that he should be able to provide a total contribution of £5.3 million (an increase of £1.4 million). If this were forthcoming, the gap would be £1.1 million; or £350,000 if the three other Departments involved could find a contribution of £¼ million.

BAe Position

After the meeting, I had a private word with Sir Austin Pearce. He confirmed the extreme financial marginality of the project and that the target sales of 200 aircraft were "just possible": but over 20 rather than 10 years.

However, he put a heavier accent on the unemployment problems resulting from any cancellation; he said that cancellation would cause a lot of trouble with the workforce, and he was less optimistic about transferring sufficient work from English sites due to labour reaction there. He would wish the project to go ahead, the balance being tipped by social and political factors.

I believe that Sir Austin's view is a fair assessment. He underlines the employment consequences of cancellation and it is of course this consideration which has largely motivated the Scottish Office's and Employment's support for the deal.

/... Conclusion

Conclusion

The Prime Minister asked that the Departments should get together and close the gap. This can fairly be done, down to a figure of £1.1 million. As I have explained, the Ministers of State for Employment and Defence and I indicated that we would seek to provide an additional £750,000 which would reduce the gap to only £350,000. I have since secured the agreement of BAe to reduce their price by a further £175,000 and in the light of this the Departments of Industry and Employment and the Ministry of Defence are prepared to share the balance of £175,000; as to £50,000 each from Industry and Defence and £75,000 from Employment.

The end result will be that Government departments in one way or another will be providing BAe with a total of £22½ million from public funds, compared with the Beech price of £11½ million. Set against this, however, are some inevitable costs related to the loss or preservation of jobs at BAe Prestwick in the event of Jetstream not proceeding.

Although the Minister of State for Defence made it clear at the meeting that he could offer no commitment at this stage, should the decision be made in favour of Beech, it would be extremely helpful if the Ministry of Defence could place an early order for 2 BAC 1-11s for the Queen's Flight. Such an order would admittedly do little for employment in BAe, and nothing for employment at Prestwick; but it would help the Corporation's cash flow and give them a very valuable piece of marketing publicity. If, however, Defence were required to accept the extra costs of a Jetstream purchase the Minister of State for Defence has told me that this would almost certainly preclude consideration of the Queen's Flight aircraft in the current financial year, raising the prospect that such a requirement would have to be met in the future with foreign aircraft.

An urgent decision is now required. The Beechcraft and BAe's offers expire on 30 June, and have already been extended. Further delay would probably have additional cost consequences, and is not advised.

I attach letters from Defence, Employment and the Scottish Office received since the meeting.

I am sending a copy of this letter to the Prime Minister, other members of E(EA) and Sir Robert Armstrong, also to the Secretaries of State for Defence and Northern Ireland.

Yours sincerely,

Jonathan Hudson

ADAM BUTLER (Approved by Mr Butler and signed in his absence).

From: John R C Oughton - Assistant Private Secretary

COMMERCIAL - IN CONFIDENCE

MINISTER OF STATE FOR DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

cc Mr Fearnow
Mr Beckett

D/MIN/ES/6/3

COMMERCIAL IN CONFIDENCE

25 June 1980

Dear Liz,

In his letter of 24 June, Lord Gowrie has recommended a number of detailed changes to the draft of the paper which Mr Butler proposes to circulate to E(EA) and has recommended the deletion of the final two pages in the interest of a less positive conclusion. The detailed points are more for DOI than MOD, although the original terms which Mr Butler proposed to use in the financial section of the draft are closer to those used in previous submissions on this subject.

On the main issue raised by Lord Gowrie, there is a strong MOD view that it would be much more helpful to the Committee to have a clear statement of view set out in a conclusion, especially in circumstances where we have very little time to reach a decision. Also the concluding paragraphs in your original draft included a relevant statement about the Queen's Flight.

Given the difficulty which has now arisen over convening an E(EA) meeting this week, we recommend that Mr Butler should now emphasise the difficulty we face over the timing of a final decision. This would be best done by revising and including the penultimate paragraph, which was placed in square brackets in the original draft, as follows:

"Unless a decision is reached by the end of this week we must expect a further increase in BAe's costs when their current offer expires on 30 June and this would widen the gap between the cost of Jetstream and available funds even further".

Finally I should clarify one point in Lord Gowrie's letter in connection with possible offset from Beech. While we agree that we could not secure guaranteed offset from Beech in respect of work for BAe (particularly in view of BAe's lack of enthusiasm), we believe that the prospects of placing work from Beech elsewhere in the UK aircraft equipment industry are far more promising.

I am copying this letter to the Private Secretaries to Lord Gowrie, Mr Fletcher and Sir Robert Armstrong.

Yours sincerely
John Oughton

COMMERCIAL - IN CONFIDENCE

Mrs E A Riley COMMERCIAL IN CONFIDENCE

CONFIDENTIAL

1. MoS

2.

Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Hon Adam Butler MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

24 June 1980

Dear Adam,

RAF COMMUNICATIONS AIRCRAFT

Your Private Secretary has sent mine today a draft of the paper you propose to circulate to E(EA) members following our meeting with British Aerospace yesterday evening. We have been told by the Scottish Office that your deadline of 6 pm tonight has been extended as a result of the postponement of Thursday's meeting of E(EA).

... I enclose a note of a few minor amendments to your paper. But in general I must say that I think its last two pages are open to serious objection. These re-open the whole issue of the Jetstream purchase without any new facts to justify such a course. The Prime Minister ruled on 31 March that it was in the national interest for the RAF to buy the Jetstream rather than the Beech aircraft, and laid down that the extra cost of the purchase should be met from the Defence Budget (which MoD confirm that they will do) and that the £6.5 million launching aid should be provided by the other Government Departments concerned. All that has happened in the last three months is that the Government Departments concerned have failed to come up with the whole of the £6.5 million. I do not therefore think it justifiable for your draft paper to go over again such details as the Beech's lower operating costs, which were perfectly well known to us all back in March. Still less is it defensible to compare the purchase price of the Beech with the purchase price of the Jetstream plus the latter's launching cost. Nor do I see how you can speak of the need "to secure a firm commitment from Beech to place the maximum amount of offset work in this country" when both British Aerospace and the Ministry of Defence explained to us yesterday that Beech could give no genuine commitment to more than "best endeavours", and both said that they doubted whether we would in the event gain any offset work at all.

I therefore suggest that page 5 of your draft, after "Scottish Office's support for the deal", should simply conclude on the following lines:

> "I therefore reluctantly report that we have failed to bridge the whole of the gap. British Aerospace have offered to abate their request for launching aid by £0.5 million, but this only

just outweighs their need for an extra £0.4 million in interest charges as a result of the aid's being available over 2-3 years instead of in an immediate lump sum. The gap accordingly remains at £1¾ million".

It would then be up to E(EA), or the Prime Minister, to decide the issue one way or the other.

For myself, I must say that the political reaction to MoD buying Beech at a cost of jobs to Scotland at a time of the highest unemployment since the War would be devastating. Even worse, it would undermine the credibility of our necessarily tough stance on unemployment. People's preparedness to put up with hard for the sake of attainably better times would come to an end as the sum involved - and it would be easy enough to calculate - would make us look impossibly doctrinaire.

I am copying this letter to Euan Strathcona and Alex Fletcher, and also to Sir Robert Armstrong.

Yours ever,

Guy

LORD GOWRIE

FROM THE MINISTER FOR INDUSTRY AND EDUCATION

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

CONFIDENTIAL

For Information
PS/Sec of State
Mr Farrow
Mrs Bartlett

The Hon Adam Butler MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

25 June 1980

Dear Adam,

RAF COMMUNICATIONS AIRCRAFT

Your Private Secretary sent mine a draft of the paper which you propose to circulate to E(EA) members following our meeting with British Aerospace on Monday evening.

I have seen a copy of Grey Gowrie's response and let me say at the outset that I agree entirely with his comments, particularly in regard to the political reaction which will result at this time (especially following yesterday's unemployment figures) if a decision is taken for MOD to buy abroad. There has already been considerable speculation about this project and announcement of its loss now would cause widespread dismay.

We have always been led to believe that, while the Jetstream project would bring new jobs to Prestwick, if it did not go ahead there would be no significant problems for the existing labour force. The information given to you by Sir Austin Pearce outlined in the 'conclusion' in your draft is quite different to our understanding. It concerned me to such an extent that my officials have been in touch with BAe to ascertain the real extent of the threat to existing jobs.

BAe have confirmed that if Jetstream goes ahead, at the limit, they would expect just over 600 new jobs to arise at Prestwick. They have also confirmed that the absence of the Northern Ireland project would not lead to any increase in that figure. However they now say that they are convinced that if Jetstream does not go ahead the present labour force of 1,400 will almost certainly drop to 1,000 over the next 2 years and, when that stage has been reached, a close look at the viability of the whole establishment could well be necessary. On the strength of this firm assessment that 400 existing jobs are at risk, over and above the 600 new jobs, we should be able to increase the proposed level of our assistance under section 7 to £4m. This would be subject to the approval of the Scottish Industrial Development Advisory Board. With regional development grants of £1.3m, this would give a total contribution from regional support of £5.3m (an increase of £1.4m on our previous figure).

If the other contributions promised at Monday's meeting are confirmed, this leaves a gap of only £0.35m. This is an insignificant amount and I am sure you will agree that the Prime Minister's instruction that MOD should purchase Jetstream can now be met.

In view of this new development and to allow time to confirm these details, I suggest that the Corporation should be asked to extend their 30 June deadline.

Finally I would strongly support Grey Gowrie's comments that the passage in the draft comparising Beech and Jetstream on price only is not justified. The respective qualities of the aircraft have been discussed fully in the past and it is well known that we are not comparing like with like. It is therefore quite incorrect to imply that they are comparable.

I am copying this letter to Euan Strathcona, Grey Gowrie and also to Sir Robert Armstrong.

Yours ever

Alex.

ALEX FLETCHER

PRIME MINISTER

BAe may lobby you about this when you visit Bitterswell on Friday

MS 26/6

MO

10 DOWNING STREET

Prime Minister

The real message of this report is that the package is falling apart. And BAe do not seem [illegible] falling over themselves to get this order.

In view of your decision that Depts should find £8·8m for Plessey, perhaps you will be prepared to reconsider the options on communications aircraft.

MPP 25/VI

Prime Minister Y 2

A progress report: Sir Keith will report back after further discussions with British Aerospace.

TL 24/6

PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT

This minute reports the outcome of E(EA)'s discussion on 19 June on the progress of negotiations on the RAF's order of fourteen new aircraft to replace their existing fleet of communications aircraft.

You will recall that on 27 March E(EA) considered whether the RAF should buy the American Beech Super King Air 200 or British Aerospace's Jetstream 31. In the light of our discussion you decided that:-

(i) the RAF should buy the Jetstream;

(ii) the capital costs, of £16.2 million, should be met from the Defence Budget; and

(iii) the additional £6.5 million financial assistance, which British Aerospace have said they require if they are to take the order, should be provided by the other Departments concerned.

Pending further discussion of the financing, British Aerospace have extended their tender deadline to the end of June. If the order were placed they would deliver the aircraft between September 1982 and March 1983. They have told MOD they will not be prepared to extend their offer beyond the end of June on its present terms.

/On ...

On 28 May, the Chairman of Eagle Aircraft Services Limited, the United Kingdom distributor for the Beech Corporation, wrote to you to suggest that if negotiations were reopened soon, it was possible they could hold to their original tender price of £11.5 million for the King Air 200 and to complete delivery by March 1981. Beech have also offered British Aerospace the opportunity for Prestwick to supply parts of any Beech aircraft "where it would be competitive with current sources of supply". They have also informed the DOI in general terms of their wish to increase purchases from United Kingdom equipment firms, and indicated that their attitude would be favourably influenced if they were to secure the MOD order.

The outcome of the further discussions of the additional assistance of £6.5 m for British Aerospace is that the maximum which Departments can offer is £4.5m, all from the Scottish Office. (The reasons for this are set out in more detail in paragraphs 7-11 of E(EA)80 29).

Flag A

In this situation E(EA) consider that there are now three possibilities.

First, we must consult further with British Aerospace to see whether they would be willing to go ahead on the basis of the maximum assistance which the Scottish Office can offer and with no increase in the capital cost of £16.2m which the Ministry of Defence would find. Adam Butler, in consultation with Ministers from the Scottish Office, the Ministry of Defence and

/the ...

the Department of Employment will now arrange an urgent meeting with British Aerospace to discuss this.

Secondly, if British Aerospace were not willing to move - and my own Department doubts whether they are - we could place the order with Beech. But before concluding any contract with them the Ministry of Defence would aim to secure firm commitments to orders which would help British Aerospace, Prestwick, and increased purchases from other UK equipment firms.

Thirdly, if we were to pursue the second option the Secretary of State for Defence has said that this would affect his consideration of a possible order of two BAe 1-11 aircraft for The Queen's Flight. This order would be a helpful gesture to British Aerospace in that it would help their cash flow. But since the aircraft had already been built the employment benefits would be confined largely to fitting out work. Provision had not been made in the defence budget for the purchase of the two aircraft but the purchase of Beech aircraft instead of Jetstream would release some funds which could be put toward the purchase of new aircraft for The Queen's Flight. Since this raises wider considerations relating to VIP flying, Francis Pym will be bringing forward proposals very soon.

I will report further to you following the meeting with British Aerospace.

I am sending copies of this minute to members of E(EA), to

/the ...

the Secretaries of State for Defence and for Northern Ireland and to Sir Robert Armstrong.

KJ.

K J
24 June 1980

Department of Industry
Ashdown House
123 Victoria Street

Original in G/R

COMMERCIAL IN CONFIDENCE

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

MO 26/11/17

17th June 1980

Dear Mike,

RAF COMMUNICATIONS AIRCRAFT

Jonathan Dawson in this office has discussed with you the request made in your letter of 30th May for advice on the reply which should be sent to Mr Bamberg's letter to the Prime Minister dated 28th May.

He explained the difficulties which have arisen in the way of reaching a satisfactory agreement with BAe over the provision of fourteen Jetstream 31 aircraft for the RAF. Ministers are now due to meet to consider the problem in E(EA) on Thursday of this week and the note, E(EA)(80)29, produced by officials as a basis for discussion at this meeting, sets out the financial problems now faced.

I suggest that in these circumstances the substantive reply to Mr Bamberg's letter should await the outcome of further E(EA) consideration. We will then provide a draft.

Yours ever,
David

(D B OMAND)

M Pattison Esq
No 10

COMMERCIAL IN CONFIDENCE

Defence

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE. 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

5 June 1980

B M Norbury Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

1. Mr Scholar
2. PA.

Dear Brian,

RAF COMMUNICATIONS AIRCRAFT

My Secretary of State did not have a chance, before he left for America, to see your Secretary of State's letter to him of 23 May asking for a meeting of E(EA) to discuss this.

Since then you have written to David Wright on 30 May, pointing out that British Aerospace's deadline for holding to their original price has been extended to the end of June. The rival US manufacturers have also now indicated their willingness to extend their original price deadline, as reported in the letter attached to Mike Pattison's letter to your office of 30 May.

The Cabinet Office have provisionally arranged a meeting of E(EA) on 19 June, in case this issue needs further discussion by Ministers before the June deadline runs out. They are also arranging for the position to be discussed inter-departmentally by officials next week. The appraisal now being undertaken by the Northern Ireland Office of BAe's proposals will be critical to making progress. It would therefore be helpful if they could ensure that at least a preliminary view is ready in time for the first of these meetings. It will be particularly important to ensure that Ministers are not faced with the need to reach decisions at very short notice before the expiry of deadlines.

I am copying this letter to the Private Secretaries to the members of E(EA), Mike Pattison (No 10), David Wright (Cabinet Office) and Mike Hopkins (Northern Ireland Office).

Yours ever,
Peter Stredder

PETER STREDDER
Private Secretary

2.

Defence

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

MO 26/11/17

It's as well that it's a year on.

30th May 1980

Dear David,

Prime Minister

There is now a month longer (to end June) in which to sort this out.

MT 30/V

RAF COMMUNICATIONS AIRCRAFT

In view of the difficulties set out in the Minister of State for Northern Ireland's letter of 28th May in reaching a conclusion on the proposed purchase of Jetstream 31 aircraft before the existing BAe offer expires on 31st May, we have been pressing BAe to extend their tender deadline.

BAe claims that the sub-contracting of work to Shorts from BAe upon which Northern Ireland Office aid depends is proving far more expensive than they expected and, on the basis of Shorts' present proposals, the work is likely to cost twice as much as it would in Scotland. BAe's view is that it will take a further two weeks to complete megotiations on the price of work planned to be sub-contracted to Shorts and, therefore, they have agreed orally to extend their offer of £16.2M for fourteen aircraft, linked with the provision of £6.5M aid, to the end of June.

It follows from this that the E(EA) meeting for which my Secretary of State has been pressing should be timed to take place as soon as possible after BAe's negotiation with Shorts can be concluded.

!!

D J Wright Esq

This should not, of course, delay the appraisal by the Northern Ireland Office of the Shorts/BAe proposals in terms of whether they would qualify for regional aid and of the extent of such aid available. However, we already know that there is likely to be a shortfall in regional aid of at least £0.85M and, the gap may be considerably more than this, given Shorts' latest proposals to BAe and the budgetary difficulties mentioned in Mr Allison's letter. In view of this, my Secretary of State is concerned that, if a conclusion is to be reached by the end of June, Ministers should be prepared at the prospective E(EA) meeting to give a clear view on how they see the required level of £6.5M regional aid being found.

I am copying this letter to Mike Pattison (No 10), to the Private Secretaries of members of E(EA) and to Mike Hopkins (NIO).

Yours sincerely

J D S Dawson

(J D S DAWSON)

10 DOWNING STREET

Spoke P. le Cheminant.

Cabinet Office are attempting to get Depts to resolve this this ~~yo~~ week without E(EA).

NBPM qct

MAP
28/v.

of A Buyland

With the Compliments

of the

Secretary of State

Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU

CCAD

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

COMMERCIAL - IN CONFIDENCE

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

28 May 1980

Dear Secretary of State,

RAF COMMUNICATIONS AIRCRAFT

I read your letter of 6 May to Keith Joseph and Adam Butler's reply of 21 May with very considerable concern.

That correspondence might be interpreted as suggesting that the Scottish Office was dragging its feet over its contribution towards financing the order for the Jetstream 31. This is simply not the case. From the moment in March when I first appreciated that the Ministry of Defence order for the Jetstream was in jeopardy my officials have, on my instructions, gone to the limit under the powers available to them and the rules of the EEC in assessing the Scottish contribution.

We undertook last March to recommend to the Scottish Industrial Development Advisory Board a payment under Section 7 of the Industry Act 1972 increased to £1.95m, the maximum sum under the EEC rules and attainable even then only on the basis of payment by instalment. I stand by that undertaking. The only reason why my officials have deferred actually putting it to the Advisory Board is that it seemed premature to do so until the remainder of the package had been settled, particularly since the offer was dependent, under the rules, on certain levels of employment and capital expenditure being achieved at Prestwick.

I must say that I find our inability to bring this matter to a conclusion deeply disturbing. If the Northern Ireland Office confirms a contribution of £2.5m, the deficiency to be found amounts to £0.85m on an order worth over £16m. I cannot beleive that the Prime Minister envisaged that her

decision that the RAF buy the Jetstream in preference to the American alternative should be re-opened for a sum of that order.

I am copying this letter to the Prime Minister and Members of E(EA), and to Sir Robert Armstrong.

Yours sincerely

John S. Wiles

(Approved by the Secretary of State and signed in his absence.)

10 DOWNING STREET

Further Cabinet Office advice expected 30/v

MAP.

✓MAP

CONFIDENTIAL

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SWIP 3AJ

Minister of State

27th May 1980

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

Dear Francis,

RAF COMMUNICATIONS AIRCRAFT

I have seen your letter of 6 May to Keith Joseph (not initially copied to NIO) and Adam Butler's reply of 21 May. I am responding in Humphrey Atkins' absence on leave.

Since the collective consideration given to this problem by colleagues at the end of March, we have been looking together with Short Brothers as constructively as possible at the feasibility of a Northern Ireland dimension to the project which could furnish up to £2.5 million towards "launching aid" for British Aerospace (BAe). It quickly became apparent that the only way in which Northern Ireland funds could be made available was by way of assistance to Shorts' in respect of employment created by sub-contract work from BAe. Shorts' and BAe were asked to attempt to work out proposals to this effect.

Their joint report arrived with my officials on 23 May, after delays caused, I understand, largely by difficulties in obtaining information and decisions from BAe (who are still expressing reservations about costs and cash-flow figures). The proposals in the Report now need thorough scrutiny to see whether they are both convincing and practicable in themselves and consistent with Shorts' other commitments. This detailed evaluation is being pursued urgently but is bound to take time. Moreover, even if it proves positive, I am afraid that I simply cannot give any undertaking at present that the necessary money can be found from Northern Ireland sources - existing commitments are already imposing the most severe budgetary difficulties.

In these circumstances, I regret that, if it is quite impossible for MOD to secure extension of the BAe (and Beech) deadlines beyond 31 May, the only answer that can be given is that Northern Ireland funds cannot be committed to the project. If however an extension can be granted until say the end of June - and I should have thought that BAe could hardly object to this in the circumstances - we shall pursue our appraisal of the Shorts/BAe proposals and of the

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budgetary obstacles with great urgency to see if there is any way in which we can help the project go forward.

I am sending copies of this letter to the Prime Minister and other members of E(EA), and to Sir Robert Armstrong.

Yours ever
Michael

MICHAEL ALISON

P.S. I have just seen your letter of 23 May to Keith Joseph. You will see from the above that, while I should be glad to be represented at any meeting of E(EA) which may be arranged - and I understand there are difficulties about this - an extension of the 31 May deadline would anyway be necessary if the Northern Ireland possibilities are to be pursued.

cc A Duguid

COMMERCIAL IN CONFIDENCE

Defence

✓ MS

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/11/17

23rd May 1980

Dear Keith,

RAF COMMUNICATIONS AIRCRAFT

I have received Adam Butler's reply of 21st May to my letter of 6th May, in which he sets out the reasons why you cannot provide some element of the £6.5M aid required to complete the procurement of Jetstream 31 aircraft, authorised by the Prime Minister at the end of March. The letter, however, does not respond to the wider issue which I had addressed to you as Chairman of E(EA) about how the required regional aid is to be found by the time the British Aerospace offer of £16.2M for fourteen aircraft, which is in turn linked to the provision of £6.5M aid, expires on 31st May.

Since time is so short, I must press you to call a meeting of E(EA) in the coming week at which we must have firm statements from Scottish and Northern Ireland Office Ministers about whether they can make available the required level of aid. I am sure you will agree that such a meeting is now necessary if we are to reach a conclusion before the BAe price offer expires on 31st May.

I am sending copies of this letter to the Prime Minister, members of E(EA) and to Sir Robert Armstrong.

Yours ever

Francis

Francis Pym

The Rt Hon Sir Keith Joseph Bt MP

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

Defence

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212-6401
SWITCHBOARD 01-212 7676

From the
Minister of State

The Hon Adam Butler MP

The Rt Hon Francis Pym MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London
SW1

NBPM
PMS
21v.

21 May 1980

Dear Francis,

RAF COMMUNICATIONS AIRCRAFT

Thank you for your letter of 6 May to Keith Joseph which did not arrive until 12 May. As he is acting in this matter as Chairman of E(EA), I am replying on the DoI interests. We are, however, both keenly aware of not only the difficulties involved in meeting BAe's request for £6.5 million but also of the important problems of timing.

You suggest that any shortfall between the regional aid available and the £6.5 million should be made available from DoI sources. I made this Department's position clear at the start. I have explained that Section 46 of the Aircraft and Shipbuilding Industries Act 1977 precludes assistance for the design, development and production of civil aircraft except under Section 45 of that Act. The £50 million available under that section has already been given in respect of Airbus Industrie, and no more funds are available. I have carefully reviewed the other instruments under which assistance might be available and I am satisfied that any assistance other than that already offered on regional grounds would clearly involve a circumvention of the policy underlying the 1977 Act. We must therefore rely on the finance which will be available from the Scottish and Northern Ireland Departments for regional purposes, and I hope that final proposals can be formulated very soon.

/.....While we will

While we will no doubt need to bring this subject to E(EA) again if difficulties are not ironed out quickly, there seems little point in such a meeting before we have a clearer idea of what can finally be offered to BAe towards their £6.5 million request.

I am copying this letter to the Prime Minister and other members of E(EA) and to Sir Robert Armstrong.

Yours ever

Adam

ADAM BUTLER

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

cc A Duguid
2.
Defence
Prime Minister.

More of this sorry story!
AJ
12.V.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/11/17

6th May 1980

Dear Keith,

RAF COMMUNICATIONS AIRCRAFT

I am concerned about the current situation with the negotiations which stem from the recent consideration in E(EA) of proposals to replace the RAF communications aircraft and the subsequent decision by the Prime Minister

Those decisions were recorded in the letter of 31st March from the Prime Minister's Private Secretary to your Private Secretary as directions that "the extra capital costs of the Jetstream 31 should be met from within the Defence budget and the necessary financial assistance to British Aerospace should be provided by the other Government Departments concerned".

In your own submission to the Prime Minister you gave the comparative capital costs as £11½ million for the Beechcraft/Eagle King Air 200 against at least £15 million for the Jetstream 31; you also added that British Aerospace would require launching aid of £6.5 million, though you accepted that this would be required in any case if the aircraft goes ahead, whether for the RAF or any other customer.

The Rt Hon Sir Keith Joseph Bart MP

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COMMERCIAL IN CONFIDENCE

BAe have told us that their price for 14 Jetstream 31 is £16.2m but only if directly linked to BAe receiving £6.5m aid of some sort. Officials in the Scottish and the Northern Ireland Offices have so far only been prepared to consider regional aid totalling only £5.65m. Moreover this aid might only be on the basis of phased payments (not the single settlement requested by BAe). Clearance by the Industrial Advisory Boards of both Departments could take until mid-May. Even more worrying are the doubts being expressed by NIO about their ability to provide their £2.5m share, not only for budgetary reasons but also because the volume of work involved could be either too small to justify that amount of regional aid or if big enough, perhaps beyond Short's ability to undertake it.

Thus the extra capital costs for the Jetstream over the Beech aircraft for the Ministry of Defence to find will rise to £4.7m. Beyond that, the other Government Departments concerned have yet to identify adequate contributions to finance the other £6.5m needed by BAe. This is not just a matter of time for negotiations, urgent though they are. At best regional aid will fall short by £0.85m, (£6.5m compared with £5.65m), and at worst the deficiency could increase up to £3.35m if the NI contribution is less than expected. The MOD cannot take on these extra burdens which would put the premium for the Jetstream up to at least £5.55m and perhaps even to around £8m - an increase of 70% on the original £11.5m.

We cannot let this issue drag on; BAe's deadline for their offer is 31st May. The Prime Minister has instructed that, in the national interest, the MOD should procure the Jetstream 31, on the basis of the arrangements set out in her Private Secretary's minute of 31st March. The Ministry of Defence will find the extra £4.7m required from us to meet the higher purchase

price of the Jetstream 31, but there really is no more that I can accept on the Defence budget. Given the circumstances, the launching aid will have to be found in full from the other Departments concerned. Alternatively the Department of Industry may have to consider covering any unattributed portion of financial assistance as a matter of industrial support, which it clearly is.

I am sending copies of this letter to the Prime Minister and other members of E(EA) and to Sir Robert Armstrong.

Yours ever

Francis

Francis Pym

CONFIDENTIAL

Defence

10 DOWNING STREET

From the Principal Private Secretary

MR. WRIGHT

RAF COMMUNICATIONS AIRCRAFT

I have shown the Prime Minister your minute A01945 of 16 April 1980.

She was grateful for the account of events which led to the situation where Ministers were asked to take final decisions at extremely short notice. She is glad to learn that you are reminding Departments of the need to warn you and, where appropriate, us here, whenever significant Ministerial disagreement on an important issue looks likely. She does not propose to pursue any further the particular question of how the choice of RAF communications aircraft was handled.

C. A. WHITMORE

17 April 1980

CONFIDENTIAL

1.

Prime Minister.

I cannot see why the MOD did not ask the firms to extend their tenders by an extra month, i.e. until the end of April, in order to allow Ministers enough time to consider the issue properly. I doubt whether this would have made more than a marginal difference to Beech's costs and delivery dates. But that is now water over the dam. I think the only general lesson to be drawn is that of the importance of copying correspondence to all concerned. Agree to leave further action as xl below? Tell Bri

MS

CONFIDENTIAL

Ref. A01945

MR. LANKESTER

RAF Communications Aircraft

In my minute to you of 1st April I promised a further report on the reasons why the Prime Minister had to be brought in at the last moment to settle the dispute between Departments on the order for new communications aircraft for the RAF.

2. We have pursued this with the main Departments concerned and I attach an explanation of events from the Ministry of Defence, which gives the clearest account. It does not make clear, however, that the critical letter of 21st March 1980 from Lord Strathcona to Mr. Younger (mentioned on the penultimate page of their chronology) was not copied to either you or us. It was only when Cabinet Office officials saw Mr. Younger's reply of 24th March that we were able to set the E(EA) wheels in motion, leading to the meeting of the Committee on 27th March.

3. MOD would argue that the critical loss of time occurred because of BAe's successive alterations to their offer - the final version of which did not reach them until 18th March. But the failure by MOD to copy Lord Strathcona's letter of 21st March to all those Departments likely to be interested compounded the difficulty.

4. This is by no means the first occasion on which a failure by a Department to copy Ministerial correspondence to you or to us has subsequently led to problems. Equally however we do not want to insist that all such correspondence be copied to the centre because this would lead to a good deal of wasted effort all round. I am nevertheless arranging for Departments to be reminded of the need to bring us, and where appropriate you, into the picture early whenever there is a prospect of a significant Ministerial disagreement on a policy issue.

X

see PS(80)6 of 16/4

D.J. Wright

(D.J. Wright)

16th April, 1980

DRAFT

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

RAF COMMUNICATIONS AIRCRAFT

1 As the following diary of events indicates, there were unusual factors which complicated the consideration of the replacement of the present RAF Devon/Pembroke communications aircraft:

a. The Ministry of Defence had planned for replacement of its Communications aircraft fleet in 1980/81 because other heavy expenditure in later years was seen as precluding any further opportunity until the 1990s. These plans were brought into question at the end of January 1980 when the Cabinet decided on a further reduction of the Defence Budget from £8063M to £8001M. This required re-examination of planned expenditure and it did not become clear until early March that sufficient funds could be found for purchase of the cheaper Beech aircraft. The need for an early decision was related to the expiry date of the Beech tender on 31st March 1980 (with unnecessary higher costs and revised deliveries thereafter) but action was delayed by a late indication that BAe were preparing a further cost proposal.

b. Defence Ministers were in no doubt that Secretaries of State in DOI and Scottish Office appreciated the problems to be faced in the selection of an aircraft for the RAF need.

Letters were exchanged between Mr Pym and Mr Younger (copied to Sir Keith Joseph and Mr Nott) from the Autumn of 1979 onwards. There was no reason to believe that BAe would not be presenting their case to these Departments as well as to MOD. While the result of the tender competition showed a clear cost advantage in the Beech offer, before the implications of this could be considered by MOD Ministers and views obtained from DOI and the Scottish Office, Mr Younger advised on 13 Feb 1980 that BAe were reviewing their bid and were asking for a delay to any final decision. When received this revised bid did not alter the cost balance sufficiently to change the situation but again before MOD action was initiated, the BAe Chairman on 2 Mar 1980 spoke of yet another revision to come. Until this bid was received it was not clear whether there would be a case for inter departmental Ministerial consideration or not. Regretably BAe were not sufficiently helpful with costs and MOD saw no option but to communicate the final facts as they stood on 21st March 1980. It was then, at the request of Secretary of State for Scotland, and with Minister of State DOI support, that the matter was referred to E(EA) Committee at its meeting on 27th March 1980.

/2

2 The key events in the procurement process for replacement RAF Communications Aircraft were as follows:-

23 May 1979	Mr Younger requests information about MOD intentions over Devon/Pembroke replacement in connection with Jetstream 31.
15 June 1979	Mr Pym replies to Mr Younger, indicating that Jetstream 31 will be fully evaluated.
31 August 1979	Aircraft Requirement (ASR 408) endorsed by the Air Force Board.
11 Sep 1979	Procurement Executive instructed to initiate procurement action and preparation of tender documents begins.
25 Sep 1979	Further letter from Mr Younger to Mr Pym about the case for Jetstream 31, copied to Sir Keith Joseph and Mr Nott.
3 Oct 1979	Invitation to tender issued to BAe, Beech/Eagle and Cessna.
22 Oct 1979	Mr Pym replies to Mr Younger, copied to Sir Keith Joseph and Mr Nott, describing the tendering exercise then current.

/29 Nov

29 Nov 1979	Tenders received from BAe, Beech/Eagle and Cessna. Technical assessment begins.
14 Dec 1979	Tenderers asked to extend their bids from 31 December 1979 to 31 March 1980 mainly because of uncertainties about availability of resources within the MOD Budget. Beech/Eagle and Cessna agree while BAe extends to 31 January 1980 only (although this too was subsequently extended).
14 Jan 1980	Tenderers requested to improve dates of delivery in order to ease budgetary position since funds could only be earmarked in 1980/81.
14 Jan 1980	First draft report on tenders circulated within MOD.
31 Jan 1980	Cabinet reduction of Defence Budget 1980/81 from £8063M to £8001M.
1 Feb 1980	Assessment of tenders submitted by Controller Aircraft to Minister of State for Defence, the Lord Strathcona.
Feb/March 80 (throughout)	Close consideration given within MOD to availability of funds in 1980/81 for this requirement.

13 Feb

13 Feb 1980	Mr Younger writes to Mr Pym indicating his understanding that the BAe offer was not acceptable on price and delivery grounds. Mr Younger informed Mr Pym that BAe were urgently reviewing their bid and requested that no final decisions should be taken until this bid was received.
15 Feb 1980	BAe submit a revised tender price.
22 Feb 1980	CA submits assessment of BAe revised tender price to Lord Strathcona.
28 Feb 1980	Lord Strathcona holds meeting with Air Staff and Procurement Executive staff to consider the assessment of tenders and the requirement in the light of budgetary constraints. Further work commissioned on options for reducing numbers of aircraft or procuring cheaper aircraft in order to reduce budgetary effect.
7 Mar 1980	Mr Pym writes to Mr Younger informing him that bids are still under consideration.
10 Mar 1980	VCAS reports to Lord Strathcona on possible revisions in the RAF requirement following the meeting held on 28 February 1980.

/12 Mar

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12 Mar 80 Sir F Page, Chairmanof British Aerospace Aircraft Group, calls on Controller Aircraft to inform him that a further revised bid is in the final stages of preparation.

18 Mar 80 BAe revised offer received in MOD.

19 Mar 80 CA advises Lord Strathcona that further bid from BAe, including the provision of £6.5M launch aid, still left the Jetstream option twice as expensive as King Air 200.

21 Mar 80 Lord Strathcona writes to Mr Younger, Sir Keith Joseph, Mr Nott and Mr Biffen about BAe's revised bid in relation to the Beech/Eagle tender and seeks their agreement to the purchase of 14 aircraft (a reduction from 18 in consideration of budgetary constraints) from Beech/Eagle.

24 Mar 80 Mr Younger's office reply indicating his opposition to the proposal and suggests discussion in E(EA).

26 Mar 80 Mr Biffen replies indicating his agreement.

26 Mar 80 Mr Butler replies indicating that DOI oppose the purchase and agreeing that issue should be discussed in E(EA).

/27 Mar

27 Mar 80 Meeting of Ministers in E(EA) Committee, leading to Sir Keith Joseph's submission to the Prime Minister.

JU

B/f

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

2 April 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

BF 15.4.80

Prime Minister

To note.

MT.

TL 3/4

Dear Tim

RAF COMMUNICATIONS AIRCRAFT

In his minute of 1 April David Wright suggested that my Secretary of State would report on this issue before Easter. This was in the context of the Prime Minister's decision that the RAF should buy the BAe Jetstream aircraft in preference to the American alternative, that the extra capital costs should be provided from the Defence Budget and that the necessary financial assistance to the Jetstream project should be provided by the other Departments concerned.

Officials have today, 2 April, met BAe to discuss the financing of the project. BAe repeated their most recent price estimate of £16.2 million for the 14 aircraft but indicated that this was conditional on adequate Government financial assistance for the project. This will require further detailed discussion between BAe and the Scottish and Northern Ireland Offices, especially with the latter, since BAe's proposal to locate part of the project in Northern Ireland is a very recent development on which virtually no planning has taken place.

My Secretary of State will be reporting back after these detailed discussions have taken place; they are being pursued urgently.

A separate report is being prepared on the reasons why the decision on the RAF communications aircraft was submitted to Ministers at such short notice.

I am copying this to Brian Norbury (Defence), Godfrey Robson (Scottish Office), Roy Harrington (Northern Ireland Office) and Alastair Pirie (Treasury) as well as to David Wright.

Yours ever
Ian

I K C ELLISON
Private Secretary

cc AD

Defence

Prime Minister

To note.

2

CONFIDENTIAL

Ref. A01858

MR. LANKESTER

PL
1/4

RAF Communications Aircraft

The Secretary of State for Industry, as Chairman of E(EA), reported to the Prime Minister on 28th March, about a disagreement in the Sub-Committee over the purchase of new communications aircraft for the Royal Air Force. You recorded, in your letter of 31st March, the Prime Minister's decision.

2. Because of the need to translate this into action before the deadline on the American aircraft expired yesterday evening, the Cabinet Office took a meeting of officials yesterday morning. As a result, we can report that the Ministry of Defence note the Prime Minister's decision and are now examining ways of financing the order for 14 Jetstream aircraft within the existing Defence Budget allocations.

3. The Department of Industry, in consultation with the other interested Departments, are arranging a meeting with British Aerospace later this week to consider the form and financing of the necessary financial assistance to the Jetstream project. There is a good prospect that a package can be put together which will meet British Aerospace's requirement. But more work needs to be done first on the details. The Secretary of State for Industry, as Chairman of the Sub-Committee, will report further to the Prime Minister before Easter.

4. Finally, you asked for a report on the reasons why this decision had to be taken at such short notice. The Cabinet Office only heard of this case on Monday last. We are investigating the details with the Departments concerned, and I shall let you have a further report later.

5. I am copying this to the Private Secretaries to the Secretary of State for Defence, the Secretary of State for Scotland, the Secretary of State for Northern Ireland, the Chief Secretary, Treasury and the Secretary of State for Industry.

D. J. Wright

(D.J. Wright)

1st April, 1980

CONFIDENTIAL

Defence. JS
cc A Duguid

B/F 8.4.80

10 DOWNING STREET

From the Private Secretary

31 March 1980

Dear Ian,

RAF COMMUNICATIONS AIRCRAFT

The Prime Minister has considered Sir Keith Joseph's minute of 28 March on the above subject, and she has also read the minutes of the E(EA) meeting on 27 March when it was discussed. She has decided that it is in the national interest for the RAF to buy the British Aerospace Jetstream aircraft in preference to the Beechcraft Air 200. She has directed that the extra capital costs should be met from within the Defence Budget, and the necessary financial assistance to British Aerospace should be provided by the other Government Departments concerned.

The Prime Minister has asked why this issue was put to Ministers so late, who was responsible, and what action is being taken to ensure that it does not happen again.

I should be grateful for a report on this matter.

I am sending copies of this letter to the Private Secretaries to members of E(EA) Committee, the Minister of State for Defence and Sir Robert Armstrong.

Yours ever

Tim Lankester.

Ian Ellison, Esq.,
Department of Industry.

M

Prime Minister

1

A decision on this is essential by Monday. I would have thought that the extra cost of buying British (£3½ m or 30% plus launching aid) in this case is excessive, and that the RAF should buy the Beechcraft. Agree?

(or would you like to discuss with Ministers?)

D.
28/3

(1) Find the extra £4m without recourse to the Treasury and buy British.

(2) Enquire how this decision came to be left to the last minute and show who is the responsibility which is very late. MT.

PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT

E(EA) considered on 27 March a proposal to replace the existing RAF Communications fleet of Devon and Pembroke aircraft with either the American built Beechcraft/Eagle King Air 200 or with the British Aerospace Jetstream 31. The Sub-Committee failed to agree and an urgent decision is needed before the option on the American aircraft expires on Monday 31 March.

The RAF requirement has been reduced from 18 to 14 aircraft. It can be met adequately by the Beechcraft Air 200, which is already in production. This is a relatively straightforward aircraft. The cost would be £11½ million.

The British Aerospace Jetstream is not yet in production. It can be delivered by March 1983. The RAF can accept this operational penalty. It is a more expensive aircraft to operate, and the RAF is also prepared to carry these additional costs. But the RAF is not prepared to pay the higher capital cost, of at least £15 million for 14 aircraft, out of the present Defence Budget. In addition, British Aerospace would require launching aid of £6.5 million, though this would be required in any case if the aircraft goes ahead, whether for the RAF or for any other customer. The Scottish Office, with help from the Northern Ireland Office, are in

/principle ...

principle prepared to put up about £5 million. But no finance is available to bridge the gap on capital costs. The British Aerospace Board in principle support the continuation of the Jetstream project. Department of Industry advice, however, is that this is not a project which justifies Government assistance.

The Ministry of Defence argue strongly that they cannot be expected to find these additional costs out of a severely constrained Defence Budget. The Scottish Office, (represented at this meeting by the Minister of State, Alex Fletcher, because the Secretary of State had a constituency interest) believes that wider considerations apply. In particular, I am reminded that when OD considered future Defence procurement at its meeting on 20 March, they agreed to the policy 'of buying as much equipment as possible from British industry or European collaborative arrangements'. The issue is whether this is such a case, or whether the extra costs are altogether excessive.

It is unsatisfactory that Ministers should be asked to take such decisions at extremely short notice. I understand that, in this case, this is because every attempt has been made to bridge the gap in favour of the British aircraft, and that the final position only became clear about ten days ago. But because the deadline expires on 31 March, and there is no meeting of E until 3 April, I fear I have no alternative but to report the Sub-Committee's disagreement to you and ask you to take the final decision. A

/majority ...

majority of the Sub-Committee clearly favour the American aircraft; but obviously the views of the Scottish Office must carry due weight.

Efforts have been made to extend the 31 March deadline but there is a sellers' market for the Beechcraft and the deadline has been extended already, and it is clear that Beechcraft are not prepared to accept orders for the plane after 31 March at the present price.

I am sending copies of this minute to the members of E(EA), the Minister of State for Defence and to Sir Robert Armstrong.

KJ

K J
28 March 1980

PM said subsequently:
if extra capital costs to be found by MoD
if launching aid is to be provided by
Scottish Office

Department of Industry
Ashdown House
123 Victoria Street
London SW1

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Whitmore dated 6 March 1980	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 C Wayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-[redacted] 218 2111/3

MO 35/5

5th March 1980

Dear Clive,

THE QUEEN'S FLIGHT

Thank you for your letter of 26th February * [redacted] * I have shown your letter to my Secretary of State.

* [redacted] *

As to where any BAe 111s which are bought and other VIP aircraft should be based, Mr Pym believes that he should await the detailed costings which are now being prepared before forming any view on what would, overall, be the most advantageous arrangement. Given the high operating cost of the BAe 111 there must be a preference in favour of the most economical solution being adopted. Our costings are covering both works services and the operating expenses of concentrating a larger unit at either Northolt or Benson and also of the continuance of the present split between the two of VIP flying assets.

Yours ever,
Bill

(B M NORBURY)

Clive A Whitmore Esq

* ~ * Passages deleted and closed, 40 years, under FOI Exemption.
O Wayland,
27 August 2013

CONFIDENTIAL

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Whitmore to Norbury dated 26 February 1980	
CLOSED FOR 40 YEARS UNDER FOI EXEMPTION	27 August 2013 C Wayland
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

From: Geoffrey Pattie, M.P.

CLIVE

Supplied for Question on Tuesday

House of Commons,
LONDON, SW1A 0AA.

For you to see and PA, I think

MS

The Queen's Flight

1. The first point relates to those authorised to use the Queen's Flight and these are:

- The Queen, Duke of Edinburgh, Prince of Wales and Queen Mother - at all times
- Other members of the Royal Family with the Queen's approval
- Senior Cabinet Ministers, Defence Ministers, Chiefs of Staff and Privy Counsellors, attending Council meetings outside London
- Visiting heads of state and foreign dignatories.

The proportion of usage for example for the above categories, in the period 1978/79, was as follows:

- Royals 69%
- Non Royals 31%

2. From the usage standpoint, as well as presentationally, there could be advantages in a change of the organisation of V.I.P. flying which might possibly involve a new location for the aircraft and a change of same. A report is being prepared by MoD and this report will contain recommendations. One of the possibilities being considered is to relocate the Queen's Flight from RAF Benson to RAF Northolt and provide a new mix of aircraft.

3. The re-equipment question centres on the condition of the 3 Andovers and these aircraft can continue in service for a few more years as much as anything because of the very high standard of their maintenance. Nonetheless, at some stage, they will have to be replaced and the next fundamental question is how important is it for H.M. the Queen and other V.I.P. passengers to fly in British aircraft?

If.../

If it is considered to be essential for the Queen to fly in a British product then the debate moves into consideration of new equipment. The HS.125 is too small and the BAe.146 is also too small as well as being very new and, as yet, unproven.

4. There is in fact only one candidate aircraft and that is the BAC.1-11 which meets all of the operational requirements in terms of size, payload and range. Two such aircraft would meet the new requirement in terms of replacing the Andovers and also in taking over the use of RAF VC.10s. This is very important because all V.I.P. VC.10 flights have to be taken out of routine RAF transport tasking. For example, the Queen's 1979 African visit took 2 VC.10s and 1 Andover out for one month.

5. The problem arises from the fact that the BAC.1-11 assembly line will close in the near future and there is a very real possibility that when the time comes for the decision to be forced on the Government, because the Andovers will no longer be airworthy, there will no longer be any British built equipment available. The next BAC.1-11 development will be built in Romania. It must be appropriate for the Queen's Flight to be British equipped with aircraft that will do a good job for at least twenty years.

6. There are two 1-11 aircraft currently on the assembly line which could be earmarked for the Queen's Flight. The main difficulty in the way of their acquisition is, as usual, one of money. The cost of the acquisition and full equipment to Queen's Flight standards will be about £16 million. At present, this cost would fall not just on the Defence Vote but on the Air Force Department share of the Defence Vote and the current budgets are (rightly) so tight that a sum, even of this comparatively modest size, cannot be accommodated.

7. The question really is whether it is right for the cost of re-equipment to fall entirely on the Air Force budget when a significant use of the Queen's Flight is made by certain non-Defence Cabinet Ministers, such as the Foreign Secretary, SoS for Trade, SoS for Industry, and Min. of Ag. SoS for Defence has received letters from his colleagues at Trade and at Industry expressing concern at the adverse image presented by continued use of the Andover for V.I.P. use. None of these Ministers have however offered a contribution to the acquisition costs - the running costs of about £2½ million per annum should properly continue to be borne by the Air Force Vote.

8. I feel that it will take a decision at Prime Ministerial level in order to break the deadlock and arrange a scale of contributions. I suggest something along the following lines:

- Defence	£ 7m
- Industry	£ 5m
- Trade	£ 2m
- Agriculture	£ 1m
- FCO	£ 1m
Total	£16m

The proportions can obviously be varied in different ways but the above is tabled as a suggestion with the aim of getting the debate going. Sooner or later, the decision has to be taken. It is simply a question of whether the Government takes the decision at a time of its choosing or whether it waits until a decision is forced upon it with unsatisfactory consequences.

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter to Whitmore dated 22 February 1980	
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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 691 (one piece/item number)	Date and sign
Extract/Item details: Letter from Whitmore dated 19 February 1980	
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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01~~980 7022~~ 218 2111/3

MO 35/5

18th February 1980

Dear Michael,

THE QUEEN'S FLIGHT

Manuscript note and first paragraph deleted and closed, 40 years, under FOI Exemption. CWayland 27 August 2013

As you will know from my letter to Clive Whitmore of 16th November last year an MOD study has been in progress to consider the case for replacing the Queen's Flight Andovers in the light of forecast future requirements for VIP travel, and to consider whether there would be financial, political or management advantages in re-organising the Queen's Flight and other VIP flying assets to form a single unit. My Secretary of State had hoped that this study would have been completed by now but it was interrupted by the planning and execution of the airlift of the monitoring force to Rhodesia, and as the work progressed the working party which has been set up also identified a need for more detailed costings. He now expects the report in mid April, after which he will need to consult other Ministers before putting advice to the Prime Minister.

The Queen's Flight presently consists of three Andovers and two Wessex helicopters with a strength of 20 officers, 156 other ranks and 3 civilians, and is based at RAF Benson in Oxfordshire. Special servicing procedures apply to these aircraft to ensure the highest possible standards of safety and reliability. The

/ MOD ...

Michael Alexander Esq
10 Downing Street

MOD study also encompasses 32 Squadron which is the RAF's other dedicated Ministerial and other VIP travel flight, and which consists of two HS 125-400 series (5 seats), four HS 125-600 (7 seats and longer range), three Andovers and two short range (and single engined) Whirlwind helicopters. It has a strength of 37 officers and 14 other ranks (the small numbers are the consequence of the servicing of its aircraft being contracted out to Field Aircraft Services). 32 Sqn is based at Northolt.

The Andovers are economical, and from an engineering point of view have many years serviceable life left. By modern standards, however, they are slow and lacking in comfort since they do not fly as high as jet engined types and are hence more prone to encounter turbulent weather conditions. The arrival of the Queen or Prime Minister on overseas visits in such an old aircraft does nothing for British prestige. Moreover, the Andovers lack the range needed for the longer journeys which sometimes the Royal Family, and more frequently Ministers, need to undertake by RAF aircraft; following the sale of our Comets (as one of the economies of the 1974 Defence Review) this has resulted in increased use of VC10s for the purpose. The VC10 is an unnecessarily large and expensive aircraft for the transport of relatively small parties and their use for special VIP flights reduces the number available for essential military tasks requiring us to resort to civil charter to make up the lost capacity.

Earlier studies have shown that replacing the three Queen's Flight Andovers with two modern aircraft with longer range would significantly ease the RAF's Royal/VIP flying task. The only suitable British type - and given its existence we have not considered foreign aircraft - is the BAe 111-475 series equipped with long range fuel tanks and engines fitted with "Hush Kits". Two of these aircraft are available from current unsold production. As an example of the contribution they could make, one of these aircraft operated to Queen's Flight standards could, during the Royal Tour of Africa

/ last ...

last summer, have done all the flying which occupied two VC10s and one Andover for nearly a month (including two weeks preparation for each VC10) and two journeys by civil chartered airlines.

The high running cost of the BAe 111s and the substantial capital cost (about £16.5 million at 1979 prices for the aircraft to which must be added associated works services) means, however, that their acquisition can really be justified only by exploiting them for as much as possible of the long range VIP travel now undertaken by VC10 (although it must be recognised that the BAe 111 would need to make a short refuelling stop on some sectors which the VC10 can fly direct; however it is designed for very quick turn round in such circumstances). This would mean that many of the shorter range journeys undertaken by Members of the Royal Family (other than the Queen herself) would need to be undertaken by the HS 125s which would need then to be operated to Queen's Flight standards. To ensure the most efficient use of the fleet and to make the purchase of the BAe 111a more acceptable politically the MOD working Party presently inclines to the view that the best arrangement would be to integrate the assets into a single unit. This unit would comprise two BAe 111s, six HS 125s and four Wessex helicopters (the Whirlwinds are due to be replaced anyway). Three Andovers would be disposed of and the three others would be retained elsewhere in the RAF for the short range ferrying of groups of 20 or so (not necessarily senior people) which also has to be done.

The problem is, of course, one of cost. The hourly running cost of the BAe 111 is higher than the Andovers which they will replace for many journeys and for efficient operation they should be based at Northolt, as most of the journeys for which they are required will begin or end in London. This would mean moving other aircraft and their associated servicing facilities out of Northolt with consequential works expenditure. We need to cost this and the forecast running cost of the new fleet compared with the present mix (taking into account the savings from using a BAe rather than a VC10 on some journeys) before we could say exactly what the effect on the Defence Budget will be. The work

/ is ...

is complicated by the difficulty of forecasting future demand for special RAF flights particularly from other Government Departments, since the increase in fuel prices and the new Treasury rules requiring interdepartmental charges to be levied at full cost rated from April 1981 may lead Ministers to opt for other means of travel.

Only when this work is completed, will we be in a position to offer firm advice as to whether there is a tenable case for the acquisition of BAe 111s and precisely what the financial implications are. My Secretary of State believes that whatever the prestige arguments for such a purchase, Ministers would not wish to take a decision without the fullest statement of the financial implications. The capital costs and the possible higher overall running cost would be hard to accommodate in the Defence Budget alongside more urgent defence needs during the next few years (no provision has been made in our forward costings for this project), and any prestige purchase of this type at a time when Government expenditure is being severely restricted would need to be clearly justified to withstand the rigorous public and parliamentary scrutiny it would undoubtedly receive. The current controversy over the cost of re-fitting the Royal Yacht indicates how sensitive the issue could be, although there is a body of opinion in both Houses of Parliament which knows purchase of BAe 111s.

favours?

It would be convenient in some ways if replacement of the Andovers could be deferred for a few years until more money is available, but this year may be the last chance to replace them with a British design in the necessary timescale since the BAe 111 production line will not remain open much longer (although assembly will continue in Romania) and there is no other British design even on the horizon; the BAe 146 if it is ever built will not have the range required nor could it be considered for the Queen's Flight until it had proved itself over several years passenger service.

I am sorry that this letter - in both cases of necessity - is rather long, and arrives at no firm conclusion, but I hope that it provides the essential information for the Prime Minister. You will know that Mr Cyril Townsend is raising the question of The Queen's Flight on the Adjournment tonight

Yours ever.
Brian Norbury

 (B M NORBURY)

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MAIN BUILDING WHITEHALL LONDON SW1
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MO 35/5

16th November 1979

Dear Clive,

THE QUEEN'S FLIGHT

I am very sorry not to have responded before this to the enquiry you made earlier on the question of replacing the Andovers of The Queen's Flight by a more modern type of aircraft. I understand from my Secretary of State that there was some informal questioning by the Ministers accompanying the Prime Minister to Bonn at the end of last month of the continued suitability of the Andover for VIP travel, and I believe that the Prime Minister herself had a short talk with the Chief of the Air Staff about it when they met on Remembrance Day.

We can certainly sympathise with the views which are evidently held by Ministers that the Andover is slow and is uncomfortable in turbulent weather - which, because of its operating ceiling, the Andover tends to have to fly through rather than over. In view of its age it must also now be considered a low prestige aircraft for VIP travel. This is a point which has recently been made to my Secretary of State by the Secretary of State for Trade, whose concern for export promotion has led him to question why the Head of State should have to travel abroad in a modest aircraft which owes nothing to recent developments in airframe and engine design.

The question of replacing these aircraft was considered by an interdepartmental Committee in 1977 under the chairmanship of the then Secretary of the Cabinet; * with the aircraft. We were however unable for budgetary *

/reasons ...

C A Whitmore Esq
10 Downing Street

~ Passage deleted and closed, 40 years, under FOI Exemption.
C Wayland, 27/8/13

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reasons to make firm plans for a replacement aircraft as part of the RAF's equipment programme. It was felt that in the circumstances then prevailing priority had to be given to front line aircraft.

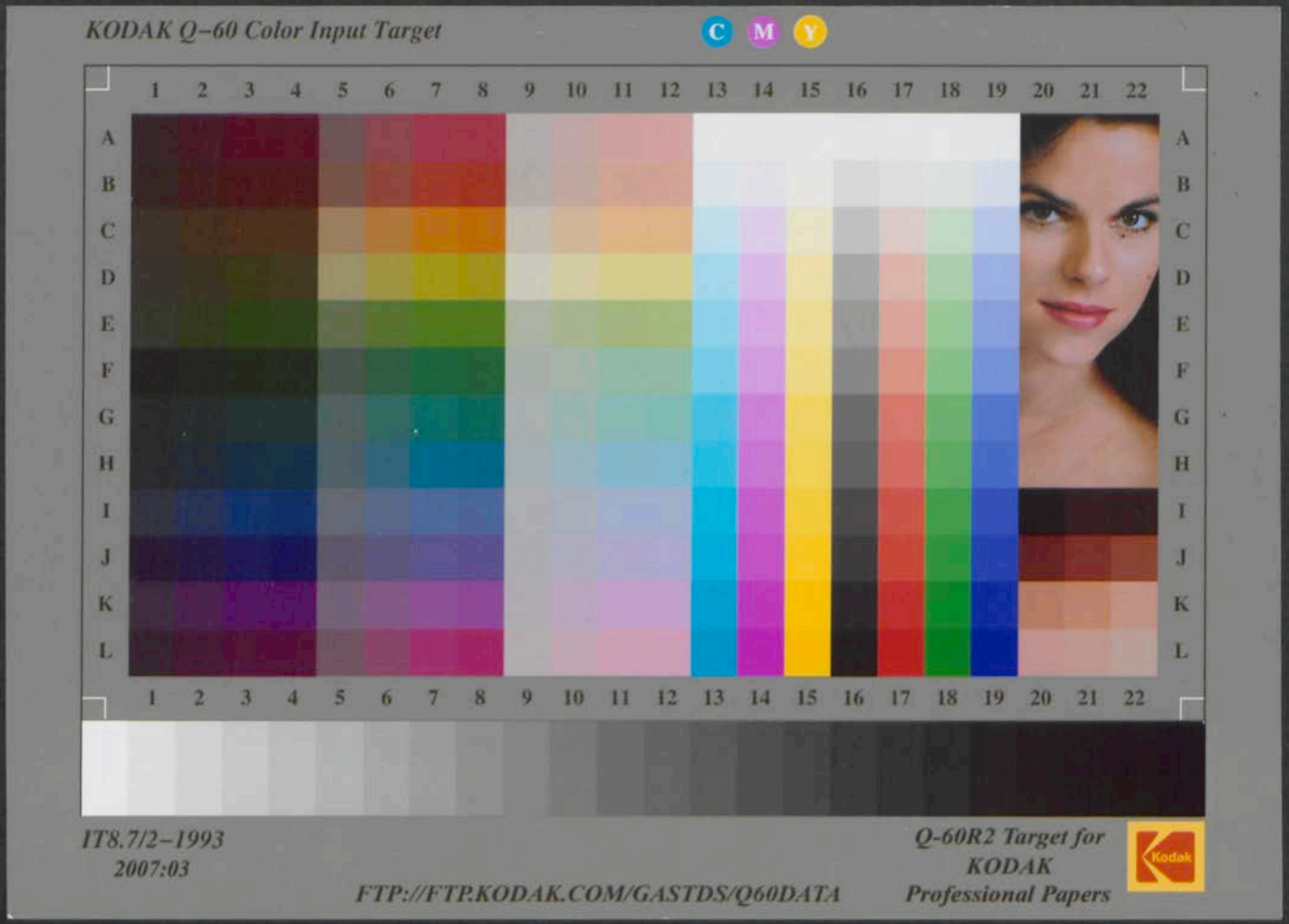
We are now taking the opportunity to re-examine the pattern of all VIP flying - including the use of The Queen's Flight. The Under Secretary of State for the Royal Air Force will be looking at the results of this MOD study primarily to see whether we can make more efficient use of our existing resources and we have not ruled out from the study an examination of the possible economies which might emerge from a restructuring of The Queen's Flight and other RAF VIP flying units to form a single force. This might also provide a worth-while opportunity to plan a replacement of The Queen's Flight Andovers.

At this stage our study is confined to the Air Force Department and the RAF, including the provision of factual information by the Captain of The Queen's Flight about aircraft usage. In due course, and depending on how our examination turns out, we would need to put proposals to the Civil Departments concerned and formally to consult the Palace. Our study has, however, only just started, and we would, of course, consult you before taking it outside this Ministry.

Yours ever,

Bob

(B M NORBURY)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