

PREM 19/1440

Part 2

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Procurement of Weapon Systems.

DEFENCE

(HARM/ALARM air launched missiles)

Cost of Defence Procurement.

Part 1: March 1983

Part 2: December 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.12.83		26.2.85					
5.1.84		1.3.85					
6.1.84		5.3.85					
12.1.84		8.3.85					
19.1.84		12.3.85					
6.2.84		4.3.85					
20.2.84		15.3.85					
29.2.84		26.3.85					
26.3.84		28.3.85					
6.4.84		3.4.85					
9.4.84		4.4.85					
10.4.84		18.4.85					
12.4.84		2.5.85					
19.6.84		5.5.85					
9.7.84		17.5.85					
12.7.84		13.6.85					
23.7.84		21.6.85					
29.11.84		24.6.85					
21.12.84		11.7.85					
21.85		5.7.85					
21.85		27.6.85					
		ENDS					

PREM 10/1440

PART 2 ends:-

MOD to CDP

27.6.85

PART 3 begins:-

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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 21 st Meeting, item 2	20/06/1985
CC(85) 20 th Meeting, item 2	13/06/1985
OD(85) 8	02/05/1985
CC(85) 11 th Meeting, item 5	21/03/1985
C(85) 7	19/03/1985
CC(84) 39 th Meeting, item 2	29/11/1984
CC(84) 26 th Meeting, item 2	12/07/1984
CC(84) 15 th Meeting, item 1	12/04/1984

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 J. Gray

Date 20/11/2013

PREM Records Team

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UK EYES A



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 26/11/9

27th June 1985

Dear Charles,

EUROPEAN FIGHTER AIRCRAFT

Thank you for your letter of 21st June. The Defence Secretary believes it would be helpful for the Prime Minister to raise EFA bilaterally with Chancellor Kohl, President Mitterand, Signor Craxi and Senor Gonzalez. I attach a note on objectives, individual lines to take, and a background note.

I am copying this letter and the attachments to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours ever,

(R C MOTTRAM)

C Powell Esq
No 10 Downing Street

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EUROPEAN FIGHTER AIRCRAFT

Objectives

ALL

- to stress that the UK remains in favour of a 5-nation programme for an aircraft which satisfies the agreed European Staff Target and offers a genuine industrial partnership.

FOR CHANCELLOR KOHL

- to reaffirm understanding reached at Defence Minister level on need to proceed to project definition on an aircraft which meets the European Staff Target

FOR PRESIDENT MITTERAND

- to point out the importance of EFA as a test of European commitment to co-operation.
- to stress that the aircraft must have the technical characteristics necessary to meet the likely threat.
- to explain that anything other than an arrangement of equal partnership would be politically unacceptable.
- to emphasise the need for an early decision.

FOR MR CRAXI

- to reaffirm understanding reached at Defence Minister level on need to proceed to project definition on an aircraft which meets the European Staff Target.

FOR MR GONZALES

- to encourage Spain to agree to participate in project definition of a common programme involving those nations able to agree by the end of July to go ahead.

FOR CHANCELLOR KOHL

Arguments

- a. EFA important test of European ability to collaborate on defence equipment. Combining resources is best way of sharing costs and making Europe competitive against the US.
- b. We share Germany's need for an early decision on both operational and industrial grounds. We cannot afford to spend any more time talking about the project. In accordance with decision reached by Defence Ministers on 18th June at Dr Woerner's instigation, those nations able to agree on a common programme should proceed to joint project definition study by the end of July.
- c. We hope that agreement can be reached on 5 nation programme but:-
- (1) aircraft must be capable of meeting perceived Soviet threat. UK and Germany (and Italy) in complete accord on technical characteristics needed to give aircraft the required performance. A compromise for the sake of collaboration which did not meet the military requirement would be as unacceptable to Britain, as we understand it is to Germany;

(2) organisational arrangements must be on basis of equal partnership - no winners, no losers. French proposal for design office in Paris headed by Frenchman would lead to French domination. Arrangements must also be efficient: we have relevant common experience in Tornado on which to draw.

d. Should our one last effort to reach agreement on a five nation EFA prove unsuccessful, we can understand the political difficulty for any German Chancellor, especially one who has devoted so much effort to consolidating the German relationship with Paris, to contemplate parting company with France on a matter of such magnitude. But the technical and military arguments are incontrovertible. In weighing the matter up Chancellor Kohl will no doubt have in mind the conclusions that might be drawn in Britain, and perhaps elsewhere, if it appeared that Germany's special link with France were to take precedence in Bonn over even the best case for co-operation with Germany's other partners, on an aircraft intended for use by Britain as by Germany for air defence in the central region.

FOR PRESIDENT MITTERAND

Arguments

- a. EFA important test of European ability to collaborate on defence equipment. Combining resources is best way of sharing costs and making Europe competitive against the US.

- b. EFA has been under discussion for two years. From military and industrial point of view the time has come for decisions. Defence Ministers should agree to launch Project Definition next month when the final feasibility study has been submitted.

- c. We shall continue to strive for a 5 nation programme with:-
 - (1) an aircraft which is capable of meeting the likely threat. Both Britain and France have moved in order to achieve a compromise on the size of the aircraft: but it would not be right to build an aircraft which cannot do the job. We have 5 nation agreement on the European Staff Target. We need an aircraft which satisfies this. We believe this will also be attractive in export markets.

 - (2) We share France's wish for efficient organisation and tight cost control. Recognise quality of French aerospace industry. But Britain equally capable. Need arrangement

which recognises this, as well as interests of other partners. Organisational arrangements must be on basis of equal partnership.

FOR MR CRAXI

Arguments

- a. EFA important test of European ability to collaborate on defence equipment. Combining resources is best way of sharing costs and making Europe competitive against the US.

- b. We have urgent need for early decision. Cannot spend more time talking about project. In accordance with decision reached by Defence Ministers on 18th June, those nations able to agree on a common programme should proceed to joint project definition study by the end of July.

- c. We shall continue to strive for 5 nation programme but:-
 - (1) aircraft must be capable of meeting perceived Soviet threat. Note UK and Italy (and Germany) in complete accord on technical characteristics needed to give aircraft the required performance. A compromise for the sake of collaboration which did not meet the military requirement would be as unacceptable to Britain as we understand it is to Italy.

(2) organisational arrangements must be on basis of equal partnership - no winners, no losers. French proposal for design office in Paris headed by Frenchman would be French domination. Arrangements must also be efficient: we have relevant common experience in Tornado on which to draw.

FOR MR GONZALEZ

Arguments

- a. EFA important test of European ability to collaborate on defence equipment. Combining resources is best way of sharing costs and making Europe competitive against the US.
- b. We have urgent need for early decision. Cannot spend more time talking about project.
- c. We shall continue to strive for 5 nation programme but:-
 - (1) aircraft must be capable of meeting perceived threat. Note that Spain is closer to Germany, Italy and UK than to France on key technical characteristics; and
 - (2) organisational arrangements must be on basis of equal partnership - no winners, no losers. French proposal for design office in Paris headed by Frenchman would be French domination.
- d. Hope Spain will join common programme which we hope will be agreed by the end of July.

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BACKGROUND

1. The Defence Secretary's minute of 18 June set out the outcome of the Ministerial meeting in London on 17/18 June. Essentially, industry was tasked with a final round of studies based on 3 different engine thrusts and a given definition of aircraft mass. The aim is to reach a common aircraft design. Industry is to report by 15 July, and it is possible that a Ministerial meeting may be held in Bonn on or around 24 July.

2. At the London meeting, M. Hernu continued to press for an aircraft which would be smaller and therefore less capable than that which the other 4 nations require, and for organisational arrangements which could effectively lead to French domination of the programme. Dr Woerner argued strongly in favour of an early decision on an aircraft that would meet the threat, needing in the German view 9.75 tonnes Basic Mass Empty and a nominal engine thrust of 92 kilonewtons. He also firmly advocated equal partnership. Dr Woerner's position therefore lined up exactly with our own, although Germany is less antagonistic to the HQ location in France than we are. Italy shares our views; Spain is between France and the rest.

3. Militarily and industrially, the 4 nations (other than France) agree closely. Their industries are lobbying hard for a 4 nation programme to proceed if a common five-nation position cannot be agreed. Many direct benefits of collaboration could be obtained by a 3 or 4 nation programme but the omission of France would leave Europe

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UK EYES A

fragmented in Third World sales in competition with the US.

4. A national UK programme is being examined. But this could be up to £1.5 billion (about 30%) more expensive than EFA and scarcely affordable within the expected defence budget. Alternatives would be an off the shelf buy of US aircraft, their manufacture under licence, or further purchases of existing UK types, but these would not provide the required capability.

5. Germany is the key. Her clear preference is for a solution embracing France and UK. But if, as seems possible, that fails, would she participate with us (and Italy and perhaps Spain), rather than with France? For operational, industrial and administrative reasons her preference would be to side with the UK, and there are signs of a preparedness to contemplate a solution without France. All the indications are that Dr Woerner is not prepared to compromise on the technical characteristics, provided industry and air staffs confirm that anything less than the 9.75 tonnes/92 Kilonewton formulation would be insufficient to satisfy the EST. But the political pressures on Chancellor Kohl are strong in the other direction, and there is a risk that the Germans may be ready, in the final analysis, to compromise further than the UK is able to. We must therefore be wary of a swing which would leave the UK rather than France in the isolated position.

6. Our Ambassador in Paris has advised that Chancellor Kohl's attitude should best be tested through bilateral contact, since any

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UK EYES A

wider meeting would be likely to expose him to conflicting pressures and the risk that he might move publicly in the French direction. Although Mr Craxi may not have been briefed by Senatore Spadolini, the Prime Minister is recommended to raise the matter with him, and Mr Gonzalez in the light of her conversation with Chancellor Kohl. It is recommended that the approach to President Mitterand be low-key.

7. The Foreign and Commonwealth Secretary is being advised to raise the subject with his German and Italian counterparts, and in the light of their reactions to approach the Spanish (probably) and French (possibly) Ministers.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~836 7022~~ 218 2111

cepk

MO 26/11/9

24th June 1985

NBPM
CDP 24/6.

New Glin

EUROPEAN FIGHTER AIRCRAFT

Thank you for your letter of 21st June and for a sight of your proposed telegram. The Defence Secretary had four points to suggest:

- a. a number of drafting points on the telegram which we have incorporated in the attached revised version;
- b. we wondered whether it would be worthwhile to include the text of the decision reached by Ministers on 18th June, a copy of which is also enclosed;
- c. the Defence Secretary himself has been giving further consideration to follow up action and decided to send a message to his colleagues. We have incorporated this in paragraph 5 of your draft and the text of the message itself is also enclosed. The attachment also refers, in a self-explanatory way, to a further conversation between Mr Heseltine and Dr Woerner;
- d. Mr Heseltine believes it would be helpful to arrange a meeting with Ambassadors to concert action and this too is suggested in paragraph 9 of the re-draft. If this idea commends itself to the Foreign Secretary, you will no doubt be in touch over timing.

I am copying this letter and the attachments to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours etc.
R. C. Mottram

(R C MOTTRAM)

Colin Budd Esq

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File No. _____

OUTWARD

Security Classification
CONFIDENTIAL

Department _____

TELEGRAM

Precedence
IMMEDIATE

Drafted by
(Block Capitals) _____

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DESKBY _____ Z

FOR
COMMS. DEPT.
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Distribution :-

Defence Dept
WED
Private Sec
Mr Derek Thomas
Mr Goodall
Mr Jenkins

[TEXT]

PERSONAL FOR AMBASSADOR

EUROPEAN FIGHTER AIRCRAFT (EFA)

1. Following the EFA Ministerial on 17th/18th June, industries have been tasked to finalise the feasibility study for one aircraft with a Basic Mass Empty (BME) weight of 9.5 tonnes plus 140 kg for additional common equipment 110 kg as a contingency against weight growth. Industries have also been tasked to look at three options for engine thrust - 91.7 kilonewtons (the UK solution), 84 kilonewtons (France) and 90 kilonewtons (which the Spanish suggested at the meeting as a compromise and which it is just possible the Germans and Italians could accept). The decisions

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Copies to :-

2. Past form suggests that the French are unlikely to move towards an aircraft of sufficient size and engine thrust to meet the agreed military requirement. Meanwhile, the firmly stated military and industrial requirements of the FRG and Italy would point towards agreement on a 3 nation project with the UK. (The Spanish position seems to be somewhere in the middle). It was British and German concerns to begin the project definition stage as soon as possible if the in service target date of 1995 is to be met which led to agreement on a deadline of 15th July for industry.

3. The implication of the agreement reached by Ministers is that those nations able to agree a common programme in July would go ahead, if necessary leaving the others behind. Herr Woerner, who was largely instrumental in fashioning this decision, appeared to have the agreement of his Government to proceed in this way with a project definition based on the 4 nation (UK, FRG, Italy, Spain) study. But, at the same time, he was clearly reluctant to bring about a decisive break because of the political consequences for the wider Franco/German relationship. Spadolini was also reluctant to avoid a breakdown, at least until the Milan summit was out of the way. The decision to call for further advice from industry but to a strict deadline reflected these conflicting German, and Italian, concerns.

NOTHING TO BE WRITTEN IN THIS MARGIN

4. Defence Ministers tentatively agreed to meet again on 22nd July in Bonn. The reluctance of the Germans and the Italians^{to} precipitate the break up of the project underscores the scope for the French in offering their partners a politically tempting alternative. On the showing of the London meeting, the Germans at the military and industrial levels, back a project which meets the staff target but the political difficulties for the Government are clear. They could be detached. We can certainly count on the French to use the period between now and 22nd July to apply political pressure. We must ensure that the strength of our own position is not eroded as a result. This will require action at the political, military and industrial levels.

5. Action is in hand with British industry. At the military level, the Defence Secretary believes it would be valuable to arrange further talks between Air Staffs to try to sustain the consensus achieved earlier on the aircraft characteristics needed to meet the likely threat in the 1990s. (We recognise these considerations may not cut much ice with the French Government). My second IFT contains a message from the Defence Secretary to his colleagues proposing further Air Staff talks which you should arrange to deliver as soon as possible: it will be followed up by an approach by the Chief of the Air Staff to his colleagues.

6. For Bonn. The Defence Secretary spoke to Dr Woerner on the telephone on Friday about his proposed message. During their conversation, Woerner confirmed that he had been authorised to make one last attempt to achieve a compromise. He was careful not to describe on an open line the parameters in terms of BME, wing area and engine thrust which the German Government could accept. In delivering Mr Heseltine's message, you should refer back to his conversation and seek to establish what has been decided on the minimum performance the FRG can accept.

7. On contacts at the political level, we should be grateful for advice on the lines the Prime Minister and the Secretary of State should be briefed to take

in the margins of the Milan summit. Our own view is that they should impress on our partners that:

- a. a five nation EFA remains our first choice; but
- b. this must be able to meet the Soviet threat;
- c. essential to reach a decision in July if in service dates are to be met;
- d. those countries able to move forward on a collaborative project on the basis of (b) should do so;
- e. organisational arrangements must be on a "no winners and no losers" basis (French ideas for a joint design office in Paris and run by a Frenchman would amount to French domination of the project).

8. Grateful for a reply in the course of [] June so that briefing can be finalised.

9. [The Defence Secretary and I believe it would be helpful to hold a meeting in London with you to discuss the concerted action we should be taking over the next four weeks and I will be in touch separately about this shortly.]

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NOTHING TO BE WRITTEN IN THIS MARGIN

1. Having noted the results of the industrial studies conducted on the basis of the NADs directives of 3 June 1985, Ministers after a close scrutiny came to the conclusion that progress in the programme can be expected only on the basis of one common aircraft design. Industry is therefore invited to finalise the Feasibility Study by reconsidering jointly the studies presented so far with the objective of presenting this design by 15 July 1985.
2. This study should be based on a BME of 9.5 tonnes plus 140kg for equipment plus 110kg allowance for growth and should vary the thrust for each of the following options; 91.7 kilonewtons, 90 kns, and 84 kns.
3. In view of the time schedule for taking a decision in favour of a quinquelateral initiation of the next phase, any further delay must be avoided. Nations which will not be in a position to support these common programme activities without reservation could be invited to join the programme at a later stage in accordance with their own judgement and then to accept the status of the programme and the rules established by the participating nations at the time of formal entry.
4. Meanwhile, industry should study a joint programme for radar, missile and other equipment.
5. The industries will be invited to study the impact of the French Navy requirement on the above programme.

MESSAGE FROM THE SECRETARY OF STATE FOR DEFENCE TO
MINISTERS INVOLVED IN EFA

I am sure we have all been giving some further thought to how best to follow up our discussion last week to ensure that we are in a position to take a timely decision once the further work we have commissioned from industry is available.

We agreed in our discussion that it was essential that the European Fighter Aircraft should have the capability to meet the threat it is likely to face in the 1990s. Our Air Staffs have earlier defined the requirements which flow from this in agreeing the European Staff Target. I believe it would now be helpful to ask our Air Staffs to continue their discussions so that we can have a jointly agreed set of criteria against which to judge the proposals put forward by industry by mid-July.

In initial British studies in this area, the performance in combat of fighter aircraft with the alternative characteristics being considered by Ministers have been tested by pilots "flying" them in a simulator and assessment work has been undertaken by the Royal Aircraft Establishment at Farnborough. I should be very happy to make available these assessments to your representatives and to offer the opportunity for your pilots to participate in further simulations. By the same token, you may wish to make available any simulations and studies by your

experts. Ministers could then have an agreed data base on which to draw in assessing the final feasibility study from industry.

I believe it would be appropriate for this further work to be led by our Air Staffs and I am asking Air Chief Marshal Sir Keith Williamson, the Chief of the Air Staff of the Royal Air Force, to continue the dialogue which he and his colleagues have established on the EFA project.

I hope you will feel this will all help to carry forward our joint endeavours to reach agreement on this most important project.

Provement : DEFENCE Pt 2:



Foreign and Commonwealth Office

London SW1A 2AH

21 June 1985

NBRN

CDD 24/6

Dear Richard,

European Fighter Aircraft

The Foreign Secretary read with interest Mr Heseltine's minute of 18 June to the Prime Minister.

The conclusion appears inescapable that a five nation project acceptable both to the UK and France is now unlikely. But while the apparent readiness of Herr Woerner to give a lead in moving the project on to a three or four nation basis if the French are unwilling to move is encouraging, the natural reluctance of our partners to precipitate a break underlines the scope the French still have for offering a politically tempting alternative.

We can be certain that the French will use the period between now and 22 July to apply political pressure on our partners. Sir Geoffrey Howe believes that we should mount our own lobbying campaign to prevent our position from being eroded. The margins of the Milan summit will offer an early opportunity for discreet lobbying - though EFA should clearly not be allowed to sour the overall atmosphere.

As a first step, I suggest we should consult our Ambassadors in other EFA posts. We have accordingly prepared the attached draft telegram, which draws extensively on Mr Heseltine's minute. By addressing it to Ambassadors personally, we would ensure that it retains the restricted distribution Mr Heseltine has asked for. If you agree, we should like to despatch the telegram as soon as possible, in order to allow time for the replies to be reflected in any briefing for Milan. I should accordingly be grateful for any comments by lunch on 24 June.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours Sincerely,
Colin Budd

(C R Budd)
Private Secretary

Richard Mottram Esq
PS/Secretary of State
Ministry of Defence

File No.

OUTWARD

Security Classification
CONFIDENTIAL

Department

Drafted by
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TELEGRAM

Precedence
IMMEDIATE

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Despatched (Date)
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(Security Class.).....CONFIDENTIAL

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Distribution:-

- Defence Dept
- WED
- Private Sec
- Mr Derek Thomas
- Mr Goodall
- Mr Jenkins

[TEXT]

PERSONAL FOR AMBASSADOR

EUROPEAN FIGHTER AIRCRAFT (EFA)

1. In the light of the EFA Ministerial on 17/18 June, the prospects of a 5 nation solution acceptable to both the UK and France seem remote. Industries have been tasked to finalise the feasibility study for one aircraft with a Basic Mass Empty (BME) weight of 9.5 tonnes, and an allowance of 250 kilos for equipment and other contingencies. Industries have also been tasked to look at three options for engine thrust - 91.7 kilonewtons (the UK solution), 84 kilonewtons (France) and 90 kilonewtons (which the Italians

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/and

and Germans could accept).

2. Past form suggests that the French are unlikely to move towards an aircraft of sufficient size and engine thrust to meet the military requirement. Meanwhile, the firmly stated military and industrial requirements of the FRG and Italy point towards agreement on a 3 nation project with the UK. (The Spanish position seems to be somewhere in the middle). British and German concerns to begin the project definition stage as soon as possible if the in service target date of 1995 is to be met led to agreement on a deadline of 15 July for industry.

3. The implication of the agreement reached by Ministers is that those nations able to agree a common programme in July (in practice the UK, FRG and Italy) would go ahead, if necessary leaving the others (ie France) behind.

Herr Woerner, who was largely instrumental in fashioning this decision, appeared to have the agreement of his Government to proceed in this way. (It was helpful from a UK point of view that the discussion should not have taken the form of pitting the UK and France against each other.) But, at the same time, he was clearly reluctant to bring about a decisive break because of the political consequences for the wider Franco/German relationship. Spadolini was also reluctant to avoid a breakdown, at least until the Milan summit was out of the way.

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- 3 -

4. Defence Ministers tentatively agreed to meet again on 22 July in Bonn. The reluctance of the Germans and Italians to precipitate the break up of the project underscores the scope for the French in offering their partners a political tempting alternative. We can certainly count on them to use the period between now and 22 July to apply political pressure. We must ensure that the strength of our own position is not eroded as a result and we should be grateful for your views as to how we might best counter any French lobbying. We should, in particular, be grateful for advice on the lines the Prime Minister and the Secretary of State should be briefed to take in the margins of the Milan summit. Our own view is that they should impress on our partners that:

- a) a five nation EFA remains our first choice; but
- b) this must be able to meet the Soviet threat;
- c) essential to reach a decision in July if in service dates are to be met;
- d) those countries able to move forward on a collaborative project on the basis of (b) should do so, leaving open the door for subsequent accession by others;
- e) organisational arrangements must be on a "no winners and no losers" basis (French ideas for a joint design office in Paris and run by a Frenchman would amount to French domination of the project).

5. Grateful for a reply in the course of 24 June, so that briefing can be finalised.

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DEFENCE: Procurement: Pt 2.



FLS

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del.c.

10 DOWNING STREET

From the Private Secretary

21 June, 1985

EUROPEAN FIGHTER AIRCRAFT

The Prime Minister has considered the Defence Secretary's minute of 18 June about the recent meetings of the Defence Ministers concerned in the European Fighter Aircraft project. She would be grateful for advice as to whether she should raise the EFA with Chancellor Kohl, Signor Craxi and Senor Gonzalez when she sees them in the margins of the Milan European Council; and for appropriate briefing if advised that she should do so.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Mottram, Esq.,
Ministry of Defence

VC



Prime Minister

The Germans are showing signs of waning as the crunch with the French approaches. You might try to stiffen Kohl and Craxi when you see them in Milan

CCNO
CDP 12/6.

MO 26/11/9

PRIME MINISTER

AT
18/6

EUROPEAN FIGHTER AIRCRAFT

MSR

During the last two days, there have been three further meetings of Defence Ministers concerned in the European Fighter Aircraft project: I should report the outcome.

2. Although it had been hoped that the industries of the five nations would work together to produce a single set of options for Ministers to address, in the event this did not prove possible and we had before us 16 alternative permutations on the basic mass empty (BME), wing area, and engine thrust of the aircraft. On these issues, the Germans, the Italians and ourselves sought an aircraft designed to a 9.75 tonne limit, with an engine thrust of 91.7 kilonewtons, in order to meet the European Staff Target. The French took the line that an aircraft with an engine of this capability was incompatible with the weight limit and that the aircraft should be designed to a 9.5 tonne limit, with the remaining 250 kg set aside as a specific contingency, with an engine thrust of 84 kilonewtons. The Spanish position was somewhere in the middle.



3. On the organisation to manage the project and its location, again the Germans, ourselves and the Italians stressed that we sought an equal partnership and that the location of the headquarters and the allocation of top posts within the organisation should be looked at as a package. I made clear our first preference for the headquarters to be in London. The French put in a bid that a "joint design office" responsible for the integration of the project should be located in Paris and that the Technical Director of the project should also be French. They offered that Britain could head one of the industrial consortia. I emphasised that these proposals would amount to French domination of the project and were not acceptable.

4. On work shares, there was some movement towards agreement that shares during development should be 24.5% for the United Kingdom, France and Germany, 16.5% for Italy and 10% for Spain. France put in a bid for a bigger work share to take account of their stated requirement for additional aircraft for the French Navy, but did not rule out that this could be addressed at the stage of setting work shares for production. This argument would apply equally to production work shares on the engine which would take account of our requirement for additional engines for the re-engining of the air defence variant of the Tornado.

5. There was no time for a discussion of the interim engine, on which we have the support of the Italians only for adopting the



RB199.

6. This sets out in headline form the formal position which emerged during the plenary sessions. There was also a good deal of private exploration of positions. At the outset, Dr Woerner emphasised the importance he attached to reaching an early decision and his unwillingness to compromise on the characteristics of the aircraft if this meant that the requirement would not be satisfied. He appeared to have the agreement of his Government to proceeding, if the French were unwilling to move, on a three or four nation basis. Equally, as time went on, he showed himself most reluctant to bring about or to participate in a decisive break at this stage because of the political consequences for the wider Franco-German relationship. Senatore Spadolini, while also committed to an aircraft of the characteristics which we seek, was also reluctant for there to be a breakdown before the Milan summit is out of the way.

7. To meet German concerns that all opportunities for agreement should be explored, I convened a final meeting today restricted to Ministers only. This produced an agreement that one last attempt should be made to find a common five nation solution, but, to meet British and German concerns for the matter to be resolved, a deadline has been set of 15th July. By that date industry is to finalise the feasibility study for one aircraft with a BME of 9.5 tonnes, plus an allowance for 140kg of equipment, plus a contingency of 110kg: this "compromise" on



weight was devised by the Germans to go some way towards French concerns but is acceptable to us. Industry are to look at three options for engine thrust: 91.7 (our preferred solution), 90 (which the Germans and Italians would now accept), and 84 (the French formal position, although informally they went at one stage as high as 87 kilonewtons). A form of words has been agreed which implies that, if there is no common solution by 15th July, those nations able to agree on a common project will go ahead. We have pencilled in the possibility of a final Ministerial meeting on 22nd July in Bonn, although there is German reluctance to preside over a meeting which could represent the break-up of the project.

8. Realistically it seems unlikely, on all the past form, that the French will move towards an aircraft of sufficient size and engine thrust to satisfy the military requirement: a five nation solution acceptable both to Britain and to France therefore is difficult to see. Of alternative combinations, the firmly stated military and industrial requirements of the Germans and the Italians would point towards agreement on a three nation project (UK, Germany, Italy) which meets our requirement. But I have to say that the political concerns about such a course which have been exhibited by Dr Woerner in the last two days are very real and we cannot rule out the possibility of the French moving sufficiently to offer a politically tempting alternative. The position then remains finely balanced. I think it will be necessary for colleagues to consider our final position when the



industrial report is to hand and before any possible meeting with my European counterparts.

9. I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong. In view of its contents I should be grateful if it could be given a restricted distribution within Departments.

A handwritten signature in blue ink, appearing to be "M. J. A." or similar.

Ministry of Defence

18th June 1985



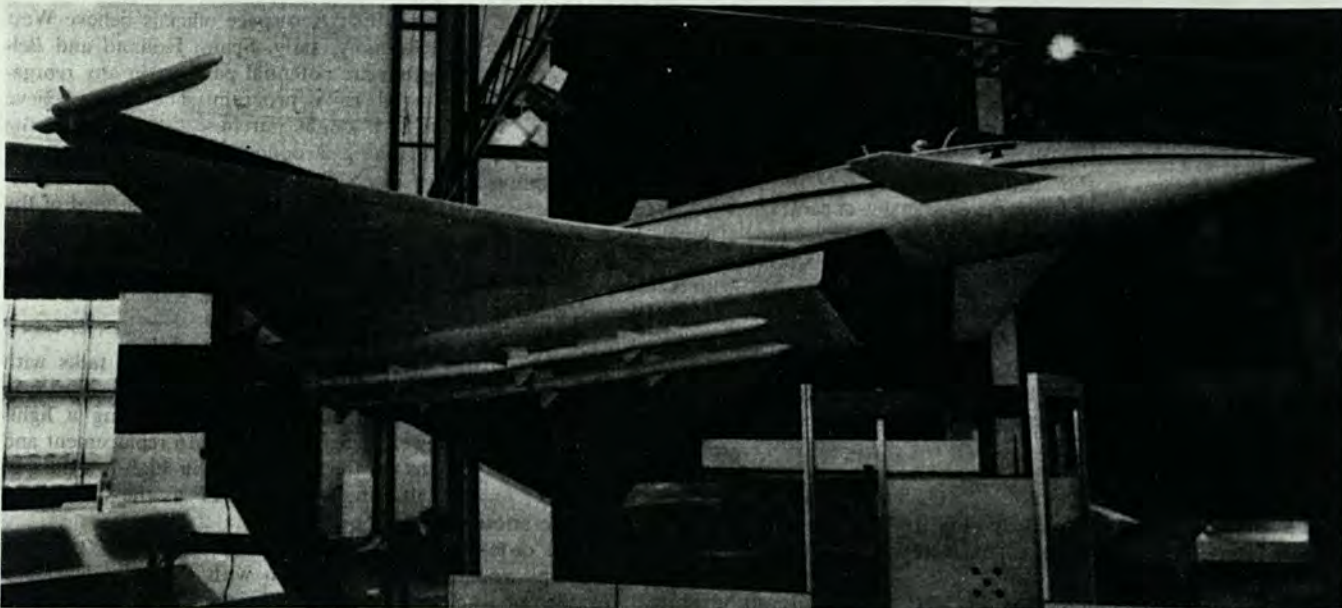
10 DOWNING STREET

Given to the PM by
Robert Adley MP.

Please put in
EFA file.

CDP
13/6.

Industry Vies for New Groupings As European Fighter Project Dims



West German JF-90 fighter design, developed jointly by Messerschmitt-Boelkow-Blohm and Dornier, teamed to form West Germany's entry into the European Fighter Aircraft (EFA) program, is being displayed by the two companies at the Paris air show. The model

represents the German concept of what the European Fighter Aircraft could look like. German industry is not proposing to build a technology demonstrator, as Britain and France are doing, but is developing some technology demonstration systems and equipment.

Paris—West European and U.S. manufacturers were vying for position in tentative industrial groupings for future fighter aircraft developments at the Paris air show last week as concern increased that the five-nation European Fighter Aircraft (EFA) consortium would not survive.

Failure of the defense ministers of the five nations—Britain, France, West Germany, Italy and Spain—to reach agreement on the structure of the EFA program and the parameters to be embodied in the aircraft at their most recent meeting in Rome last month led many manufacturers to begin actively looking at possible new cooperative programs, including transatlantic development (AW&ST May 27, p. 27).

The defense ministers of the five nations meet again June 17-18 in London, and agreement on the EFA program still is possible. However, European industrial organizations were unanimous in stating that a number of decisions are needed by then to permit work to continue. And if the final program decisions are not reached by the end of the third quarter, the chances of the EFA being ready by the projected in-service date of 1995 will begin to fade.

Activities concerning development of a new fighter aircraft for Europe include:

- British Defense Ministry team traveling in the U.S. to survey possibilities of joint development of new aircraft. British

Aerospace Corp. has discussed with McDonnell Douglas and Northrop the possibility of cooperative development programs.

- West German aerospace companies Messerschmitt-Boelkow-Blohm and Dornier discussing joint projects with U.S. manufacturers.

- Dutch aerospace industry looking at a possible collaborative arrangement with U.S. industry to provide a General Dynamics F-16 replacement for the Netherlands air force in the mid- to late-1990s.

British Aerospace also has activated a separate all-British fighter development program, the P-120.

However, both British and other European aerospace industry officials said that

Paris Air Show Coverage

Coverage of the 36th Paris air show in this week's issue was provided by an AVIATION WEEK & SPACE TECHNOLOGY team headed by editor-in-chief William H. Gregory.

The team included Donald E. Fink, managing editor-technical; Jeffrey M. Lenorovitz, Paris bureau chief; David A. Brown, London bureau chief; Michael Feazel, Brussels bureau chief; Robert R. Ropelewski, senior editor military, and Jay C. Lowndes, engineering editor.

Photography is by Robin Adshead, Bryan Thomson and Lenorovitz.

they believed an all-European grouping—possibly without France—was the most likely route to be followed, with a so-called "transatlantic solution" somewhat less likely.

"If the present EFA program collapses," one West German industry official said, "we have the possibility of seeing either another European consortium—with either Britain or France missing—or a transatlantic cooperation. If it is the latter, then Europe is going to want to see a new attitude on the part of the U.S."

He noted that with few exceptions, West Germany does not believe that past cooperative programs have provided Europe what had been promised.

The West German requirement for a new aircraft is seen as being similar to the U.S. requirement, with both geared to operating on the North Atlantic Treaty Organization central front.

In 1979, West Germany laid down a number of options for acquiring a new fighter—all of which are still in force. These include:

- An aircraft developed cooperatively within Europe.
- An aircraft developed by a U.S.-German cooperative program.
- Purchase of an existing aircraft developed outside of West Germany.
- Purchase of an existing aircraft, but with substantial modifications.
- A national integration program, in

Pilot's Glove Will Measure Control Stick Forces

Paris—Modified military pilot's flight glove has been developed in Australia to provide accurate measurements of control stick forces for flight-test purposes.

The standard-issue Royal Australian Air Force flight glove is fitted with pressure-sensitive pads used to measure stick force pressures for display on a wrist-mounted digital readout unit.

One pad is attached to the glove's palm, and the other is across the middle joints of the second and third fingers. The pads contain sacs of silicon oil, and they are connected via pressure transducers to the wrist electronic display unit.

Australian industry officials said the modified glove—on display at the country's exhibit at the Paris air show here—provides more accurate flight test data than spring balance devices and pilots' subjective estimates of control column forces.

Design of the glove was performed for the Royal Australian Air Force's Aircraft Research and Development Unit by engineers at the Advanced Engineering Laboratory, Defense Science and Technology Organization at Salisbury, South Australia.

The glove was designed for high-performance aircraft such as the Dassault-Breguet Mirage and General Dynamics F-111 which have center control sticks. The glove could be adapted to side-stick aircraft such as the McDonnell Douglas F/A-18 and General Dynamics F-16 by relocating the digital readout display to the pilot's leg.

Officials said a similar pressure system could be incorporated in flight boots to gauge rudder-pedal forces.

which German industry would develop a new airframe around existing engine and avionics packages.

Some U.S. manufacturers see the last of these possibilities as one that would benefit German and U.S. industry, with the Germans developing a new airframe around existing U.S. engines and avionics packages.

At least two U.S. manufacturers are looking at this possibility as one means of satisfying West German requirements while providing an aircraft with equal contribution from each partner.

Northrop has been developing its ND-102 proposal in partnership with Dornier and there is a belief within both companies that if the EFA project does not succeed, the ND-102 will be a strong contender to replace McDonnell Douglas F-4s in the West German inventory.

ND-102 Development

No significant changes have been made in the ND-102 design for the past six months and officials of both companies believe that it has been developed to the point where it could meet not only West German requirements, but also those of other European nations.

The aircraft is being offered with the General Electric F404 engine with a "mini-burner" rather than a full afterburner system. While other engines could be used, the F404 is preferred at this time.

The avionics suite for the ND-102 has been lifted largely from existing U.S. aircraft. West Germany's one key requirement is that the aircraft be capable of carrying the advanced medium-range air-to-air missile (AMRAAM).

Program planning has been done to allow at least one other European nation to fit easily into the production program,

with Germany building all of the aircraft it orders and coproducing those ordered by any third nation. Northrop would build aircraft exported outside of the NATO group of nations. Planners see about an equal number of potential sales inside and outside of NATO.

Northrop has talked about the program informally with Italy and, recently, with the British Defense Ministry.

McDonnell Douglas also sees the possibility of a transatlantic development program involving one or more European nations. "It will take a lot of political will to make the EFA program succeed," one company official noted, "and while we can't argue with that, we have to ask how efficient a five-member consortium will be and why it is necessary to spend research and development money on something that's already been invented. There's an economic incentive to get the U.S. involved."

McDonnell Douglas has been working with Messerschmitt-Boelkow-Blohm under a memorandum of understanding since 1977. The two companies worked on the JF-90 design which is being exhibited by MBB and Dornier jointly at the air show.

While a multimember, transatlantic development organization is possible, several U.S. companies said that it could not contain too many members. "If the pie is cut too small, we won't want part of it," one official said.

However, he added, there could be around 500 aircraft sold outside the NATO area, in addition to those sold to member nations, which would make it worthwhile for U.S. companies to collaborate on such a program.

But he cautioned that an aircraft developed by such a group might not be available until the late 1990s or even the early

2000s and said that West Germany had a need for a new aircraft by the mid-1990s. "The West German F-4s are getting old and are diminishing in numbers and have to be replaced by the mid-1990s," one official said.

British Aerospace officials believe West Germany, Italy, Spain, Holland and Belgium are potential partners in any reorganized EFA program. They also believe USAF might purchase the aircraft if the planning is done properly.

"U.S. industry is afraid to commit itself right now because the first goal of the major manufacturers must be to win the forthcoming Advanced Tactical Fighter [ATF] competition," an official said.

High-Low Mix

British Aerospace has held talks with McDonnell Douglas and with Northrop on the possibility of developing a light-weight fighter as an F-16 replacement and to be the low half of a high-low mix of aircraft, with the ATF as the "high" aircraft.

"The U.S. could, in effect, go to a NATO solution with a jointly developed aircraft to replace the F-16. The fact that it was developed with U.S. participation should increase its appeal to nations now operating the F-16," the official said.

The F-16 operator that most interests planners of a multinational fighter is Holland, which will need between 150 and 250 new aircraft late in the 1990s and the early years of the next century.

The Dutch have had extensive dealings with a number of U.S. companies—including Northrop and General Dynamics—and are interested in either a jointly developed European aircraft or one developed in cooperation with the U.S., provided the resulting aircraft meets Dutch air force needs.

Italian industrial officials are more optimistic than other European participants in the EFA program, but they admit that for the program to succeed, France will have to reduce its demands.

If France should drop out of the EFA program, Dr. Giandomenico Cantele, director of Aeritalia's combat aircraft division, suggested that Holland might be available to replace the French.

General Dynamics is awaiting a final decision on the EFA program before making any overt moves, but the company has been encouraged by interest shown by the British Defense Ministry on the possibility of transatlantic cooperation.

"The British are beginning to realize that this sort of program can be extremely valuable to them," a company official said. He noted that the Royal Air Force will pay less for its jointly developed Advanced Harriers (Harrier GR. 5s) than it did for the earlier, less capable, British Aerospace Harrier GR. 3—the British designation for the AV-8A. □

27 June 1985

FUTURE MILITARY AIRCRAFT

EMPLOYMENT AND PEACE DEPEND ON IT

Copied from F E Roe
7th June, 1985 to:-
Mr R H Evans
Mr D Ethell
Mr F G Willox

Mr R Atkins ✓

The Defence Ministers of five European countries (France - West Germany - Great Britain - Italy and Spain) met in Rome on 16th May 1985 to discuss the European Fighter Aircraft. They are to meet again on the 17th June in London.

At a time when France is to take a decision on the future combat aircraft to equip its armed forces, the political will of the Government, demonstrated by its active participation in these talks, goes against our national interests at the economic, technology and political levels and particularly regarding our national independence and the principles of our independent defence policies.

A EUROPEAN PROJECT THAT THREATENS EMPLOYMENT

A French programme exists. *SQUALL*
In fact, the ACX (RAFALE = gust of wind) should make its maiden flight in June 1986. This prototype is designed and made entirely in France. Its engine - the M88 - exists at SNECMA as do its undercarriage the THOMSON radar, the Avionics and the weapons system.

To allow a European aircraft to compromise this Franco-French design and production would constitute unjustified financial waste and a technical waste of the first order. This would involve the loss of thousands of jobs and eventually the lowering of our industry.

On the other hand, the programme realised by DASSAULT for the airframe, SNECMA for the engine and THOMSON for the electronics will comfort the network of sub-contractors used by these large companies.

In addition, it would put us into the position of a valid go-between with numerous non-aligned countries who would not wish to become involve with either of the two major powers.

Conversely, if the European project sees the light of day, it will cost many jobs. We estimate that 10 000 jobs would be threatened, including from 3 to 4 000 at DASSAULT. The long term consequences would be serious for France's role as an exporter.

MAINTAIN OUR INDUSTRIAL INDEPENDENCE

On the civil side, international cooperation is one of the means for allowing several parties to meet the Airlines' requirements for aircraft even though the forms and contents of this cooperation are not above criticism -.

On the military side, the first thing is to meet the defence requirement proper to each country. The industrial independence of a manufacturing country such as France is a determining factor in escaping the veto of other powers.

Under these conditions, we must be extremely resolute in preserving our technological capabilities : we currently enjoy full autonomy in aircraft manufacture and we are capable of producing the French project entirely within France.

A EUROPEAN MILITARY AIRCRAFT WILL ALSO BE VERY EXPENSIVE

The entire profession, and particularly "AIR ET COSMOS", recognises this. The European Fighter Aircraft will be much more expensive for France and will not, obviously, meet specifically the requirements of our own forces since each of the five Air Forces have different requirements. Apart from the waste involved in abandoning ACX when it is almost finished, and which the French would obviously have to pay for themselves it would be necessary, as in the past, to throw ourselves into a complicated, long and costly process (sheperded by the five Air Staffs!). Experience with the Tornado illustrates perfectly our case. Produced by three countries (Italy, Great Britain, West Germany) it costs almost 400% of its initial price and is a technical failure - none have been exported.

PRESERVE OUR INDUSTRY

It is clear that it is not only the armament industry that is threatened but the whole of the aviation and avionics industry. We have to make major criticisms of the forms and contents of civil collaboration. The success of the AIRBUS-Industrie collaboration results simultaneously in a certain specialisation of industry and a degradation of work sharing with consequences on employment in France. Everybody in industry should be extremely vigilant on matters affecting their sphere of activity.

Similarly, it is clear that the European project requires us to take a political stance which affects not only a single aircraft but the whole of our national defence. For example, France's commitment to the "Star Wars" project is heavy with threats to our industries (and to our very lives). We can now see, here and there, in Companies working for National Defence, that some work has been progressively put to sleep, thus corroborating our analysis.

WE DEMAND THAT WORK CONTINUES ON THE FRENCH COMBAT AIRCRAFT

We cannot accept a political scenerio that has serious consequences for the employment of highly qualified people, threatening irreversible damage to our technological progress and our position as an exporter, dangerous for our national independence and the very conception of our defence system, and constituting an unjustifiable financial and economic waste.

We should ensure that the French Combat Aircraft "RAFALE" (ACX) is made and we should stop its cancellation in favour of an extensive, dangerous European project without a future.

This is why the Federation of Metal Workers C.G.T. and all of the unions in the Aeronautical and Avionic Industries demand :

- that the future defence aircraft be manufactured entirely from products currently under construction by the various French Companies.

This, together with other civil aeronautical and space products, will ensure industrial development and social progress.

For the C.G.T. :

The European Fighter Aircraft would endanger
the future of every industry,
the employment of salaried staff.

IT WOULD BE a step towards making France an integral part of the politics of military blocks :

IT WOULD BE a danger for independence and peace.

THIS IS WHAT, WITH YOU, WE SHALL
RE-AFFIRM TO THE HEAD OF STATE,
TO COMPANY MANagements,
TO THE SOCIETY OF AEROSPACE COMPANIES.

DEFENCE : FFA
Procurement



CPC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

AT
NBM
ADP
7/6.

MO 26/3/1

3rd June 1985

De Norm

will request if required

Thank you for your letter of 21st May. I fully share your view that the misunderstanding to which you refer, which arose in connection with a contract for Rapier missiles, was a regrettable affair.

X ref

I have, of course, already received from my officials a detailed account of the facts of the case. These are, I believe, also known to your own officials, but the summary of the situation in the first paragraph of your letter omits several important points. To set the record straight, the Prospectus for the BAe sale includes a clear statement of our intention to extend the use of competition in defence procurement wherever practicable and reasonable, and another recording BAe's acceptance of this policy. The ways in which MOD operate our competition policy have been spelled out in detail to BAe's senior management on a number of occasions over the last 18 months. One of the main procedures is to consider, as a matter of course, going to competition for all later batches of production work - like the Rapier missile order in question.

Therefore the MOD letter, which made it clear that competition for this order was only a course 'in contemplation' and that no decision had been taken, should have come as no surprise to its

The Rt Hon Norman Tebbit MP



recipients. In correspondence several months earlier at middle management level the Company had acknowledged that the contract was being held up specifically by consideration of competitive tender.

My officials saw no discrepancy between this situation and the terms in which the Company chose to describe their future prospects in relation to Rapier in the Prospectus. To put the matter in perspective, the order in question was worth £20 million - about 10% of our annual level of spend on the Rapier programme as a whole and 2.5% of BAe's turnover on guided weapons business. The Company's failure to ask any questions about the application of competition to the Rapier programme during the extended consideration of the Prospectus which preceded its publication only confirmed the natural presumption that this was something the Company had taken into account in their judgement of the future of the project.

Against this background my officials reached the view, after careful consideration, that the letter you refer to was not a material fact in terms of Sir Brian Hayes' letter. This was a reasonable judgement in the circumstances. I do not think the same could be said for the contrary view which the Company has taken which, on the most charitable explanation, seems to reflect a serious communication gap between the staff handling the Rapier programme and those dealing with the offer for sale, and a failure of the latter to comprehend the obvious implications of a clearly expressed MOD policy which they claim to welcome in the Prospectus.

MOD withdrew from considering competition for this order purely as a means, at the last moment, of avoiding any risk of aborting the share issue with all the implications this would have had for HMG, not as an admission that we were at fault. All in all this was an unhappy episode that I would wish to put behind us, but as you say we need to consider how to prevent any recurrence in the future.

The main problem I see here is not the procedures for meeting the disclosure requirement but the practical consequences for both



our Departments of drawing the criterion for disclosure as widely as you are now doing. We must plainly meet the law's demands, but equally some test of reasonableness must surely be applicable. The future privatisation programme as you know includes some of our other largest suppliers with whom we do several hundreds of millions of pounds worth of business each year. If every possible course of action which we might need to consider in relation to any project with them, however remote the chance that some effect (however minimal) on the sale could ensue is to be disclosed to DTI and perhaps subjected to an extended moratorium it is difficult to see how our business with these firms can be conducted on a reasonable footing. Your Department too might find difficulty in dealing with the flood of cases that would follow.

I suggest that there is an urgent need for our officials and the Treasury Solicitor to get together to discuss these issues and to see whether a practical way forward can be found. I have asked my people to set this in train.

I am sending copies of this letter to the Prime Minister, to the Chancellor of the Exchequer, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Michael Heseltine'.

Michael Heseltine

DEFENSE. Procurement



10 DOWNING STREET

Prime Minister

The meeting in
Rome seems to me
to have got
nowhere. All that is
happening is that
even elementary
decisions about the
parameters of studies are
being deferred. But we
are getting locked into
a process which is
clearly designed to be
irreversible.

C.D.P. 17/5.



MO 26/11/9

PRIME MINISTEREUROPEAN FIGHTER AIRCRAFT

Following our discussion of the European Fighter Aircraft (EFA) in OD on 7th May, I attended the meeting of Ministers of the five participating nations in Rome on 16th May. In the light of your meeting with Chancellor Kohl this weekend, I thought you might find an early report of the outcome helpful.

2. We made some progress in reconciling the military and technical differences between the potential partner nations. There remains a great deal yet to be done before it will be possible to consider entering a collaborative programme of project definition.

3. More specifically, it was agreed that the industries of the five nations should continue work to define more clearly the characteristics of an aircraft with a target in-service weight of 9.5 tonnes, and a ceiling on the in-service weight of 9.75 tonnes. My military advisers tell me that, subject to the incorporation of the appropriate engine and wing area together with space for equipment, an aircraft to this specification would be adequate in performance and capability. On the engine, and as agreed by OD, it was decided that further studies should be undertaken of a design to give an in-service thrust of 88 kilonewtons (equivalent to a nominal thrust of 92 kilonewtons). This is the design favoured by Rolls Royce. It was also agreed, at the particular insistence of the French, that the further period of study should also define an engine of lower thrust, what they call the "optimum" engine, which, taken with the proposed airframe, would best satisfy the

②
COP

Prime Minister
 Relevant to your
 meeting with
 Chancellor Kohl.
 eDP



joint requirements of the air staffs as set out in the European Staff Target. The point here is that the industries and air staffs of the United Kingdom, Germany, Spain and Italy all believe that the 88 kilonewton engine in-service thrust is the right one for the job; the French believe that an engine of around 85 kilonewtons would be adequate. But until now it has not proved possible to get Dassault/SNECMA to take part in any constructive way in the industrial studies, so there has been no real opportunity to demonstrate to them that the 88 kilonewton engine is indeed the right choice. On the basis of the formula described above, they will be instructed to take part fully in the joint studies and, at their conclusion, we should be able to demonstrate comprehensively that the solution favoured by the British air staff and Rolls Royce is the correct one.

4. As we agreed in OD, I resisted strongly the French demand that the American GE 404 engine should be used for development flying of prototype models if the new engine was not be available in time; Manfred Woerner supported me strongly in keeping open the options until further studies have been completed. Eventually a compromise was reached under which the industries of the five nations are to study development programmes which would involve using the new engine from the start; using the RB 199, or using the GE 404 and RB 199 for prototype flights.

5. Discussions on these issues were lengthy and laborious, but at the same time amicable. It was not possible to move on in the time available to any detailed discussion of the arrangements for collaborative worksharing, export rules etc. Charles Hernu made a very strong pitch to have the headquarters of the international management and consortia located in Paris; I made it clear that we wanted the headquarters in London and that Paris was totally unacceptable and not negotiable as far as the United Kingdom was concerned. Again, Manfred Woerner was helpful over this.



6. Time is pressing if decisions on all these complex issues are to be reached sufficiently early for the project to be launched to meet the required in-service dates. The FRG in particular needs to decide the way forward this summer. It was therefore agreed that the Ministers of the five nations should meet again when they are all in London for the meeting of the Independent European Programme Group on 17th and 18th June. If the further studies which have now been set in hand result in satisfactory conclusions, and the discussions in London result in a package consistent with our decision in OD as to what should be studied during Project Definition, then I would hope to be in a position to agree to the launch of Project Definition on EFA, lasting probably up to one year, at the London meeting. There would, of course, be no further commitment on the part of any nation before the results of Project Definition had been evaluated.

7. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

Ramm
Ministry of Defence
17th May 1985

(Approved by the Defence
Secretary & signed in
his absence)



17 MAY 1985

11 12 1 2

SECRET



070
MO 26/11/9

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT

/ I enclose a report which I have sent to OD colleagues of the EFA meeting in Rome.

2. I thought I would write to you personally to set out the background as I see it should you have occasion to discuss this matter with Chancellor Kohl.

3. You will remember that when I first became involved in the discussions on the next generation of fighter aircraft there were two national alternatives - British and French - and both industries were trying to entice other European nations to join their schemes. There are indisputable cost-sharing benefits from such collaboration. Germany had refused to join British Aerospace as they would not make the political commitment to us and they were being actively pursued by the French in furtherance of the Franco-German axis.

4. My interests were twofold. First - if collaboration could be achieved in a way compatible with our defence and industrial interests - it would enable us to secure a single European project which could provide the basis of scale that is available as a matter of course to the Americans. Second - if this failed - it would mean that we could try and ensure that the Germans and others came our way if both projects proceeded.

5. The two objectives are totally linked. The more the Germans are involved with me in trying to persuade the French to accept adequate specifications the more they know that we have genuinely tried to find a common solution. It is most important that Dr Woerner -



the German Defence Minister - is persuaded that at all stages we have played a straight game in the pursuit of a European objective to which he is personally totally committed. As long as he believes this, if the EFA negotiations breakdown because France will not accept the standards that both Germany and ourselves believe to be necessary then the better the chance that Germany will stay with us in any new configuration. Chancellor Kohl may well want to give the French every chance (Dr Woerner told me privately that Chancellor Kohl had sent him last week to see President Mitterand to urge him to take a more sensible view) and Dr Woerner must be able to assure him of the efforts that we have made.

6. In this sense, last night was particularly gratifying as I was often able to let Dr Woerner argue my case for me. At no stage was there any divergence between our position and that of Dr Woerner. It is a principal part of my strategy to keep it that way.

7. As you might expect the Italians and Spanish played relatively little part although all the indications are that at the moment the Italians are firmly behind our position. I doubt if the Spanish will take other than a political decision to join whoever offers them the best industrial package.

8. I would therefore be grateful if, in discussing this with Chancellor Kohl, you felt able to stress the efforts we are making to secure a genuinely European solution. While we cannot sacrifice in the name of collaboration the standards of the Air Force requirements upon which our defence interests depend, as we all face the same threat it should be possible to agree on a common response. You could express disappointment that whilst the industries of Germany, Italy and Spain have all worked closely with our industry to produce common advice to Ministers, French industry still seems unwilling to make this genuinely collaborative effort and appears more interested in getting the rest of us to join their prototype ACX proposals. This would be tantamount to acknowledging French



supremacy in this field, which we do not accept and will not do. We do not believe that the Federal Republic want that either.

9. I hope you would feel able not to speculate on what happens if EFA collapses. I am anxious not to create the impression that we would welcome this or are striving to bring it about. Such an impression can only help the French.

10. We made only limited progress in Rome but it was the French who were very much out on a limb. In that we advanced it was in our direction. I cannot pretend that I yet see a way through but I have no doubt that our tactics to date are standing up.

[Handwritten signature]

(Drafted by the Defence Secretary &
signed in his absence)
Ministry of Defence
17th May 1985

PRIME MINISTER

3 May 1985

P120.A

EFA

EUROPEAN FIGHTER AIRCRAFT

MEMORANDUM BY SECRETARY OF STATE FOR DEFENCE AND
FOR TRADE AND INDUSTRY

Aircraft weight

?

MH is prepared to go down to 9.5 tonnes. The paper endorsed by MOD's Equipment Policy Committee set out a number of minimum parameters, including 9.75 tonnes and commented that: "None of the solutions offered by Industry in the (EFA) Feasibility Study Report meets the requirement. Consequently, a substantial compromise would already have been made should the EFA solution be pursued. Any further compromise beyond the parameters outlined above would render EFA incapable of fulfilling the military need." How then can we go below 9.75 tonnes? We would sacrifice in-flight refuelling and some avionics which the RAF consider important for effectiveness. The Soviet aircraft EFA is designed to counter are much heavier (Flanker, 29 tonnes; Fulcrum, 17 tonnes).

Engine

By / Defence

There is agreement on 88KN. But there is a technical problem: to provide for the growth potential to compete with the Americans an engine pod is needed of the diameter of the RB199 - slightly larger than that required by either a new engine or the American GE404. These alternatives have other

RB. 155

404

drawbacks, too: designing a new engine and new airframe simultaneously could be expensive because engines take longer and delay the development of the airframe (Tornado was set back by two years by this problem). The use of an American engine seems to negate part of the point of a European programme.

Industry structure

MH wants two consortia, without allocating design leadership; NT wants Rolls Royce design leadership without conceding French leadership on the airframe. The latter is a fairer to our technical capabilities, so we should go for it. But MoD don't think that it is negotiable. The consortia arrangement can work (Tornado, the V2500 airbus engine) and allow partners to retain their technology by work allocation. If Rolls Royce had, say, 50% of the engine consortium and responsibility for the high pressure turbine, their position could be safeguarded.

On airframe, we and the French want the front end. If we do concede this, we must not allow avionics selection to be placed with the front end contractor (our mistake on airbus).

Headquarters

Location is largely symbolic; we should be prepared to trade this in favour of a neutral (German) location.

Export sales

We want to secure French commitment to the aircraft, so that they don't compete against it. MH suggests deferring a decision on allocating markets. Do we want to allocate markets at all? If we do, France will compete with EFA in partners' markets. NT's common marketing organisation looks the best option.

Equipment Shares

If we could agree a common marketing organisation, equipment shares could be agreed at the outset, rather than allow them to depend on which partner wins export orders. NT is right to argue for maximum flexibility within the overall workshare, since this would allow a greater degree of competition and hence, lower costs.

Cost Control

EFA is advocated on cost grounds. What assurance can MH offer that the EFA project organisation can control costs as effectively as we expect Peter Levene will on domestic contracts? This is not a detail and ought to be raised with prospective partners now. One solution: partners' industries bid for work on a firm price basis and carry the risks themselves.

Negotiating Position

MH doesn't have to settle everything on 16 May. He should keep the negotiation alive and report back. He should focus on the plane itself and who builds it.

opening position

9.75 tonnes

hybrid engine programme using RB199
as interim measure; aim for 98KN

Rolls Royce to lead on engines,
consortium on airframe

bottom line

9.75 tonnes

new engine,
98KN potential

consortium for
both

Work to be done in parallel

We suggest MoD should place a contract with BAe in parallel with the EFA project definition to define a national alternative, and come forward with a firm price (BAe have offered a price for the first 25 aircraft but it leaves too much unclear). EFA and the national solution could then be properly compared.

Nicholas Owen
NICHOLAS OWEN



SECRET

4

B.06987

PRIME MINISTER

c Sir Robert Armstrong

European Fighter Aircraft
(OF(85)8)

BACKGROUND

Flag A

In their joint Memorandum of 2 May, the Defence Secretary and the Secretary of State for Trade and Industry have set out views on the options for the replacement of the Royal Air Force's Phantom and Jaguar aircraft in the mid-1990s. Both Secretaries of State appear to favour proceeding with the European Fighter Aircraft (EFA), if acceptable terms can be agreed between the five potential partners. But the Trade and Industry Secretary expresses a more favourable view of the alternative possibilities of a national project or a more restricted European collaborative venture, possibly in association with the United States.

2. The immediate issue before the meeting will be the minimum conditions under which the United Kingdom could agree, at a meeting of Defence Ministers of the five nations on 16 May, to proceed with the Project Definition phase of EFA. On this the Trade and Industry Secretary is far more stringent than the Defence Secretary - paragraphs 10 and 11 of the Memorandum.

3. All members of the Committee, with the exception of the Lord President of the Council, are expected to attend. The Chief Secretary, Treasury and the Vice Chief of Defence Staff (Air Vice Marshal Sir Peter Harding) have also been invited.



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HANDLING

4. You should invite the Defence Secretary and the Secretary of State for Trade and Industry to introduce their joint Memorandum. Since Ministers have not recently discussed EFA formally, you may wish to structure the discussion to cover some of the wider issues before concentrating on the decision concerning Project Definition -

(a) The military requirement

The project is seen as providing replacement aircraft for the Phantom and Jaguar in the mid-1990s and not for the Harrier, as was planned when work began on this project five years ago. You may wish to satisfy yourself about the Defence Secretary's plans to meet the requirement to replace the Harrier GR5 and the Sea Harrier. Another important issue is the relationship between performance and cost: is the emphasis on achieving high agility in the EFA justified, given its high cost and the capability of weapon systems in the mid-1990s? The Vice Chief of Defence Staff might be invited to advise the Committee.

(b) Budgetary issues: the opportunity cost of the EFA

The Defence Secretary has made it clear that the EFA project would have a substantial opportunity cost; it is understood that British expenditure of £4,750 million on the collaborative programme would peak in 1996 at just over £600 million. You may wish to seek the Defence Secretary's advice on the effect of this on the front line strength of planned forces and other projects. The Chancellor of the Exchequer and the Chief Secretary should comment.



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(c) Relative merits of the national and collaborative approaches to this fighter replacement programme

You will wish to ask the Defence Secretary, the Trade and Industry Secretary, the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary to comment on the pros and cons of alternative national and collaborative approaches. The principal advantage claimed for collaboration is the cost saving, estimated at between 10 per cent and 30 per cent depending on the performance level of the national alternative. You will wish to ask the Defence Secretary to advise on this critical aspect. Is this comparison based on an assumption that for the most part avionics and equipments would be common to collaborative partners? If so, is this a reasonable assumption given the variation in national requirements and industrial interests?

The Secretary of State for Trade and Industry is concerned (paragraph 6 of the Memorandum) about the need to protect and enhance the pre-eminent position in Europe of the British aerospace industry. He fears that at worst French design leadership on the airframe would eliminate British Aerospace as a credible designer of fighter aircraft and considers that a national solution would protect and enhance the United Kingdom industry's technical capability. You will wish to seek views on whether a national programme would have a viable production run. Would the resulting aircraft sell overseas in competition with a potential European (let alone United States) rival? (The sale offer of British Aerospace shares, published on 3 May, gives greater prominence to EFA than to a national programme - see attached extract.)

Flag B.



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(d) The preferred form of collaboration

The group of five now discussing EFA offers wide distribution of costs and a large production run. The Trade and Industry Secretary should be asked to expand on his view that collaboration with the United States either bilaterally or with a smaller group of European partners would have advantages. Should this be regarded as a second best arrangement, only to be pursued if France cannot be brought to compromise on the weight and other characteristics of the EFA? The Defence Secretary should be asked to give his views on what the best alternative for the United Kingdom would be if the five nation project is blocked by France. Would Germany be willing that the project be pursued by the other four, thus accepting an open split with France? Or would the Federal German Government simply delay its decision? Is there any risk that Germany would go for a four nation project with France and without the United Kingdom? Could we use leverage on the Germans, in terms of British forces in Germany? How would that react on our wider interests (NATO, EC, European defence co-operation) in relations with the Federal Republic? The Foreign and Commonwealth Secretary should advise on the political implications.

(e) Minimum conditions for British agreement to collaborative Project Definition of EFA

Although the cost to the United Kingdom of Project Definition would be only £10 million, a political commitment would also be implied. Judging from their memorandum, the Defence Secretary and the Trade and Industry Secretary should be able to agree that the aircraft's specification should fully meet the Royal Air Force's requirements on



SECRET

performance; and that the weight should not be less than 9.5 tonnes and the engine should have at least 88 kilonewtons in-service thrust. You will wish to invite the Defence Secretary and the Trade and Industry Secretary to speak on the matters where they differ:

(i) Engine. Is it (a) essential and (b) feasible to use the RB 199 for EFA prototypes?

(ii) Industrial leadership requirements. The Trade and Industry Secretary wants the United Kingdom to have design leadership for the engine and considers it most important that France should not have design leadership for the airframe. The Defence Secretary wants "no winners, no losers". This satisfies the Trade and Industry Secretary's second stipulation. Is his first essential?

(iii) Workshares. Is it necessary at this stage to go beyond the broad percentage share of 25 per cent suggested by the Defence Secretary for the development phase of both airframe and engine, leaving greater definition until later?

(iv) Project headquarters. Is the major requirement here to avoid the project headquarters being sited in France? Is the United Kingdom likely to prejudice its chances of achieving this by pressing for the headquarters to be located in this country?

(v) Marketing organisation. Is it necessary to make a decision on the details of the marketing organisation at this early stage?



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CONCLUSION

5. Subject to the discussion, you could lead the meeting -
- (a) to reach a conclusion on whether the five nation EFA project offers the best prospect of meeting the Royal Air Force's requirement for a replacement fighter aircraft at reasonable cost;
 - (b) in the light of (a), to decide on the conditions under which the United Kingdom could agree at the meeting of Ministers of the five nations on 16 May to enter the Project Definition phase of EFA.

C L G Mallaby

C L G Mallaby

3 May 1985

B

Extract from the Offer for Sale
of British Aerospace Shares

3 May 1985

FUTURE OUTLOOK

Military Aircraft

The Board believes that British Aerospace's wide range of military aircraft projects, including the Tornado, Harrier and Hawk, as well as the collaborative nature of a number of these projects, puts it in a good position to achieve further significant orders. In particular, vigorous efforts are being made to export the Tornado. While the Board is confident of the Company's ability to achieve export orders for its military aircraft, competition is very strong and the level of support provided by HM Government (particularly in the provision of export credit guarantee facilities relative to those offered by competing countries) will be an important factor.

The decision on, and timing of, a new fighter aircraft for the Royal Air Force will be of major, long term importance for British Aerospace's military aircraft activities. The Defence Ministers of five nations, the United Kingdom, France, Germany, Italy and Spain, have agreed in principle on the need to develop and produce jointly a new European Fighter Aircraft (EFA) which, in the case of the United Kingdom, would be a possible means of meeting the Royal Air Force's need to replace its Phantom and Jaguar aircraft in the 1990s. British Aerospace and aerospace manufacturers from the other four nations have recently completed a technical and industrial feasibility study jointly commissioned by the five Governments. The results of this study are now being assessed by the five Governments, whose Defence Ministers will meet shortly to consider whether an acceptable basis exists for proceeding to the next stage of a collaborative procurement programme. Should the United Kingdom decide to participate in such a project, it would be the intention of HM Government and British Aerospace to work closely together to ensure that the United Kingdom aerospace industry would receive substantial work starting in the late 1980s. If collaboration does not come about, HM Government will be able to consider, as another option, the alternative of a national solution arising from a technical and industrial study submitted by British Aerospace under the terms of a contract placed with the Company. Meanwhile, in anticipation of the Royal Air Force's need to replace its Phantom and Jaguar aircraft in the 1990s, British Aerospace is developing (to cost and programme) an experimental aircraft (EAP), funded jointly by HM Government, the Company and other industrial partners, including Aeritalia and German equipment companies, to consolidate British Aerospace's fighter aircraft technology. The Board considers it important to the future of British Aerospace's military capability that decisions are taken by the relevant Governments in the near future in order that design and manufacturing capacity may be maintained as the Tornado programme runs down in the late 1980s.



TORNADO RE-ENGINEING

The present Tornado powerplant is the RB199 of which the Mk104 version enters service this year. The Tornado partners (the UK, Germany and Italy) have committed funds for an improved fan (the 62B fan) which will provide either increased thrust or reduced maintenance costs (from running the engine cooler at its original thrust rating). This modification will be incorporated in new Tornados from Batch 7 onwards. There are two demonstrator programmes, XG20 and XG40, designed to demonstrate the technology for further RB199 uprating, but no commitment yet exists to any such uprating.

The RAF, who are the only operators of the Tornado Air Defence Variant, are likely to want to re-engine it with an engine of increased thrust in the mid to late 1990s. This could be either the EFA engine or the P120 engine, which is derived from XG40. The re-engineing would probably not be considered worthwhile if the new engine had a nominal thrust of less than about 90kN (RB199 Mk 104: 74 kN). An EFA engine sized for 98kN would be about the largest that could be accommodated in the Tornado engine bay.

There would be little difference in the marginal cost of Tornado re-engineing with either the EFA or the P120 engine, (MOD estimates show the P120 engine as slightly cheaper), though the sharing of costs with the "parent" project would depend on the total production numbers in each case. But if a new engine were not developed (e.g in the case of an F18 purchase) the RAF would have to decide whether to take the expensive course of funding on XG40 based development exclusively for Tornado re-engineing, or to forego the increased performance.



10 DOWNING STREET

From the Private Secretary

1 May 1985

L02 AD Q 3
file K/P
Ch. McCook

EUROPEAN FIGHTER AIRCRAFT

My letter of 30 April summarised the main points made in the Ministerial discussion that day of the European Fighter Aircraft. There was also some discussion of the politics of collaboration which should, I suggest, be given a more restricted circulation than the record of the rest of the meeting.

The Defence Secretary said that the politics of the decision on EFA was whether to allow the Franco-German axis to dominate European defence procurement. He had made considerable efforts over the past two years to weaken this axis: and he believed that the EFA project, if pursued on a "no winners, no losers" basis, would take this strategy a significant step forward by including the United Kingdom as a fully equal partner.

There was no dispute about the desirability of avoiding Franco-German domination. But it was suggested that a better strategy for achieving this was to try to detach the Germans from the French, and aim for a collaborative project involving them and possibly the Italians but excluding the French. German industry was generally keener on collaboration with the United Kingdom than with France and the record of our co-operation with them was reasonably positive, in stark contrast to the unsatisfactory experiences with France (though it was acknowledged that the blame for this lay with both sides). Hitherto the German Government had always opted for solidarity with France when confronted with a choice, and the balance of probability was that they would do so again if such a choice had to be made over the EFA. But we should not ignore the potential leverage which we had over the Germans in terms of our Forces on the Central Front; and should not necessarily shrink from using this leverage if the stakes were high enough.

/I am copying

SMH

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- 2 -

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chief Secretary (H.M. Treasury) and to Richard Hatfield (Cabinet Office).

CHARLES POWELL

Richard Mottram, Esq.,
Ministry of Defence.

SECRET



10 DOWNING STREET

From the Private Secretary

30 April 1985

European Fighter Aircraft

The Prime Minister held an informal meeting of Ministers this morning to discuss the Government's approach to the proposed European Fighter Aircraft (EFA). The Foreign Secretary, the Chancellor of the Exchequer, the Trade and Industry Secretary, the Defence Secretary and the Chief Secretary were present.

The meeting considered the case for and against the EFA.

The starting point was the recommendation by the Ministry of Defence Equipment Policy Committee that the RAF's Phantoms and Jaguars would need to be replaced in their fighter role in the 1990s. The necessary funds for a replacement could be found in the MOD programme. The replacement could be met by a number of alternative means: by buying a US aircraft off the shelf or assembling it in the UK: by a national solution, that is designing and building the aircraft in the United Kingdom; or through European co-operation which might be in the five power EFA forum or some smaller group.

The Defence Secretary summarised the case for United Kingdom participation in the EFA. The first question was whether the EFA could meet the Royal Air Force's specifications. It was impossible to give a precise reply to this yet. What was clear was that all the various partners in the project had shown readiness to move from their initial positions both on the weight of the aircraft and the thrust of the engine. He believed that it would be possible to agree on a trade off between weight and thrust which would meet the RAF's needs. As regards cost there was no doubt that the cheapest solution would be to buy off the shelf from the United States or another country. But if we wanted to produce the aircraft in this country for industrial and strategic reasons, there was little doubt that a well managed EFA project would come out cheaper than a national solution. The calculations made by MOD officials suggested that the UK share of the EFA would amount to some £4.75 billion as against £6.1 billion for a national solution. The view of officials was that the gap could not

be significantly closed. The question of work-share was obviously of vital importance. He had heard, that at a meeting yesterday of the EFA participants a 25/25/25/15/10 work-share arrangement had been agreed together with a management structure of two separate consortia, one for the airframe and one for the engine, with provision also for a common radar. If confirmed this would be a major step forward and, in particular, evidence of a more realistic attitude on the part of the French industry. Although it would be desirable to have the project headquarters in the UK, this was not in practice negotiable. It was therefore likely that the headquarters for the project would be in Germany. As regards exports, agreement could probably be reached for different participants in the consortium to be allocated particular markets. A final consideration was the need for any new engine developed for the EFA to be compatible with the re-engining of Tornado. His original hope had been to see RB199 used as an interim engine for the EFA but it now appeared necessary to bring forward the production of a new engine. Discussion of the EFA was moving ahead rapidly and there would be a further Ministerial meeting in Rome on 16 May at which decisions would be needed.

A number of arguments were advanced against participation in the EFA. It was suggested that collaborative projects tended to be more expensive than necessary or than forecast because decisions were based on political compromises rather than on the technically best solution. Duplication of production lines also added unnecessarily to costs although it was recognised that this related mainly to final assembly which accounted for a modest proportion of the total cost. Moreover in the light of experience there were grounds to fear that the United Kingdom would lose industrially from a collaborative project. It was noted that not a single collaborative programme had its headquarters in the United Kingdom. There were particular grounds to fear that Rolls Royce might lose out on the development of the new engine even though they were technically far superior to the Snecma. There was also the consideration that we would need an upgraded engine soon for Tornado to enhance its export prospects. But if it was decided not to proceed with development of the RB199 for this there might be a delay in developing a new engine; and use of the new engine would mean giving the French a role in Tornado. Further it was important to get agreement on an engine which had a growth capacity up to 98 kilonewtons. Without this Rolls Royce would be at a crucial disadvantage vis-a-vis American producers in outside markets. This did not seem to be easily compatible with French interest in a low weight, low thrust, engine. Collaboration on airframe could also cause major difficulties. If the French were to be given the lead on this, British Aerospace would be eliminated as a credible designer of fighter aircraft and the interests of our avionics companies would be difficult to look after. In addition to these difficulties it was suggested that the French were still keeping open the option of a purely national aircraft. There was a risk that they would go along with the collaborative programme until they

had delayed UK plans, then unveil a national aircraft of their own.

In favour of a British national project it was argued that this was the surest way of allowing us to maintain a national capability. It would by definition mean that the United Kingdom had project leadership. A thorough assessment should be made of the claimed additional cost of this option over a European Fighter Aircraft and the extent to which the gap would be closed by the benefits of, for instance, collaboration between Rolls Royce and Pratt and Whitney on a new engine and of keener purchasing than would be possible within an EFA framework, if necessary from overseas.

Summing up the discussion, the Prime Minister said that the Defence Secretary and the Trade and Industry Secretary should produce a joint paper for OD which would examine the points raised in discussion and set out unresolved differences. The paper should contain the best possible estimate of the costs of alternatives to the EFA. It should also give a clear statement of our negotiating position for future discussion of the EFA, spelling out our bottom line on the crucial issues of weight, engine thrust, project organisation and leadership and the siting of the project headquarters.

I am sending a copy of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Trade and Industry Secretary, the Chief Secretary and to Richard Hatfield (Cabinet Office).

Charles Powell

Richard Mottram Esq
Ministry of Defence.

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT

Apart from Trident this is the biggest procurement decision this Government will have taken. The purpose of the meeting of Ministers on Tuesday is to have a first discussion of the options before the Defence Secretary puts round a formal paper to OD.

The Defence Secretary's minute at A sets out the options as he sees them. Policy Unit advice is at B. Mr. Tebbit's ideas and questions are at C.

Mr Heseltine has set his cap very firmly at European collaboration on this and other defence procurement issues. It is becoming an article of faith which might lead to unsatisfactory compromises. The need is to work towards a negotiating brief which:

(a) takes proper account of other options and does not assume that collaboration is desirable for its own sake;

(b) makes sure that he bids high for British leadership in a joint project; and

(c) does not give him too much scope for concessions to reach agreement on a collaborative project at this stage.

The particular issues on which you might focus are:

(i) the need for this aircraft at all;

(ii) the project definition we should seek;

(iii) alternatives to collaboration as a way to meet it:
the national option: buying off the shelf;

(iv) what is the British role we should aim for in a collaborative project?

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-2-

(v) the politics of collaboration: how can we stop the French running rings round us?

CDP
- - -

26 April 1985

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PRIME MINISTER

26 April 1985

EUROPEAN FIGHTER AIRCRAFT

Some military analysts question whether the agile fighter is the most cost-effective answer to the military threat. If we are (eventually) to commit £5 billion on a new fighter, we need to ensure that it is the plane we want, at the best price, and that it offers us the commercial return which our technical leadership in engines, airframe and avionics deserves.

What is a new fighter for?

Why not ask Michael Heseltine why he (rather than the RAF and BaE) wants a new fighter. The fighter's main task would be to defend the UK, and bases in Germany, from Soviet medium bombers and their fighter escorts. It would seek to identify enemy aircraft well beyond the visual range, and destroy them with missiles. If this failed, the fighter would engage in close-quarter combat, using its agility to the full, 1940s-style.

If we can anticipate the Soviet bombers' targets (airfields, missile bases, control centres, ports), couldn't we defend them more cheaply with surface-to-air missiles like Rapier and air-launched weapons we are developing for Tornado? Countering fighters with fighters is expensive. The "exchange ratio" may be poor (eg one for one). Would we emerge from

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these dogfights with enough aircraft left over to down enemy bombers?

MoD studies indicate that agile manned aircraft is an expensive response to the threat, but it offers flexibility to deal with the unexpected. It is difficult to put a value on this. MH rightly refuses to commit himself on a new aircraft "at any price". Our approach to negotiation should be conditioned by this and the OD paper should address this point.

Collaboration

First, some background. The last fighter we built on our own was the Lightning. The 1964 Labour Government cancelled the TSR2 and ordered Phantoms. Since then, BAe at Warton has been asked to collaborate (Jaguar with the French, Tornado with the Germans and Italians). BAe feel that for 20 years the UK has had to teach the European aerospace industry how to build advanced fighters, as the price for their co-operation; and that this will continue in EFA. So from a technical viewpoint, we don't need partners.

We have been courting the French on EFA. The French have been as difficult as possible on all major aspects - weight, power, design leadership, worksharing, management of the programme. This tactic would enable them to say: we agree on 9.75 tonnes, a 92KN engine, neutral management, workshares based on national offtake, and make it difficult for us to

refuse parity on design leadership, ie joint leadership on engines and airframe or French leadership on airframe, UK leadership on engines. "Parity" would be an industrial scoop for the French because we lead them by a long way on engines and on overall design (ability to combine avionics, airframe and weapons into a system).

Our Options

The French are confident of their own national alternative. To negotiate effectively, we need to be clear about our options. We have four:

1. The national solution (P129). MoD calculate that 200 EFA (to the 4-nation design) would cost us £4,750 million and that 200 of BAe's aircraft (the P120) would cost £6,110 million (nearly 30% more). These calculations are based on the assumption that defence departments foot the entire cost of development (£3,500 million for EFA, £1,700 for P120). But why should MoD do this? Couldn't MoD say to BAe: you fund the development and quote us a firm price (plus inflation to 1995) for, say, the first 50 aircraft? BAe would be on risk for the development, and would therefore minimise it. They would spread its cost over their entire volume - exports and MoD's requirement. If pushed hard, their quote would reflect this.

On the basis of the exports predicted by MoD for the P120 (330), 200 P120s could be produced for no more than £5,250 million - only 10% more than EFA. We might do even better with BAe because they could bargain better with suppliers than could an EFA management, which would be constrained by agreements on national workshares. It would not be open to us to bargain for EFA in this way. There would be a common price which accommodated every partner's costs.

2. Collaborate with our Tornado partners. This arrangement works well, and to cost. German defence and industrial interests are said to prefer this option to collaborating with the French, but the German Government may override their preferences to accommodate the French.

3. An American design, purchased off-the-shelf or manufactured under licence. MoD have not thoroughly explored this option. They have assessed known developments of an existing aircraft (F18) but it is difficult to believe that the world's leading aircraft producer will rely on 1970s' technology from 1995 onwards. Politically, it would be very difficult indeed to abandon our own design capability. The defence argument for keeping it is weak (not an "essential technology" according to MoD's own analysis) but the political interest in this is enormous: fighters are exciting to design, make, fly and behold.

4. A mix of existing aircraft in updated versions (Tornado plus Harrier); Harrier's agility was demonstrated in the Falklands. Between the two of them, these aircraft could give us the longer range ability to shoot down enemy aircraft, and the ability to "mix it" in close combat. MoD may have under-stated the cost advantages of this route which flow from continuity of production and learning on the job.

Line to take

There is a possibility that a national plane would defend us better at only a modest cost penalty, and give us about double the work. We should therefore:

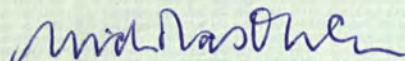
1. Keep this option (and others) in play in parallel with EFA so that when project definition is completed (1986?) we can compare costs with more confidence (costings at present are highly speculative).
2. Negotiate toughly on EFA; it must compete with this, and other options.

The OD paper should suggest an opening and a bottom line negotiating position for the 17 May meeting:

1. The aircraft: there is no point in conceding further on this. Nothing less than 9.75 tonnes and 92KN will do. We have already come down from 10.5 tonnes. Anything

lower than 9.75 would give us a Third World aircraft, useful for terrorising tribesmen, but incapable of carrying the avionics we need to defend ourselves. Better to have missiles than an under-powered vulnerable aircraft. The French may be wrong about the market's requirements 10 years hence: their EFA version may fall between two stools - cheap sporty planes which several countries are making now, and more sophisticated machines which Middle East markets need.

2. Industrial leadership: propose BAe as the project's single prime contractor: it is the only company in Europe with the necessary experience in systems integration. As a fallback, we could concede parity within MH's international consortium. To propose design leadership on engines would provoke the French to demand leadership on the airframe.
3. Management structure: there must be an international organisation. It is our turn to host one. Failing that, could the management be placed with the Tornado organisation in Germany?
4. Whatever organisational solution is preferred, you should ask MH what contractual arrangements he envisages to place contractors on risk, so that costs escalate less than the 30% (in real terms) by which Tornado's costs grew between 1969 and today.


NICHOLAS OWEN

Cardiac - J. W.

Charles Powell

Ray thanks -
Sorry it caused so
much trouble

I have fixed (at the expense of
delaying Norman Tebbitt's physiotherapy,
ditto OD (H.D)) at EFA meeting on
Thursday 20th April, between 10 & 11.

The following are coming:

Deferve
Ch/Ex
Ch/Sec
S/Tx I
FCS.

So the only one not coming is the hard Prod.
OD itself is proving difficult to fix. Currently
down for 8/5.

M&A 24/4

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SPW

MR OWEN

European Fighter Aircraft

You will have seen a copy of the Defence Secretary's minute to the Prime Minister of 15 April which is to serve as a basis for Ministerial discussion of the EFA. It would be helpful to have Policy Unit views.

BF

NO to have a
word with CSP 25/4

C D Powell

22 April 1985

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~2307800~~ 218 2111/3

CP/NO

MO 26/11/9

18th April 1985

Charles Powell
I have amended the
minute (for the w/c box)
accordingly. M&A 11/4

Dear Mark,

PM's Box
Folder 4

EUROPEAN FIGHTER AIRCRAFT

My Secretary of State minuted the Prime Minister on 15th April on the European Fighter Aircraft. As I mentioned to you, paragraph 2 of the minute stated that the RAF's Jaguar aircraft would be running out of fatigue life in the 1990s. As is made clear later in the minute, the reference to fatigue here should be to the Phantom aircraft rather than to the Jaguar. I regret any confusion this may have caused.

I am copying this to Private Secretaries to other recipients of the original minute.

Yours ever,
Joemy Wright

(J S WRIGHT)

M Addison Esq
10 Downing Street

18 APR 1965

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MO 26/11/9

Print Minister
 For meeting
 next week.

Policy Unit
 Comments please
 not

CDP
 17/4.

PRIME MINISTEREUROPEAN FIGHTER AIRCRAFT

I undertook to produce a short paper to focus the discussion of this subject which we are to have with colleagues principally concerned after Cabinet on 25th April. My minute of 26th February to you, copied to other members of OD, summarises the essential background. I shall of course be providing a fuller analysis of options for collective discussion ahead of the meeting of Ministers of the five nations now scheduled for 17th May. At this stage the issues as I see them are as follows.

Importance of a new fighter aircraft to the defence programme

2. By the mid-1990s the RAF's fleet of Phantoms and Jaguars will be a poor counter to the threat and the ~~Jaguars~~^{Phantoms} will also be running out of fatigue life. A replacement aircraft will therefore be necessary if the Royal Air Force front line capability is to be maintained. But it will be an expensive project with a substantial opportunity cost in that it will be competing with requirements to replace or improve other important capabilities. I am not committed to a replacement aircraft at any price, and I have consistently made this clear. There are other possibilities such as buying more Tornado F2s, although this would not meet a military requirement which centred critically on high agility. Much will hinge on cost. I fully recognise of course the importance of a new project to BAE's Warton Division. At the same time there is the point that with work on Tornado now past its peak, a decline



in their loading is inevitable anyway, and even EFA will not restore it to present levels. Of greater strategic importance however is design capability; without a new project in the near future, the BAe combat aircraft design capability will be lost. This capability is unique to BAe in the United Kingdom, is important to us industrially, and is considered vital by the Royal Air Force.

Is collaboration a desirable aim?

3. The financial case for collaboration is that it is cheaper than a national venture because development costs are shared among the partners rather than borne by a single nation and because of the economies of scale which result from a large production volume. If the partners bring with them a sales market the costs of development can potentially be shared more widely still. In general, these benefits outweigh the additional cost which arises because of the dispersal of work and the plurality of management and Government agencies involved in a collaborative project. In the present case, our current cost projections suggest that a national project can be expected to be some 20% dearer than a collaborative EFA. The need for nations to compromise on military requirements is a recognised penalty of collaboration. Against this must be set the potential benefits in terms of defence and wider political co-operation, which for a project of this size would be enormous.

4. I am in no doubt that the cost and wider advantages of pulling off a successful collaboration in this case would justify some sacrifice of operational capability in the aircraft itself - though obviously the latter must not be carried too far. If we can secure a deal which is acceptable in military, cost and industrial terms this would in my mind tip the balance in favour of including the project in the defence programme. I take Norman Tebbit's point in his letter of 14th March that exports resulting from past collaborations have sometimes been disappointing; but we cannot assume that a national project would necessarily have better export potential.



Is collaboration attainable?

5. Obviously there must be doubts about this; the failure of French industry to co-operate fully in the feasibility study phase is not encouraging. This may owe something to their lack of experience in, and hence suspicion of, a major aircraft collaboration involving several partners. It also reflects the determination of Dassault to dominate both the design of the aircraft and the management of the project. Only negotiation will show whether there is a way forward. But we must beware of the assumption, which parts of our own industry seem to be making, that a four-nation collaboration excluding France is necessarily available as an alternative. The fear must be that in a last resort Germany would align herself with France; and whilst an Anglo-Italian partnership would be technically feasible, I am not at this stage persuaded of its economic viability.

Military capability

6. In-service date. Because the Phantom's fatigue life is running out, an in-service date of 1995 is necessary if we are to maintain our capability and we should therefore continue to press for this. Since however the decision in principle to buy a replacement aircraft has not yet been taken, in a last resort the date of 1995 cannot be considered sacrosanct, although the penalty of further slippage would be an increasing gap in both UK and RAF Germany air defence.

7. Aircraft Mass. On the face of it the difference between France and the other four nations is clear but narrow - 9.5 tonnes against 9.75 tonnes. The important factor in the eyes of my military advisers is the critical need for sufficient space to install the weapon system equipment required to give the aircraft a viable capability against the Warsaw Pact threat; they believe that at 9.75 tonnes, the aircraft has already been squeezed to the limit. I find it hard to believe that a 0.25 tonne difference should be a make-or-break issue for the French, but the negotiations will show.



8. Engine Thrust. The French proposal for an engine of 82 kilonewtons (kn) thrust is manifestly too small for the job, and too small to sell in world markets for applications other than EFA. We need an engine of at least 92 kn nominal thrust (which is equivalent to an engine having a minimum in-service installed thrust of 88 kn - a definition preferred by Germany) to provide sufficient power for EFA; to sell abroad; and also from the UK standpoint to re-engine the Tornado F2 in due course. To avoid programme slippage, an existing engine should be used for initial flight trials and this should be the European RB 199 rather than the American GE 404. Using an American engine will prejudice Rolls Royce export sales of the RB 199 and we should only give way on this point in exchange for very considerable benefits in other directions.

9. Radar. We are examining the feasibility of a common radar for EFA, but as the weapon requirements of France are different from those of other nations, we may only achieve a common core radar, with individual nations making specific additions to suit their national requirements.

Industrial arrangements

10. On the airframe, BAE are not prepared to concede industrial leadership or a larger workshare to Dassault; on the engine, Rolls Royce would not concede to SNECMA. Rolls Royce however are pre-eminent in their field in Europe, whereas BAE and Dassault are more nearly on a par. The question therefore arises whether there is scope for a deal in which Rolls Royce take the lead on the engine while Dassault take the lead on the airframe (which would obviously create enormous problems with BAE); or whether we should aim for the safer course of Anglo/French parity on both the airframe and the engine. This is one of the most difficult issues we face. One aspect of it is the interests of the British avionics and equipment industries; do these stand or fall by the outcome on the airframe worksharing or can they be negotiated



independently? Also we must not forget the position of the other partners in all this, particularly Germany.

11. My general approach is that the only acceptable industrial outcome is one in which there are no winners and no losers. The question is whether we apply this to the interests of each nation as a whole or separately to each sector of the industry.

Management of the programme

12. Here too the principle of "no winners no losers" applies. French dominance is as unacceptable to us as our dominance would be to them. I see no alternative to a structure embodying an international agency representing all Governments, and an international organisation representing the industries of all the partners. Much will depend on the details of the structure and the allocation of posts to nations, whether permanently or on rotation. By the same token, while it would obviously be desirable to have the headquarters of the project in this country, the French would no more accept this than we would accept that it should be in France. A compromise, probably on a German site, seems the most likely outcome.

13. I am sending copies of this minute to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chief Secretary, Treasury and to Sir Robert Armstrong.

AMH
Ministry of Defence
15th April 1985

DEFENCE Procurement: Pt 2.



DEFENCE
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2 3 4

17 APR 1985

Comptroller
GENERAL
LONDON



10 DOWNING STREET

THE PRIME MINISTER

4 April 1985

CE (TOD)
(Sent via
TOD)

Dear General Waig,

Thank you for your telex of 19 March 1985 about the new basic trainer for the Royal Air Force.

I expect you are already aware that we have decided to place the order with Short Brothers of Belfast, subject to the negotiation of detailed contractual points. Michael Heseltine announced this decision in the House of Commons on 21 March.

Our full and impartial analysis of the options showed that the British Aerospace PC-9 and the Shorts Tucano were both capable of meeting the RAF's requirements very satisfactorily. The Pratt and Whitney PT6A-62 engine was, however, judged to be more expensive to operate than the Garrett engine that is to power the Tucano.

The decisive factor in our choice of the Tucano was cost. The offer from Shorts was cheaper than the BAe tender by a clear margin. Either aircraft would have provided a similar number of jobs in the United Kingdom, taking account of the RAF order and potential export sales. I do assure you that we gave careful consideration to the proposals and undertakings made by Pratt and Whitney of Canada, including those relating to the location in the UK of the engine overhaul and maintenance facility, in reaching our final decision.

BTT

I hope that despite the outcome of the basic trainer competition an agreement can be reached between Pratt & Whitney and Rolls Royce on the RTM 322 engine which will be to the benefit of both companies, and that the engine overhaul facility will still be located in the United Kingdom.

Yours sincerely

Margaret Thatcher

Alexander M. Haig, Jr.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~583 7022~~ 218 2111/3

MO 26/11

3rd April 1985

Dear Charles,

RAF BASIC TRAINER AIRCRAFT

As requested in your letter to Richard Mottram of 20th March, I attach a draft letter which the Prime Minister could send in response to General Haig's telex on this subject. The draft has been approved by my Secretary of State.

I am sending copies of this letter and the enclosure to Callum McCarthy (Department of Trade and Industry) and to Len Appleyard (Foreign and Commonwealth Office).

Yours ever,

Denis

(D BRENNAN)
Private Secretary

C D Powell Esq
10 Downing Street

Bowala

Alexander N. Haig Jr
United Technologies Corp

DRAFT

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on the RTM 322 engine which will be to the benefit of both companies,
and that the engine overhaul facility will still be located in the
United Kingdom.

CD.

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3 APR 1985



CONFIDENTIAL

cc ND
PCFROM: CHIEF SECRETARY
DATE: 2 April 1985

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT (EFA)

I commented earlier about the timetable for considering the proposal for a new fighter aircraft (my minute of 1 March) following Michael Heseltine's minute to you of 26 February. I am glad to see that we are to discuss the project on 25 April.

2 The further correspondence has included a useful note about industrial aspects circulated by Norman Tebbit's office on 20 March. I hope however that our discussions can start further back, from the UK's own defence needs. Michael Heseltine's minute to you of 2 July last year gave a summary of the role envisaged for an EFA, and said that a national review of the operational requirement was continuing. Our discussions of this complicated and massive project - probably the largest procurement decision in this Parliament and second only to Trident since 1979 - will need to be based on a clear understanding of the gap in capability which a new fighter would be designed to fill, and of its operational requirement.

3 Michael has asked for studies of a substantial list of options, including EFA, a national project and US aircraft, whether bought off the shelf or made in the UK under licence. We shall want to consider the results carefully, and of course to discuss how the resources are to be found within the defence budget to finance the project. There are two points in particular which I hope Michael's paper will address to help our discussion on 25 April.

4 First, in looking at costs we shall need to take account of risks. Collaboration on a new project in some ways helps to spread risks, but it also increases them, bringing problems

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of co-ordination and of decision taking, and opening up increased risk that requirements may change while the project is underway. Collaboration can also be an enemy of competition, compelling purchase of equipment from particular countries and suppliers on grounds of workshare, with all the extra expense which that entails. The history of the five nation EFA proposal offers no strong omen for harmony in the future, and the risks could be increased if any of the partners make major compromises at this early stage which result in continuing tensions within the project.

5 A national project of course also brings with it great risks, which would need to be given full weight. I hope therefore we shall be able to discuss the prospects for achieving other collaborative approaches, in addition to a five nation EFA, including the possibility of a collaborative purchase under licence from the US. The five European nations' collaborative purchase of F16s under licence from the United States and the three nation Tornado are both precedents which may offer useful lessons.

6 Secondly, industrial aspects. British Aerospace (BAe) faces the possibility of a sharp fall in the workload at Warton from the end of this decade. EFA would I understand not produce substantial work for Warton until well into the 1990s, leaving a major gap. It would be inconsistent with our commitment to competition to accept a self-imposed obligation to manage BAe's work flow or to make work for the company. But there would clearly be pressure on the Government to act to avoid a major reduction in capacity at Warton, and this could be unavoidable if we were committed to EFA. Work on a purchase under licence could perhaps begin earlier, and thus reduce the size of any gap. The timing of work for BAe should be a factor in our discussion.

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7 The position at Rolls Royce will also be relevant. A successor to the RB199 would be expensive to produce, and would carry with it all the familiar risks.

8 Against this background I welcome Michael's statement that discussions about EFA have so far been entirely without commitment, and that this has been stressed to the potential partners.

9 I am copying this minute only to Michael Heseltine, Norman Tebbit and Geoffrey Howe.

PR

PETER REES

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Defence Pt 2

Procurment,



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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422

SWITCHBOARD 01-215 7877

cefa

Secretary of State for Trade and Industry

28 March 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1

NBPM

D Michael,

EUROPEAN FIGHTER AIRCRAFT (EFA)

Thank you for your letter of 18 March about the strategy which the Government should adopt in relation to EFA.

2 I am grateful for your assurance that industrial factors, particularly the question of the protection of British Aerospace's position relative to the French, will play a large part in determining the way forward. Geoffrey Pattie and I, along with our officials, will continue to work closely with the MoD in assessing the best strategy for the UK in this vitally important project.

3 I look forward to discussing your paper on 25 April.

4 I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, Geoffrey Howe, Peter Rees and to Sir Robert Armstrong.

NORMAN TEBBIT

JH4AYA

Defence PTZ

Procurement Systems

25 MAR 1994



MT2 AFE
Defence Policy Unit

10 DOWNING STREET

From the Private Secretary

22 March 1985

European Fighter Aircraft

BF-1
As you will know, we have now arranged a meeting of Ministers principally concerned for after Cabinet on 25 April to discuss some of the issues raised by our possible participation in this project. Your Secretary of State undertook to produce a short paper to focus discussion. There is also the useful checklist of issues enclosed with Callum McCarthy's letter of 20 March to you.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry), Colin Budd (Foreign and Commonwealth Office), Richard Broadbent (Chief Secretary's Office) and to Richard Hatfield (Cabinet Office).

Charles Powell

Richard Mottram Esq
Ministry of Defence.

Brc

RAF (Basic Trainer Aircraft)

3.57 pm

The Secretary of State for Defence (Mr. Michael Heseltine): With permission, Mr. Speaker, I wish to make a statement on the selection of a new basic trainer aircraft for the Royal Air Force.

My right hon. Friend the Minister of State for Defence Procurement informed the House on 18 December 1984 that best and final offers were being invited from British Aerospace and Short Bros. to clarify and amplify certain aspects of their tenders for aircraft to meet the Royal Air Force's requirements in order to enable a final decision to be reached. It was subsequently agreed that Westland Helicopters Ltd. and Hunting Engineering Ltd. which has also submitted tenders in the first round could submit their own best and final offers. All four tenders have now been fully evaluated.

The prices quoted by Westlands and Huntings, although substantially reduced compared with their original offers, remain well in excess of the other two bids, thus confirming our earlier assessment that on cost as well as technical grounds the choice effectively lay between the PC9, proposed by British Aerospace in association with the Swiss firm, Pilatus, and the Tucano, proposed by Shorts in association with the Brazilian firm, Embraer. Procurement of either aircraft would provide much better value for money than the alternative option of refurbishing the Jet Provost fleet.

The choice between these two fine aircraft has proved to be evenly balanced. Both comfortably meet the minimum specification and either is capable of meeting the RAF's training needs very satisfactorily. Selection of either would boost jobs for British industry, both directly through the order for the RAF and indirectly through the export sales which the successful firm could be expected to win. In the end cost has been the decisive factor. Our policy is to reduce the cost of defence equipment through the maximum use of competition, thus providing better value for money for the taxpayer and stronger defences for the country within the resources available. Of the two best and final offers, Shorts' is the cheaper by a clear margin.

Subject to final completion of contractual negotiations, therefore, we shall be placing an order with Shorts for 130 Tucano aircraft. The contract will be on a firm price basis: that is to say, the price is fixed in cash terms, and any cost escalation or foreign exchange risks will be borne by Shorts.

Allowing for potential overseas sales, our decision should result in over 1,100 job opportunities in the United Kingdom, with over half of them in Northern Ireland. In addition, the American firm Garrett, which will be supplying the engine for the Tucano, has given offset undertakings which will bring further work to British industry. Shorts' partnership with Embraer in this venture should open up many commercial opportunities.

I should tell the House that the decision I have just announced is an important one in the context of our enhanced competition policy. The price of the contract is approximately £60 million or 35 per cent. less than that which my Department had originally envisaged in its forward costing process.

This is a good decision for the Royal Air Force, for British industry, for jobs and for the taxpayer.

Mr. Kevin McNamara (Kingston upon Hull, North): I congratulate the Secretary of State on showing his high regard for the RAF by choosing an aeroplane which has not flown, which the RAF does not want, and which has not even gone through the Boscombe Down evaluation with the Garrett engine. Had the interests of the RAF been paramount instead of the ideological attitude of the Prime Minister, who is seeking to make Shorts safe for privatisation, the PC9 would have been chosen.

What has been the reaction of the Swiss Government to the Secretary of State's decision, particularly given the knowledge that £96 million worth of potential sales of the Hawk have now been lost, as well as other potential military sales? What estimate has been made of the general sales potential for Hawk as a result of the loss of the marriage between the PC9 and the Hawk?

The Government are shortly to put on sale their shares in British Aerospace. It is likely that this decision will affect the value of those shares and the amount of money that the Government will receive. A penny off each share is equivalent to £1 million. If the Government make a similar disastrous decision about the European fighter aircraft before the shares go on sale, or if that decision is still in doubt at that time, the whole policy of selling the shares will be at risk and, with it, the Chancellor's policy. It seems that by this decision the Secretary of State has shot the Chancellor in the foot, as well as himself.

I congratulate Shorts on getting the contract. Not only was the goal post moved for it on occasions, but the conscience of the Minister of State for Defence Procurement was in the company's pocket because of the number of jobs that he lost for Northern Ireland's industry during his tenure there.

A major Government defence contract is going to Northern Ireland, and it will create new jobs there. How will the Secretary of State ensure that all sections of the community enjoy the benefits of the contract? Has Shorts given any undertaking to accelerate the implementation of its fair employment policies? On this contract, has it given undertakings about how many members of the minority community will be employed and, in particular, how many youngsters will be offered skilled apprenticeships? Is the offset agreement with Garretts as good as that offered by Pratt and Whitney, in particular with regard to the jobs that were at stake in Scotland?

The Government seem to be paying part of their debt to the Brazilian Government for their help during the Falklands campaign. Is this the final settlement, or do other debts remain to be paid? The Government have paid this debt at the expense of the finest air force in the world and the best pilots. It is a pity that the Government had to show their contempt for the RAF in this way, and their lack of trust in British industry's ability to design a plane that would meet the RAF's requirements. Once they had reached the decision to buy off the shelf, this disastrous decision was inevitable.

Mr. Heseltine: I shall not follow very closely the hon. Gentleman's line of approach. It bears no relationship to the way in which the Ministry of Defence goes about its evaluation processes. The hon. Gentleman's suggestions about the position of the Ministry of Defence are without foundation.

The RAF and my other advisers spent a great deal of time on the matter. While it is well known that the RAF

has a regard for the PC9, as I tried to make clear in my statement, it also fully recognises that the Tucano meets the specifications that it laid down.

When procurement decisions have to be made in the Ministry, for every winner there must be a loser. It is impossible for us to make a decision which benefits one company or one country without other companies and other countries feeling that they have missed out. Our primary responsibilities are to the defence of this country, the taxpayer and the national interest. We conducted a fair competition, and there was a clear winner. When such a clear winner emerges in terms of the cost to the taxpayer and the defence budget, it would not be right for us to take into account issues such as the hon. Gentleman has raised. That is my response to what the hon. Gentleman had to say.

Of course the Swiss Government will be disappointed, just as the Brazilian Government will be pleased. In different circumstances, the situation might have been reversed. That is not the first consideration that I have to bear in mind.

The hon. Gentleman will not expect me to comment on the arrangements for British Aerospace. That is a matter for the company rather than for me, and the same applies to Shorts in Northern Ireland. If the Opposition are concerned about the arrangements, they should address their questions either to the company or to the Secretary of State for Northern Ireland. It would be wrong for the Secretary of State for Defence to pursue issues such as the hon. Gentleman raised, and I do not believe that any Secretary of State for Defence would have done so.

Sir Antony Buck (Colchester, North): Will my right hon. Friend confirm that the chosen aircraft fully meets the staff requirements put forward by the Minister of Defence, and tell us about the export potential of his decision? Could he say a final word about the beneficial effects that there will clearly be on the economy of Northern Ireland, which is so much in need of assistance?

Mr. Heseltine: All four aircraft in the later stages of the competition met the RAF's specifications, at least on paper. Some of them have not yet reached full development stage.

Export possibilities must, in essence, be matters of calculation. It is considered that the arrangement that Shorts has with Embraer, giving it exclusive rights in some territories and competitive rights in others, provides a significant export opportunity. It is up to the company to grasp the opportunities, but I am advised that as many as 200 aircraft might be in question.

Mr. Ken Maginnis (Fermanagh and South Tyrone): Is the Secretary of State aware that we welcome his announcement, which will be a great morale booster for the people of Northern Ireland and of great economic benefit to the whole community? I agree that the decision was a just one, bearing in mind the cost and performance of the aircraft available for contract. The decision was a just one, in that the aircraft will fit the requirements of the RAF. Those who saw it perform at Farnborough before it was fitted with the upgraded engine know just how fine it is.

The decision is a just one also from the point of view of employment. The contract maximises the potential for new jobs in the United Kingdom. Finally, the decision is

a just one from the point of view of the taxpayer. It retains in competition with British Aerospace another firm which is highly skilled in airframe construction.

May I, however, utter a word of warning? It would be unjust and unworthy to suggest that the contract was awarded for political reasons. The contract was awarded to a firm with a highly skilled work force and very good labour relations, whose management, as it has proved by sales to the United States air force and by its relations with China, conducts the business in an efficient way.

Mr. Heseltine: I am grateful to the hon. Gentleman, but I should like to make it clear that the contract was awarded solely because Shorts, on commercial ingenuity and merit, won on price. That is what the competition was about. It is not for me to intrude into Northern Ireland politics, but the best thing that I can say for Shorts is that it won without any attempt to influence how the decision was taken, in terms of jobs or other political issues. If I had had to take such issues into account, I should have been as concerned for the levels of unemployment in Scotland, the north-east of England or anywhere else where there might have been opportunities for jobs. However, the competition was on price, and on that basis the Tucano wins, although I am the first to recognise that British Aerospace's offer of the PC9 is a very good aircraft, which would have created many jobs.

Mr. James Kilfedder (North Down): Is the right hon. Gentleman aware that this difficult and important decision will give great satisfaction to all sections of the hard-pressed and decent people of Northern Ireland, especially the dedicated workers and management of Short Brothers, who, by their tremendous efforts, are turning Shorts into one of the nation's success stories? As to the allegation of religious discrimination, the right hon. Gentleman can rest assured that Short Brothers is endeavouring to encourage Roman Catholics to take employment in the firm and that there is no religious discrimination.

Mr. Heseltine: I deeply regret the fact that the result of fair and honourable challenge means that the Opposition must search for underhand motives. Shorts is a first-class company which has won in a straight commercial battle. The whole House should get behind it and back it. That is the best way in which to help the country, including the economy of Northern Ireland.

Mr. Merlyn Rees (Morley and Leeds, South): In view of what the Secretary of State said about Shorts being a good firm and getting the job because of what the defence staff said, does he agree that the Secretary of State for Northern Ireland was wise in 1976 to keep the firm in public ownership, to extend public ownership and to ensure that it did not become part of British Aerospace, with the result that it has never been privatised? That former Secretary of State is extremely pleased at the great praise that has been given to a publicly owned firm. As skilled jobs are involved, will the Secretary of State confirm that some of the work is to move to the De Lorean site in west Belfast? As skills are necessary and not anyone can get a job there, will the right hon. Gentleman assure us that training will be given to young people in west Belfast to ensure they are able to get jobs?

Mr. Heseltine: The right hon. Gentleman will know that I do not have responsibility for how Shorts manages a contract such as this. If it is as good as the right hon.

[Mr. Heseltine]

Gentleman and I believe it to be, the training of adequate recruits will be at the forefront of management's responsibility. I am sure that it is best left to it to make that disposition.

Sir Patrick Wall (Beverley): Is my right hon. Friend prepared to deny that the PC9 is the aircraft that the RAF wanted? Is he aware that his decision will probably cost 2,000 jobs in England and Scotland and the loss of the Pratt and Whitney factory in Scotland? It has long been obvious that Shorts can cut its prices — being a nationalised firm, it does not have to bear the losses— whereas British Aerospace cannot.

Mr. Heseltine: I understand, as does the House, that when such difficult decisions are made people whose interests might be in another direction question what is done. This was a competition about price. All the entrants to that competition were acceptable to the RAF in that they met the specification which the RAF had laid down in advance. If someone puts in a specification about that which the competition is about, it is possible for a more attractive but more expensive option to be on the table. The judgment was on the original standards laid down by the air staff. As long as those standards are achieved it would be wrong to take account of standards over and above those considered necessary because, in those circumstances, anyone who lost the competition could say that he had been invited to participate on a false prospectus.

Mr. Paddy Ashdown (Yeovil): Is the right hon. Gentleman aware that many people believe that he has made the right decision and welcome the clarity of it? We hope that he will be able to make an equally clear decision in favour of a wholly British manufacture, the AST 404, in the near future. As price is the determinant, what was the price differential?

Mr. Heseltine: There is not a convention that we give a list of those who have failed to win a contract. The differential at the close of the competition was significant. There were later bids which did not change the fact that Shorts had won at the close of the competition, although they substantially narrowed the lead. I should have had to disallow the later bids anyway, because they were out of time.

Mr. Robin Maxwell-Hyslop (Tiverton): Will my right hon. Friend accept the congratulations of many of us on choosing the best aircraft for the United Kingdom? Thirty years after the end of the last war, will he take the opportunity to remind the House and the country that, in that war, Brazil was an ally which put 25,000 troops into Italy on our side and lost 90 per cent. of her merchant fleet in our cause, and that Switzerland has never done that?

Mr. Heseltine: As always, my hon. Friend has made a most valuable point. He is stretching the perspective that I bring to bear on these matters to an even wider historic dimension. If I had taken that wider issue rather than price, I should have reckoned a substantial opportunity for British industry in South America, especially Brazil. Shorts will be able to work well with Embraer. This will be the beginning of a considerable partnership to our advantage and theirs.

Mr. John Maxton (Glasgow, Cathcart): Is the Secretary of State aware that there will be considerable anger and dismay in Scotland and in the constituency of the right hon. Member for Ayr (Mr. Younger)—the Secretary of State for Scotland—over this decision? How many fights on jobs in the Cabinet does the Secretary of State for Scotland have to lose before he does the honourable thing and resigns? Can the right hon. Gentleman give us an estimate of how many jobs will be lost in Prestwick? What is the difference in terms of export orders between Short Brothers' aeroplane and that of British Aerospace?

Mr. Heseltine: Such an attack on my right hon. Friend the Secretary of State for Scotland is contemptible. The House understands that any responsible Minister with integrity does not reveal the arguments that he employs in Cabinet. In my experience, Scotland could not have a man who fights with more determination than does my right hon. Friend in the interests of his job. [HON. MEMBERS: "Yes, in the interests of his job."] In the interests of his job as Secretary of State for Scotland. My right hon. Friend would never be prepared to reveal the cases that he frequently wins in the Scottish interest; nor would he expect his colleagues to reveal arguments deployed when the decision has gone against the best Scottish interests. The aeroplanes were clearly evaluated. All were satisfactory to the RAF, and a judgment was made on price.

Sir Hector Monro (Dumfries): Perhaps my right hon. Friend will allow me to share in his warm tribute to my right hon. Friend the Secretary of State for Scotland. Nevertheless, there will be great disappointment in the Scottish aviation industry. Why does my right hon. Friend put so much store on cost, bearing in mind that the life of the aircraft is 20 or 30 years? Does he agree that, as evaluated at Boscombe Down, the PC9 is outstandingly the best training aircraft?

Mr. Heseltine: I am grateful to my hon. Friend for taking exactly the same view as I do about our right hon. Friend the Secretary of State for Scotland. Of course I understand, as all Ministers with my responsibility clearly understand, that when decisions have to be taken on major procurement issues there are massive constituency interests and that this can lead to disappointment. It is impossible to satisfy them all. One has to make a judgment about where the best interest of the nation as a whole lies. It is my responsibility to get the best possible value for money for the £8,000 million spent on defence equipment, 95 per cent., or thereabouts, of which is spent in this country. The more that I pursue value for money within the quality demands laid down by my advisers, the more successful the British economy will be, not only in satisfying our legitimate interests, but in exporting to the rest of the world.

Mr. William McKelvey (Kilmarnock and Loudoun): Is the Secretary of State for Defence convinced that the specifications of this aircraft meet all the criteria laid down by the RAF? Will he tell the House that there is no doubt at all in his mind, because there is some in mine, since the specifications have not been tested on all the aircraft? That is one of the problems with which the Secretary of State will have to deal. Will he take it from me that there will be great disappointment in Ayrshire and the whole of

Scotland and on Humberside at the loss of jobs that might have flowed from this contract in areas which suffer from very high unemployment? These matters will certainly not be taken lightly in those areas. Does he understand that the shop stewards and trade unionists who have persistently and consistently lobbied Parliament over the past 12 weeks, particularly those from British Aerospace, will be going home tonight very disappointed at having to tell their men that the contract has been lost purely on cost?

Mr. Heseltine: I repeat what I have already, I hope, made clear; that all the tenders evaluated towards the end of this competition met the air staff target. The hon. Member is well aware that the Garrett engine has not yet been fitted to the Tucano, and to that extent has not been proved through its final testing, but that is a common phenomenon in competitions for defence equipment. This country has bought Garrett engines in the HS125 and the Jetstream and found them to be thoroughly satisfactory. The military advice that I have is that there is no likely reason why the Garrett engine will not be developed and will not prove perfectly satisfactory. I am fully aware that, as the hon. Gentleman said, people who have been lobbying me on the other side will be disappointed tonight, but that could not be a guiding principle. As I have been lobbied by every conceivable pressure group for months on end, there are bound to be people who are going to be disappointed tonight.

Mr. Jonathan Sayeed (Bristol, East): Despite the hysterical outburst from the Opposition Front Bench, I am sure that my right hon. Friend's Department has taken a properly balanced decision. Does my right hon. Friend recognise, however, the very considerable disappointment that this will mean to my constituents in British Aerospace, and can he reassure me that an early decision will be announced on the EFA?

Mr. Heseltine: I realise, of course, that my hon. Friend's constituents will be disappointed that they have not won this commercial contract. With regard to the European fighter aircraft, I spent several hours yesterday with British Aerospace looking at its proposal for a national solution to the requirement that could develop in this context. It is my responsibility to discuss with my European colleagues whether a collaborative venture is possible for this very ambitious scheme. I assure my hon. Friend that in those negotiations one of the issues at the forefront of my mind will be the interests of British Aerospace.

Mr. Gordon Wilson (Dundee, East): Does the Secretary of State not realise that his decision will be regarded in Scotland as an act of sabotage against the Scottish economy? Does he not realise that Scotland, in terms of population, has a very low share of the defence procurement? We get the bases and the danger, but never the jobs that go with defence procurement. Will he undertake, when he looks at his plans over the next year or so, to steer towards Scotland a fairer and larger share of the defence procurement so that we get the jobs to which we are entitled in the United Kingdom, if it is really united?

Mr. Heseltine: I am sure that the hon. Gentleman will join me in welcoming enthusiastically the substantial expenditure that I have just committed to Scotland for the development of Britain's independent nuclear deterrent, the Trident.

Lord James Douglas-Hamilton (Edinburgh, West): Can my right hon. Friend tell the House exactly what was the technical advice of the Royal Air Force on the performance of the two aircraft? Will he bear in mind that aerospace associated industries in Scotland have a considerable interest in the development of the European fighter aircraft?

Mr. Heseltine: On the last point, I fully understand the interest of the Scottish as well as the rest of our aerospace industry in the European fighter. As to the advice of the RAF, it was quite clear that all the results that I had to evaluate came within the staff target laid down. After that, it was a trade-off between the additional cost of going for one solution as opposed to the cheaper cost of going for the other, compared with the different specifications, which were above what it considered to be necessary for the task that it had defined. It would be wrong for me to try to evaluate the precise way in which the RAF would try to quantify the judgment as to whether it would be right to pay the premium that was offered to us for the opportunity of going to the PC9. The RAF accepted that all the aircraft that I had to consider came within the specifications, and accepted also that it was a legitimate judgment whether we would save the money or go for a more expensive specification.

Mr. Speaker: Order. I shall allow questions to go on for a further 10 minutes, but then we must move on.

Mr. D. N. Campbell-Savours (Workington): Did more favourable regional assistance and higher grants in Ulster enable Shorts to submit a lower tender?

Mr. Heseltine: The positions of Shorts and British Aerospace would be identical in this matter, to the best of my knowledge, because grants would be available to those companies under the broad concept of either Northern Ireland policy or regional policy. There would be no specific grant associated with this particular project.

Rev. William McCrea (Mid-Ulster): May I express my joy and the joy which many unemployed in Northern Ireland will experience at what amounts to a vote of confidence in Northern Ireland industry? Does the Minister agree that the awarding of this contract to Shorts will create jobs not only in Northern Ireland but in other parts of the United Kingdom, through the supplying of parts, and so on? Does he also agree that, in spite of a considerable reputation in aircraft manufacture and a wide interest in Shorts products by other air forces throughout the world, only 2 per cent. of the aircraft output of Shorts went to the Ministry of Defence in the United Kingdom? This contract will perhaps redress that situation and therefore ought to be welcomed by the whole House.

Mr. Heseltine: I cannot find the figure immediately, but I shall give it to my hon. Friend later, and I think he will find that the amount of Short's turnover that comes from the Ministry of Defence is very much higher than the figure that he gave. I should perhaps have stressed to the House that, while there are perhaps 600 to 700 jobs to be located in Northern Ireland, that is just over half, perhaps, of the job opportunities that might develop from this contract, and the rest of them will be spread throughout the rest of the country.

Mr. Roy Beggs (Antrim, East): Is the Secretary of State aware that those who represent constituencies in Northern Ireland totally deplore the sentiments expressed

[Mr. Roy Beggs]

by the hon. Member for Kingston upon Hull, North (Mr. McNamara)? We very much welcome the decision that has been made and the opportunity for Shorts to prove that it can compete, when given the opportunity, with any other company in the United Kingdom. Does the Secretary of State agree that the decision confirms the claims made by Shorts in the whole period leading up to this decision that the Tucano met the technical specifications and the requirements of the RAF and was the best value for money for the taxpayer? Does he agree also that the contract has been awarded to a company which has offered the best product at the most competitive price? Will the right hon. Gentleman encourage Shorts so far as possible to subcontract work to companies in Northern Ireland which have the competence to deal with such work?

Mr. Heseltine: I hope that the hon. gentleman will agree that I have clearly shown that where companies in Northern Ireland are able to compete effectively and make the product that, in this case, the market requires I see every reason why they should attract the orders that they have won in fair competition. I therefore repeat my absolute certainty that Shorts can carry through this work and that, having won it, the firm deserves to get the contract.

I can now answer the question posed by the hon. Member for Mid-Ulster (Rev. William McCrea). Approximately 50 per cent. of British Aerospace turnover relates to Ministry of Defence business. The proportion for Shorts is less than half of that, and the majority of it is on missiles.

Mr. Michael Colvin (Romsey and Waterside): Bearing in mind the importance of the so-called two-way street — reciprocal sales and purchases between the United States and this country—which is out of balance in favour of the US by two to one, what offsets have been arranged for the purchase of the Garrett engines?

Mr. Heseltine: I am grateful to my hon. Friend for raising that point. One third of the Garrett engine will be manufactured at Rolls-Royce, the remainder in the US. It is the intention of Garretts, however, to see what further offset can be arranged, and discussions on that are under way.

Mr. Keith Best (Ynys Môn): Will my right hon. Friend confirm that the last best offer, the Hunting Firecracker, was fully considered by him? What reciprocal arms export sales has he managed to secure from Brazil as a result of this deal with Tucano, and what other export sales has he been able to secure as a result of it?

Mr. Heseltine: I assure my hon. Friend that the Hunting Firecracker offer was closely examined. It did not come within range in terms of price of the two to which I have referred most prominently. In terms of contracts overseas by way of offsets in this context, there are no specific contracts. However, there is an ongoing relationship with both countries concerned, though it is difficult to lay down a time in respect of which any arms negotiations shall take place.

Mr. Michael Marshall (Arundel): Will my right hon. Friend accept that part of the disappointment about his announcement must inevitably turn on the reduced prospects of selling the whole range of training aircraft,

including the Hawk and PC9, and that that must have an impact on prices over a whole range of aircraft in the long term? Having said that, and recognising that the deal has been done, may I ask him to say how widely avionics contracts will be placed in this country?

Mr. Heseltine: I appreciate the point that my hon. Friend makes. The avionics contracts will largely be placed in this country. I hope that he will understand if, in the circumstances, I do not get drawn into commenting on the strategy of British Aerospace.

Dr. Keith Hampson (Leeds, North-West): Without challenging the choice of the airframe, in that Shorts was the cheapest, is it not illogical to choose a plane which is powered by an engine which has not been used in it, when the air staff requirement was met by that very plane with a different engine, which was the Pratt and Whitney? Would it not be more sensible to stick with Pratt and Whitney, which met all the requirements, which is better for training purposes, which does not need redesign work, so causing delays in the contract and which has been the subject of long-established subcontract work in this country, including in my constituency, and which is not easily done by this American company?

Mr. Heseltine: I appreciate the real interest of my hon. Friend. He will understand that my concern must be to secure a competitive environment for that which the Ministry of Defence wishes to procure. Interestingly enough, it was because the Ministry of Defence pointed out to Shorts that its earlier options would not provide an engine power sufficient to match that which was required that Shorts went back to Garrett and reconsidered the position. That enabled a competitive environment to come into existence. That competitive environment, the House will wish to remember, has secured economies of about 35 per cent., or nearly £60 million, over and above what we might otherwise have been able to achieve if the estimates of the planners in the Ministry of Defence had prevailed. This, therefore, is an immense enhancement to the value-for-money principle, which is at the centre of what we are trying to achieve.

Dr. Norman A. Godman (Greenock and Port Glasgow): In answering a question put by the hon. Member for Dundee, East (Mr. Wilson), the right hon. Gentleman talked about Scotland's share of defence procurement orders. Is he aware that he could please enormously my constituents in Greenock and Port Glasgow if he were to place orders for the SKK24 conventional submarine with a certain shipyard on the lower Clyde?

Mr. Heseltine: I have no doubt that the hon. Gentleman is right and that I could please his constituents in that way. But I have a feeling that a number of hon. Members who represent other constituencies would feel rather aggrieved by such an arbitrary use of power in the Ministry of Defence.

Mr. Peter Bruinvels (Leicester, East): As a Leicestershire hon. Member, may I ask my right hon. Friend to accept the disappointment that will be felt throughout the area over the fact that the Hunting Firecracker has not been successful in winning the contract? Will he consider that aircraft for other purposes? We offer good wishes to Shorts on being the best of the others that were competing.

Mr. Heseltine: I am grateful to my hon. Friend for the broad-minded approach that he adopts. My view is clear in that we are opening up competitive opportunities to the Ministry of Defence as widely as we can. It is up to the companies concerned to take advantage of that new freedom to compete.

Mr. A. Cecil Walker (Belfast, North): The Secretary of State has mentioned price in the decision to give the order to Shorts. Will he accept that he will be getting an aircraft of exceptional quality, based on 50 years' experience by Shorts in the industry, during which time that company produced the wonderful and famous Stirling and Sunderland aircraft which contributed so greatly to our victory in the last war?

Mr. Heseltine: I appreciate that, but I must make it clear that I would have got a very fine plane had I chosen the British Aerospace solution. I was not making a judgment between one good and one indifferent candidate. I was faced with two desirable choices. It is simply that on the first criterion, that of cost, Shorts clearly won. From that moment on, the issue was whether there was a political reason why anyone should want to raise the question of overturning a decision which the market had dictated. There are no issues which would have justified some of the more partisan approaches that have been adopted by hon. Members representing certain parts of the country.

Mr. McNamara: It would be to the satisfaction of the House if the Secretary of State would inform us whether there were any regional differences in terms of grants for re-tooling or for buildings or matters of that nature. Perhaps he will write to interested hon. Members about that so that we may reach a decision on it.

The reasons that the right hon. Gentleman has given for his decision are absolutely amazing. We are dealing with a major contract worth £120 million and the Ministry of Defence, in placing it in Northern Ireland, is not in the least concerned about labour conditions and export potential. Is it suggested that the Secretary of State sat down in a little room with an ice pack on his head and judged two aircraft, one against the other, without any concept of the industrial, political and economic background to the case? In view of what was said earlier on other matters, I find that hard to believe.

Mr. Heseltine: The hon. Gentleman will have heard me say many times that a whole range of factors had to be considered. The issue was whether any of them was of such significance as to override the essential first consideration—value for money for the defence budget. The idea that if ever there were another Labour Government they would be applying the sort of criteria to which the hon. Member for Kingston upon Hull, North (Mr. McNamara) referred in every judgment that Governments are supposed to make would be a devastating indictment of the standards of high public accountability that people expect of this country.

Supplementary Benefit (Board and Lodging Payments)

4.39 pm

The Minister for Social Security (Mr. Tony Newton): With permission, Mr. Speaker, I should like to make a statement on proposed new arrangements for supplementary benefit payments towards board and lodging charges.

The House will recall that consultative proposals were referred to the Social Security Advisory Committee in November 1984. We are today laying before the House the committee's report, together with the Government's response to its recommendations. We are grateful to the committee for the constructive approach it has brought to its task, and have taken its views fully into account in framing the regulations which are also laid before the House today. Subject to the approval of Parliament, the new arrangements will come into operation on 29 April 1985.

The maximum weekly amount payable for ordinary board and lodging, which is at present set locally for each DHSS office, and varies from £40 to £110 will be set for each area at one of six standard amounts ranging from £45 to £70 per week. For this purpose, DHSS local offices will be grouped, taking account of Department of Employment travel-to-work areas so as to reflect so far as possible established patterns of employment and job seeking.

Subject to these limits, there will be no restriction on access to board and lodging accommodation for people aged 26 or over, or for those of any age who come within defined categories such as those who are chronically sick or disabled, those who have a dependant child, and those who have been in the same accommodation while in employment. For unemployed claimants aged 25 or under, unless they are in an exempted category, each area will have a limit of two, four or eight weeks on the period for which board and lodging payments will be made.

Hostels—I know that this is a subject to which the House attaches importance—which have hitherto been subject to the normal board and lodging rules, will be treated as a separate category, reflecting the importance which the Government attach to them. They will have a higher limit—set at £70 a week nationally—than most ordinary board and lodging accommodation; and there will be no restrictions on the length of stay for hostels.

For residential care and nursing homes the Government intend to set new limits at a level which they believe will allow reasonable charges to be met in homes meeting the new registration arrangements under the Registered Homes Act 1984. At present, local limits vary from £51 to £215 per week for residential care homes and from £80 to £295 per week for nursing homes. The limits for residential care homes will be £110 a week for the elderly, £120 a week for the mentally ill and for drug and alcohol misusers, £140 a week for the mentally handicapped, and £170 a week for those who became physically disabled below pension age. A sum equivalent to the higher rate of attendance allowance—currently £28.60 a week—will be added to these limits for people in nursing homes. There will be an additional hospice category, with a limit of £198.60 a week.

In future, "topping-up" payments by local authorities towards the cost of younger people in residential care homes will not reduce the payment of supplementary

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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 26/11

21st March 1985

Dear Tim,

A NEW BASIC TRAINER FOR THE RAF

I attach a copy of the Statement which my Secretary of State proposes to make in the House this afternoon, following Cabinet's decision this morning.

I am sending copies of this letter, with the attachment to Rachel Lomax (Treasury), Callum McCarthy (Department of Trade and Industry), Len Appleyard (Foreign and Commonwealth Office), David Normington (Department of Employment), David Morris (Lord Privy Seal's Office) and Jim Daniell (Northern Ireland Office).

*Yours ever,
Denis*

(D BRENNAN)

T Flesher Esq
10 Downing Street

A NEW BASIC TRAINER FOR THE ROYAL AIR FORCE

With permission, Mr Speaker, I wish to make a statement on the selection of a new basic trainer aircraft for the Royal Air Force.

My Rt Hon Friend the Minister of State for Defence Procurement informed the House on 18th December 1984 that best and final offers were being invited from British Aerospace and Shorts to clarify and amplify certain aspects of their tenders for aircraft to meet the Royal Air Force's requirement in order to enable a final decision to be reached.

It was subsequently agreed that Westlands and Hunting's, who had also submitted tenders in the first round, could submit their own best and final offers. All four tenders have now been fully evaluated.

The prices quoted by Westlands and Hunting's, although substantially reduced compared with their original offers, remain well in excess of the other two bids, thus confirming our earlier assessment that on cost as well as technical grounds the choice effectively lay between the PC9, proposed by British Aerospace in association with the Swiss firm, Pilatus, and the Tucano, proposed by Shorts in association with the Brazilian firm, Embraer.

Procurement of either aircraft would provide much better value for money than the alternative option of refurbishing the Jet Provost fleet.

The choice between these two fine aircraft has proved to be evenly balanced.

Both comfortably meet the minimum specification and either is capable of meeting the RAF's training needs very satisfactorily. Selection of either would boost jobs for British industry, both directly through the order for the RAF and indirectly through the export sales which the successful firm could be expected to win.

In the end cost has been the decisive factor.

Our policy is to reduce the cost of defence equipment through the maximum use of competition, thus providing better value for money for the taxpayer and stronger defences for the country within the resources available.

Of the two best and final offers, Shorts' is the cheaper by a clear margin.

Subject to final completion of contractual negotiations, therefore, we shall be placing an order with Shorts for 130 Tucano aircraft. The contract will be on a firm price basis: that is to say, the price is fixed in cash terms, and any cost escalation or foreign exchange risks will be borne by Shorts.

Allowing for potential overseas sales our decision should result in over 1,100 Job opportunities in the United Kingdom with over half of them in Northern Ireland.

In addition the American firm Garretts, who will be supplying the engine for the Tucano, have given offset undertakings which will bring further work to British industry.

Shorts' partnership with Embraer in this venture should open up many commercial opportunities.

I should tell the House that the price now agreed with Shorts is some 35% less than my Department had originally envisaged in its forward costing process.

Mr Speaker, this is a good decision for the Royal Air Force, for British industry, for jobs and for the taxpayer.

Office of
Alexander M. Haig, Jr.

CF PWS

*Already received
in Alex's form
[Signature]*

March 20, 1985

Dear Madame Prime Minister:

As you are aware, the selection process for AST 412 (RAF NEW BASIC TRAINER) is entering into its final stages. I would like to highlight several factors that may help clarify some of the issues involved in the selection.

United Technologies Corporation (UTC) currently has over 6000 employees in the United Kingdom with 1984 sales in excess of \$300 million pounds sterling. Pratt and Whitney Canada (P&WC) is a wholly owned subsidiary of UTC and is supplying engines for all of the currently listed contenders for the AST. As the former President of UTC and currently a consultant to the Corporation, I have been following this important procurement competition very closely. It has been brought to my attention, that one of the finalists has decided to offer an engine which has not had any previous experience in trainer aircraft and has not been tested by Boscombe Down. PWC's engines power more than 850 training aircraft, have 1.5 million hours of service use, and have been evaluated by Boscombe Down.

In discussions with Mr. Elvie Smith, Chairman P&WC, it was indicated that agreement has been reached to establish a European overhaul and repair center in the Prestwick area of Scotland. Planned commercial business from Europe, the Middle East, and North Africa will support employment of 200 people by 1990 and 300 by 1995. Additionally, P&WC plans to assemble and test the selected PT-6 engine in England and to procure from component suppliers in the United Kingdom more than 100% of the value of the RAF order. This should provide employment for 100 more individuals.

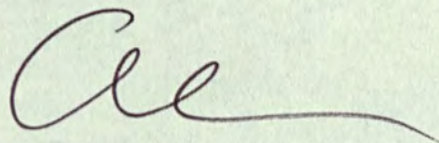
The experienced team of UTC, Pilatus, and British Aerospace bring extensive economic benefits to the United Kingdom as well as a proven export capability. The estimated potential export market for the PC-9 approaches 500 aircraft. I am confident that these benefits will continue to grow with the selection of the PC-9 for the RAF.

BONDED

P&WC is also currently in active negotiation with Rolls-Royce on licensing the RTM 322 for North American Military requirements. The U.S. Army has indicated an interest in RTM 322 in competition to the General Electric T-700 incumbent Engine, for its future and very substantial UH-60 Black Hawk Program. Should these negotiations be successful, the UH-60, powered by the Rolls-Royce RTM 322, with composites manufactured by Shorts in Northern Ireland would be a natural teaming for AST 404 requirements and would contribute additionally to the United Kingdom economy.

Hopefully, the above will assist you and your colleagues in arriving at your decision.

Warm personal regards,

A handwritten signature in dark ink, appearing to be the initials 'Ae' followed by a long horizontal flourish.

22AM MOTJAG QM081 Q



10 DOWNING STREET

From the Private Secretary

Prime Minister

You will want to
note the Policy Unit's advice,
strongly in favour of the Tucans,
immediately behind the Cabinet
office brief.

Also the message received
from the President of Switzerland,
pressing the case for the PC9

C D I
2073.

Also the latest minute from Mr. Hereltine -
flag B



10 DOWNING STREET

From the Private Secretary

20 March, 1985.

RAF Basic Trainer Aircraft

- 14.3.85

I enclose a copy of a telex to the Prime Minister from General Haig, Chairman of United Technologies Corporation, about the choice of the future RAF Basic Trainer Aircraft.

I should be grateful for a draft reply, once the decision has been taken.

I am copying this letter and enclosure to Callum McCarthy (Department of Trade and Industry) and to Len Appleyard (Foreign and Commonwealth Office).

(C.D. Powell)

R.C. Mottram, Esq.,
Ministry of Defence.

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Ref. A085/854

PRIME MINISTER

A New Basic Trainer for the Royal Air Force

FLAGA — (C(85) 7)

BACKGROUND

The Secretary of State for Defence seeks endorsement of his proposal that the contract for the new Royal Air Force (RAF) Basic Trainer should be awarded to Short Brothers Limited. This course is supported by the Secretary of State for Northern Ireland; the Secretary of State for Scotland, however, would prefer the contract to go to British Aerospace (BAe). A Cabinet decision is urgently required so that it can be taken into account in the preparation of the initial Prospectus for the sale of the Government's remaining holding of BAe shares, which is scheduled for publication on 2 April.

2. The Basic Trainer will replace the existing Jet Provost. The contract will be worth about £150 million for 130 aircraft over six years: in addition there will be export orders. Four aircraft were originally considered, but two (the Westland A20 and the Hunting Firecracker) have been eliminated on technical and cost grounds. The two aircraft which remain in contention are:

- (i) the Tucano, built by Short Brothers in partnership with Embraer of Brazil; and
- (ii) the PC9, built by BAe in partnership with Pilatus of Switzerland.



MAIN ISSUE

3. The issue is whether the Cabinet should endorse Mr Heseltine's recommendation that the contract for the next RAF Basic Trainer should be placed with Short Brothers.

The Basis for Decision

4. The first question is whether a new trainer is required. The possibility of refurbishing the existing Jet Provosts had been kept open, but Mr Heseltine rejects it as more expensive in the longer run. We understand that the Treasury agree with him.

5. Given that a new aircraft is needed, the choice between the Tucano and PC9 is finely balanced. The factors to be considered are:

(i) Operational criteria. Both aircraft are acceptable in technical and performance terms. The PC9 is preferred by the RAF as its performance is closer to that of a front-line aircraft and so would make for slightly faster training of pilots.

PC9 preferred by R.A.F.

(ii) Cost. On a firm price basis the Tucano is £6 million cheaper (£158.9 million as against £164.9 million). Even if the Government were to accept the late bid from BAE referred to in Mr Heseltine's minute of 19 March, the Tucano would still, on the same basis, be cheaper by £1.5 million. It is also cheaper to operate and this is valued, over the life of the aircraft, at £9 million.

FLAG B —

(iii) Employment and regional development implications. The total impact on jobs (including indirect effects and



commitments by the engine manufacturers to increase United Kingdom content) is estimated as

PC9

Tucano

1,302-1,352 jobs

1,158-1,208 jobs.

Within these totals the PC9 would bring 320-350 jobs to Humberside and 210-230 jobs to Scotland*, and the Tucano would bring 630-680 jobs to Northern Ireland.

*These would be at Prestwick (in Mr Younger's constituency), where the BAe establishment is mainly engaged on the successful Jetstream aircraft.

- (iv) Implications for competition policy. Shorts are the lowest tenderer, and there would need to be strong grounds for rejecting their bid. Moreover they have little RAF work at present, and giving them an entry into the market would widen the range of potential suppliers of defence aircraft, so holding out the prospect of significant public expenditure savings in future. Moreover the relatively simple Tucano is the type of aircraft Shorts generally produce, whereas BAe do relatively little work in this "lower technology" sector. On the other hand, Short's entry into this market could be seen as further exacerbating the aircraft industry's problem of world-wide over capacity, albeit in a very marginal way.
- (v) Effect on the companies. For Shorts, success is very important for their corporate strategy and could prove to be the key to a successful privatisation of the company in due course. The contract is much less significant to BAe (it corresponds to about 2 per cent of the total annual expenditure with the company by the



Ministry of Defence) but could be seen as helping market sentiment for the forthcoming sale of the Government's shareholding.

(vi) Export potential. The best guess is that 265 PC9s could be sold abroad (BAe would get 40 per cent of the airframe work), compared with 200 of the Tucano. In terms of direct United Kingdom jobs created by exports, the Tucano has the edge. ?

P.C.9.

(vii) Impact on foreign relations. Whichever company is chosen there will be an adverse effect in the losing country - Switzerland or Brazil. Some export orders might be put at risk. (The Lord President, who has just returned from Brazil, may wish to comment on this.)

6. Ministers will give their assessment of these factors. The Tucano appears to have the advantage on cost and on competition policy grounds, and would be fully adequate for the RAF's needs. The PC9 is a slightly better aircraft. Account will need to be taken of the industrial and regional policy implications of the choice, including those for employment in Humber, central Scotland and Northern Ireland.

Timing of an Announcement of the Decision

7. The Secretary of State for Defence says nothing about the method and timing of an announcement of the Government's decision, but it would seem sensible for a separate announcement to be made well before publication of the BAE Prospectus on 2 April. It would be as well to establish that this is indeed Mr Heseltine's intention.*

I understand that he wishes to make a statement as

Murphy

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HANDLING

8. You will want to ask the Secretary of State for Defence to introduce his paper. The Secretaries of State for Northern Ireland and Scotland will want to speak on the regional implications of the choice, and the Secretary of State for Trade and Industry and the Foreign and Commonwealth Secretary will want to speak on the industrial trade and foreign relations aspects.

CONCLUSIONS

9. You will want to reach conclusions on:

- (i) the choice between the Tucano and the PC9; and
- (ii) the method and timing of an announcement of the decision.

RA

ROBERT ARMSTRONG

20 March 1985

KURT FUGLER
PRÉSIDENT DE LA CONFÉDÉRATION

T49 A/85
Already 20/3/85
received See below
Telegraphically.
NSM.

Dear Prime Minister

CDP
25/3.

In the personal talks I had with you and members of your Cabinet I became aware of the great understanding and deep mutual respect governing the long-standing and friendly relations between our two countries. Our close cooperation in the fields of trade, finance and industry has been highly beneficial to both nations.

Please allow me to draw your attention to a matter which is of great concern to the Swiss government. I understand that a decision will be taken in the near future on the purchase of a new basic jet trainer for the Royal Air Force. The PC-9 offered by the Swiss firm Pilatus Ltd and British Aerospace is not only one of the best jet trainers at present available on the world market, but has been extensively tested, has proved its cost effectiveness and is immediately available.

A decision in favour of the PC-9 would be of benefit to the industries of both countries. The PC-9 cooper-

To the
Right Honourable Mrs Margaret Thatcher, MP
10, Downing Street
London SW 1
Great Britain

ation project is estimated to involve over 1000 jobs in Great Britain, and the manufacturer of the PC-9 engines is planning to establish a maintenance facility in Scotland. Moreover, there are good prospects for this joint venture in third countries. In addition, the PC-9 turbo prop and the HAWK advanced jet trainer would be complementary to each other. I am convinced that this cooperation in high technology would have a strong and welcome impact on the aircraft industries of both countries.

I trust that you will be able to give favourable consideration to the PC-9 cooperation project. I shall, of course, be at your disposal if you wish to discuss this matter with me by telephone.

I hope to meet you again soon and I remain,

with kind personal regards

Yours

Hans Frenkel

Berne, March 20, 1985

The Ambassador of Switzerland

SUBTEXT
a Master
ops

16-18 Montagu Place

London W1H 2BQ

20th March 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T49A/85

Dear Prime Minister,

I have been instructed by the President of the Swiss Confederation, Federal Councillor Kurt Furgler, to pass on to you the following message:

"Dear Prime Minister,

"In the personal talks I had with you and members of your Cabinet I became aware of the great understanding and deep mutual respect governing the longstanding and friendly relations between our two countries. Our close cooperation in the fields of trade, finance and industry has been highly beneficial to both nations.

"Please allow me to draw your attention to a matter which is of great concern to the Swiss Government. I understand that a decision will be taken in the near future on the purchase of a new basic jet trainer for the Royal Air Force. The PC 9 offered by the Swiss firm

./. .

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW1

Pilatus Ltd and British Aerospace is not only one of the best jet trainers at present available on the world market but has been extensively tested, has proved its cost effectiveness and is immediately available.

"A decision in favour of the PC 9 would be of benefit to the industries of both countries. The PC 9 cooperation project is estimated to involve over 1000 jobs in Great Britain, and the manufacturer of the PC 9 engine is planning to establish a maintenance facility in Scotland. Moreover, there are good prospects for this joint venture in third countries. In addition, the PC 9 turboprop and the Hawk advanced jet trainer would be complementary to each other. I am convinced that this cooperation in a high technology area would have a strong and welcome impact on the aircraft industries of both countries.

"I trust that you will be able to give favourable consideration to the PC 9 cooperation project. I shall, of course, be at your disposal if you wish to discuss this matter with me by telephone.

"I hope to meet you again soon and remain, with kind personal regards,

Yours sincerely,

Kurt Furgler "

Federal Councillor Furgler's letter will be forwarded to you in due course.

Yours sincerely,
Pictet
(François-Charles Pictet)



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20 MAR 1955



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RESTRICTED
COVERING CONFIDENTIAL

C

CCP
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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

10 March 1985

Richard Mottram Esq
Private Secretary to the
Secretary of State for Defence
Main Building
Whitehall
London SW1

*Pls bring forward
when meeting
arranged.*

Dear Richard,

EUROPEAN FIGHTER AIRCRAFT (EFA)

My Secretary of State wrote to yours on 14 March on the EFA, suggesting that it would be useful to have collective discussion of the various issues raised by your Secretary of State's proposals. You, and others to whom I am copying this letter and its attachment, may find it useful to have a short summary list of some of the issues that may arise.

2 I am copying this letter and its attachment to Andrew Turnbull (No 10), to Private Secretaries of other members of O(D), and to Richard Hatfield in the Cabinet Office.

Yours ever,

Colin McCarthy

M C MCCARTHY
Private Secretary

JH1CCP



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ISSUES RAISED BY PROPOSAL FOR EUROPEAN COLLABORATION ON EFA

I Issues of Principle

The industrial aspects of EFA present the familiar problem of securing an equitable share of work for the UK aerospace industry, while at the same time satisfying the aspirations of our partners, particularly the French.

2 The UK aerospace industry is the largest in Europe. Rolls Royce is by turnover and number employed larger than the whole of the rest of the European aero-engine industry. British Aerospace, while perhaps less pre-eminent in size, has a range of products wider than that of any European aircraft company. It would be equitable, therefore, if the UK industry were to lead the project on both the airframe and engine and to gain a commensurate share of the equipment. In reality, there is no chance of achieving this, and collaboration will therefore almost inevitably lead to a relative decline in the British industry's position.

3 British Aerospace is leading the development and construction of an advanced technology fighter aircraft which is funded by the Government and a consortium of UK manufacturers. This programme (the Experimental Aircraft Programme) is due to produce a flying demonstrator by May 1986, and could form the basis of the EFA project.

4 Initial, and recognisedly incomplete, paper studies suggest that the cost to the UK of a national project would be some 15-20% dearer than a collaborative EFA. We need to be clear that these costings take proper account of the costs of collaboration. Against the theoretical cost saving must be set the aerospace industry's preference for a national project because of the greater opportunity to utilize the industry's resources and technology as developed by the Experimental Aircraft Programme.

5 A further option worth considering is whether, as recently suggested to DTI Ministers by Signor Prodi of the Italian IRI, a bilateral project between the UK and Italy, or the UK and Germany, would be feasible.

II Tactics

6 Apart from the strategic decision on whether the benefits of collaboration outweigh the industrial costs likely to be incurred, there are a number of important tactical questions associated with negotiating the collaborative arrangements. These include:

JH1CCQ



i) should we make clear to our partners that we have not yet accepted that EFA must be a five-nation collaborative project? Other options to be examined include a national programme and licensed manufacture of a United States aircraft;

ii) is there a case for the UK to press for leadership both on the airframe and the engine of the EFA project? If we did so, a large proportion of the equipment requirements would follow. As a fall-back, both British Aerospace and Rolls Royce are prepared to accept equality with the French on each of these items, and would be content with a consortium arrangement (as for the Tornado) where there is no single lead company;

iii) what should be the separate UK negotiating position on equipment shares? This would be less important if we secured the front fuselage for BAe (compare Aerospatiale's strong position for securing French equipment on Airbus);

iv) what project definition should we seek? It is suggested that the aircraft should be of at least 9.75 tonnes basic mass empty, so that adequate equipment could be installed. No concession on this should be made to the French, who would be greatly suited by a 9.5 tonne or lighter aircraft. On engine size, the optimum thrust would be between 93KN and 95KN. This figure could be reduced in negotiation to 92KN, but to go any lower would make the engine unsuitable for EFA and limit Rolls Royce's chances of export sales; and

v) what project organisation should we seek? On organisation, the UK may in the end be prepared to concede a project office in Germany, but we should argue strongly for it to be in the UK. The project offices of virtually all the major collaborative projects in the aerospace field are on the Continent (for example, Tornado, Airbus, European Wind Tunnel, and the ASRAAM missile programme).

Department of Trade and Industry

18 March 1985

JH1CCQ

DEFENCE: Procurement:

Pt 2.

20 MAR 1965



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Prime Minister
CD

PRIME MINISTER

20 March 1985

mt

A NEW BASIC TRAINER FOR THE RAF

There ought to be no argument about Michael Heseltine's decision in favour of the Shorts Tucano. After a lively and successful competition, he proposes now to award the contract to the winner - the company which fully met the MoD specification at the lowest firm price. The two other advantages which flow from this decision - 650 (real) jobs in Belfast and the boost to Shorts' privatisation prospects - are bonuses.

Possible Arguments Against

1. The Tucano is an "untried aircraft". This is incorrect: the plane is flying in hundreds. There is a minimal developmental risk (borne by Shorts) in so far as the chosen engine has not been flown in the Tucano. The RAF technical experts judge this risk to be slight. Re-engineering is a standard operation; with known airframe and engine is poses no problem. The PC9's engine still has not fully satisfied RAF experts.
2. RAF preference for PC9's handling: the RAF naturally prefer a sportier aircraft if they can have it, but they don't need it for a basic trainer. That is why the specification laid down in the competition asked for a modest speed of 240 knots. The RAF will get nearly 30

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knots more than this. They haven't had a chance to fly the faster Tucano. Shorts were pushed by MoD to re-engine after meeting the original specification.

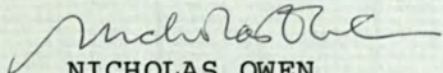
3. Might Shorts' competitive advantage be paid for by the taxpayer? Shorts are profitable (operating profit of £13 million on a turnover of £160 million in 1983-84). They are as profitable as BAe on a profit before interest and tax basis (around 3% on turnover). Their cheaper bid satisfies the Treasury's criterion (12% return in money terms); it has a genuine economic basis. Shorts are a leaner organisation than BAe, whose hourly labour costs are higher because of larger overheads, due to their failure to rationalise their rambling organisation of 22 plants. BAe is more likely to make a loss on this order, if it was awarded to them. Informed reliably on the bidding by their friends in MoD, BAe have reduced their price considerably to keep in touch with Shorts bids. Any loss which BAe might make could easily be loaded on to the many cost-plus contracts which MoD have awarded it.

4. Do we want more capacity? We want low-cost capacity, appropriate to the task. Shorts specialise in small, simple planes and airframe structures. It would be a mistake to top up BAe outside its main line of business in order to put off overdue rationalisation.

Recommendation

We recommend that you:

1. Endorse Michael Heseltine's decision. If we do otherwise, our new procurement philosophy - state the performance specifications we need and invite industry to provide the cheapest solution - will lose credibility. BAe have not behaved well in this competition (using their pull in MoD, putting in late bids after the whistle). It would be a disgrace to overturn the clear value for money verdict.
2. Press Douglas Hurd to name a date for privatising Shorts (in 1987 at the latest). Shorts have been winning commercial business. This MoD order will stabilise their order book and appeal to the City. There may be no better time to privatise.


NICHOLAS OWEN

B

MO 26/11



PRIME MINISTER

A NEW BASIC TRAINER FOR THE ROYAL AIR FORCE

In my paper for Cabinet C(85)7 on a new basic trainer for the Royal Air Force I reported that a late bid had been received from British Aerospace. You will wish to be aware that late yesterday afternoon I received another bid in which BAe offered a further reduction in price based partly on the assumption that we would not require the commercial warranty which we had originally requested.

2. The effect of this late intervention is to reduce the British Aerospace firm price bid to £146.3M. The Shorts' price adjusted to a comparable basis on account of the changed position on warranty becomes £144.8M. The Tucano is, however, some £850K per annum cheaper to operate. The discounted value of this over the life of the trainer fleet is £9M. Even if we were prepared to accept this late bid, which I believe would be wrong since it is well out of time, there would therefore still be a price advantage in favour of Shorts over the life of the aircraft of some £10M on a discounted basis. My recommendation to purchase Tucano therefore stands.

3. I am sending copies of this minute to Cabinet colleagues, to the Paymaster General, and to Sir Robert Armstrong.

WJL

Ministry of Defence
19th March 1985

20 MAR 1965



COMMUNICATIONS
LONDON



10 DOWNING STREET

Prime Minister

RAF Trainer

This is the paper for
Cabinet. It deals with
the points you
wanted covered: although
the subsidy aspect appears
only in the Annex at
paragraph 7.

CDD Mr
11/3.

ACTION

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CABINET AND MINISTERIAL COMMITTEE DOCUMENTS

REFERENCE NO. <u>CC85)7</u>	DATED. <u>19.3.85</u>	COPY NO. <u>2</u>
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2. This form must be attached only to the document described and must not be detached except by a member of CF.
3. The attached document must not be copied. If a copy is required, CF should be asked to obtain one.
4. Extracts must not be made without prior permission of CF.
5. The attached document must not be put on a section file.

DOCUMENT FOR THE ATTENTION OF:

1. Mr Butler
2.
3.

*Paper removed & destroyed.
Please see CR 129
J. Gray
26/11/13*

Every officer (including secretarial and clerical staff) who handles the attached document must initial and date this form in the appropriate space below. Those whose names have not been entered should, additionally, write their name in block letters in the 'Name' column.

NAME	INITIALS & DATE	NAME	INITIALS & DATE
<u>Mr Butler</u>	<u>REB 19.3</u>		

THIS FORM AND THE ATTACHED DOCUMENT MUST BE RETURNED TO CONFIDENTIAL FILING AS SOON AS POSSIBLE



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

②
Prime Minister
CDP
19/3

MO 26/11/9

18th March 1985

See below

ms

EUROPEAN FIGHTER AIRCRAFT

Thank you for your letter of 14th March.

As you know, I have consistently stressed throughout the history of this project that our agreement to participate in collaborative studies is entirely without commitment at this stage; and we shall need to consider very carefully the issues set out in paragraph 4 of my minute to the Prime Minister of 26th February before reaching any final conclusion. Industrial factors, particularly the question of the protection of British Aerospace's position relative to the French, will play a large part in determining the way forward. It is precisely because we here are so alive to the importance of decisions on this matter to the British airframe, aero-engine and avionics industries that we have taken every possible step to keep your Department and the industries concerned informed as to progress. Indeed, I issued instructions to my Department on 19th December 1984 to the effect that Geoffrey Pattie should be given full access to all information and assessments on this project at our disposal. I know that there has been continuous contact - both formal and informal - at all levels. My officials have ensured that yours have been involved in the shaping of important policy papers and there have been numerous discussions both with your officials and jointly with Industry. I understand a further meeting involving

The Rt Hon Norman Tebbit MP

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Ministry of Defence and Department of Trade and Industry officials will take place tomorrow. As you will also know, Geoffrey and I have discussed EFA on a number of occasions, most recently at a meeting on 8th March at which Sir Raymond Lygo of British Aerospace and Mr Robbins of Rolls Royce were present.

It has long been my intention to have a collective discussion on the way ahead on this project in advance of the next meeting of Ministers of the Five Nations (now scheduled for 16th or 17th May). I will of course be putting a paper to OD before then. But if you feel that it would be helpful to have an earlier discussion of the project in OD, I should be delighted to see if this can be arranged.

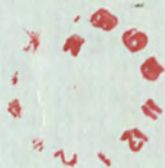
I am sending copies of this letter to the Prime Minister, other members of OD and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

DEFENSE

Document



19 MAR 1964



10 DOWNING STREET

Prime Minister

One or two of
your colleagues are
concerned that MH's
enthusiasm for this
project may lead him
to premature commitments.

Would you like a
small meeting to discuss
where we are & the line he
should take in future
discussions?

Yes not
C.D.P. 15/3.

3 no 10
1 file

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UTC MSG 14 3-19-85 1B

THE RIGHT HONOURABLE MARGARET THATCHER
PRIME MINISTER
C/O THE CABINET OFFICE
LONDON, ENGLAND

DEAR MADAME PRIME MINISTER:

AS YOU ARE AWARE, THE SELECTION PROCESS FOR AST 412 /RAF NEW BASIC TRAINER/ IS ENTERING INTO ITS FINAL STAGES. I WOULD LIKE TO HIGHLIGHT SEVERAL FACTORS THAT MAY HELP CLARIFY SOME OF THE ISSUES INVOLVED IN THE SELECTION.

UNITED TECHNOLOGIES CORPORATION /UTC/ CURRENTLY HAS OVER 6000 EMPLOYEES IN THE UNITED KINGDOM WITH 1984 SALES IN EXCESS OF DLRS 300 MILLION POUNDS STERLING. PRATT AND WHITNEY CANADA /P AND WC/ IS A WHOLLY OWNED SUBSIDIARY OF UTC AND IS SUPPLYING ENGINES FOR ALL OF THE CURRENTLY LISTED CONTENDERS FOR THE AST. AS THE FORMER PRESIDENT OF UTC AND CURRENTLY A CONSULTANT TO THE CORPORATION, I HAVE BEEN FOLLOWING THIS IMPORTANT PROCUREMENT COMPETITION VERY CLOSELY. IT HAS BEEN BROUGHT TO MY ATTENTION, THAT ONE OF THE FINALISTS HAS DECIDED TO OFFER AN ENGINE WHICH HAS NOT HAD ANY PREVIOUS EXPERIENCE IN TRAINER AIRCRAFT AND HAS NOT BEEN TESTED BY BOSCOMBE DOWN. PWC'S ENGINES POWER MORE THAN 850 TRAINING AIRCRAFT, HAVE 1.5 MILLION HOURS OF SERVICE USE, AND HAVE BEEN EVALUATED BY BOSCOMBE DOWN.

IN DISCUSSIONS WITH MR. ELVIE SMITH, CHAIRMAN P AND WC, IT WAS INDICATED THAT AGREEMENT HAS BEEN REACHED TO ESTABLISH A EUROPEAN OVERHAUL AND REPAIR CENTER IN THE PRESTWICK AREA OF SCOTLAND. PLANNED COMMERCIAL BUSINESS FROM EUROPE, THE MIDDLE EAST, AND NORTH AFRICA WILL SUPPORT EMPLOYMENT OF 200 PEOPLE BY 1990 AND 300 BY 1995. ADDITIONALLY, P AND WC PLANS TO ASSEMBLE AND TEST THE SELECTED PT-6 ENGINE IN ENGLAND AND TO PROCURE FROM COMPONENT SUPPLIERS IN THE UK MORE THAN 100 PERCENT OF THE VALUE OF THE RAF ORDER. THIS SHOULD PROVIDE EMPLOYMENT FOR 100 MORE INDIVIDUALS.

D

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Prime Minister (1)
Agree to write
as recommended?

PRIME MINISTER

14 March 1985

CDP
14/3

EUROPEAN FIGHTER AIRCRAFT

Michael Heseltine's latest report reveals the predictable difficulties with this concept. Fundamental differences between the French and ourselves have emerged which reflect our differing attitudes to the military threat, to exporting, to aeronautical engineering, and to collaboration itself.

We have already moved dangerously far towards accepting:

1. That we need a new fighter at all: MoD have not yet decided internally that there is a military requirement for a fighter.

2. A weight limit of 9.5 +/- 0.25 tonnes which, in the views of a number of experts, is too small to accommodate the power and the avionics which will enable this plane to be effective.

To decide first on the weight, and then to work backwards to performance is a bizarre way to design anything. Michael Heseltine's technical advisers and BAe have argued that 10.5 tonnes is necessary. How can this be squared with the reported view of the Defence Staff that 9.75 tonnes will yield "an acceptable margin of superiority"? What has changed? The laws of aerodynamics certainly have not, and it is these in part which determine the weight of aircraft one would need.

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To identify a Soviet attacker at a sufficient distance to launch missiles before he does, a radar of a certain diameter is required, located in the nose of the aircraft. This, in turn, affects the shape of the fuselage, the drag it gives rise to, the power required of the engine, and hence the weight of the aircraft. If one disregards these basics, we could end up with a Third World aircraft, into whose inadequate airframe we will then try to squeeze the avionics we need, at great cost and with much delay, as we are now doing on the unhappy AEW Nimrod programme.

Collaboration

Michael Heseltine observes that the prize which successful collaboration could win for us is enormous. So it is, but so, too, is the cost of unsuccessful collaboration. We risk being scooped out by the French on our advanced technology, on worksharing, on project leadership and, at the end of it, building an aircraft of doubtful defence value, at an eventful cost to us of, who knows, £4 billion, £5 billion, £10 billion? Tornado's cost overruns have never been revealed but they were clearly sufficiently large to worry the Germans, who are judging this project against buying the American F18, rather than against a collaborative venture by the Panavia partners.

Recommendation

Michael Heseltine cannot commit himself to anything at the 25 April Defence Ministers' meeting, but his personal

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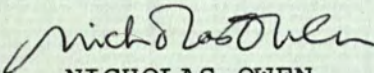
- 3 -

enthusiasm for collaboration may signal to our prospective partners that there are still further compromises in store, from which we will have difficulty extricating ourselves.

We recommend that you should, at this juncture, sound a cautionary note.

1. You might register your slight surprise that discussions should focus so much on the weight, rather than on the capacity of the proposed aircraft to meet the likely threat beyond 1995.
2. Express concern that we should not encourage our prospective partners prematurely, before we have established that there is a military requirement for a new aircraft, and have fully explored other ways of meeting the requirement.

These considerations, rather than the timing of the BAe sales, should determine our negotiating timetable.


NICHOLAS OWEN

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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The Rt Hon Michael Heseltine Esq MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

14 March 1985

Dear Secretary of State,

RAF BASIC TRAINER *will request if required*

I was very pleased to learn that the meeting of the Equipment Policy Committee (EPC) on 7 March recommended in favour of the PC-9 as the next RAF Trainer. I look forward to participating in discussions with colleagues about the order before a final decision is made. In the meantime, I felt that it might be useful to let you and the other recipients of this letter consider some further points in support of the PC-9 bid.

Operational Requirements

We are all agreed that the most important consideration is to ensure that the RAF gets the best aircraft for its operational needs, consistent with the policy of obtaining good value for money. I understand that the EPC recommendation in favour of the PC-9 reflects the opinion of the RAF that the aircraft is without doubt the one which best meets their needs. The PC-9 is the latest turboprop trainer produced by the Swiss company, Pilatus, with whom British Aerospace (BAe) has gone into partnership. Pilatus has a proven track record in designing, producing and selling turboprop trainers throughout the world. The PC-9 has been derived from the highly successful PC-7 turboprop trainer built by the Swiss, of which some 360 have been sold. BAe's claim is that the PC-9 has a superior performance to its rivals, both in the air and on the ground, and that its fuel consumption is lower than that of its competitors; these are no doubt aspects which your RAF assessors of the aircraft have taken into account in their considerations. I should also add that the BAe plant at Brough, where the aircraft is to be assembled, is geographically convenient for access by a number of RAF establishments.

Employment

The PC-9 will be built on Humberside and at Prestwick, both areas of high unemployment. Some 300-350 jobs are expected to be created at Brough, North Humberside to produce the wings and carry out the final assembly of the aircraft and up to 150 jobs will arise at the BAe Prestwick plant where the fuselage will be assembled. About 80% of the PC-9's equipment will be made in the UK, thereby sustaining employment in a number of sectors of the industry and in various areas of the country. The RAF order should run on to 1990/91 giving job stability over a

long period of time. A reasonable forecast of export sales would mean a further increase in jobs - in Scotland, by up to 100 - and it is hoped to sell the PC-9 on international markets through to 1995, again long-term jobs.

We understand that should BAe win the contract, Pratt & Whitney, who are building and supplying the engine, has offered to increase its purchase of UK-made components with a consequent further increase in the number of UK jobs.

You will be aware that I am particularly concerned about the future prospects of the Scottish BAe plant which currently employs some 1,800 staff at Prestwick and where the main activity is manufacture of Jetstream aircraft. The only other significant activity at the Prestwick plant is production of engine pylons for the BAe 146 airliner and, taken together, these account for 95% of output. Although orders of the Jetstream are building up satisfactorily, there is clear advantage in the plant being able to diversify its activities, and an RAF order for the PC-9 would prove invaluable in allowing it to do so: it would reduce the reliance by BAe, Prestwick on a single programme of work; enhance the prospects of the plant; and give a boost to the local economy which is heavily dependent on the BAe presence.

You should also be aware that BAe is actively considering diversification into ab initio pilot training and Prestwick is a clear favourite location for basing the training school. The PC-9 order is again an important factor to be taken into account. Such a valuable facility as a training school would again impact on the local economy and would be likely to lead to aircraft/training export "package deal" orders.

Export Potential

The teaming up of the worldwide reputation gained by Prestwick for Jetstream with the highly regarded Swiss company, Pilatus, will undoubtedly provide the best prospects for export potential in reliable markets. BAe already have serious enquiries from Saudi Arabia, Jordan, Kuwait and Indonesia for the PC-9 and these countries will be watching the RAF's reaction with interest. The combination of the Hawk and the PC-9 will produce a formidable export package which will help UK employment. Conversely, there is a real possibility that failure to secure the PC-9 contract could be damaging to the supply of Hawk and other equipment to the Swiss who have a long tradition of buying from the UK when equipping their defence forces. We understand that, should the PC-9 bid be successful, the Swiss are likely to place an order for some 24 Hawks initially. While extending and furthering British export markets into South America is most desirable, I suggest that we must be careful that this is not done at the risk of jeopardising established outlets for our products, such as in Switzerland, without sound economic justification.

Competition

Douglas Hurd, in his letter of 8 March to you, makes reference to BAe's "lion's share" of RAF aircraft orders compared with other companies. This surely reflects customer-satisfaction with BAe products, and is scarcely a reason to look less favourably on its bid.

Cost Considerations

I understand that there is only a very marginal price difference between the PC-9 and its only serious rival, the Shorts Tucano.

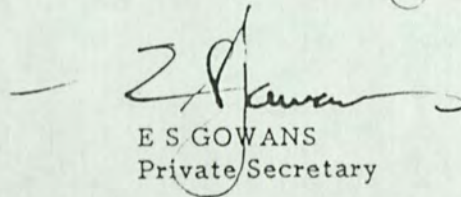
Privatisation

As you will know, we intend to sell off the remaining Government shares in BAe in the Spring or early Summer of this year. The company intends to raise new equity capital at the same time. I understand that, on present plans, it is likely that a preliminary prospectus will be issued early in April. A successful BAe bid for the PC-9 would give just the right signals to the market place at just the right time. The company's appeal for investors would be enhanced by evidence that it is flexible and efficient enough to compete for a contract such as that of the RAF Trainer. In addition, its appeal would also be increased by the inclusion of an ab initio trainer in its product range.

I should, of course, be happy to discuss the detail of the above points and any others with colleagues at the proposed E(A) meeting, which I understand is scheduled for 20 March.

Copies of this letter go to the Prime Minister, Members of E(A), Sir Geoffrey Howe and Sir Robert Armstrong.

Yours sincerely



E S GOWANS
Private Secretary

Approved by the Secretary of State
and signed in his absence

Defence: Procurement Pt 2

115 Mkt 19987

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5 6 7 8 9

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

②

14 March 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Prime Minister

CDP
14/3

M

D Michael,

EUROPEAN FIGHTER AIRCRAFT (EFA)

Thank you for copying to me your minute of 26 February to the Prime Minister.

2 The collaborative strategy which you propose is of the highest importance both to our defence requirements and our aerospace industry.

3 As you readily state the proposed EFA does not match the RAF requirement but whether this is important or not is not possible for me to say. However I think that before we become irrevocably committed to the collaborative strategy it might be useful to agree collectively that that is the direction in which we wish to go and upon the negotiating tactics. Unless we are quite clear on both matters I see a prospect that the French by ruthless exploitation of the weakness of our negotiating tactics might well destroy our capacity to achieve a national programme, and relegate us to a junior role in the EFA; or, indeed, destroy the EFA and produce a French dominated project instead.

4 The history of collaboration has not been so successful (especially in exports) that we should blind ourselves to its costs and dangers. It is probably the route we shall be forced to take but I believe that colleagues should reach that decision collectively in full knowledge of the issues and not find at some later stage that we have no option open to us except to participate in an industrially damaging deal to produce an aircraft which does not meet our requirement, or to buy off the shelf from the United States.

5 I therefore hope there will be an early opportunity to raise

JH3BMK



these and other questions for collective decision. I am copying this to the Prime Minister, other members of O(D) and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

Reference: Procurement

Pr 2



copy
GenoFCS/85/56NBPM
MAY 12/3SECRETARY OF STATE FOR DEFENCEEuropean Fighter Aircraft

1. Thank you for sending me a copy of your minute of 26 February to the Prime Minister.

2. As you say, there are a number of complex issues which we will need to look at. Operational, industrial and cost considerations will clearly be important in any decision we take. But, as your minute makes clear, the next fighter aircraft provides the greatest challenge to European equipment collaboration, a concept you have done so much to advance in recent months. We are fully agreed on the need to do everything we possibly can to make this major collaborative European project a successful reality. There are obvious implications here, not only for the future of European defence cooperation, but more specifically for the UK's role in it and for our allies' perception of our commitment. This is something which you and I have tried hard, and I believe so far successfully, to impress on them, both bilaterally and in our work in the Eurogroup, IEPG and WEU. I am therefore glad to take up your offer that the FCO should be fully associated with your Department's continuing work on this issue.

3. I entirely agree that a conjunction of political will at the highest level will be necessary to make a success of EFA. This suggests that we should not miss any suitable opportunity presented by ministerial contacts with our EFA partners, particularly the French, to press our case for a solution which makes sense in military and cost terms and

/ which ...



which provides a fair sharing of benefits among the participating states. Our Ambassadors in Paris, Bonn, Rome and Madrid are more than ready to take whatever action may be required with their host Governments. We should make full use both of their advice and of their day to day contacts with senior officials and Ministers.

4. I am copying this minute to colleagues on OD and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
12 March 1985

DEFENCE: Procurement: Pt 2.

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112 MAR 1985

CONFIDENTIAL

For ECA meeting

GENO



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

8 March 1985

Dear Secretary of State

RAF TRAINER

I understand that the meeting of the Equipment Policy Committee (EPC) yesterday concluded that, while both the Shorts' Tucano and BAe PC-9 planes fully meet the MOD specification and the Shorts' plane has cost advantages it would marginally favour the PC-9. My officials did not of course participate in the EPC process and I am sure that you will agree that now is the time to move to collective discussion with colleagues about the order. Before that discussion, it might be helpful to let me and colleagues have a copy of the paper considered by EPC.

It seems to me that the Shorts bid commends itself particularly well to our joint aims. As stated above it meets the specification sought by MOD and in cost terms when assessed on our agreed policy of firm prices, it gives best value for money - the hallmark of our approach to public purchasing policy.

As well as value for money there are wider arguments in favour of the Tucano which colleagues will wish to consider:-

(i) Competition

We are all agreed that fostering of greater competition amongst defence material suppliers will bring about significant public expenditure savings. I am sure that competition was responsible for the considerable reduction in prices achieved when the Trainer contenders submitted

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/their

their "best and final" offers. Some 70% of the BAe aircraft turnover already comes from the MOD, compared with only 2% for Shorts and BAe takes the lion's share of RAF aircraft orders. But our claim of seeking to foster greater competition would suffer a considerable loss in credibility if, on this occasion when we have the opportunity to widen competition by providing Shorts with an entree into the market for RAF aircraft orders with a product that is at least the match in every way of the BAe product, we fail to do so. I think it would also be fair to say that Short's tightly knit operation with relatively low overheads geared to a commuter airline product-range is better suited to producing a small aircraft such as the Tucano.

(ii) Privatisation

The RAF contract and a successful joint venture with Embraer are critical to any decision we might make for the privatisation of Shorts; the award of the contract should make it possible to privatise the Company if Ministers agree to this course of action. The contract's importance to the forthcoming sale of BAe shares would be marginal by comparison.

(iii) Trade

In terms of export demand the Tucano is at least as attractive as the PC-9. Indeed the Tucano is already a proven success in world markets and the Short's version has an enhanced specification. The Tucano is, of course, fully compatible with the Hawk as an export package. Geoffrey Howe has, I know, already underlined to you the importance of Brazil as our largest export market in Latin America and the way in which the award of the contract to Shorts could contribute to our aim of further consolidating in that market.

(iv) Employment

The airframe of the Short's Tucano will, for both the RAF and export orders, be almost entirely built in the UK. In contrast, for the PC-9, a significant part of the airframe for the RAF order and over half of the airframe for export orders (which are likely to be considerably greater than the RAF order) will be built in Switzerland. The additional direct jobs thus created if the Tucano is successful should be a significant factor in our considerations. Comparison of indirect jobs is more difficult. The offer by Pratt and Whitney to increase the UK content of their engine is balanced by Garret's agreement with Rolls Royce offering additional UK employment if the Garrett engine is selected.

As you know, Shorts were offered grant aid on the Tucano project and I should like to clarify any misunderstanding on this matter. The

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£4.6m grant aid for the Tucano was approved by E(A) Ministers last November and is within our agreed policy of encouraging manufacturing industry in Northern Ireland. It will be funded out of the budget we have already earmarked for Shorts and will have no additional public expenditure implications.

One final point. The excellent performance by Shorts and its work-force has been well recognised in recent years by the world aerospace industry - the US Government contract to supply aircraft to the USAF, the recent order for aircraft for China, the Company's links with Boeing, and the winning of the V2500 engines nacelle contract, in the face of intense international competition. These orders signify a recognition by overseas customers of the quality of Short's products and the Trainer contract, which would fit comfortably into the Company's forward work programme, provides an excellent opportunity for HMG to give similar recognition to the Company.

We can discuss the details on these and indeed other points which colleagues will wish to raise at an E(A) meeting to which I hope Geoffrey Howe might be invited. If, as I understand, an early decision is required this is something that we might discuss at the E(A) which I understand is being planned for 20 March.

A copy of this letter goes to the Prime Minister, Members of E(A), Sir Geoffrey Howe and Sir Robert Armstrong.

Yours sincerely

J. Duill

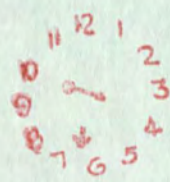
(Private Secretary)

for D H

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

CONFIDENTIAL

8 MAR 1925





NBN
JG 63

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/11

5th March 1985

See page

RAF FUTURE BASIC TRAINER

Thank you for your letters of 8th and 15th February, about the RAF Basic Trainer. I note the arguments that you have put forward in favour of the PC9, and I certainly intend to consult colleagues before any decision is announced.

I would however prefer your officials not to take part in the discussions of the Equipment Policy Committee on Thursday. The function of this Committee is to give me the best possible advice on equipment choices in the light of defence policy, operational requirements, technical feasibility, industrial and sales considerations, procurement policy and resources. DTI will take part in the discussion, as is normal, representing the wider industrial arguments from a UK-wide perspective; the Treasury will also be present. Any contribution from your officials or from those of the NIO (and I do not think we could have one without the other, in view of the Shorts interest) would presumably be concerned with specific regional considerations. Important though these are, I believe they might best be fed in after I have received the EPC's advice. Needless to say, if you or Douglas Hurd wish your respective officials to put forward arguments in writing before the EPC meeting, you are welcome to do so either direct to my Department or to the DTI.

The Rt Hon George Younger TD DL MP

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I am copying this letter to OD colleagues and (together with your letters) to Douglas Hurd.

Yours ever

Michael Heseltine

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FROM: CHIEF SECRETARY
DATE: 1 March 1985

CCPC
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CCNO

PRIME MINISTER

ms Prime Minister
A good point.
CDP 5/3

EUROPEAN FIGHTER AIRCRAFT

I welcome Michael Heseltine's full exposition of the present position on the European Fighter Aircraft, in his minute to you of 26 February. It gives us useful forewarning of, as he says, the major and complex issues that the Government will need to consider. I am also glad to see that the full range of options will be set out, alongside EFA, and I should be glad to take up Michael's offer for my officials to be fully associated with the continuing work on this.

2 My immediate concern, as you know, relates to the proposed timetable, and the risk in relation to the BAE sale. A meeting at the end of April would be particularly inappropriate from that point of view, and if things went wrong it could badly upset this important sale. I am sure Michael and, if necessary, our potential EFA partners will recognise this. This project is in any case itself so important that adequate time for a thorough discussion of the options is essential.

3 Copies of this minute go to OD colleagues and Sir Robert Armstrong.

PK

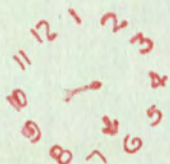
PETER REES

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DEFENCE: Procurement: A 2



5 MAR 1985



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MO 26/11/9

PRIME MINISTEREUROPEAN FIGHTER AIRCRAFT

In my minute of 19th July last I reported the agreement reached in Madrid by Defence Ministers of the United Kingdom, France, Germany, Italy and Spain to launch a six-month collaborative technical and industrial Feasibility Study of a single-seat twin-engined European Fighter Aircraft (EFA). The report on this study has just been received in national capitals and is now being analysed and assessed. Since the participating nations will shortly have to decide on the next step forward, I wish to give colleagues forewarning of the major and complex issues that the Government will need to consider. I stress that the military, technical and financial assessment is not yet finished, and to this extent therefore our perspective is provisional and incomplete.

2. The industries of the five nations have not achieved unanimity in their joint study, and two proposals have been put forward: a majority proposal from the industries of the United Kingdom, Germany, Italy and Spain, and a French proposal from Dassault, based on their demonstrator aircraft the ACX. (We should not be too encouraged by being with the majority because the French industry and their Government sponsors have been at pains to keep their links with the other three nations in good repair; I return to this below). The two airframe proposals are very similar, and both conform to the weight specification of $9\frac{1}{2}$ tonnes basic mass empty (BME), with a tolerance of $\frac{1}{4}$ tonne upwards or downwards, as previously agreed by all the nations. There is however a significant difference in engine size, with the French proposing an engine some 10% smaller than the majority proposal.

B. ⁽²⁾
 CFC
 CMO

Prime Minister

No decisions required
yet: but a taste of
what's to come.

CDP
 27/2.

MF



3. As foreshadowed in my minute of 2nd July last, in parallel with the 5 nation study of EFA we have undertaken our own independent studies of alternative options available to us, assuming that funding can be found from the defence budget. These are a twin-engined national development; a single-engined national development; an off-the-shelf purchase of a United States aircraft (F15, F16, F18 or F20); and building an American aircraft under licence in the UK. These studies too are incomplete but will be brought to a conclusion in time to enable all options, including EFA, to be considered together.

4. The issues as I see them are as follows:-

- (a) success in meeting the military requirement;
- (b) cost;
- (c) industrial impact;
- (d) the benefits of collaboration, and whether collaboration can be secured.

I deal with these in turn.

5. The military requirement. This is for an aircraft with sufficient speed, acceleration and agility not only to defeat in air combat the fighters which the Soviets will be able to deploy after 1995 (probably improved versions of the already highly capable FLANKER and FULCRUM), but also to remain effective against increasingly powerful opposition throughout the first two decades of the new century. It must also be adequately equipped, and this affects weight. The $9\frac{1}{2}$ tonne specification for EFA is a compromise, agreed by my French counterpart M. Hernu and myself, between the $10\frac{1}{2}$ tonnes or so which my military advisers judged to be necessary and the lighter design of $8\frac{1}{2}$ tonnes initially favoured by the French. The preliminary assessment of our Defence Staff is that the four-nation version of EFA would possibly yield an acceptable margin of superiority provided the $\frac{1}{4}$ tonne upward tolerance (see paragraph 2 above) was



used, giving a BME of $9\frac{3}{4}$ tonnes and thus providing the space required for equipment; and provided also that an engine of adequate thrust was installed (see next paragraph). Since the French tend to disregard the tolerance and to look on $9\frac{1}{2}$ tonnes as a rigid limit, there may be a difficulty here. A heavier nationally-developed aircraft would give greater confidence of fully meeting the operational requirement and countering the forecast threat; likely developments of existing US designs would be inferior.

6. Engine size is important. Disagreement with the French over this reflects not only our desire to give the aircraft adequate performance and capability to meet the threat, but also a unique British need to re-engine the air defence variant of the Tornado later in its life, for which purpose only the larger EFA engine would be adequate.

7. Cost. No cost comparison based on industrial proposals is yet available. In-house parametric studies suggest that the total programme cost to the UK of a twin-engined national development would be some 15-20% dearer than a collaborative EFA, but judgement must be reserved until we have the true figures.

8. Industrial impact and collaboration. These go together. I have already reported on the initiative which my fellow Defence Ministers and I took in The Hague last November to strengthen the work of the Independent European Programme Group (IEPG) and to give a new impetus to equipment collaboration in Europe. The next fighter aircraft provides the greatest challenge in this field. If we could avoid the duplication of design and development effort which has up till now characterised the military aircraft scene in Europe the prizes would be enormous. The participating nations would start with their own requirements amounting in total to 800-1000 aircraft, and might readily expect to approach that number in the export market. While the



Tornado started with a three-nation home base of a similar size, only Dassault with their Mirage series of designs (of which some 1500 have been sold abroad) have come close to providing a challenge to the dominance of the United States. Collaboration on an EFA, if attainable, would thus open up new export opportunities for British industry; equally important, the financial burden of developing a major new aircraft would be shared among five partners, to that extent easing the pressure on the defence budget.

9. It is in this politico/industrial area that I believe the main difficulties lie. While in my judgement M. Hernu and some of his senior advisers are genuinely interested in seeking a collaborative programme which includes the United Kingdom, we know that he is under tremendous pressure from French industry, from their trade unions and perhaps from some other Government departments to continue with a national military aircraft procurement policy which has proved extremely successful in the past. An element of collaboration with other European nations would be acceptable to this lobby only if it took place under clear French leadership.

10. Our own industry, while willing to cooperate on equal terms, have strong reservations about whether this is possible given current French attitudes. British Aerospace (BAe) in particular are concerned that their interests should not be sacrificed in a deal which tacitly allowed Dassault to take the lead on the airframe in exchange for Rolls Royce being given the lead on the engine. However, since the French seem keen to establish their engine company SNECMA in a position from which it could challenge Rolls Royce in world markets, it may be that the French themselves would not press for such an exchange.

11. Realising the political realities which we both face, Hernu and I have agreed that a collaborative project can go ahead only on the basis that there can be "no winners and no losers" in each of the three main sectors: airframe, engine and equipments. It will in my view require a conjunction of political will at the highest level to achieve this.



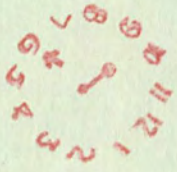
12. I have concentrated on the Anglo-French relationship because I believe that this is the linchpin of the whole project. In my judgement Germany, Italy and Spain would fall in line with any reasonable Anglo-French agreement. Should we not be able to reach agreement with the French, however, I do not think we can assume that the close relationship built up between the United Kingdom, Germany and Italy on the Tornado project would automatically ensure the isolation of the French. While much warmth and understanding remains among the military and procurement staffs who have been and are still involved in Tornado, we have to recognise the strength at the political level of the Paris-Bonn axis, and we must acknowledge that we could find ourselves the isolated party.

13. The next steps. My military, technical and financial staffs are working hard to complete their assessment as rapidly as possible. I have already made clear my wish that the Department of Trade and Industry should be fully associated with this work, and this applies equally to the Treasury and the Foreign and Commonwealth Office to the extent that they wish to be involved. This will be important because the 5-nation Ministerial meeting to consider the results of the Feasibility Study, originally planned for March, is now expected to take place in late April or early May, and we shall need to have a national position ready by then. Peter Rees has drawn attention to the awkward coincidence of timing between the impending discussions on EFA and the BAe offer for sale. Clearly this needs to be watched, but we cannot realistically expect the EFA problem to stand still for a period of weeks until the BAe sale is out of the way.

14. I am sending copies of this minute to colleagues on OD and to Sir Robert Armstrong. I shall of course consult colleagues further as soon as our assessment is complete.

msd
Ministry of Defence
26th February 1985

Provenant: DEFENCE Pt 2



27 FEB 1985

COMMONWEALTH OF AUSTRALIA

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CDP

7/2.

Treasury Chambers, Parliament Street, SW1P 3AG

The Hon Adam Butler MP
 Minister of State for Defence Procurement
 Ministry of Defence
 Main Building
 Whitehall
 London
 SW1A 2HB

6 February 1985

INERTIAL NAVIGATION SYSTEM FOR HARRIER GR5

A decision on whether to buy Litton or Ferranti inertial navigation systems has been under consideration since last summer; you and I discussed it in December. I am writing now to let you know the conclusion that I have reached in the light of discussion between our officials.

My concern was originally, as you know, that the more expensive, yet to be developed, Ferranti equipment was being chosen in preference to cheaper, well proven Litton equipment. Purchase of the Ferranti equipment could not have been justified on value for money grounds. Had UK manufacture been essential for wider reasons Litton should not have been invited to tender.

Several factors have now changed. In particular, Ferranti have reduced their price, and the exchange rate has fallen. The through-life costs of the two sets of equipment are now much the same, and I understand that your Accounting Officer is no longer able to point to either option as being preferred on defence budget grounds.

Your officials have assured mine that the risks involved in developing the equipment are small, that any delay would be unlikely seriously to affect the GR5 programme, and that Ferranti have agreed to an exceptionally heavy liquidated damages provision in the proposed contract.

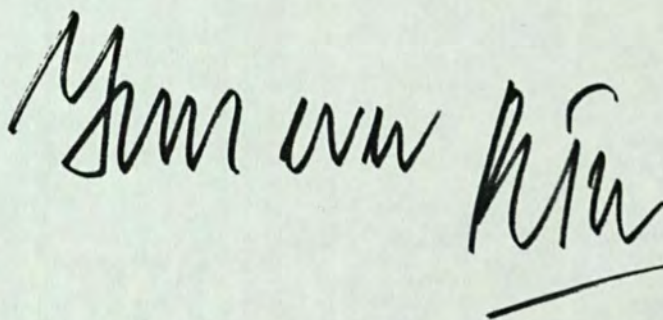
COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

On strict value for money grounds the Litton bid, offering proven equipment at about the same price, might still be better than the Ferranti bid. But the difference at current exchange rates is not significant. In these changed circumstances, I am content to leave the decision to you and would not object if you decided in favour of Ferranti.

If you do so decide, I hope that in telling Litton that their bid has failed care will be taken not to leave them with the impression that they were invited to tender merely to force down the UK bid (although this has been the result). It is important, in the interests of the defence budget, that overseas firms which compete for MOD contracts should genuinely be able to regard the competition as bona fide. The fall in the exchange rate should be an explanation for the present decision which Litton will understand.

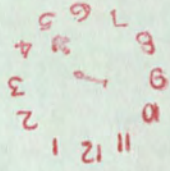
I am copying this letter to the Prime Minister, OD colleagues, George Younger and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style. The signature is positioned above the printed name 'PETER REES'.

PETER REES

COMMERCIAL IN CONFIDENCE

Defence Procurement : Pt 2



7 FEB 1985



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215) 5147

(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

*MBPM
CDP
15/1*

Rt Hon Adam Butler MP
Minister of State for
Defence Procurement
Ministry of Defence
Main Building
Whitehall
LONDON SW1

9th January 1985

Dear Minister,

INERTIAL NAVIGATION SYSTEM FOR HARRIER GR5

I have been following the correspondence between you and Peter Rees with particular interest following our earlier discussion on the selection of an inertial navigation system for the Harrier GR5. I have also seen George Younger's letter of 21 December.

My interest arises not simply from my previous involvement in this subject when I was at the MOD, but also from the important trade and industrial aspects of the case which need to be taken into account. The main danger I see is that failure by Ferranti to win this order would not simply mean a loss of the work in question, but would also put at risk the company's credibility in international markets where their performance to date has been remarkably good. This is not a case of special pleading on behalf of a company which is uncompetitive internationally.

That said, I accept in principle Peter Rees' point that for competitive tendering to remain a credible method of procurement, the results of competition should determine the award of contracts. It is important therefore that the two areas of greatest uncertainty - the PDS costs and the exchange rate assumptions - are dealt with thoroughly and clearly in the paper for the OD meeting. This is particularly important for the PDS costs where serious doubts exist as to the validity of the American figures. But if the cost difference on the best estimates turns out to be marginal, then it would surely be perverse not to give the order to Ferranti. As George Younger suggests, the Treasury's procurement guidelines specifically allow broader and longer term considerations (such as the need to preserve competition for the future) to be weighed in the balance.

JAL/JALABG



Given the sensitivities this case has raised, I should be grateful if your officials would let mine see the paper for OD in draft, as suggested in Peter Rees' letter of 19 December.

I am copying this letter to the Prime Minister, members of OD, Peter Rees, George Younger and to Sir Robert Armstrong.

Yours sincerely,

Timothy Abraham

RP.

GEOFFREY PATTIE

*(Approved by the Minister
and signed in his absence)*

DEFENCE : Procurement : Pt 2.

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NBPM



Treasury Chambers, Parliament Street, SW1P 3AG

Dr A S Kemp
PS/Minister of State for Defence Procurement
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

21 December 1984

Dear Dr Kemp

INERTIAL NAVIGATION SYSTEM FOR HARRIER GR5

The Minister of State for Defence Procurement spoke on the telephone to the Chief Secretary on 19 December about the choice between letting the contract for this work to the US company Litton or to Ferranti. The Chief Secretary wrote that day summarising the outcome of their conversation. He has asked me to write separately recording the points made in the discussion.

The Minister of State suggested that the Ferranti tender would be the cheaper, so far as initial procurement costs were concerned, if 116 sets were eventually purchased. He agreed, however, that on the basis of the firm requirement for 69 sets, for which the contract was to be placed now, the Litton tender was the more advantageous. The Chief Secretary said that he understood that if through-life costs were taken into account, as they must be, the Litton tender was cheaper if either the lower or the higher number of sets was bought. He asked the Minister of State about the advice of the MOD's Accounting Officer, and the Minister of State said that it was to the effect that the Litton tender represented better value for money. The Minister of State said he did not regard employment considerations as a major factor in deciding which tender to accept. But he was concerned that the UK should retain the defence industrial capacity to undertake the work involved in this contract and in his opinion it was essential, for this reason, to award the contract to Ferranti.

The Chief Secretary said that if defence industrial capacity was the overriding consideration, Litton should not have been invited to tender. Since they had been, not once but twice, he saw no alternative but to accept the better tender - i.e. from Litton. Not to do so could have repercussions for relations with the USA generally, and particularly on the willingness of

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US companies to tender in the future for UK contracts. There could also be an adverse effect on the prospects of British companies winning US business. Projects which might be offered included Forward Looking Radar (British Aerospace) and Head-up Displays (GEC - Marconi) for which more substantial sums were at stake.

As the Chief Secretary recorded in his letter of 19 December, he and the Minister of State concluded that the question of which tender to accept needed to be considered further by other Ministers concerned, probably in a meeting of OD Committee. They have asked officials from the departments concerned to discuss a suitable paper which might go to OD as soon as possible in the New Year.

I am copying this letter to the Private Secretaries of member of OD and to John Graham (Scottish Office) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Richard Broadbent

R J BROADBENT

COMMERCIAL IN CONFIDENCE



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

21 December 1984

Dear Chief Secretary

INERTIAL NAVIGATION SYSTEM FOR HARRIER GR5

attached

Thank you for sending me a copy of your letter of 19 December to Adam Butler. I am glad that this matter is now to be considered by OD and my officials stand ready to contribute to the paper when they see the MOD draft.

As you know, I have been taking a close personal interest in this matter. I very much hope that the postponement of our substantive discussion will allow 3 important points that have been causing me some considerable concern to be clarified before any paper for OD is finalised.

First, I noted that the fact sheet circulated for the proposed meeting on 19 December included sterling figures for the Litton bid that were based on an exchange rate of \$1.29 and which would not be held if the exchange rate fell below \$1.20. In contrast I understand that the papers considered at an earlier stage by officials had also a variant set of sterling figures with the exchange rate at \$1.20. I am sure you will agree that it is most unwise to limit the facts available to the Committee to a single assumption about the exchange rate, and what is more one which is already invalidated.

Second, I note that the fact sheet postulated that Ferranti's PDS costs after the first 2 years would be similar to the £250,000 applying to the first two years. Ferranti have more than once impressed on my officials that the true figure would be £60,000 per year and that this is the figure they have conveyed to MOD. Conversely, I note that the Litton figure for PDS costs is dismissed by MOD officials as too low but that no reasonable estimate is given in its place. I also note that Litton are apparently unwilling to be bound to any particular figure even though Ferranti's estimate for the first 2 years is a firm one. I fully appreciate that we cannot reasonably ask the companies to commit themselves to a particular figure for PDS charges through the life of such a long-lived contract. However, I am sure that we need very good grounds before departing so far from Ferranti's estimate, that we need to be quite clear that the Litton estimate is calculated to the same basis as the Ferranti estimate, that we need to be confident Litton's figure is credible, and that we fully understand the reason for any remaining difference between

the PDS figure.

Third, I believe we need to keep at the forefront of our minds the terms of the Treasury's procurement guidelines. Though these, of course, and quite properly give a great emphasis to costs, they also make it clear that costs are not the sole element in procurement matters. I fully share Adam Butler's view that it is important to keep in Britain an indigenous capability in inertial navigation, but more generally I was disturbed at the apparent rejection in your letter of the view that industrial matters were relevant to procurement issues. When the matter is as finely balanced as in this case, indeed so finely balanced that the decision appears to hang on a number of unquantified imponderables, questions of the industrial consequence of our decision must weigh particularly heavily.

I am copying this letter to the Prime Minister, OD colleagues, Adam Butler and to Sir Robert Armstrong.

Yours Sincerely

Shirley McCabe

Approved by the Secretary of State
and signed in his absence



Treasury Chambers, Parliament Street, SW1P 3AG

The Hon Adam Butler MP
 Minister of State for Defence procurement
 Ministry of Defence
 Main Building
 Whitehall
 London SW1

19 December 1984

Adam Butler

*Wagon
 Dub
 20/12*

INERTIAL NAVIGATION SYSTEM FOR HARRIER GR5

I am writing to record how we left matters following our telephone conversation this morning about the competition between Ferranti and Litton for the supply of this equipment.

You accepted, and confirmed that this was your Accounting Officer's advice, that the Litton tender offered better value for money. But you explained that you still wished to let the contract to Ferranti, primarily on the grounds that keeping this capability at Ferranti would be of value to the UK defence industrial base.

I found this difficult to accept because Litton had been invited to tender, not once but twice. Apart from considerations of good faith, refusing to abide by the outcome of a competition which Litton had clearly won could have damaging consequences for other UK defence manufacturers' prospects of securing business in the US. There is the further point that US firms will be loth to tender for MOD contracts if they do not believe that our competitions are genuine.

Since the interests of other departments are involved, we agreed that the best course would be for Michael Heseltine to circulate a paper to OD, to be taken as soon as possible. I suggest that your officials should now show mine a draft paper for clearance, which might also go to officials of the FCO, DTI and Scottish Office.

I am copying this letter to the Prime Minister, OD colleagues, George Younger and to Sir Robert Armstrong.

Peter Rees

PETER REES



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/11

NB
for
18th December 1984

De Peter

I write to give you advance warning of an announcement on the competition for a new basic trainer aircraft for the Royal Air Force, to replace the existing Jet Provost fleet.

You may recall that we invited tenders from four companies, British Aerospace (linked with Pilatus of Switzerland), Hunting, Shorts (linked with Embraer of Brazil) and Westlands (linked with the Australian Aircraft Corporation). These have been evaluated thoroughly and the manufacturers' tenders, as received and as adjusted to give a total package for acquisition costs, are as follows:

<u>Aircraft</u>	<u>Manufacturer's Tender</u>	<u>Adjusted Tender</u>
A20 (Westland)	179.2	202.2
Firecracker (Hunting)	162.3	182.2
PC-9 (BAe)	120.1	142.1
Tucano (Shorts)	108.2	126.9

As you can see, the PC-9 and Tucano have a clear advantage on acquisition costs. After taking into account through-life costs,

The Rt Hon Peter Rees QC MP

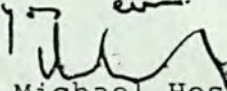


the two aircraft are virtually neck and neck on total costs, with marginal advantage to the PC-9. Moreover, they are both adequate to meet the technical and performance requirements, while the Firecracker and A20 are unacceptable on each of these grounds. The position is less clear in regard to jobs, sales prospects and British work content, but none of the contenders appears at this stage to have a significant advantage; all four aircraft include non-British components, and each would involve a substantial level of British manufacture, directly providing at least some 500 jobs at peak production.

But I do not believe a decision can be made at this stage between the Tucano and the PC-9, as there is little to choose between them, and the grounds for choice are still not firm. I therefore propose to seek best and final offers from BAe and Shorts, in order to reduce the price of the aircraft and to clarify some aspects of their existing tenders. I do not propose to include Hunting and Westlands in the best and finals stage; since the disparity between their tenders and those of BAe and Shorts is so great, I do not believe that they would have any prospect of success. In these circumstances, despite the extensive lobbying on their behalf, I believe it would be quite improper to allow Hunting and Westland to incur nugatory expense by remaining in the competition. Nevertheless, if they make strong representations, I would be prepared to allow it; the fact that they had not been invited to submit best and finals would indicate that they were starting a long way behind, and they should therefore be aware of the risk of wasting their money.

The decision will be announced by means of a Written Answer which will appear in Hansard on Wednesday, 19th December. The Answer will make clear that the further option of refurbishing the Jet Provosts - which has some short term financial advantages - has not been ruled out.

I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretary of State for Scotland, the Lord Privy Seal, the Secretary of State for Trade and Industry, the Secretary of State for Northern Ireland and to Sir Robert Armstrong.


Michael Heseltine

18 DEC 1984

12 1
2
3



FILE

RM

cc: PC

OD: LCO LPS
FCO CDL
HMT CO
LPO DTI
MOD

10 DOWNING STREET

From the Private Secretary

23 July, 1984

EUROPEAN FIGHTER AIRCRAFT

The Prime Minister has noted the Defence Secretary's minute recording the agreement reached with his German, Italian and Spanish colleagues to launch a six month collaborative technical and industrial Feasibility Study on a European fighter aircraft.

I am sending a copy of this letter to the Private Secretaries to members of OD and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL



CCP

Prime Minister

CDP
20/7

ms

MO 26/11/9

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT

I minuted you about this project on 2nd July. The further bilateral meeting with M. Hernu which I mentioned in my minute proved useful, and enabled agreement to be reached at the full meeting with my German, Italian and Spanish colleagues in Madrid on 9th July on the launch of a six month collaborative technical and industrial Feasibility Study. I attach a copy of the Resolution which was agreed and made public.

2. I referred in my earlier minute to the differences between the French and ourselves on the size of the aircraft. In the event Ministers agreed on a compromise position midway between the heavier design that the UK preferred and the rather smaller machine which the French wanted. Useful progress was also made on the question of the engine, though we are not out of the wood yet. It is not true to say as some Press comment has suggested, that the UK was insisting that the engine for the EFA should be the existing RB 199 or a direct derivative of it. We have recognised for some time that a new design employing the latest technology would be required for the production aircraft, but we have insisted that this new engine should be interchangeable with the RB 199 so that it can be used to re-engine our Tornado F2s in due course. You will see from the Resolution that we have gained this point.

3. Where we, supported by the Germans and Italians, still disagree with the French is that whereas they believe that the new engine should be employed in the aircraft test programme from the outset, we judge that this would entail too great a risk, and that it

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would be more prudent to use an existing engine, such as the RB 199, in the early prototypes, introducing the new engine into the flight test programme when it has demonstrated sufficient maturity. This is a topic which will be studied further during the next 6 months.

4. Finally, I and my Ministerial colleagues from the other countries are at one in laying great stress upon the need for tight control. We want the feasibility study to produce realistic estimates for the costs of any future phases and mechanisms for ensuring so far as possible that these costs will not be exceeded in real terms. In other words, we want a sound basis for decision taking before any commitment to subsequent phases is entered into. This is very much in line with the approach I outlined in my minute of 2nd July.

5. You will see that a further meeting at Defence Minister level has been scheduled for March 1985 to consider the results of the feasibility study and to take decisions on the next steps. I shall, as promised, consult you and colleagues fully before this meeting takes place.

6. I am copying this minute to OD colleagues and Sir Robert Armstrong.

Ministry of Defence
19th July 1984

MINISTERIAL RESOLUTION ON THE EUROPEAN FIGHTER AIRCRAFT (EFA-ACE).-

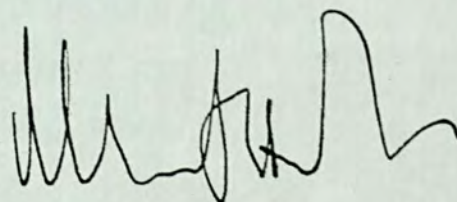
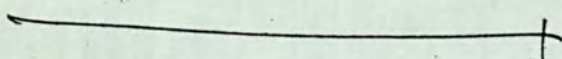
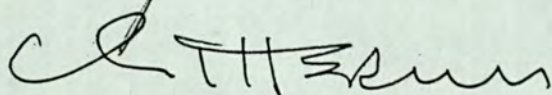
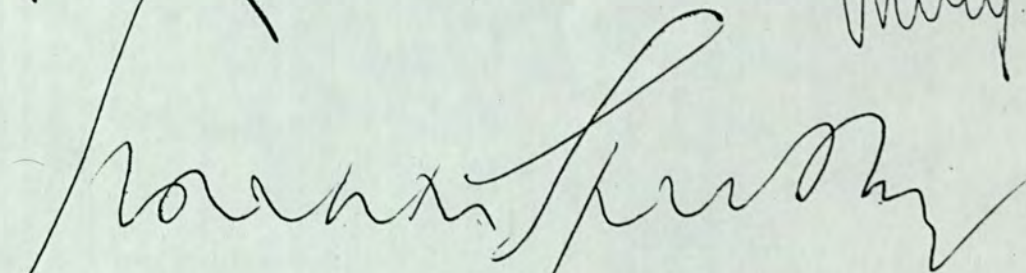
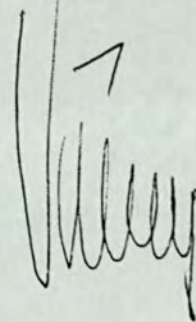
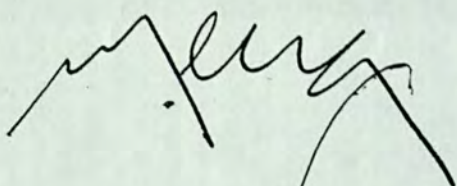
THE DEFENCE MINISTERS OF FRANCE, GERMANY, ITALY, SPAIN AND THE UNITED KINGDOM MET IN MADRID ON 9 JULY 1.984, AND:

- NOTED, WITH APPROVAL, A REPORT BY THEIR NATIONAL ARMAMENT DIRECTORS.

- HAVING AGREED, IN PRINCIPLE, ON THE NEED JOINTLY TO DEVELOP AND PRODUCE FOR 1995 A NEW EUROPEAN FIGHTER AIRCRAFT (EFA) AND AN ENGINE DESIGNED FOR EFA, INSTRUCTED THEIR OFFICIALS TO SET IN HAND BETWEEN THEIR NATIONAL INDUSTRIES A SIX MONTH TECHNICAL AND INDUSTRIAL FEASIBILITY STUDY OF SUCH A FIGHTER AIRCRAFT WEAPON SYSTEM ON THE BASIS RECOMMENDED IN THE NADS REPORT.

THE STUDY ON THE ENGINE SHOULD CONSIDER IN PARALLEL AND IN THE SAME TIME SCALE THE IMPLICATIONS OF USING THE NEW E F A ENGINE PROGRAM FOR A RE-ENGINEING FOR THE TORNADO ADV.

- CALLED FOR A FURTHER REPORT FROM ARMAMENT DIRECTORS REFLECTING THE RESULTS OF THIS FEASIBILITY STUDY AND MAKING PROPOSALS FOR FURTHER WORK, TO BE SUBMITTED IN TIME FOR A MEETING OF MINISTERS IN MARCH 1985.



Provenient, Cham/Alam: Deforce Pt 2.



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JF6868

CDD
10/7.

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PRIME MINISTER

FUTURE FIGHTER AIRCRAFT

I have seen a copy of Michael Heseltine's minute to you of 2 July.

2 I am glad to hear of the progress made in defining an OEST and I support his proposal to agree with his counterparts a collaborative feasibility study.

3 In his minute Michael also refers to the interests of the UK aerospace industry. The run-down of Tornado production will place a considerable strain on the industry towards the end of the decade and I very much hope that matters can be moved forward quickly once the results of the feasibility study, and the independent review of UK options, are known early next year. I know that Michael will wish to continue to resist any attempts by the French to dominate any collaborative venture.

4 Copies of this letter go to OD colleagues and to Sir Robert Armstrong.

NJ
NT

9 July 1984

Department of Trade and Industry

Defence procurement Pt 2



10 JUL 1984



file

bc', PC
JP

10 DOWNING STREET

From the Private Secretary

9 July 1984

Thank you for your letter of 3 July with which you enclosed a paper describing the steps which are currently being taken to promote competition in defence procurement and supply.

The Prime Minister has read the paper. She welcomes the initiatives which your Secretary of State has taken and looks forward to these measures achieving significant savings in the defence budget.

I am copying this letter to Callum McCarthy (Department of Trade and Industry) and to Richard Hatfield (Cabinet Office).

C.D. Powell

Nick Evans, Esq.,
Ministry of Defence

SM



ceDPs

CEN

NBPM
EDD 9/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 LONDON
 SW1A 2HB

6 July 1984

Dear Secretary of State

FUTURE FIGHTER AIRCRAFT

I am content with your proposal to join in a five nation collaborative feasibility study without any further commitment and subject to a satisfactory outcome of your talks with M Hernu.

Given the size of the potential future commitment to any new aircraft I fully support your wish to proceed stage by stage and to explore all other options. I welcome your undertaking to come back to OD with an assessment of options and recommendations before any further commitment.

As you acknowledge, a project of this potential size will have a significant impact on the Defence Budget over a long period. In order to advise how this and other projects might fit into the future defence programme my officials need to be able to discuss with yours the forward long term costing projections. I should be grateful for your early agreement to these essential discussions.

I am copying this letter to the Prime Minister, to other OD colleagues and to Sir Robert Armstrong.

Yours sincerely

J. G. Gieve

Jr. PETER REES

[Approved by the Chief Secretary]

29 JUL 1984



CONFIDENTIAL

MR POWELL

6 July 1984

COMPETITION IN DEFENCE

We welcome the initiatives which the Secretary of State is undertaking to promote competitiveness in the UK defence industry.

We shall not improve value for money until the percentage of contracts awarded following competitive tendering, currently some 20%, is significantly improved. An analysis of recent contracts shows an average saving of over 30% following the introduction of competition.

Nevertheless, it will not be easy to change the culture of the procurement process down the line. Peter Levene's forthcoming review will recommend a more commercial approach which will depend upon recruiting good people from industry who will need to be paid on results. The result should be a slimmer procurement executive (40,000 are employed at present) dedicated to value for money.

The defence industries are generally apprehensive about these changes as they correctly perceive that there will be losers as well as winners. However, industry has much to gain from becoming more competitive, both in a national and international context.

At the moment UK contracts and our share of international collaborative contracts amount to 95% of the defence equipment budget. There is a general tendency within the MoD to exclude overseas competition except for a few particular cases. This trend needs to be reversed.

We accept that overseas competition will need to be used judiciously in order to encourage our industries to become more competitive and to promote greater export and collaborative opportunities. Nevertheless, we should encourage a general presumption in favour of international competition. The Policy Unit are currently involved with the MoD and the Treasury in revising the guidelines for international tendering.

We recommend that the Prime Minister should welcome the Secretary of State's initiatives and look forward to these measures achieving significant savings in the defence budget.

D.P.

DAVID PASCALL

DAVAAM

CONFIDENTIAL

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FILE SH.



6cc: SPC
David Parcell

10 DOWNING STREET

From the Private Secretary

5 July, 1984

Dear Richard,

Future Fighter Aircraft

The Prime Minister has considered the Defence Secretary's minute (MO 26/11/9) on the future fighter aircraft.

Subject to the views of colleagues, the Prime Minister agrees that the UK should participate in the proposed collaborative feasibility study without commitment, while simultaneously examining other options.

I am sending copies of this letter to the Private Secretaries to members of OD and to Richard Hatfield (Cabinet Office).

Yours sincerely,
C. D. Powell
C. D. POWELL

R. Mottram, Esq.,
Ministry of Defence

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MR POWELL

4 July 1984

FUTURE FIGHTER AIRCRAFT

The future fighter aircraft will be the largest and most significant military procurement decision during this Parliament. At an expected minimum cost of £4 billion, we cannot afford to get it wrong.

Progress so far has not been encouraging. The desire on the part of the European air forces and defence industries for a new fighter led to a European staff target which was not derived from military requirements. It has not yet been established that this staff target fully reflects the threat, or outlines the most appropriate solution to meeting the threat. At the moment this is a political plane intended to unify Europe.

We accept that the RAF will have to replace Phantoms and Jaguars for our air defence and ground attack requirements in the 1990s. However, it is unclear whether this requirement is best met by a single aircraft, a mix of aircraft, or a mix of aircraft and missile systems.

Similarly, we must learn the lessons from the Tornado project in order to maximise the benefits from European collaboration. It will not be easy to resolve questions of project leadership and co-ordination, particularly if the French do become involved.

The Americans are also developing an Advanced Tactical Fighter for the mid-1990s to complement the F16 and F18. A US purchase or, alternatively, collaboration with the Americans, may offer better value for money for the defence budget.

Michael Heseltine recognises the risks associated with this project. Indeed, the only certainty is that current cost estimates will undoubtedly escalate alarmingly as the project proceeds. In these circumstances, we agree that a collaborative feasibility study is needed to define the aircraft required to meet an agreed threat, on the clear understanding that the UK would not be under any commitment to proceed to subsequent stages. As Michael proposes, we must also continue with our own independent review of the operational requirement and of all other options open to us.

On this basis, we support the Secretary of State's proposals.

DLP.

DAVID PASCALL

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1



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

Yes no

MO 26/2

3rd July 1984

*Prime Minister
This is the paper for
which you asked Mr.
Heseltine. Policy unit
advice attached. Agree to
welcome the initiatives*

Dear Charles,

Further to my letter of 18th June and your reply of 19th June I now attach a paper which describes the steps which are currently being taken to promote competition in defence procurement and supply.

*look forward to savings?
C.D.P. 6/2*

A copy of this letter goes to Callum McCarthy in Mr Tebbit's office who will wish to be aware that this paper was commissioned by Mr Heseltine following a short discussion he had with the Prime Minister. A copy also goes to Richard Hatfield.

*Yours sincerely
Mike Evans*

(N H R EVANS)

C Powell Esq



COMPETITION IN DEFENCE

MOD Procurement

1. During 1983/84 MOD spent some £7.5B with industry on defence equipment, including research, development, production, repair and maintenance. Expenditure on other goods and services amounted to a further £1.9B.
2. A large percentage of this expenditure was with high technology defence industries - accounting for 45% of the total output of UK aerospace industry and 20% of electronics. Major sums were also spent on fuel, food and clothing and a variety of routine off-the-shelf items. The totals also included expenditure on services of all kinds, from aircraft servicing to office cleaning.
3. Some 41,000 new contracts were placed by Headquarters purchasing branches during 1983/84. These, together with a similar number of contract amendments, were valued at approximately £7,800 million. In the same year, 450 units and establishments placed, under local purchase arrangements, approximately half a million orders, with a total value of £330 million, for the stores and services required for running these outstations. Payments on previous contracts accounted for the remainder of total expenditure.

Instructions on Competition

4. The basic principle guiding the handling of all these contracts is that nothing should be bought by the Ministry except as a result of competitive tender. Exceptions will only be made in cases where competition is manifestly impractical or would not give best value for money. The vast majority by number of these contracts will be for quite small sums, less than 1% by number being for over £10M. It would be quite impractical for Ministers to scrutinise more than a very small minority individually. Instructions have therefore been issued to staff at all levels to ensure that there is a maximum of competition.



5. These can be summarised as follows as regards equipment projects:

a. At the early stages of a project. Competition should be used as much as possible, subject to value for money, to ensure the widest available choice of solutions, and to stimulate innovation. Research contracts should be placed with regard to the competitive situation which will result at later stages of the project.

b. At the development and production stages. Competition should be secured wherever possible. The arguments for giving the first tranche of production to the design contractor must be carefully scrutinised before a commitment is accepted. Subsequent production orders will be presumed to be always to be subject to competition. Any commitments to production will be agreed specifically in each contract. MOD rights in existing contracts to consider alternative production sources will be rigorously exercised.

c. In the purchase of proprietary items. Competition should not be dispensed with in favour of one contractor's product until staff are satisfied that no competing products meet the requirement or that continuing with existing products offers better value for money. Where further substantial orders for proprietary items are in prospect, staff should attempt to negotiate rights to facilitate subsequent competition.

d. International Collaborative Projects. The principle of securing maximum competition should be applied whenever possible in the light of the particular circumstances of the project.

e. Sub-Contracts. Instructions to staff on securing maximum competition at sub-contract level are discussed below. (para 11)



6. To ensure the rigorous application of these rules staff are also required, at stated levels of expenditure, to seek the approval of higher authority if they wish to dispense with competition. Cases of expenditure exceeding £10M, or which involve significant policy issues or potential political interest, must be submitted to Ministers.

7. The competition policy is being implemented in parallel with a drive to achieve the tautest possible contract terms, and a determined attempt to reduce the proportion of contracts subject to cost plus percentage fee terms. Taut fixed price contracts are to be achieved wherever possible, and should provide appropriate incentives to discrete activities within the contract. Above average performance should be rewarded; below average performance should suffer.

Limitations on the application of competition

8. There are inevitably some limits to the extent to which competition can be introduced in defence procurement. Many contracts are on a long term basis and frequently there is a need for and benefit from commonality of equipment and continuity of support. Furthermore there are only a limited number of UK suppliers for certain advanced defence equipment and in certain cases only one credible domestic supplier. Overseas firms are not excluded from invitation to tender when this offers the prospect of better long term value for money. But overseas suppliers must not be put to the expense of tendering merely to sharpen up competition. The value of a strong defence industrial base in the UK was vividly illustrated in the Falklands crisis. There is an equally important need to enhance the international competitiveness of UK industry. Both these points must be borne firmly in mind in determining the extent to which foreign competition should be sought in the interests of securing best value for money overall.



Monitoring application of the rules

9. Monthly statistics of the proportions of contracts placed competitively and by other methods have been submitted to Ministers since the beginning of this year. The results, compared to figures for the previous two years are as follows:

	1982/83	1983/84	Jan-May 1984
a. Competition	21%	24%	47%
b. Proprietary items subject to market forces	15%	20%	14%
c. Non-competitive fixed price or other incentives	48%	38%	33%
d. Cost plus percentage fee	16%	18%	6%

10. Thus the proportion of contracts subject to the discipline of market forces (a. and b.) has risen from 36% in 1982/83 to 44% in 1983/84. The figures for the first five months of this year, since the rules above were introduced, show the proportion let by competitive tender to have increased considerably. Figures compiled over such a short period must be interpreted with extreme caution. In particular the 47% shown against a. of the table contains high value contracts for oil and ships placed by competition during the period. A conjunction of this kind is unlikely to be repeated for some time and it would not be realistic to expect the percentage shown for the first five months to be maintained for 1984 as a whole. In this connection it is worth noting that the USA Department of Defence, with a vastly greater industrial base to call on, only achieves 40% by value of contracts let by competition. Nonetheless the returns so far are encouraging.

Competition at Sub-Contracting level

11. The figures in paragraph 9 above refer only to contracts placed on industry by MOD. But many of these contracts, particularly for advanced defence systems will embrace a large number of sub-contracts. For example, of the main contract for the development



of Rapier Field Standard C, some 60% is sub-contracted out, half of which is competitive; for the production of the Skyflash air-to-air weapon 50% is sub-contracted; and for the JP233 Airfield Attack Weapon some 60%. BAe have told the Secretary of State that they aim to contract out 70%, and Marconi Underwater Systems Limited 90%.

12. The true part competition is playing in defence procurement is therefore under represented by the figures in paragraph 9, and the potential is still greater. We are accordingly taking vigorous action to maximise competition at sub-contract level.

13. Staffs have been instructed to require main contractors selected non-competitively to seek effective competition for all major sub-contracts, unless they can satisfy us that dispensing with competition would give better value for money. Main contractors selected by competition are required to provide in their tender their proposals for competition at the sub-contract level, including their reasons where this is to be dispensed with. The work to be considered for competitive sub-contracting should include all areas where it is feasible, including sub-systems for which the main contractor has a capability of his own. We are discussing with industry the terms of a Code of Practice on competition at sub-contract level.

14. Staff are also being required to encourage main contractors to consider open day displays of a complete piece of equipment in its component parts, for detailed inspection by potential sub-contractors wherever they judge this likely to increase interest in tendering.

Contracting out and Competition

15. With regard to support services, the basic principle followed is that work will only be carried out within MOD's own support organisation if it is essential to do so for clearly proven operational reasons or where there is financial advantage for the taxpayer. The rules for competition described in earlier



paragraphs are, of course, applied as appropriate once it has been decided in principle that a given service is suitable for contractorisation. Contracting out thus provides a separate route to increased competition.

16. Contractorisation of support services has been implemented in contract cleaning, catering, defence accommodation stores, range support services, quality assurance and surplus vehicle sales. Some 20% of the ship refitting programme, consisting of Royal Fleet Auxiliary and minor vessels, is already placed to contract. Potential candidates include such areas as warship refit (two ships are to be refitted commercially rather than in the MOD Dockyards, on a trial basis) security guards, catering (ie the transfer of the task at more establishments), R&D marine technology, gardening, marine services, aircraft/MT repairs and servicing, schools and education services.

17. The potential for staff savings is considerable subject to case by case confirmation of cost/effectiveness. The numbers are:

Implemented: cleaning (6000), catering (300), range support services (200), quality assurance (150), vehicle sales (100) and defence accommodation stores (380).

Potential: catering (900), security guards (500), R&D marine technology (250), gardening (600), marine services (100), aircraft/MT repair and servicing (750), schools and education services (550).

Conclusion

18. This paper describes how the measures initiated are opening up significant areas of defence business to competitive pressures. The approach to procurement has three main strands: first to increase the number of firms involved in bidding by broadening the field in the early stages of projects; second to give careful consideration of the timing, nature and extent of a commitment to the development contractor in respect of any initial production order;



and third to promote maximum competition at sub-contract level. Other measures to promote competition include the phasing out of preferred source policies, of which by far the most significant was that related to ROF products, and the initiatives on spin-off. Plans for a group of entrepreneurs with access to venture capital to facilitate exploitation in the civil market of inventions at our R&D Establishments are at an advanced stage. With the same objective in mind we are also discussing with industry arrangements for access to technology developed by firms under MOD contracts.

19. The results of the approach to competition are already becoming apparent, but the policy is essentially a long term one. Its effects will show over the years in the enhanced value for money we obtain for our defence equipment and in the international competitiveness of our defence industries.

DEFENSE: Horn / Alvin : P22



RECEIVED
JUL 24 1964

JUL 24 1964

COMMUNICATIONS SECTION

MAIL ROOM



Prime Minister

Policy Unit's advice attached.

Agree that we participate in proposed collaborative feasibility study, while simultaneously examining other options?

CDP 4/7.

MO 26/11/9

PRIME MINISTER

Yes no

FUTURE FIGHTER AIRCRAFT

I am writing to inform you of where matters stand on this highly significant project, and to seek your agreement to the course of action I propose to follow.

2. The RAF's requirement for front-line aircraft has four essential components:

- a. long-range strike, attack and interdiction (to be provided into the next century by Tornado GR1);
- b. shorter range offensive support including STOVL capability (to be provided by successive marks of Harrier);
- c. long-range all-weather interception of the bomber threat for UK air defence (to be provided into the next century by Tornado F2);
- d. tactical air defence and ground attack capability in the Central Region, UK Air Defence and Flanks (currently being provided by Phantom and Jaguar).

So far as the first three components of the requirement are concerned, arrangements are well advanced to meet the expected threat over the next 20 years. The Phantoms and Jaguars will not, however, be adequate to provide respectively the required tactical air defence and ground attack capability during the same period. By the mid-1990s



the operational viability of both aircraft will be at risk in the face of the expected Warsaw Pact opposition (in particular the agile new FULCRUM and FLANKER aircraft). The Phantom will in addition be virtually at the end of its fatigue life, and the Jaguar lacks the agility to fulfill the Phantom's role. The demise of these aircraft without replacement would leave a major gap, which can best be filled by a new agile fighter with a good ground attack capability. It is highly improbable that we could hope to satisfy the requirement by using other aircraft in our inventory because they would not provide the essential combination of agility and other capabilities. Similarly there is no ground-launched weapon currently in prospect which would have the flexibility to undertake the range of tasks implicit in the role at 2d above.

3. The need for such a new aircraft has been foreseen for some years, but its provision posed us with a seemingly baffling conundrum. Until the late 1970s we had hoped to combine in a single aircraft type the air combat capability required for the Phantom/Jaguar replacement with the vertical/short take off or landing (V/STOL) ability of Harrier. However, none of our allies had a similar requirement: the Americans were already committed to other fighter programmes and our European allies did not require V/STOL. The Harrier GR5/AV8B programme was therefore launched to preserve through the 1990s that aircraft's invaluable ability to operate from dispersed sites.

4. That left the RAF's need for an agile combat aircraft unfilled, but unfortunately it proved to be impossible at that time to reconcile the characteristics for such an aircraft sought by the other European nations. Nor was foreign purchase an attractive option, partly because it would effectively kill off the advanced military design capability of the British airframe, engine and avionic industry and partly because, of the more obvious contenders, the American F16 was judged to lack the required performance, while the F18 was experiencing serious (and for a while seemingly uncontrolled) cost growth. As an interim measure therefore in 1982 the Experimental Aircraft Programme, of which you are aware, was launched as a jointly funded venture with British industry in order to explore the technology which would be required in a new aircraft.



5. Subsequently our own requirements and those of France, Germany, Italy and Spain began to converge. A spectrum of desired characteristics was established which, by last Autumn, had been brought sufficiently close together to permit the agreement by the five Air Staffs of an Outline European Staff Target (OEST). Pre-feasibility studies carried out in industry confirmed that the technology exists to permit the design of an aircraft having the required characteristics, and established a number of options for meeting, to a greater or lesser degree, the OEST. The aircraft would be a single seat, twin-engined, machine smaller than the more specialised Tornado but larger than Harrier, with the flexibility to complement both.

6. Proceeding from that point has, however, not been without its difficulties, largely because the French were pressing for a smaller, less capable aircraft than we consider necessary to counter FULCRUM and FLANKER. France also wanted a dominant share in any joint programme, which was unacceptable to the rest of us. With the agreement of the other nations therefore, I met M Hernu on 20th June and will be meeting him again later this week to see if it is possible to come to an acceptable compromise.

7. On the assumption that a compromise is reached, the logical next step will then be to carry out a collaborative feasibility study to define more precisely the characteristics of a common aircraft, its performance, and its costs. This study would last for 6 months at a cost to us of £2M, including an allowance for a subsequent period of assessment.

8. I am very conscious of the fact that to meet the RAF's need for this new aircraft will inevitably be costly. We estimate that a 25% share of a collaborative project, together with the production of the 200 or so aircraft the RAF expects to need, would cost in total of the order of £4bn. Although this amount is significantly less than the £10bn we are spending on the Tornado programme, such a decision is clearly not one to be taken lightly and separate studies are in hand to ensure that it can be accommodated in the Defence Budget over the appropriate period. I therefore propose to proceed with caution.



9. Participation in the proposed collaborative feasibility study - which I consider necessary to define the aircraft, and particularly its costs, more clearly - would be entirely without commitment to go on to any subsequent stage. In parallel with the international study we would continue our own independent review of the operational requirement and of the other options open to us, ranging from a purely national project to a foreign purchase, including their costs, budgetary impact and effect on British industry. Finally, when all these studies had been completed and assessed, and in good time before any further commitment was required, I would come back to you and colleagues with recommendations for our future course of action. I would expect this to be next spring.

10. I hope that you and OD colleagues, to whom - along with Sir Robert Armstrong - I am copying this minute, will feel able to agree these proposals. I am due to meet the defence Ministers of the other four countries on 9th July and would naturally wish to be able to agree with them the arrangements for the collaborative feasibility study.

Ministry of Defence
2nd July 1984



to cabinet
allc

10 DOWNING STREET

From the Private Secretary

19 June 1984

Thank you for your letter of 18 June.

BF/

I note that the Prime Minister may expect a paper on the present state of Mr. Heseltine's initiative to increase the extent of competition in the procurement and supply of defence equipment and support services by the end of June.

The Prime Minister was grateful to have her questions on France's right to tender for certain NATO contracts answered.

cl

N.H.R. Evans, Esq.,
Ministry of Defence.

NR



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

MO 26/2

18th June 1984

Prime Minister

A promise: and
an answer.

mt C.D.F.
18/6

Dear Charles,

On 12th April John Coles wrote to Richard Mottram following a discussion which the Prime Minister had had with Mr Heseltine on general issues of defence procurement and competitiveness in our defence industry. Following that meeting we are due to provide the Prime Minister with a paper on the present state of Mr Heseltine's initiative to increase the extent of competition in the procurement and supply of defence equipment and support services. I am sorry that this is late but a great deal of work is currently being done on competition within the Department and the present situation is fluid. A draft paper had been produced but Mr Heseltine was not satisfied with it because it did not give a tight enough account of the procedures which are being introduced. He has, therefore, commissioned further work with the aim of sending the Prime Minister an up-to-date assessment by the end of June.

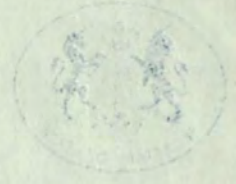
At the meeting on 12th April the Prime Minister also asked whether France was able to tender for certain NATO contracts. The position on this is that, since France's withdrawal from the NATO Integrated Military Structure, she has continued to contribute to the funding of one of the 13 categories of NATO Infrastructure, namely Radar Warning Installations. This category represents about 10% (£230M) of the total 1983/84 Infrastructure programme (£2300M). French companies are therefore eligible to (and do) tender for contracts in this category.

Yours ever
Nick Evans

(N H R EVANS)

DEFENCE : Procurement of Weapon
Systems : R2

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 07 920 3033



cc OP



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~230 7822~~ 218 2111/3

MO 26/3

24th April 1984

*nbpm
sub
2/5/4*

Dear James,

SURFACE TO SURFACE GUIDED WEAPON

It has come to our attention that there is a necessary gloss which needs to be placed on the final sentence of paragraph 4 of my Secretary of State's minute to Mr Tebbit dated 10th April. This is that the technology base required for anti-ship guided weapons is much the same whether one is considering air launched or ship launched variants. In view of the work being done on air launched Sea Eagle it is not, therefore, accurate to state that we do not possess in the UK a technology base for naval surface-to-surface guided weapons. However the main point is that it would be difficult at this stage for UK industry to compete successfully in this field in view of the strongly established position of its competitors.

I am copying this letter to the Private Secretaries of OD Ministers and to Richard Hatfield in Sir Robert Armstrong's office.

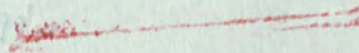
*Yours sincerely
Nick Evans*

(N H R EVANS)

A Lansley Esq

Defence Procurement Pt 2

5 AF



Royal Navy (Guided Weapons)

3.30 pm

The Minister of State for Defence Procurement (Mr. Geoffrey Pattie): With permission, Mr. Speaker, I wish to make a statement about the procurement of the next generation of surface-to-surface and surface-to-air guided weapons for the Royal Navy.

For some months we have been conducting a competition for a second generation surface-to-surface guided weapon for the four batch III type 22 frigates and the first eight type 23 frigates. The contenders were British Aerospace's ship-launched Sea Eagle, McDonnell Douglas's ship-launched Harpoon, Aerospatiale's Exocet MM40, and versions of Otomat from Oto Melara and Matra. The thorough-going evaluation of these contenders has taken into account performance, cost and timescale considerations, as well as industrial and employment factors.

The competition has been keen and of considerable benefit in assuring value for money. Following the submission of "best and final" offers from the competing contractors the outcome is clear. Having taken all relevant factors into account, the Government have concluded that the best choice on both operational and cost grounds is the McDonnell Douglas Harpoon; a proven system, which has a 100 per cent. success rate in over 200 firings since 1978, and variants of which are already in service with the Royal Navy and RAF.

Subject to agreement with the company on contractual terms and conditions, we will place a fixed price contract worth some £130 million for Harpoon missiles and associated ship systems for the batch III type 22 and the type 23 frigates. The total value of the programme is of the order of £200 million.

I recognise that there will be disappointment that we have decided not to buy British for this item of Royal Navy equipment. However, the United Kingdom's position with regard to the high technology involved in advanced missiles has been preserved by our earlier decisions to purchase ALARM and air-launched Sea Eagle from British Aerospace. I take this opportunity of reaffirming the Ministry of Defence's commitment to air-launched Sea Eagle and also of reminding the House that 95p in the MOD's procurement £ is spent in this country.

The employment implications of the various options have been an important consideration in our decision. I am pleased to be able to tell the House that McDonnell Douglas has undertaken to provide offset work for British industry to the value of 130 per cent. of the cost of the Harpoon order, of which half will be in areas of high technology and 30 per cent. on the Harpoon programme itself.

McDonnell Douglas's track record on offset is excellent, and its undertaking will be incorporated in the contract. Over the past seven years, it has placed well over £300 million worth of contracts in the United Kingdom at all levels of industry and on sub-Harpoon its offset eventually totalled one and a half times the purchase price. Another important consideration was the need to reduce as far as possible uncertainties caused by future exchange rate fluctuations. In this respect we have achieved an agreement with McDonnell Douglas that 30 per cent. of the value of the contract will be payable in sterling.

The Government are convinced that this decision is right for the Royal Navy and right for the taxpayer, and is also entirely satisfactory in employment terms for British industry.

In addition, I am also glad to be able to inform the House that today we have authorised the placing of a firm contract with British Aerospace for the full development and initial production — [Interruption.] The House should listen to the next part of my statement. I shall read the beginning of the paragraph again. In addition, we have authorised the placing of a firm contract with British Aerospace for the full development and initial production of the vertically-launched version of the Sea Wolf surface-to-air missile for the Royal Navy's type 23 frigates. This important programme will ensure that Sea Wolf keeps its substantial lead over all its international competitors, and will guarantee that the type 23 frigates have the most modern, versatile and devastating point defence missile system available. This is a programme of major importance for the Royal Navy and British industry. The initial order alone is worth some £250 million. Taken alongside the substantial order that we placed some weeks ago for the third main production order for conventionally-launched Sea Wolf this order will sustain the momentum of the programme and — not least — will sustain job opportunities at British Aerospace and its subcontractors.

The Royal Navy has today acquired two highly effective modern systems which will greatly enhance operational effectiveness.

Mr. Kevin McNamara (Kingston upon Hull, North): This would have been an interesting statement had we not heard it first on ITN and read it this morning in the *Daily Mail*. Even allowing for yesterday's difficulties, which I understand, I should like to know whether this leak will come under the criteria laid down by the Secretary of State for examining leaks from the Ministry of Defence or whether it is just one of those softening up blows for British industry to make it accept what has happened.

This is the second major blow for British Aerospace in the past three weeks. Following the decision on the basic jet trainer, which is to go to a foreign competitor, the Sea Eagle is being sacrificed to our American competitors, and against all the criteria laid down by the Minister of State when he was writing about these matters. He said then that when placing orders we should take into account the possible deterioration in the value of the pound, national consumption and local infrastructure, and the problems of break-up in British design teams and their leadership. On all those criteria, it is impossible to justify the decisions that have been taken.

I have a number of specific questions on the statement. The Minister spoke about a £130 million order for Harpoon, of which 30 per cent. is to be at a fixed price. Therefore, £40 million to £42 million of it is to be at a fixed price. What about the other 70 per cent.? Is that to be subject to the fluctuations of the market and likely, particularly in the light of recent history, to be more expensive to us?

Secondly, how can the hon. Gentleman justify this decision against the history of the trade between the United States and the United Kingdom in defence manufacture, which is over 2 to 1 in favour of the United States, excluding Trident? We are giving more to the United States in this matter, excluding the arrangements that we

have been trying to make with our European NATO colleagues for the development of systems on this side of the Atlantic.

Coming to the question of the local employment problems, can the Minister say that McDonnell Douglas can guarantee the same number of man-hours of employment as British Aerospace felt that it could? Is it able to guarantee that there will be the same amount of high technology and its development in this country as British Aerospace was able to guarantee? Is it not a fact that the 70 per cent. of this contract which is not to be in high technology will be merely in tin-bashing and Meccano work and have nothing whatsoever to do with the development of these areas in British industry?

Finally, is not the whole of the latter half of the statement with regard to Sea Wolf purely and simply a sop to try to satisfy Tory Back-Bench Members because Sea Wolf has already proved its value against Exocet in trials a month or more ago? To throw this in as a biscuit to satisfy the dogs behind him does not disguise the fact that this decision is a gross betrayal of British industry, British technology and British jobs.

Mr. Pattie: It is quite clear from what the hon. Gentleman has said that he is having great difficulty in finding suitable targets. The suggestion that a full-scale development order of £250 million is a sop is a sign of the hon. Gentleman's scale of values. If that is a sop, I should like to know what he considers to be a major order.

The hon. Gentleman talked about employment. There are many companies in this country—I could cite many of them—which are part of the Harpoon programme and which will be extremely pleased by this decision, and also by the ability to participate in other McDonnell Douglas programmes, whether in advanced aeroplanes like the FAT, head-up displays, and other such things. All of this information can be made freely available to the House and to the hon. Gentleman.

The hon. Gentleman talked about the exchange rate in terms of it being 2 to 1 against the United Kingdom. I remind him that when the Government came into office in May 1979 the exchange rate was 4 to 1. Since then we have had the improvement that I have described, and to characterise this agreement in the terms used by the hon. Gentleman is nothing less than a travesty of the truth.

Sir Antony Buck (Colchester, North): Does my hon. Friend agree that the most important consideration is that the Royal Navy should have the finest available equipment? Can he assure us that as a result of the decision that he has just announced it will have? Another consideration is inter-operability with our NATO allies. Would he say a word or two concerning that?

Mr. Pattie: I am grateful to my hon. and learned Friend because, obviously, the prime consideration has to be whether this is equipment which the Royal Navy requires, whether it will meet its requirements, and whether it is a system that the Royal Navy feels will be fully effective in meeting its needs. As I said in my statement, this is a highly mature system which has had over 200 successful firings since 1978. The offer that we were made was one that we could not afford to ignore. Regarding inter-operability, the Harpoon system is used widely by other navies, and it will certainly help us in that regard.

Mr. Russell Johnston (Inverness, Nairn and Lochaber): Can the Minister quantify the financial range of the final offers to which he referred? Is it the case that the operational difference between Harpoon and Sea Eagle was not very great? Does he really think that it is wise, in the long term, to become so dependent upon the United States both in major weapon systems and in the related research and development capacities?

Mr. Pattie: As I said a moment ago, the system has had more than 200 firings as opposed to the British Aerospace contender, which is still under consideration, let alone having any hardware. Therefore, there is hardly a fair comparison. The point about advanced technology is important, and the hon. Gentleman will not be surprised to know that we take it very seriously. That was precisely the consideration that we had in mind when we took the ALARM decision last summer. It is in the homing head that it is important that Britain should retain such very advanced technology. Given that we had that on ALARM and that we had the air-launched Sea Eagle, the way was then open, provided that we got a satisfactory offer, for us to secure Harpoon and obtain the advantage that I have described.

Mr. Peter Thurnham (Bolton, North-East): Is my hon. Friend aware that the announcement will be particularly disappointing to my constituents in Bolton, where an additional 200 jobs would have been created, in some measure making up for the loss of 1,000 engineering jobs at the nearby railway works?

Mr. Pattie: Yes; but I understand that in my hon. Friend's part of the country there are newspaper headlines, extolling the advantages to companies such as Lucas in Burnley, of the subcontract work that is likely to accrue to them from the Harpoon decision.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): Is the Minister aware that his opposite number in Washington could not have got such a statement past his House Appropriations Committee, whose current protection of American jobs is now the guiding principle of American procurement policy? Given the Minister's current anxieties about the Hawk programme, the ejector seat, the 81 mm mortar and the combat support boat, and that he has admitted that competition between those two fine systems was keen, why did he not make the net impact on British jobs the determining factor?

Mr. Pattie: That is precisely what we took into account. The hon. Gentleman has drawn on his considerable knowledge, but, with respect, it is not totally up to date. He described me as having anxieties about hawk and the VTX programme that the United States navy has. However, I have no anxieties about that programme at the present time. The hon. Gentleman also spoke about the 81 mm mortar and the combat support boat. I am fully aware of the developments, and I go to Washington as frequently as my right hon. Friend the Secretary of State will allow me to.

I am also fully aware of the protectionist tendencies in the United States of America. However, the United States is also fully aware of what it sees as similar tendencies in the United Kingdom; tendencies that it thought—I think wrongly—that it detected at the time that we made the ALARM decision last year. I believe that that decision has since been vindicated by subsequent events.

[Mr. Pattie]

I note what the hon. Gentleman says, but it is not an accurate or correct reading of the present situation.

Mr. Jonathan Sayeed (Bristol, East): May I congratulate my hon. Friend on the eloquent way that he has sugar-coated the bitter pill about ship-launched Sea Eagle? Does he agree that it demonstrates a profound problem about defence procurement? I refer to the fact that four companies in four countries have been bidding for the same contract, and that they have all involved themselves in a great deal of research and development which they will not necessarily recoup. Does my hon. Friend have any plans for ensuring that within NATO companies in different countries work together to produce a commonality of weapons systems, and weapons systems that will be cheaper?

Mr. Pattie: My hon. Friend's point is extremely well made, because it takes us away from the passion of the day, if I may so put it. However, the only way of resolving that problem is to harmonise the research and development programme sufficiently early so that such requirements can be harmonised then. Work is in hand on that, but it remains a rather long-term goal.

Mr. James Molyneux (Lagan Valley): In view of Shorts' excellent record of co-operation with Boeing and its expertise in missiles, will there be scope for Shorts in the offset arrangements promised by McDonnell Douglas?

Mr. Pattie: There will be scope for an excellent company such as Shorts to make bids in a variety of areas. I must make it clear that McDonnell Douglas is making an offset commitment up to a certain percentage, as I have said. It is not saying that it will automatically hand over contract A, B or C to a variety of different companies. The commitment is absolute and it remains until it has been met, but the British companies concerned will have to bid for specific items on the contract.

Mr. John Farr (Harborough): I appreciate that my hon. Friend has endeavoured to give a balanced package to the House, but there will be disappointment that the order will be for Harpoon. Will he assure the House that he has carefully taken into account the fantastic amount of money that the Government are spending on the Trident programme—over £15,000 million spread over eight years—a large part of which is on components of American origin?

Mr. Pattie: I think that my hon. Friend misquoted the figure. We are talking about a figure slightly in excess of £8 billion over the lifetime of the Trident programme. I am grateful to him for giving me the opportunity to remind the House that 55 per cent. of the Trident programme will be spent in the United Kingdom. My hon. Friend has expressed concern in the past that a decision of this sort might be tantamount to turning our back on European procurement. I am pleased to be able to tell him and the House that in the past few days we have signed an agreement with the French Government for co-operation on the RTM322 helicopter engine which will be important for both nations.

Mr. David Young (Bolton, South-East): Is the Minister aware that my constituents, like myself, will see the statement as a sell-out by the Government to American interests? Is he also aware that it makes a mockery of the

Conservative party's claim not only to look after Britain's defence but to make Britain independent of other countries? Is he further aware that Hawker Siddeley argued that with this contract will go the technology for the next generation of weapons? What additional cost will attend the air-launched and helicopter-launched versions of the missile since he is now cutting out the third option which would have meant the use of a complete family of weapons?

Mr. Pattie: I suspect that the hon. Gentleman is making a speech that he had ready in case we chose HARM last June. When he was disappointed to find that he had to welcome the Government's decision to buy ALARM. I completely repudiate his suggestion that this is a betrayal or a sell-out. This is the most effective use of the defence budget once we are satisfied that the technology base has been secured, and the homing head, which is an important part of any missile system. I should like to hear who has claimed that the technology for the next generation is being repudiated, because that is untrue.

Mr. Michael Marshall (Arundel): Knowing my interest, my hon. Friend will appreciate that this is a good news, bad news statement, but it would be churlish not to accept the value of what he had to say about vertical-launched Sea Wolf today. What part of the 130 per cent. of the McDonnell Douglas offset which he described will be related to the purchase of Harpoon? As I understood, it, he said that McDonnell Douglas could place up to 130 per cent. in value, including other work unrelated to Harpoon. May I have a breakdown of that? Does he anticipate any further announcements which would encourage British Aerospace and other British defence manufacturing industries in the near future?

Mr. Pattie: The figure that my hon. Friend is asking for is 30 per cent. Without anticipating too much, it is confidently expected that the United States navy will announce that it has chosen the Marconi ICS3 system for an important VHF band communications contract.

Mr. Doug Hoyle (Warrington, North): Does the Minister agree that the success of the air-launched Sea Eagle depended quite a lot on having the naval contract as well? Does he also agree that the price has been overloaded, particularly with a pound that was over valued, and when it includes, I understand, a VAT element of £5 million? Has he not underplayed the technology aspect? Obviously we cannot have British technology being thrown away in this way. Is the hon. Gentleman happy that 10,000 jobs could be at risk? Would it not have been better had he stood up for British interests instead of acting as a Washington poodle?

Mr. Pattie: Without personalising matters too much, those in Washington who have had to do battle with me in the past on other British systems would be somewhat amused to hear me described in those terms. [Interruption.] The hon. Gentleman might care to look at the official record on that score.

I have covered in answer to earlier questions most of the points that he raised. The air-launched Sea Eagle programme was well and truly launched and established in technology terms before the sea-launched version was added, so there is no question of saying that the decision against the ship-to-ship version of Sea Eagle is harmful to the air-launched version.

I again repudiate the suggestion about 10,000 jobs being at risk. We are talking about many jobs being safeguarded and new job opportunities being created.

Mr. Keith Speed (Ashford): Will my hon. Friend say unequivocally which was the Navy's preferred missile? Is he thinking in terms of putting Harpoon aboard smaller craft to give them an effective long-range punch, thus achieving a cost-effective solution?

Mr. Pattie: The Navy's preferred solution was for Harpoon, on the grounds that I described in my statement. It is certainly a matter for close consideration whether we should arm the vessels of which he spoke with a system of this sort, because in that way we would greatly enhance their operational effectiveness.

Mr. Ernie Ross (Dundee, West): The Minister asked who would disagree with his statement. He must be aware of those who disagree with him. My colleagues in AUEW TASS met the Minister on Monday and made clear to him the mistake that he would be making if he opted for Harpoon. Like my hon. Friend the Member for Sheffield, Attercliffe (Mr. Duffy), I should like to know how the Minister can justify to the technologists, designers and researchers in the aerospace and associated industries why, unlike the Americans, who stand up for their industry, he fails regularly to do that. He has certainly failed to do it in this case by removing an important link with export orders. That is the effect of deciding on Harpoon rather than ship-launched Eagle.

Mr. Pattie: The hon. Gentleman's point about technology does not stand up. If he took the opportunity to talk with the design teams in the factories concerned—

Mr. Ross: I do; they are my colleagues.

Mr. Pattie: They would like to have every order that is going, no matter what degree of overloading that might produce. The hon. Gentleman asked me about technology and I am answering that point. In the air-launched Sea Eagle, in the ALARM programme and in the vertical-launched Sea Wolf, we have, in all the vital companies that are involved in this technology, totally safeguarded the technology that we need.

Mr. Robert Atkins (South Ribble): While regretting that British Aerospace has not got the contract for Sea Eagle, may I ask my hon. Friend to agree that it is hardly a sell-out in view of the toughly negotiated offset agreement at which he has arrived, and particularly in view of his reputation and that of the Secretary of State in reducing the ratio since we came to office from 4:1 to 2:1 in the purchase of equipment? While regretting that the contract has not gone to British Aerospace, is it not a fact that we cannot win them all?

Mr. Pattie: I am grateful to my hon. Friend for that comment. It is a case of making the most sensible use of our very straitened defence resources and using our technology base in this country. My right hon. Friend and I would need to be satisfied in a case such as this that all the considerations that would, naturally, concern all parts of the House have been fully met. We are absolutely confident that they have been in this case, and that is why we have taken this decision.

Mr. Paddy Ashdown (Yeovil): Is the Minister aware that, although we may regret this decision, there are nevertheless many aerospace high technology firms

throughout Britain, such as Normal Aire Garratt in my constituency, which will welcome the commitments which he has obtained on the high technology content in the offset? Is he aware, however, that there have been in the past far too many instances where high technology contracts awarded to British firms have been frustrated because the American Government have refused to issue export licences for the technology? How can he assure the House that that obstacle will not frustrate the high technology content in this offset deal?

Mr. Pattie: We shall maintain the closest possible monitoring of the arrangement, as we do with all such arrangements. We have had no problems with previous arrangements with McDonnell Douglas, and we see no reason to doubt future arrangements. I am glad that the hon. Gentleman is good enough to recognise the advantage that will accrue to Normal Aire Garrett—a company in his constituency — almost certainly on the F18 programme.

Mr. Churchill (Davyhulme): Is my hon. Friend aware that his statement today will be most warmly welcomed, especially in relation to vertical-launched Sea Wolf? Will he explain to the hon. Member for Sheffield, Attercliffe (Mr. Duffy) and other Opposition Members that the offset arrangement that my hon. Friend has achieved will potentially provide for more British jobs than would otherwise have been the case? Was not one of the factors in his choice in favour of Harpoon that the Royal Navy initially set about acquiring Harpoon in its sub-Harpoon version in the 1970s? Under which Government did that happen?

Mr. Pattie: It is not a question only of under which Government that happened, but under which Minister. Indeed, the hon. Member for Sheffield, Attercliffe (Mr. Duffy) was Minister with responsibility for the Navy at that time. In the words used today, the Labour Government sold out Britain's interest through the original memorandum of understanding which brought in Harpoon to the British weaponry system. I pay tribute to the hon. Member for Attercliffe because it was a perfectly good weapon. It was the start of a family, and we are glad to add the work that he did.

Mr. Dick Douglas (Dunfermline, West): Will the contract be a fixed price contract? What proposals does the Minister have to gain insight into the research and development lying behind the missile system of McDonnell Douglas? Are not the Americans all too willing to give us the downstream element of production while retaining the research and development?

How will the Minister monitor the subcontract work allocated by McDonnell Douglas to ensure that we maximise the benefit to the United Kingdom economy?

Mr. Pattie: It is a fixed price contract. We shall monitor the subcontract and offset performances in the way that we always do, with a special team. We shall require McDonnell Douglas to give frequent reports on how the contracts are moving and how they are let.

I take the hon. Gentleman's point about downstream improvements. It is an essential term of the contract, which we have secured in dealing direct with the company, that all future improvements on the missile system will be made available to the Royal Navy.

Several Hon. Members rose—

Mr. Speaker: Order. I realise the importance of the statement to hon. Members and their constituents, but I must protect the business of the House. I shall allow questions to continue until 4.15 pm and hope that by that time every hon. Member who has been rising to ask a question will have been called.

Mr. Timothy Wood (Stevenage): Although I welcome the decision about the Sea Wolf missile, is my hon. Friend aware that I regret the decision on the sea-launched Sea Eagle? Will my hon. Friend ensure that the MOD makes it clear to others considering variants of the Sea Eagle missile that the decision in no way shows any lack of confidence in the programme?

I join with my hon. Friend the Member for Bristol, East (Mr. Sayeed) in expressing continuing concern about high technology development and defence contracts within Europe. Is there not always a danger of looking at our systems, saying that they are not good enough and looking to the United States? In the long run, that will be bad for Europe.

Mr. Pattie: I agree with my hon. Friend's last point. One of our prime considerations has been the need to have the system ready for the ships that I described in my statement at the precise moment that those ships are available and required. The time that it would have taken for British Aerospace to have its system ready, fully tried, proved and tested would have been so late that the Royal Navy felt that it would be to its disadvantage to wait. That does not reflect adversely on the ability of the British Aerospace system; it is a matter of when the system will be available.

Mr. Tam Dalyell (Linlithgow): Almost as a throwaway in answer to the hon. Member for Bolton, North-East (Mr. Thurnham), the Minister referred to subcontractors whom he hoped would benefit. Does not the track record of McDonnell Douglas show that it may go to some British subcontractors for the simple operations but for the sophisticated high technology operations it will, as always, go to America? Will not Britain lose out? With all the cash available for the electrical guidance systems, how about a little money for proper circuits in the Falklands hospital?

Mr. Pattie: The hon. Gentleman's last point is not for me. The offset record of McDonnell Douglas, which I described to the House in overall terms, includes a significant proportion of high technology work. The United States knows perfectly well that we are not satisfied with what is colloquially known as tin bashing. We require not only satisfactory assurances but the award of specific high technology elements. As I have said, 50 per cent. of the programme will be spent in the United States on high technology items. That is a satisfactory agreement.

Mr. Christopher Murphy (Welwyn Hatfield): My constituents who work at British Aerospace will obviously welcome the decision about Sea Wolf, but will be disappointed about Sea Eagle. What effect does my hon. Friend think his disappointing statement will have on potential export orders for Sea Eagle?

Mr. Pattie: Potential customers for the ship-to-ship Sea Eagle will ask whether it is in service for the Royal Navy, and will be told that it is not. They will also be told the reasons for that. British Aerospace will have to decide whether it wants to commit a significant part of its private

venture money to developing that part of the family when there are other parts of the family with better export potential.

Mr. Ken Eastham (Manchester, Blackley): How can the Minister be sure that his statement will not affect many hundreds of engineering jobs in the aerospace industry throughout the country? Is he aware that British Aerospace has calculated that the decision will affect £500 million worth of potential exports?

Mr. Pattie: That is the sort of statement that I would expect any company to make in such a position. There is a great deal of potential work on the Harpoon programme. I have already spoken about Lucas Aerospace in Burnley, the royal ordnance factories in Particroft and Chorley, Ferranti in Oldham—not far from the hon. Gentleman's constituency—and the Reliance Gear company in Huddersfield.

The House may not appreciate that the offset opportunities are available for McDonnell Douglas to offer to British industry on other McDonnell Douglas programmes. Therefore, we are talking about the possibility of Ferranti, Manchester, having a potential value order on F18 displays of 140 million dollars. That cannot be bad news for engineers in Manchester.

Mr. Michael Stern (Bristol, North-West): Does my hon. Friend agree that a decision in favour of vertical-launched Sea Wolf would have been taken in the near future anyway, and should be considered separately from the disappointing remainder of his statement? Will he reassure the House that the overall employment effects of his statement—excluding Sea Wolf—are still as valuable as he described? Will he offer that reassurance to my constituents at Filton, who are concerned that their long-term job prospects are at risk?

Mr. Pattie: My hon. Friend's constituents need not see the decision in that light because the loading factors in British Aerospace and Marconi are such that, following the ALARM decision and other decisions on the regular version of Sea Wolf, major orders were placed some weeks ago. My hon. Friend suggested that we had deliberately held back the decision to put the two items together. It was felt that it was important for the House to consider the missile availability in relation to the Royal Navy. It was important for my hon. Friend and his constituents to consider that reason.

Mr. Peter Pike (Burnley): I appreciate the Government's co-operative decision. Obviously, the decision will be welcomed by Lucas Aerospace in Burnley and Burnley Engineering Products. Lucas Aerospace is the largest single employer in Burnley. Will the Minister be more specific about the net effect of the decision on jobs? The overriding factor to be considered must be the total number of jobs. I do not like technology to be lost. At the end of the day, we should preserve technology—Lucas Aerospace is a high technology firm—and provide jobs.

Mr. Pattie: I have said already that there is no reason why there should be any net loss of jobs—the reverse is the case. We have already safeguarded the position of technology, and I shall not weary the House by giving the reasons again. I welcome the support of the hon. Member for Burnley (Mr. Pike). Some years ago, I met several shop stewards from Lucas Aerospace. I know that they will welcome the possible involvement of their company.

The provision of actuators, canisters and sustainer motors for Harpoons will certainly sustain job opportunities in that company.

Mr. Bowen Wells (Hertford and Stortford): Will my hon. Friend assure me that the research and development invested by his Department and British Aerospace in air-launched Sea Eagles will not be thrown away by this decision and that the family of missiles, which should eventually result in a land-launched Sea Eagle, will not be prejudiced by the decision?

Mr. Pattie: I agree with my hon. Friend. The technology relevant to air-launched Sea Eagles will, by definition, obviously continue. We are happy to discuss any further developments that British Aerospace wishes to discuss with the Ministry of Defence.

Mr. Edward Leigh (Gainsborough and Horncastle): I recall my hon. Friend's visit last year at my request, to Rose Forgrove, Gainsborough manufacturers of the lightweight Sea Wolf launcher system. Does my hon. Friend recall that Rose Forgrove is a subcontractor of British Aerospace, and will therefore benefit from the decision? Is he satisfied that there is sufficient capacity at the royal dockyards to ensure that a rapid order is forthcoming?

Mr. Pattie: I believe my hon. Friend will understand that I shall need to look into the possibilities for Rose Forgrove. I remember the visit that I made to my hon. Friend's constituency and that company. The Navy is now actively bringing forward a measure, which is close to his constituents' hearts—the use of Sea Wolf in the Sea Cat launchers. I hope that that programme will come forward soon.

Mr. Peter Griffiths (Portsmouth, North): Will my hon. Friend recognise that, although my constituents will welcome his statements about the Sea Wolf, they will be concerned at the damage caused to the long-term maintenance of highly skilled design teams? Will he assure us that, as Harpoon is an off-the-shelf weapon, in the long run he will consider the introduction of the ship-launched Sea Eagle to the Royal Navy?

Mr. Pattie: No options for the future are closed. I have already answered several questions on the subject of design teams, and we are confident that the design capability is more than safeguarded by the decisions we have already taken.

Mr. David Maclean (Penrith and The Border): Does my hon. Friend accept that it is disappointing that a British firm did not win the competition? Will he confirm that it is an overriding priority for the Ministry of Defence that the lives of British service men are protected by the best weapons systems available, and that those systems will be installed as soon as possible from whatever part of the world they come?

Mr. Pattie: I am grateful to my hon. Friend. Obviously I agree with him.

Mr. Bill Walker (Tayside, North): Does my hon. Friend agree that, although one part of British Aerospace will be disappointed at the decision, another part will be delighted that its programme is to continue? Will he confirm that British Avionics and British Electronics, which are high technology electronics firms, are world leaders and that this programme does not change that?

Will he confirm that the Ministry of Defence is required to buy within a fixed budget and, by buying well, more money can be spent on other items?

Mr. Pattie: I am grateful to my hon. Friend, and I agree with him.

Mr. Neil Thorne (Ilford, South): What steps will be taken in these cases to ensure that the supply lines in a potential future conflict are clear and that there will be no possible hold-up because of some Falkland Islands type conflict, which prevents us from receiving materials or weapons that would be essential to the successful outcome?

Mr. Pattie: That depends almost entirely on the Royal Navy ensuring that it has an adequate supply of missiles and launchers, and I have no doubt that that will be the case.

Mr. Christopher Hawkins (High Peak): Is my hon. Friend prepared to tell us the chances of switching to the British system when it is available? If the case for buying the American system is merely that it is available now, could we not switch to the British system when it becomes available?

Mr. Pattie: I do not wish to give the impression that that was the only reason for the decision. A considerable factor in making the decision is that the American system is available now and has been in existence since 1978. We cannot afford to run two systems, with one following behind the other. If British Aerospace wanted to take the unlikely step of funding a particular development on its own, that would be relevant to the export markets. I do not believe that that step is likely.

Mr. McNamara: Is it not evident from the questions asked of the Minister of State that the majority of hon. Members are of the opinion that British defence is best left in British hands, and that we should use the system we have the ability to produce?

The Minister said that he had been in the United States a long time and that the companies got to know his opinion. Certainly they did—the Minister is a pushover. That is evident from this decision. That has happened throughout the discussions. I refer especially to the hon. Gentleman's comment about my hon. Friend the Member for Sheffield, Attercliffe (Mr. Duffy). More shops have come into commission and more keels were laid under my hon. Friend's recommendations than under this Government. British Aerospace pointed out that it could have provided the items at a fixed price, met the Navy's delivery time and done all that was required. In those circumstances, why was the Minister not prepared to take British Aerospace at its word?

We are in an impossible position because 45 per cent. of the cost of the Trident programme and 30 per cent. of the cost of Harpoon will be offset in the United Kingdom. Will the hon. Gentleman tell the House precisely from where we shall get these contracts? To say that McDonnell Douglas is willing to look around is no guarantee that jobs will be provided and that there will be a high technology input. That is important to the British defence industry.

What guarantee do we have that McDonnell Douglas will make 30 per cent. of high technology purchases in the United Kingdom? How will that occur, against the background of the American Administration's attitude

[Mr. McNamara]

towards high technology contracts in western Europe and the possibility that some part of the knowledge may eventually go to CONCOM.

Does not the hon. Gentleman's statement make a nonsense of the Prime Minister's demand that the British defence industry should produce a family of weapons capable of supplying our defence forces and being exported? The Minister of State and the Secretary of State have denied all those aspects. There is no doubt that that is why the Prime Minister waited until today to send an answer to the letter I sent her on that point. A fortnight ago, she had refused to reply.

Mr. Pattie: We have never said that we would buy British regardless of costs and operational considerations, even though we have said repeatedly that 95 per cent. of the British procurement budget is spent in Britain. The hon. Gentleman's remarks about the securing of offset agreements from McDonnell Douglas are a bit rich from a member of a party which supported a Government who in 1976 initiated the original memorandum of understanding, which was based on sub-Harpoon from McDonnell Douglas and on the TOW missile from Hughes.

Mr. Duffy indicated dissent.

Mr. Pattie: I jog the memory of the hon. Member for Sheffield, Attercliffe (Mr. Duffy) on the Martel system, which I seem to recall was chosen and selected from the French at a time when a competitor existed in Britain. Perhaps the hon. Gentleman is suffering from a bout of amnesia.

We shall monitor the offset arrangements in the same way in which successive Governments, both Labour and Conservative, have managed such arrangements in the past. I have told the House of the achievements of McDonnell Douglas in such matters in the past, and there is no need to repeat them again.

Chemical Weapons

4.21 pm

Mr. Archy Kirkwood (Roxburgh and Berwickshire): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely, "the export of goods used in the manufacture of chemical weapons."

The House will know that a tragic war—the Gulf war—is being waged between Iraq and Iran. This tragedy is distressing because of the number of lives that are being lost daily in the conflict. It is even more distressing because there is evidence that chemical weapons are being deployed. Those who have investigated the allegations have concluded that Iraq has been using chemical weapons and that Iranians have been killed by chemical or biological weapons. The matter, therefore, is urgent.

The matter is specific because the Government have administrative machinery available to them to preclude the export of equipment or substances that can be used directly or indirectly to produce chemical weapons. In spite of that machinery, there is evidence that goods are being exported from Britain to Iraq which could potentially be used for the manufacture of chemical weapons. If that is happening, the United Kingdom Government, wittingly or unwittingly, is assisting and enabling Iraq to have the capacity to acquire chemical weapons.

The matter is urgent because until there is an effective ban it is possible that such goods will be exported from Britain. I was pleased to read today that the Minister for Trade has banned under the Export of Goods Control (Amendment) No. 6 Order the export of a series of chemicals which have been, or could be used in the manufacture of chemical weapons. The Government must be congratulated to that extent and the ban is to be welcomed as far as it goes.

I have evidence that goods such as chemical protection kits and water pumps that could be used in industrial processes for producing these horrific weapons are still being exported. The ban on chemicals is welcome but it is important that the House considers urgently the need to extend the ban from chemicals to the goods that are used in the manufacturing processes.

I consider this matter to be specific, urgent and important. The credibility of the United Kingdom is at stake for it is a matter of international concern. Even at this 11th hour, shortly before the Easter recess, I apply for a specific Adjournment debate forthwith on this important matter.

Mr. Speaker: The hon. Member for Roxburgh and Berwickshire (Mr. Kirkwood) asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely, "the export of goods used in the manufacture of chemical weapons."

I listened carefully to what the hon. Gentleman said, but I regret that I do not consider the matter that he has raised to be an appropriate one for discussion under Standing Order No. 10 and, therefore, I cannot submit his application to the House.

SUBJECT
ce Refs



FUE

(57)

B/C: Mr Redwood
Sir P. Cradock

10 DOWNING STREET

From the Private Secretary

12 April, 1984

Your Secretary of State had a brief discussion with the Prime Minister this morning about general issues of defence procurement and on competitiveness in our defence industry.

There are two points for further action:-

BF |
BF |

- (a) Mr. Heseltine said that he would let the Prime Minister have a brief paper on the present state of his efforts to promote competitiveness. This would essentially update and summarise the paper enclosed with Nick Evans' letter of 27 January.
- (b) The Prime Minister asked whether it was the case that despite the fact that France was not militarily integrated in NATO it was able to tender for certain NATO contracts, e.g. in the field of infra-structure. I should be grateful if you could let me have a short note on this in due course.

A. J. COLES

R. Mottram, Esq.,
Ministry of Defence

LC



MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

Pine Muntz

D/MIN/GP/4/2

12/4
11th April 1984

/ Attached is a copy of the statement
which Mr Geoffrey Pattie will make
in the House at approximately 4pm ~~this~~
~~afternoon.~~ *known* →

(D St J Beaty)

Assistant Private Secretary

F E R Butler Esq., PPS/Prime Minister
B J P Fall Esq., PS/FCS
D C R Heyhoe Esq., PS/Lord Privy Seal
M C McCarthy Esq., PS/Secretary of State for
Trade and Industry
R P Hatfield Esq., PS/Secretary of the Cabinet
B Ingham Esq., Chief Press Secretary, No 10

GUIDED WEAPONS FOR THE ROYAL NAVY

WITH PERMISSION, MR SPEAKER, I WISH TO MAKE A STATEMENT ABOUT THE PROCUREMENT OF THE NEXT GENERATION OF SURFACE-TO-SURFACE AND SURFACE-TO-AIR GUIDED WEAPONS FOR THE ROYAL NAVY.

FOR SOME MONTHS WE HAVE BEEN CONDUCTING A COMPETITION FOR A SECOND GENERATION SURFACE-TO-SURFACE GUIDED WEAPON FOR THE FOUR BATCH III TYPE 22 FRIGATES AND THE FIRST EIGHT TYPE 23 FRIGATES. THE CONTENDERS WERE BRITISH AEROSPACE'S SHIP LAUNCHED SEA EAGLE, McDONNELL DOUGLAS' SHIP LAUNCHED HARPOON, AEROSPATIALE'S EXOCET MM40, AND OTO MELARA'S OTOMAT. THE THOROUGH-GOING EVALUATION OF THESE CONTENDERS HAS TAKEN INTO ACCOUNT PERFORMANCE, COST AND TIMESCALE CONSIDERATIONS, AS WELL AS INDUSTRIAL AND EMPLOYMENT FACTORS.

THE COMPETITION HAS BEEN KEEN AND OF CONSIDERABLE BENEFIT IN ASSURING VALUE FOR MONEY. FOLLOWING THE SUBMISSION OF 'BEST AND FINAL' OFFERS FROM THE COMPETING CONTRACTORS THE OUTCOME IS CLEAR. HAVING TAKEN ALL RELEVANT FACTORS INTO ACCOUNT, THE GOVERNMENT HAS CONCLUDED THAT THE BEST CHOICE ON BOTH OPERATIONAL AND COST GROUNDS IS THE McDONNELL DOUGLAS HARPOON. SUBJECT TO AGREEMENT WITH THE COMPANY ON CONTRACTUAL TERMS AND CONDITIONS, WE WILL PLACE A FIRM ORDER FOR HARPOON MISSILES AND ASSOCIATED SHIP SYSTEMS FOR THE BATCH III TYPE 22 AND THE TYPE 23 FRIGATES.

/ I RECOGNISE ...

I RECOGNISE THAT THERE WILL BE DISAPPOINTMENT THAT WE HAVE DECIDED NOT TO BUY BRITISH FOR THIS ITEM OF ROYAL NAVY EQUIPMENT. HOWEVER, THE UK'S POSITION WITH REGARD TO THE HIGH TECHNOLOGY INVOLVED IN ADVANCED MISSILES HAS BEEN PRESERVED BY OUR EARLIER DECISIONS TO PURCHASE ALARM AND AIR LAUNCHED SEA EAGLE FROM BRITISH AEROSPACE. I TAKE THIS OPPORTUNITY OF REAFFIRMING THE MINISTRY OF DEFENCE'S COMMITMENT TO AIR LAUNCHED SEA EAGLE.

THE EMPLOYMENT IMPLICATIONS OF THE VARIOUS OPTIONS HAVE BEEN AN IMPORTANT CONSIDERATION IN OUR DECISION. I AM PLEASED TO BE ABLE TO TELL THE HOUSE THAT McDONNELL DOUGLAS HAVE UNDERTAKEN TO PROVIDE OFFSET WORK FOR BRITISH INDUSTRY TO THE VALUE OF 130% OF THE COST OF THE HARPOON ORDER, OF WHICH HALF WILL BE IN AREAS OF HIGH TECHNOLOGY AND 30% ON THE HARPOON PROGRAMME ITSELF. McDONNELL DOUGLAS' TRACK RECORD ON OFFSET IS SECOND TO NONE AND THEIR UNDERTAKING WILL BE INCORPORATED IN THE CONTRACT. OVER THE PAST SEVEN YEARS THEY HAVE PLACED OVER \$500 MILLION WORTH OF CONTRACTS IN THE UK AT ALL LEVELS OF INDUSTRY AND ON SUB-HARPOON THEIR OFFSET EVENTUALLY TOTALLED ONE AND A HALF TIMES THE PURCHASE PRICE. ANOTHER IMPORTANT CONSIDERATION WAS THE NEED TO REDUCE AS FAR AS POSSIBLE UNCERTAINTIES CAUSED BY FUTURE PRICE AND EXCHANGE RATE FLUCTUATIONS. IN THIS RESPECT WE HAVE ACHIEVED A FIXED PRICE AND AN AGREEMENT WITH McDONNELL DOUGLAS THAT 30% OF THE VALUE OF THE CONTRACT WILL BE PAYABLE IN STERLING.

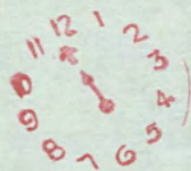
/ THE ...

THE GOVERNMENT ARE CONVINCED THAT THIS DECISION IS RIGHT FOR THE ROYAL NAVY AND RIGHT FOR THE TAXPAYER, AND IS ALSO ENTIRELY SATISFACTORY IN EMPLOYMENT TERMS FOR BRITISH INDUSTRY.

I AM ALSO GLAD TO BE ABLE TO INFORM THE HOUSE THAT TODAY WE HAVE AUTHORISED THE PLACING OF A FIRM CONTRACT WITH BRITISH AEROSPACE FOR THE FULL DEVELOPMENT AND INITIAL PRODUCTION OF THE VERTICALLY LAUNCHED VERSION OF THE SEAWOLF SURFACE-TO-AIR MISSILE FOR THE ROYAL NAVY'S TYPE 23 FRIGATES. THIS IMPORTANT PROGRAMME WILL ENSURE THAT SEAWOLF KEEPS ITS SUBSTANTIAL LEAD OVER ALL ITS INTER- NATIONAL COMPETITORS, AND WILL GUARANTEE THAT THE TYPE 23 FRIGATES HAVE THE MOST MODERN VERSATILE AND DEVASTATING POINT DEFENCE MISSILE SYSTEM AVAILABLE. THIS IS A PROGRAMME OF MAJOR IMPORTANCE FOR THE ROYAL NAVY AND BRITISH INDUSTRY. THE INITIAL ORDER ALONE IS WORTH SOME £250M. TAKEN ALONGSIDE THE SUBSTANTIAL ORDER WHICH WE PLACED SOME WEEKS AGO FOR THE THIRD MAIN PRODUCTION ORDER FOR CONVENTIONALLY-LAUNCHED SEAWOLF, THIS ORDER WILL SUSTAIN THE MOMENTUM OF THE PROGRAMME AND - NOT LEAST - WILL SUSTAIN JOB OPPORTUNITIES AT BRITISH AEROSPACE AND THEIR SUB-CONTRACTORS.

THE ROYAL NAVY HAS TODAY ACQUIRED TWO HIGHLY EFFECTIVE MODERN SYSTEMS WHICH WILL GREATLY ENHANCE OPERATIONAL EFFECTIVENESS.

7 APR 1984



PRIME MINISTER

Your meeting with the Defence Secretary

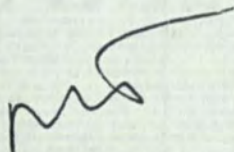
This has been long postponed.

The issues for discussion are set out in Mr Pascall's minute attached. The essential point is:

- should a small team be established under MOD (Geoffrey Pattie?) chairmanship, with representatives from the Policy Unit and relevant departments, to discuss the issues listed at the bottom of page one of Mr Pascall's minute.

I have also put in your folder a paper, which the MOD produced, in response to your request about competitiveness in the UK defence industry.

A. J. C.



11 April 1984

MR COLES

11 April 1984

VALUE FOR MONEY IN DEFENCE PROCUREMENT

Since the report on Essential Defence Technologies was completed at the end of last year, the Secretary of State has launched a number of very welcome initiatives to improve value for money in defence procurement. These include:

- measures to promote competitiveness in the UK defence industries. It has been noticeable at recent meetings of the Defence Equipment Policy Committee (DEPC) that the official machine is making every effort to respond to Ministers' wishes;
- a review of the procurement process and the role of the Procurement Executive. This review will be chaired by Peter Levene, the Secretary of State's industrial adviser. Any proposed changes will be incorporated into the major reorganisation of the Ministry of Defence which Michael Heseltine has recently announced.

These measures concentrate on the organisation and management of procurement and on improving competitiveness within the UK contractors. As such they are complementary to the further areas of work which we have proposed as a follow-up to the Essential Defence Technologies report. A summary of our comments on the report is attached.

This further work:

- the strengths and weaknesses of our defence industries and technologies in terms of international competitiveness;
- the scope for adopting a more open system of equipment procurement for non-essential technologies;
- the scope for achieving greater standardisation and collaboration within NATO.

is intended to build on the small but important step of defining those areas in which an indigenous capability is essential.

The proposed issues should be tackled in order. If we had a clearer idea of where our defence industrial strengths lie, it would be easier to assess the industrial implications of individual procurement decisions.

For example, British Aerospace could well have been overloaded if they had been awarded the sea-launched Sea Eagle project as well as the vertically launched Sea Wolf and ALARM contracts. Yet each of these decisions was considered largely independently of the others with little attempt to optimise industrial loadings and technological strengths.

Competitive pressures and a move away from a preferred sourcing policy should lead to some rationalisation of defence industries. This could well apply to two of the four divisions of the Royal Ordnance Factories - Explosives and Heavy Vehicles.

Similarly, we do not want to rule out overseas suppliers who might offer better value for money but we need to be clearer about the scope for moving in this direction. Overseas competition will need to be used judiciously to encourage our industries to become more competitive and to promote greater export and collaborative opportunities for our own industries. It was noticeable at a recent Defence Equipment Policy Committee (DEPC) meeting, that the Committee had great difficulty in deciding whether international tenders were politically and industrially acceptable for a new fleet support ship.

On collaboration, the Secretary of State has recently taken over the Chairmanship of the NATO Eurogroup and is keen to make progress. Two major projects - the future European Fighter aircraft and a feasibility study for a future NATO frigate - are being considered. The timing is therefore opportune to take a closer look at some of the defence, industrial and political implications of such projects.

Recommendations

We suggest that the Prime Minister could congratulate Michael Heseltine on his initiatives and discuss with him whether a small and flexible team under MoD Chairmanship and including representatives from the Policy Unit and relevant departments is likely to make a positive contribution to the further work proposed.

This approach would have the advantages of giving outsiders the opportunity to question MoD conventional wisdom and to relate MoD's industrial policy to our other industrial and economic policy objectives.

To ensure that the work does not suffer the usual disadvantage of interdepartmental groups and concentrates on practical proposals which will help future procurement decisions, we consider that Geoffrey Pattie would be a suitable Chairman.

We need a clearer idea of where Britain's best interests lie and how value for money in the defence equipment budget could be improved. The potential prize is significant and merits an attempt to tackle some of the questions which have made recent procurement decisions so difficult.

D.P.

DAVID PASCALL

ESSENTIAL DEFENCE TECHNOLOGIES

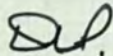
The report on Essential Defence Technologies sets out a short and clearly defined list of those areas in which an indigenous capability is essential for defence purposes. This is an important statement for future procurement decisions.

Michael Heseltine's response is too dismissive. The political and industrial considerations are important but procurement can only be better informed against a considered judgement of what is strictly essential.

The Secretary of State points out that the list excludes virtually all the main systems and sub-systems for our maritime, land and air defence roles. However, this does not mean that we should rely on our allies for the future supply of our ships, submarines, aircraft, tanks and their associated systems. It does mean that we can now consider the wider industrial and political aspects of procurement decisions in the context of commercial rather than strategic criteria.

None of this undermines the importance of our defence equipment industries. But we must ensure that our industries are, or become, internationally competitive. It is in the interests of our Forces and the national economy that we achieve the best value for money from defence procurement. We should recognise that we cannot realistically expect to be successful in all areas. As with other industrial sectors, our general approach should be to allow the market greater scope to identify and encourage our successful defence industries.

However, any moves to a more open system of procurement in certain sections, particularly those where economies of scale limit the scope for national competition, should also be designed to encourage greater export and collaborative opportunities for our own industries.


DAVID PASCALL



Prime Minister.

Mr. Patten will be announcing
the Harpoon decision tomorrow.

A. J. C. 10/4.

MO 26/3

SECRETARY OF STATE FOR TRADE AND INDUSTRY

SURFACE TO SURFACE GUIDED WEAPON

I have seen your letter of 9th April to the Prime Minister in which you accepted my recommendation for Harpoon subject to an assurance on two points.

2. First, you asked that our doubts about BAe's ability to meet the Type 22 timescale should be excluded from any public statement. I can give this assurance. I realise that BAe have invested £4M of their own money in the development programme but I am advised that at least twice that sum would have had to have been invested by now to give an assurance that the timescale could be met.

3. Second, you asked whether we had carefully examined BAe's late offer on Air Launched Sea Eagle. I can confirm that this has been done. The Company have offered to re-negotiate the agreed target cost arrangements for the Air Launched missile and to offer a fixed price if we agree to buy Ship Launched Sea Eagle. Our view is that this offer is not attractive at the figure they have quoted for their proposed fixed price and could cost us more than under the present target cost arrangements. They have also offered to fit to the last 100 Air Launched Sea Eagle missiles the advanced seeker head resulting from a ship launched programme. However, we have no funds set aside for such an improvement and therefore any saving is hypothetical. This latter point was covered in paragraph 7 of the Annex to my OD minute.

4. Finally, I must comment on the concluding sentence of your second paragraph. As I indicated in paragraph 6 of the Annex to my minute of 2nd April, we will not be abandoning our present technological



capability. Air Launched Sea Eagle preserves our capability to produce air-launched anti-ship guided weapons and ALARM protects our capability in the field of seekers. We do not at present have a technology base for naval surface to surface guided weapons having chosen Exocet as our first generation system.

5. I am sending a copy of this minute to OD colleagues and Sir Robert Armstrong. You and they will wish to note that Geoffrey Pattie will be announcing our decision to purchase Harpoon, in my absence in Germany, in the House tomorrow afternoon.

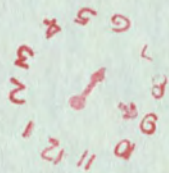
Murphy

[Draft seen and approved by the Secretary of State]

Ministry of Defence
10th April 1984

Defence A2

Procurement



10 APR 1982



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SECRETARY OF STATE FOR DEFENCE

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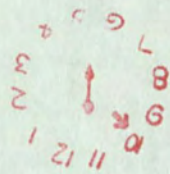
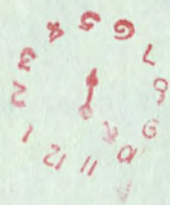
Surface to Surface Guided Weapons (SSGW) for the Royal Navy

1. I am content with your proposal to announce a decision in favour of Harpoon.
2. This is clearly defensible on operational and cost grounds and could be of advantage in the context of our wider defence sales interest in the United States. I do not think that we need be deflected from this course by the Resolution reached at the IEPG State Secretaries' meeting last week to the effect that 'European solutions must constitute a very important factor in the national armaments planning and decision-making process'. But it remains a little unfortunate that our first major decision after the IEPG meeting should result in an American purchase; and it will be particularly important to get the presentation right to our European allies. I am glad that you propose to send messages to your French and Italian opposite numbers after the announcement.
3. I am copying this minute to our OD colleagues and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Defence Pt 2

Procurement



10 APR 1984

10 APR 1984



Prime Minister
To note. The Chancellor
seeks certain assurances before
agreeing to Harpoon.

A. & C. 9
/4.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

SURFACE TO SURFACE GUIDED WEAPON

I have seen Michael Heseltine's minute to you of 2 April in which he seeks agreement to the procurement of the Harpoon Weapon System to meet the Royal Navy requirement for a new Surface to Surface Guided Weapon. This decision will disappoint British Aerospace, who have fought hard for their Sea Eagle SL System and who have recently heard that a major order from Spain, for which they had hopes for the Rapier missile, has gone to the French. We must expect that some of our Parliamentary supporters will sympathise with the company and there may well be some controversy following an announcement.

2 Nevertheless, Michael makes a strong case for Harpoon. The price differential of £75.5m is substantial and McDonnell Douglas' offset offer of 130% of the purchase price is undoubtedly attractive provided it is delivered. While we would ideally like to source such an important high



technology development from within the UK, I appreciate that the premium we would have to pay for those benefits is simply too high in this case. I hope that the Americans will not exploit their monopoly position in later years as we will be abandoning our present technological capability.

3 There are, however, two other points to bear in mind. Firstly, I do not think it fair to claim that BAe is unlikely to meet the delivery date for the requirement. The company has, in fact, committed some £4m of its own resources to ensure that the development programme remained on target. I would feel happier if this contentious point was excluded from any public statement explaining our decision. Second, BAe attempted to link the Sea Eagle SL decision to an offer to convert the contract for supplying Air Launched Sea Eagle to the RAF to a fixed price basis and to convert the last 100 missiles delivered to the new homing head standard free of charge. I appreciate that this offer came late in an already protracted competition but I hope that its cost implications were fully examined.

4 Subject to assurances on these points and if colleagues are willing to extend our reliance on the goodwill of the US Government and defence contractors, I would reluctantly

JH1AFY



accept that on short term cost ground this contract should go to McDonnell Douglas.

5 I am sending a copy of this minute to OD colleagues and Sir Robert Armstrong.

NT

N T

9 April 1984

JH1AFY

DEFENCE: Procurement Pt 2

11
~~130~~ APR 1984

12 1 2 3 4 5 6 7 8 9 10 11 12

COMPTON

11

Defence Procurement
A2

CONFIDENTIAL FILE
COMMERCIAL IN CONFIDENCE

R M



OD: LCO LPS
FCO CDL
HMT DTI
LPO CO
(MOD)

10 DOWNING STREET

From the Private Secretary

9 April, 1984

SURFACE-TO-SURFACE GUIDED WEAPONS FOR
THE ROYAL NAVY

The Prime Minister has seen your Secretary of State's minute of 2 April.

Subject to the views of other OD colleagues, the Prime Minister is content with Mr. Heseltine's decision to procure Harpoon.

I am sending a copy of this letter to the Private Secretaries to the other members of OD.

ALCOES

R. Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

DSG

CONFIDENTIAL
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cc Financial Secretary
Minister of State
Mr Bailey
Mr Lovell
Mr Kitcatt
Mr Mathews
Mr Ridley
Mr Kerr

Treasury Chambers, Parliament Street, SW1P 3AG Mr I P Wilson

Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

A.S.C. 9/4

h.a.

6 April 1984

John Michael

SURFACE TO SURFACE GUIDED WEAPONS FOR ROYAL NAVY

I have seen a copy of your minute of 2 April to the Prime Minister. I think you and your officials are to be congratulated on a very successful competitive exercise and I warmly support your proposals.

*with ATC 3.4. see TPM
sup*

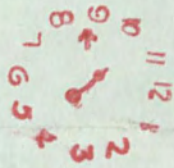
Peter Rees

PETER REES

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Defence PT 2

Procurement



- 9 APR 1984

MR COLES

4 April 1984

2

SURFACE-TO-SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

We support the Secretary of State's decision to purchase the McDonnell Douglas Harpoon missile system.

Harpoon is superior on operational, delivery and cost grounds to the other contenders and is clearly the most cost-effective proposal. The improved offer of 130% offset will also provide more employment in British industry than would the purchase of British Aerospace's ship-launch Sea Eagle.

In contrast to the HARM v ALARM decision, the need to retain basic technology in the UK is not a relevant argument.

This requirement is met by the current programme for the air-launched Sea Eagle system. In addition, the purchase of ALARM will ensure a continued UK capability in the development of seeker heads for future generation missiles.

This case demonstrates the significant benefits which can be gained from a tough commercial approach to international procurement competitions and from overseas procurement in appropriate cases.

There will undoubtedly be a row over this decision. But we have an excellent case and every incentive to demonstrate that we are prepared to procure abroad when this is in the UK's best interests.

DLP.

DAVID PASCALL



cc JR

Chancellor of the Duchy of Lancaster

PRIME MINISTER

SURFACE-TO-SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

The Secretary for Defence puts forward a compelling case in his minute to you of 2 April. TPM

However much noise they make, it will be widely recognised that taking the field as a whole we have been pretty generous to British Aerospace.

I am copying this to members of OD and Sir Robert Armstrong.

A.C.

A C

4 April 1984

DEFENCE : Procurement : Pt 2

SECRET (1)



Prime Minister.

See minute from Lord Corfield and
Policy Unit (attached).

Subject to colleagues, agree Harpoon?

MO 26/3

PRIME MINISTER

A. & C. 94.

SURFACE-TO-SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

A 1

In my minute of 1st September 1983 I informed you and our OD colleagues of my intention to authorise the procurement of the McDonnell Douglas Harpoon missile system as the second generation surface-to-surface guided weapon to be fitted to the Royal Navy's four Batch III Type 22 Frigates and the first eight Type 23 Frigates. Procurement action was subsequently postponed because one of the other contenders, British Aerospace, submitted a revised proposal in respect of the Ship Launched Sea Eagle missile system. This proposal was analysed in detail and, in addition, I asked Peter Levene to carry out an independent validation of my Department's appraisal of the competing systems. I then directed that best and final offers be sought from all four tenderers. Those offers have now been received and scrutinised in detail.

2. My original decision to buy Harpoon was based on its superiority on operational grounds over other missiles, the absence of development risk, its availability for the Type 22 Frigates and its cost. None of these factors have been changed by the retendering exercise. It remains the case that Sea Eagle would require further development to meet the same standard and our doubts about its ability to meet the Type 22 timescale have deepened. I attach at Annex A an updated and expanded version of the Annex to my Minute of 1st September 1983, which sets out the issues in more detail and which will be of particular interest to those of our colleagues who have not seen the previous version.

3. On cost, after allowing for additional development costs, evaluation firings and in-service trials, and contingencies, Sea Eagle would cost



£271.6M for 215 missiles as against £221.6M for the same number of Harpoon (at \$1.41 to the pound; January 1984 prices, VAT inclusive). However, since the Harpoon missile is identical with the Sub-Harpoon, which is already in service in substantial numbers with the Royal Navy, fewer spares and in-service trials would be necessary. In addition surplus Harpoon missiles become available as older SSNs leave service in the 1990s. Taken together these factors allow us to meet our requirement with 60 fewer missiles, giving a reduction in the prime cost of the Harpoon programme to £180.8M (a breakdown of these cost estimates is attached at Annex B). If Harpoon is bought direct from MDAC 30% of the cost will be paid in sterling. An investment appraisal has shown that the differential in net present value terms is £75.5M.

4. In addition, the case for Harpoon was supported by the excellent offset proposal from McDonnell Douglas which would have ensured that employment opportunities in British Industry arising from a purchase of Harpoon would at least have equalled those resulting from a purchase of Sea Eagle. McDonnell Douglas have now improved this offer from 100% of the cost of the purchase to 130% of which half would be in areas of high technology and 30% on the Harpoon programme itself. McDonnell Douglas' record on offset is good and they are prepared to incorporate their undertaking in the contract.

5. Finally, I am concerned that failure to recognise Harpoon as the clear winner of the competition will undermine the credibility of such international procurement competitions and thereby reduce the willingness of foreign companies to participate. It may also affect our ability to sell equipment overseas, particularly to the US.

6. I intend, therefore, to proceed with my plans to procure Harpoon. We will no doubt face an adverse reaction both from British Aerospace and from their Parliamentary supporters. We will, however, be able to point to the excellent, and improved, offset terms from McDonnell Douglas in response to any criticism



that job opportunities in UK industry will be reduced. We may also be charged with reducing the overseas sales potential not only of Ship Launched Sea Eagle, but also of the Air Launched version which is under development for the Royal Navy and the Royal Air Force. While there would inevitably be some substance in such a charge, I do not believe that the immediate sales prospects of Air Launched Sea Eagle are likely to be seriously damaged by a decision against Ship Launched Sea Eagle, and I am not convinced that the sales potential of the Ship Launched version is as great as British Aerospace have claimed, given that it will be entering a highly competitive market dominated by well established systems and taking political and security constraints into account.

7. The tenders on offer expire on 11th April and I should like to make a public announcement by then, having first informed the firms concerned and my French and Italian counterparts. I should, therefore, be glad to know, as soon as possible that you and our OD colleagues are content with my decision to procure Harpoon.

8. I am sending copies of this Minute to our OD colleagues and to Sir Robert Armstrong.

M. G. G.

[Draft approved by the Secretary of State]

Ministry of Defence

2nd April 1984



SECOND GENERATION SURFACE-TO-SURFACE GUIDED WEAPON FOR TYPE 23
AND TYPE 22 BATCH III FRIGATES

BACKGROUND

The immediate warship building programme for the RN consists of four Type 22 Batch III and subsequently eight Type 23 frigates. These ships require a Surface-to-Surface Guided Weapon (SSGW) to provide defence against the growing number of Soviet ships with an anti-ship capability. The aspects of most operational significance are range, salvo size, the ability to penetrate enemy defences, and the need to meet the tight In-Service Dates of the Frigate programme.

2. Our existing SSGW system is the Exocet MM38. To meet our future needs, a more advanced system is required and, as several are available, an international competition has been held to select the most cost-effective equipment. Six solutions were offered:-

- a. HARPOON - McDonnell Douglas Astronautics Company
- b. SEA EAGLE - British Aerospace plc
- c. OTOMAT (FR) - Matra SA
- d. OTOMAT (IT) - OTO Melara
- e. OTOMAT (UK) - Melara/MSDS
- f. EXOCET MM40 - SNIAS

The options at c and d were not evaluated in detail for reasons of cost and performance when compared to option e.

EVALUATION

3. An in-depth evaluation of the four remaining options against a



number of key aspects was conducted by MOD staff. The options were evaluated both as offered by the firms and on the basis of improvements thought necessary to meet the RN's requirement. In the latter case, account was also taken of the USN's plans to improve the existing HARPOON missile before the end of the decade.

4. Operational Factors. This evaluation resulted in the identification of the following main points:-

a. Range. The MM40 missile could not provide the 140 km range now required by the RN and, because it has a solid fuel motor, improvements would be impracticable. HARPOON and OTOMAT (UK) have the required range and ship launched SEA EAGLE [SEA EAGLE(SL)] could be improved to provide it.

b. Salvo-Size. A Salvo of 4 missiles is needed to penetrate sophisticated defences; thus 8 missiles provide a 2-target capability. Eight missiles of all types can be fitted in the Type 23, and 8 HARPOON, MM40 and Sea Eagle in the Type 22 Batch III. Ship fitting constraints make it impossible to fit more than 6 of the longer OTOMAT(UK) missiles, as currently configured, in the Type 22 Batch III frigates.

c. Penetration against Countermeasures. Harpoon and MM40 both provide good performance against the postulated electronic countermeasures threat and possess the maximum survivability against hard kill weapons available now deployed and likely to come into service. SEA EAGLE (SL) and Oto Mat (UK) would both require considerable development of the associated MSDS target seeker and some improvements in missile performance to counter hard kill weapons.

d. Timescale. Harpoon and MM40 have no difficulty in meeting the timescale for the Type 22 Batch III vessels. The seeker improvements required for Oto Mat and SEA EAGLE could be ready in time for the Type 23 only, though British Aerospace have undertaken to retrofit the advanced seeker to earlier missiles



at no extra cost. The ship system for SEA EAGLE would almost certainly be late for the Type 22 Batch III ships. To meet the shipbuilding programme it would be necessary to fit an alternative weapon to these ships with the corresponding penalties in cost and further diversification of RN anti-ship missile types.

e. Numbers. If Sea Eagle, MM40 or Otomat were selected, the total number of missiles required would be 215 (including reserves, repair and distribution margins, firing allowances and evaluation rounds). However, the Harpoon missile is identical with Sub-Harpoon, already in service with the Royal Navy's SSNs and planned for SSKs. Because of this commonality it is possible to reduce the spares and repair and distribution margin for Harpoon and, since surplus SSN missiles will become available after 1996/7, to reduce the number of operational Harpoon missiles required. The total saving is 60, resulting in a requirement of only 155 missiles if Harpoon is selected.

5. In summary, from an operational point of view, Harpoon is a clear first choice, SEA EAGLE (SL) and OTOMAT (UK) could provide a similar capability at additional cost, and SEA EAGLE (SL) would probably not be available in time for the Type 22 Batch III ships.

6. Technology Factors. Anti-ship guided weapons is a field where international competition is particularly fierce. The production of the air launched SEA EAGLE missile provides within the UK the basic technology to enable air-launched anti-ship missiles and their supporting equipment to be designed and developed in the UK. The high technology area of 2nd generation missiles is the seeker head: but given the decision to buy ALARM the technological and industrial position on future seekers has essentially been protected. However, just as it was the Department's decision not to establish a technology base in the UK for first-generation SSGW technology, and the selection of Harpoon (if endorsed) will mean that a similar decision will have been taken with regard to second-generation technology, so the Department have no intention of acquiring third-generation SSGW technology. The latter would need to start now and could cost £100M in development over 10 years; the Department have no funds available



and consider that this is too high a premium to pay for the development of the appropriate technology in the UK.

7. It has been suggested that, if SEA EAGLE (SL) were selected, some development funds would be saved in future if the RAF were to select an advanced homing head for their Air-Launched Sea Eagles. There is however currently no such RAF requirement, and no funds have been set aside in the RAF's future programme. The hypothetical saving of part of these funds can therefore not be taken into account in assessing the cost to the Department of the Sea Eagle offer.

8. Industrial and Employment Implications

a. SEA EAGLE. Based on information supplied by BAe it is estimated that some 5,500 man years of work could be created by the selection of SEA EAGLE improved to meet the RN requirement. BAe, MSDS, Ames Industry, ROF Patricroft and IMI Summerfield would be the principal beneficiaries.

b. HARPOON. A MDAC offer to offset to the value of 130% will be included in the final contractual agreement between MOD and MDAC. This will generate at least a similar number of jobs to SEA EAGLE; half the offset would be in "high technology" areas and 30% would be directly concerned with the UK Harpoon programme. MDAC's record on SUB-HARPOON has been good and there is every expectation that this level of offset will be achieved. Lucas, Babcock Power, Ferranti and ROF Patricroft are likely to obtain a significant amount of work.

c. OTOMAT(UK). OTO Melara have offered offset at 100% of the contractual price. MSDS would expect up to 1600 man years work associated with the seeker, as well as being invited to tender for electronic units (1800 man years), and launch containers, propulsion unit shells and fuel tanks (180 man years). Plessey could expect some ship system equipment and ROF Patricroft warhead production.



d. EXOCET MM40. Offset valued at 70% has been offered by SNIAS. The exact location is uncertain but SNIAS have offered to have the seeker produced in the UK by either Ferranti or MSDS. This could amount to 1150 man years work.

9. Reassessment and Re-tendering Exercise. Following receipt of the original tenders, British Aerospace submitted a revised proposal in respect of Sea Eagle. This proposal was scrutinised in detail and, in addition, an independent reassessment of the Department's original evaluation of the contending systems was carried out by the Secretary of State's Personal Adviser. He endorsed the Department's original conclusions but advised that best and final offers be sought from all four tenderers.

These offers have been subjected to detailed scrutiny. None of the conclusions set out in paragraphs 3-7 above have been changed by the re-tendering exercise. On technical and operational grounds the choice of Harpoon has been reaffirmed.

10. Costs and Financial Provision. The cost of the various options at January 1984 exchange rates (£1 = \$1.41 = FF12.10) are:

Harpoon (155 missiles) - £180.8M; Harpoon (215 missiles) - £221.6M
Otomat - £242.2M; Exocet MM40 - £248.1M; Sea Eagle - £271.6M.

Harpoon has the cheapest prime cost, and investment appraisal shows it also to be the cheapest option in discounted terms (by some £76M over Sea Eagle). If Harpoon is bought directly from the company McDonnell Douglas have agreed that 30% of the cost can be paid in sterling thus reducing the impact of future change in exchange rates.

11. Sales. Taking into account political/security constraints, sales of ship-launched Sea Eagle might reach £30M per annum although this must be considered an optimistic estimate given that it would be competing in a highly competitive market against well-established in-service systems. British Aerospace's current offer for the supply



of Sea Eagle to the Royal Navy is contingent upon the Department agreeing to waive all R&D levies upon overseas sales; there is thus no financial benefit to the Department from overseas sales of the system. Current potential sales of Air Launched Sea Eagle are not thought to be seriously endangered by an RN decision against SEA EAGLE (SL).

DISCUSSION

12. With regard to both its operational capabilities and its cost advantage, HARPOON is the clear first choice to meet the RN's requirement for a second generation SSGW system for the 4 Type 22 Batch III ships and 8 Type 23 ships. The main disadvantage of the EXOCET MM40 system is a lack of range. The capability of SEA EAGLE (SL) could be improved, but it is the most expensive solution. In any case, even the basic option would probably not be available in time to meet the Type 22, Batch III ships. OTOMAT(UK) suffers from many of the drawbacks of SEA EAGLE, and with SEA EAGLE(AL), Harpoon and EXOCET MM38 already in service it would lead to a further proliferation of types.

13. A choice of HARPOON would not have adverse implications for the technology base given that ALARM has been chosen to meet ASR 1228, neither would it adversely affect total employment opportunities. A decision not to procure HARPOON could adversely affect the UK's credibility as an organiser of international competitions as part of the procurement process, as well as affect the UK's ability to sell equipment to the USA.

14. To overcome the timescale problems with SEA EAGLE it would be possible to fit EXOCET MM40 to the Type 22, Batch III ships (to provide a degree of commonality with the existing fleet) and introduce SEA EAGLE on the Type 23s, but this would also entail a substantial cost premium. The only other viable option to keep the purchase within Europe would be to purchase Oto Mat, with its attractive offset package, and to accept the cost premium and the

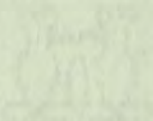


disadvantages of introducing a fourth surface-to-surface missile variant with our forces.

CONCLUSION

15. The operational and financial arguments lead to the conclusion that the most cost-effective option for an SSGW to equip 8 Type 23 and the 4 Type 22, Batch III Frigates is to purchase HARPOON at an estimated cost of £180.8M (January 1984 prices and exchange rates, VAT inclusive). This would cover 12 ship systems and 155 missiles together with associated shore based equipment and support.

CONQUEROR





BREAKDOWN OF COST ESTIMATES FOR HARPOON AND SEA EAGLE

(£M, January 1984 economic conditions)

	<u>HARPOON</u> (215 missiles)	<u>HARPOON</u> (155 missiles)	<u>SEA EAGLE</u> (215 missiles)
1. Tendered equipment	140.3	109.5	169.8
2. Improvements and non-tendered costs	29.6	28.9	40.9
3. Contingency	9.6	8.5	25.4
TOTAL (VAT exclusive)	179.5	146.9	236.1
4. VAT	27.0	22.0	35.5
5. Exchange rate variations	15.1	11.9	-
	—	—	—
TOTAL (at January 1984 prices and exchange rate of £1 = \$1.41)	221.6	180.8	271.6

Notes:

1. "Improvements and non-tendered costs" includes additions necessary to bring equipment into service, extramural and intramural support, and improvements common to all options. The larger sum estimated as necessary for Sea Eagle includes the provision of Government-funded equipments and facilities requested by BAe, the provision of telemetry kits and simulators (omitted from BAe's tender), and work required to improve and assure the reliability of Sea Eagle arising from inadequate guarantees of reliability contained in the BAe offer.

2. The contingencies on the programmes have been set at 5% for Harpoon and 12½% for Sea Eagle. Harpoon is a well-established programme with few areas of risk; Sea Eagle contains substantial areas of development risk and uncertainty, and contractual negotiations with BAe have made it clear that BAe are unwilling to bear this risk themselves. Since the risk would be left with HMG, appropriate provision must be made.

3. The original calculations were performed at the LTC 84 exchange rate of £1 = \$1.53. The exchange rate variations quoted in line 5 above take account of the actual January 1984 exchange rate, which was £1 - \$1.41.



4. The Harpoon figures include an R&D levy of £5.0M. A waiver of this levy is being sought from the US Government.

CONQUEROR

11

Deference pronouncement A2

COMPTON

1911

D. R.

MR. COLES

✓ A.S.C. 2/3.

MR. REDWOOD

I have re-arranged the Defence Procurement Meeting with the Secretary of State for Defence to take place after Cabinet on Thursday, 12 April. This was the first date that both the Prime Minister and Michael Heseltine could manage.

CR

26 March, 1984.

MR COLMS

ASC. 2/3.

22 March 1984

SURFACE-TO-SURFACE GUIDED WEAPON

We have been following the involved saga of Sea Eagle (British Aerospace) versus Harpoon (McDonnell Douglas). You will have seen the front page story in the Express today.

We understand that an OD paper is likely to be produced next week. The recommendation will be strongly influenced by certain assurances which are awaited from the Americans.

We expect to be in position to advise the Prime Minister when the paper comes forward, particularly if similar issues to the HARM/ALARM debate are raised.

DLP.

DAVID PASCALL

B. R.

MR. COLES

m 3/3

c. Mr. Redwood

The Secretary of State for Defence's office rang to say that they wanted to postpone the defence procurement meeting until Monday, 26 March. I have therefore arranged the meeting for that Monday at 1030.

CR

2 March 1983

246 54

MR. REDWOOD

cc: Mr. Coles

I have arranged for the Secretary of State to come and see the Prime Minister to discuss the Defence Technology meeting you requesting on Friday, 9 March at 1045.

MRS. CAROLINE RYDER

29 February, 1984

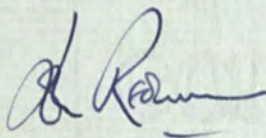
(T)

D. R.

28 February 1984

CAROLINE RYDER

Can we find time for the essential
technologies defence meeting very soon?
It has now been much delayed, and is
quite urgent.

A handwritten signature in blue ink, appearing to read 'John Redwood', written in a cursive style.

JOHN REDWOOD

✓CCDP

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

29 February 1984

for review,

A.S.C. ²⁹/₂
h-a -

National Defence Technological Capabilities

Thank you for your letter of 14 February enclosing the report by officials on essential defence technologies and a copy of John Coles' letter of 12 January.

will request if required

I understand that the Prime Minister's proposed meeting with Mr Heseltine has not yet taken place. We were particularly interested in her suggestion that the scope for achieving greater standardisation and collaboration within NATO should be considered by a group of officials under MOD chairmanship. We consider that such work would be timely. The American initiative on emerging technologies and, within Europe, Mr Heseltine's chairmanship of the Eurogroup (and that of the Dutch of the Independent European Programme Group) are giving fresh impetus to equipment collaboration in NATO. Moreover, the increasing difficulty which some Allies are finding in maintaining their levels of defence expenditure at a time of rising costs is also focusing attention on such issues as role and equipment specialisation.

In view of the international implications of defence equipment standardisation and collaboration, I hope that you will agree that it would be appropriate for the FCO to be represented in any further committee set up under MOD chairmanship.

I am sending copies of this letter to the Private Secretaries to the Prime Minister and other members of OD.

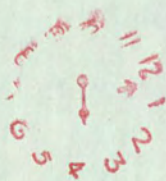
*Yours
R B Bone*

(R B Bone)
Private Secretary

R C Mottram Esq
PS/Secretary of State for Defence

CONFIDENTIAL

Reference Procurement P+2



PRIME MINISTER

Your meeting with the Defence Secretary

You asked for this meeting to discuss the questions set out in my letter of 12 January (attached). A minute by the Policy Unit of 2 February goes into these matters in more detail.

I have also put in this folder a paper which you have not yet seen - namely Mr. Evans's letter of 27 January containing the MOD response to your request for a paper on competitiveness in the UK defence industry. You may also want to have a word with the Defence Secretary about this.

A. J. C.

6 February 1984

MR COLES

2 February 1984

FOLLOW UP WORK TO THE REPORT ON ESSENTIAL DEFENCE TECHNOLOGIES

Our comments on the report on Essential Defence Technologies and our reasons for proposing three further areas of work

- the strengths and weaknesses of our defence industries and technologies in terms of international competitiveness
- the scope for adopting a more open system of equipment procurement for non-essential technologies
- the scope for achieving greater standardisation and collaboration within NATO

are set in our minute of 11 January 1984.

The further work is intended to build on the small but important step of defining those areas in which an indigenous capability is essential. We consider that it would be complementary to the very welcome measures which the Secretary of State is taking to promote competitiveness in the UK defence industries.

We suggest that the Prime Minister could discuss with Michael Heseltine whether a small and flexible team under MoD Chairmanship and including representatives from the Policy Unit, DTI and the Treasury is likely to make a positive contribution to these questions.

We consider that this approach would have the advantages of giving outsiders the opportunity to question MoD conventional wisdom and to relate the MoD's industrial policy to our other industrial and economic policy objectives.

To ensure that the work does not suffer the usual disadvantage of interdepartmental groups and concentrates on practical proposals which will help future procurement decisions, we suggest that Geoffrie Pattie would be a suitable Chairman.

The proposed issues should be tackled in order. If we had a clearer idea of where our defence industrial strengths lie, it would be easier to assess the industrial implications of individual procurement decisions.

We also make little attempt to optimise loadings on British industry. For example, British Aerospace could well be overloaded if they are awarded the vertically launched Sea Wolf project and the sea-launched Sea Eagle project as well as ALARM. Yet this factor is only likely to be fully considered when the last of the three projects comes forward for decision.

Similarly, we do not want to rule out overseas suppliers who might offer better value for money but we need to be clearer about the scope for moving in this direction. Overseas competition will need to be used judiciously to encourage our industries to become more competitive and to promote greater export and collaborative opportunities for our own industries. It was noticeable at a recent Defence Equipment Policy Committee (DEPC) meeting, that the Committee had great difficulty in deciding whether international tenders were politically and industrially acceptable for a new fleet support ship.

On collaboration, the Secretary of State has recently taken over the Chairmanship of the NATO Eurogroup and is keen to make progress. Two major projects - the future European Fighter aircraft and a feasibility study for a future NATO frigate - are in the offing. The timing is therefore opportune to take a closer look at some of the defence, industrial and political implications of such projects.

Conclusion

We consider that the suggested further work should provide a clearer idea of where Britain's best interests lie and how value for money in the defence equipment budget could be improved. The potential prize is significant and merits an attempt to tackle some of the questions which have made recent procurement decisions so difficult.

DLP.
DAVID PASCALL

MR COLES

31 January 1984

COMPETITION IN DEFENCE PROCUREMENT

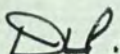
We have been following with interest the very welcome steps which the Secretary of State has been taking to promote competitiveness in the UK defence industry. I have recently attended two meetings of the Defence Equipment Policy Committee (DEPC) and it is obvious that the interest of Defence Ministers in competition is widely recognised and that the official machine is making every effort to respond to Ministers' wishes.

Nevertheless it will not be easy to change the culture of the procurement process and to introduce a more commercial approach. The attitude of the defence industries is in some cases apprehensive with the perception that there will be losers as well as winners. However, industry should welcome this development as they have much to gain from becoming more competitive, both in a national and international context.

The emphasis at the moment is on improving competitiveness within the UK contractors. Michael Heseltine also refers to the need not to rule out overseas suppliers who might offer better value for money but emphasises that the implications should be carefully assessed.

We agree with this approach. The further work which we suggested as a follow-up to the report on Essential Defence Technologies includes a closer look at the potential in this area. Any moves to a more open system of procurement in certain sectors, particularly those where economies of scale limit the scope for national competition, should also be designed to encourage greater export and collaborative opportunities for our own industries.

We shall be providing a note on this further work before the Prime Minister's meeting with the Secretary of State next week.

DAVID PASCALL



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LJR
2 DP 30/1/84
MR. COLES

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-990-7000 218 2111/3

MO 26/2

27th January 1984

Dear John,

In your letter of 6th January you said that the Prime Minister would like to see a paper on competitiveness in the UK defence industry. The steps we are taking in our own interests to combat the real cost growth in defence equipment were touched on in the paper sent with my letter to you of 22nd September last. These are also relevant to the question of competition. Greater emphasis on an early dialogue with industry about new requirements, eradication of gold plating in these requirements, increased emphasis on saleability of equipment, pressure on cost-consciousness and competitiveness in industry through competition and taut contractual terms are all designed to secure equipment from UK industry which not only meets the needs of the Armed Forces but is also competitive in price and performance on the international market. An Open Government Document - Value for Money in Defence Procurement - published in the Autumn, of which I attach a copy, may be of interest to the Prime Minister. All staff in MOD concerned with procurement are working to internal instructions following the line of the OGD.

On the particular question of competition Mr Heseltine, as he told the Prime Minister, regards it as a major objective for competition to be applied whenever it is practicable and sensible to do so. I attach a copy of instructions he has issued to the Department. The Prime Minister may also wish to see the attached note which sets out how these instructions are being carried forward. A paper on similar lines has been circulated to industry for discussion at the meeting on 23rd February of the National Defence Industries Council. The Prime Minister may have noted that a major step forward in the application of the new policy has already been secured in relation to the new infantry fighting vehicle for the Army (the MCV80 project). I attach a copy of the written Parliamentary answer given on Monday 23rd January on this project.

Yours ever
Nick Evans

(N H R EVANS)
Private Secretary

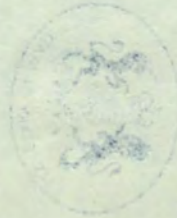
A J Coles Esq

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Служба по делам печати

Министерство культуры Российской Федерации
Министерство печати Российской Федерации



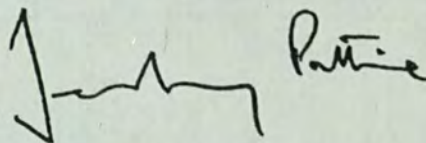


**VALUE
FOR MONEY
IN
DEFENCE
EQUIPMENT
PROCUREMENT**

VALUE FOR MONEY IN DEFENCE EQUIPMENT PROCUREMENT

Over the last two years in particular, much attention has been devoted in the Ministry of Defence to ways of securing better value for money, in both defence and national terms, from the significant financial and skilled manpower resources engaged in meeting UK Service equipment requirements. In that period the Ministerial structure of the Ministry of Defence has changed to allow two Defence Ministers to concentrate primarily on defence procurement issues; and in 1981/82, the Defence Committee of the House of Commons conducted an enquiry with particular reference to defence procurement and sales, and issued a report (1) in July 1982 which gave general encouragement to the policies being adopted.

Throughout the period the Ministry has been seeking through discussion within Government and with Trade Associations and individual companies to develop an approach to procurement which recognises the wider potential benefits of its equipment expenditure, while at the same time trying to meet the cost pressures on its budget. This document makes public the way in which that approach is being implemented, with some commentary on the background and objectives in mind. Its content relates to the majority of the Ministry's purchasing, but not to those goods and services whose procurement is governed by our obligations as members of the European Communities and of GATT which in any event seldom give rise to the cost, development and investment issues under discussion.



GEOFFREY PATTIE
MINISTER OF STATE FOR DEFENCE
PROCUREMENT

Ministry of Defence October 1983

Defence Open Government Document 83/01

Further copies of this document can be obtained from: Industrial Policy Division
MINISTRY OF DEFENCE
Main Building, Room 2388
Whitehall, London SW1A 2HB

(1) HC(1981/2)22-1

I - THE BACKGROUND

1. The Ministry of Defence, with a planned equipment budget of over £7.2 billion in 1983/4, is the largest single customer of British Industry. In certain sectors, the Ministry is the dominant customer; defence procurement accounts for about half the output of the aerospace industry and one third of the output of the electronics and shipbuilding industries. Further, in many sectors (eg electronics, aviation, control systems and marine technology) the Ministry sustains, through the MOD Research and Development Establishments and extra-mural R & D contracts, much of the R & D base without which those industrial sectors could not function effectively. In 1981/82 defence equipment expenditure supported some 242,000 jobs directly in British Industry and another 193,000 indirectly; sales of defence equipment abroad another 145,000 jobs. There are more than 60 contractors with each of whom the Ministry does more than £5M-worth of business each year; at any one time more than 10,000 British companies are working on defence contracts. The defence industrial base is a major national asset, whose health and future is of concern to all.
2. At the same time, defence equipment procurement accounts for an ever-increasing proportion of the Defence Budget. Five to ten years ago, the proportion was around 35%; it now stands at over 45% - among the highest in NATO. This switch in the allocation of resources represents a considerable success in the Ministry's conscious drive to keep down personnel costs, reduce its own overheads, and equip the Armed Forces as fully and as effectively as possible.
3. There is, however, a limit to how much further this trend can be taken; and increasing expenditure on equipment does not necessarily result in the deployment of greater numbers of units of equipment with the Armed Forces. New equipment usually shows remarkable qualitative improvements over the items it replaces, but there is also a trade-off between quality and quantity. The importance of the latter should not be underestimated.

II - REVERSING THE TREND

4. It is accordingly of paramount importance - to the Services, the defence industries and all who work in them - that everything possible is done to halt (and where possible to reverse) the rise in defence equipment costs and ensure that the Defence Budget is spent in the most cost-effective way.

5. The various elements of our approach to this issue were set out in Chapter 4 of last year's Statement on the Defence Estimates (Cmnd 8529). Major themes continue to be:
 - a. promotion of cost-consciousness and competitiveness in Industry;
 - b. capitalisation, through exports, of the national resources devoted to defence R & D;
 - c. eradication of over-elaboration in our own equipment requirements;
 - d. sharing of risks, and costs, through international collaboration and/or joint ventures with Industry;
 - e. streamlining of administrative procedures and reductions in staff numbers within the Procurement Executive.

6. Measures employed in furtherance of the above include those recommended in the Public Purchasing Guidelines issued by HM Treasury in early 1981 (Annex A) and subsequently endorsed in 1982 by the Public Accounts Committee, which stressed the need to ensure that the policy is applied as consistently and fairly as possible from the point of view of both the taxpayer and competing suppliers. The MOD is for example developing as widely as possible its dialogue with industry on equipment requirements. Discussions with Industry are now taking place before the formulation of a staff target begins and the Operational Requirements staff are being urged to make the staff targets themselves shorter and simpler - and to state the problems, objectives and constraints but not the solution. Additional steps include the establishment of a programme of detailed briefings for Industry on specific aspects of the threat to the UK and NATO, greater emphasis on competitive procurement and the use where possible of incentive pricing.

7. Competition is important not just because it contributes to keenness in pricing but also because it stimulates innovation and enterprise, and the encouragement of new ideas for the solution of defence problems. It will therefore be the determination of MOD to secure competitive proposals whenever this is practicable and reasonable.

8. On incentive pricing, the Ministry's objective is to make the maximum practical use of such arrangements wherever it is realistic and cost effective to do so. Some 80% by value of MOD contracts are subject to fixed price or other incentive arrangements which encourage Industry to carry out the work as efficiently and economically as possible. The cost-plus-percentage-fee method of contracting remains very much a method of last resort, to be used only where the work cannot be defined with sufficient precision to enable a fair and reasonable price to be agreed by the Ministry and Industry.

9. Consistent too with the objectives of the Government's purchasing policy is our emphasis on the marketability of defence products. Increased stress is being placed on adjusting operational requirements and technical specifications within acceptable limits to make the prospective equipment more saleable abroad, thus assisting firms to be less dependent on MOD for their markets and profits, and benefiting MOD directly through the reduced unit costs which can result from larger production runs. MOD will also consider, wherever possible, adopting or building on commercially developed or other existing products. Industry, likewise, must take account not only of the likely size of the Services' demands, but also of the potential export market. If there is a good chance of increasing sales prospects by modification of an MOD specification, they should not hesitate - the early consultations referred to above should facilitate this - to suggest such a modification. A full market forecast^t will usually be an essential feature of the preparatory work to be carried out before defence funds are committed to a major project. The Defence Sales Organisation, the recent review of which has placed more emphasis on marketing in support of Industry, will have an important role to play in this. The MOD is also examining in conjunction with the Department of Trade and Industry ways in which civil spin-off from defence technology might be enhanced.

10. Industry, too, has its own role to play in taking positive steps to reduce costs, to promote greater efficiency in the use of our industrial resources and generally to improve the marketability of its products. A particular responsibility devolves on the Department's prime contractors in their dealings with sub-contractors. Having deliberately decided, in the interests of greater managerial efficiency, to place greater responsibility with the prime contractors for managing major defence projects, it is no longer possible, even were it desirable, for the Department to intervene in all cases in the detailed allocation of individual sub-contracts. But the greater power of management afforded to prime contractors carries with it its own responsibilities. Many of the objectives of the Government's Public Purchasing Policy are also relevant to the relationships between prime contractors and sub-contractors, and where such is the case the Department expects its prime contractors to have appropriate regard to them and to maintain the same close dialogue with these sub-contractors as they have a right to expect the Ministry to maintain with them. Sub-contractors for their part will have to be responsive to market requirements and the need to contain costs and cannot expect to be shielded from competitive forces. On both sides sensitive judgements will be called for if the purchasing power represented by the Defence Equipment Programme is to be used to its best advantage in enhancing industrial performance and benefiting the national economy generally.

11. As to reductions in staff numbers and streamlining of operational procedures, a great deal has already been achieved. Between 1974/5 and 1982/83, while the defence equipment budget was rising by some 40% in real terms, staff numbers in the Procurement Executive fell by over 30%. In 1982 the Ministry improved the effectiveness of its procedures for the scrutiny of requirements and projects. Organisational changes were made in the central machinery and staffs both military and civilian to facilitate a better overview of the equipment programme, and the delegated financial powers of the Service Departments were enlarged in order to streamline the implementation of procurement decisions within constraints laid down centrally.

III - PROCUREMENT SOURCING: CRITERIA

12. The Ministry will inevitably however continue in future to face difficult procurement and investment decisions, and there will be a need to adopt a co-ordinated and consistent approach to ensure the most cost-effective use of the defence equipment budget. We will accordingly be considering the procurement source for new requirements within the following framework:

- a. importance of the project in absolute terms to the Services, and the military need for and benefit from the associated indigenous industrial capabilities, whether at the system or component level;
- b. affordability, having regard to the effect on cost of the likely size of the MOD demand, the potential export market, and the prospects of sharing the R&D costs through acceptable collaboration and/or joint ventures with Industry, founded on confidence of achieving a viable market share. The feasibility of product improvement and the availability of suitable commercially developed products are also relevant;
- c. the extent to which non-UK sources are likely to be available to meet Service needs at acceptable cost (initially and whole life). This should be considered in terms both of whole and sub-systems and components and address questions of security, eg in relation to software, and ease of modifications in emergency. Such considerations should also cover possible political restrictions on use for sales and/or national interest operations;
- d. the relative position of UK industry compared to overseas sources and whether, and how, industrial competitiveness will be improved, including the extent to which opportunity can be taken to further the aim of securing the alignment of industrial capacity with likely levels of requirement.

13. The considerations above will not always point in the same direction; and some aspects will be of greater relevance than others at different times and to different projects. But it is the Ministry's view that only by bearing all these considerations in mind can:

- a. The Services obtain (at the right time, in the right quantities and at an economic cost) the equipment they need to discharge the tasks they have been allotted;

b. the various sections and levels of the UK defence industry maintain and develop capabilities of value to the Ministry and increase their general competitiveness, recognising that these capabilities will inevitably change in response to the nature of defence requirements and as decisions are taken with an eye to value for money;

c. the Government, having regard to its national and international obligations, be seen fairly and responsibly to allocate large sums of public money in a field engaging much of the country's most highly qualified resources, both of manpower and material;

d. the need to secure long term value for money, on a national basis, be respected. This is the final test.

PUBLIC PROCUREMENT POLICY; GUIDELINES

1. It is the Government's policy that, as a matter of enlightened self interest, public sector purchasers should use the influence their purchases give them to help develop the design, technology and competitiveness of their suppliers.
2. The procurement practices needed to ensure that the Government's policy has the maximum effect are as follows:
 - a. the adoption of a clarified 'value for money' criterion;
 - b. the use of best purchasing practices in relations with suppliers;
 - c. clear instructions to public sector purchasers to ensure that the policy is carried out.

Value for money

3. The individual purchaser's objective is to purchase what is needed at the right time and in such a way as to ensure the best value for money. Value for money has sometimes been judged within the context of each individual purchase without taking into account the broader cumulative effect which public sector purchasing can have on the efficiency of suppliers.
4. Value for money should not be judged solely on the basis of the lowest initial cost. Design, reliability and maintainability, for example, will affect the total cost over the life of a product. Factors such as these may justify a higher initial cost. Actions to promote the industrial viability and hence the trading competitiveness of suppliers can justify an additional initial cost or greater technological risk if over the longer term the purchaser expects to gain improved value for money.
5. The annex to these guidelines provides advice on the factors which may be relevant to individual decisions, and on how they should be assessed.

Enlightened Procurement Procedures

6. There are a number of practices which public purchasers can adopt. These include:

- a. early dialogues about possible requirements with potential suppliers (including the manufacturers of major components). Such dialogues are more likely to be relevant for large or important contracts, especially those incorporating new or improved technology, than for low volume orders for everyday products;
- b. encouraging both product and process innovation;
- c. specifying requirements in performance terms rather than specifying detailed designs which take no account of other industrial applications;
- d. maintaining as far as practicable an even ordering pattern to allow efficient production planning;
- e. de-briefing suppliers on request (within the bounds of commercial confidentiality) when a major contract has been placed elsewhere, including the identification of specific deficiencies in bids.

Dissemination

7. The practices outlined in these guidelines are already part of best practices in both the public and private sectors. Economies of long-term benefit both to suppliers and to purchasers can be achieved through rationalised requirements, more organised volume production and through improvements in production planning. But the principles have not been applied widely enough. It is essential, therefore, that the approach set out in these guidelines becomes an integral part of procedures for the award of public sector contracts.

VALUE FOR MONEY

A CHECKLIST OF FACTORS RELEVANT TO PROCUREMENT DECISIONS

SHORT-TERM CONSIDERATIONS

1. STATUS OF FIRMS INVOLVED

- Financial viability
- Design capability
- Production capacity
- Quality Assurance status and track record
- Cost Management arrangements and track record
- Delivery record

2. EQUIPMENT OFFERED

- Extent to which it meets minimum requirement
- Design/artistic qualities (where appropriate)
- Compatibility with equipment already in use
- 'Extras' above minimum requirement which offer cost effective advantage
- Scope for improvement or 'stretch' by later modifications or 'add ons' etc
- Conformity with standards (national, international, NATO etc)
- Scope for value engineering
- Reliability - proven record?
- Maintainability
- Defect reporting and rectification arrangements
- Repair/servicing arrangements

3. IMMEDIATE COST OF ACQUISITION

- Initial price
- Firmness of price (eg fixed, with or without VOP, cost plus etc)
- Basis for agreeing prices on associated or follow-on orders
- Differences in cost escalation formula
- Foreign exchange risks and costs
- Payment terms (on delivery or progress/stage payments etc)
- Cost of financing interim payments

- Financial guarantee requirements
- Duties and taxes
- Credit terms
- Transport costs
- Installation costs
- Cost of working capital for stocks
- Discounting factors
- Differences in administrative cost (including overheads) to purchaser
- Warranties and technical guarantees offered
- Product liability arrangements
- Scope for, and cost of, accelerating or delaying procurement

4. DELIVERY

- Conformity with requirement
- Reliability of offer
- Operation and financial effects of earlier/later availability
- Cost and trade offs with stockholding costs at various locations
- Liquidation of Damages

MEDIUM-TERM CONSIDERATIONS

5. OPERATING COSTS

- Running costs
- Cost of spares - present and future
- Servicing and maintenance costs
- Storage and other support costs

6. PRODUCT SUPPORT

- Quality of after-sales facilities
- Ease of legal recourse to supplier

7. REPLACEMENT ARRANGEMENTS

- Receipts for eventual disposal
- Commitment to particular replacement equipment
- Replacement timeframe

LONGER-TERM CONSIDERATIONS

8. STRATEGIC AND STRUCTURAL

- Safeguarding of vital sources of supply
- Length of the supply chain and its vulnerability to disruption
- Offset considerations
- Effect of procurement on price, availability and competition for future supplies (eg arising from dumping or artificially depressed quotations) including, as appropriate, supplies for other public purchasers.

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MJ

20 January 1984

The Prime Minister has noted the contents of Mr. Pattie's minute of 19 January recording the agreement reached with the Netherlands Government whereby we will purchase the Dutch Goalkeeper Close-in Weapon System for the appropriate ships of the Royal Navy in return for the Dutch purchase of Rolls Royce Spey engines for their new M-class frigates.

AJC

Stephen Douglas Esq
Ministry of Defence.

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GP

Prime Minister

MINISTER OF STATE FOR DEFENCE PROCUREMENT

A.J.C. 19/1

D/MIN/GP/4/2/3

19th January 1984

Prime Minister

In Michael Heseltine's absence I am writing to inform you and your OD colleagues of an agreement I reached with my Dutch opposite number yesterday whereby we will purchase the Dutch Goalkeeper Close-in Weapon System (CIWS) for the appropriate ships of the Royal Navy in return for the Dutch purchase of Rolls Royce Spey engines for their new M-class frigates.

2. This is the culmination of several months' intensive negotiation in which we have had an uphill task in persuading the Dutch to abandon their firm plans to fit an American engine to these frigates. This would have been a severe blow to Rolls Royce, who have previously supplied the Dutch Navy with gas turbine engines, and a setback to their hopes for further sales of this engine in Europe. On our side, we had to choose between four competing systems for the Royal Navy's CIWS requirements, two of which had a substantial British content, plus one Dutch and one American, with a range of offset options. On technical and performance grounds, Goalkeeper emerged as a front runner with the American system (Vulcan Phalanx), but with a significant cost advantage. Our ability to undertake to procure the system at this point was instrumental in persuading the Dutch to choose the Spey engine.

3. Our discussions with the Dutch were conducted in the wider context of future Anglo-Dutch defence trade,

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and have resulted in a mechanism for achieving a closer collaboration than has been possible in recent years. Both I and my Dutch colleague, who has recently taken over as Chairman of the Independent European Programme Group, were also conscious of the importance of setting an example of co-operation in the European defence field.

4. The value of the initial Spey deal for United Kingdom industry is in the region of £35m. In addition, the agreement provides for further rounds of talks on reciprocal procurement arrangements between our two countries, which will in turn, we hope, open the door for the sale of British Aerospace's Vertical-Launched Sea Wolf missile to the Dutch. A copy of the agreement is attached; it is subject to the ratification of the Dutch Parliament, which is expected in the next few weeks.

5. I am sending copies of this minute to your OD colleagues and Sir Robert Armstrong.

Jeremy Pathe

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LETTER OF INTENT

BETWEEN

THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

AND

THE ROYAL NETHERLANDS GOVERNMENT

COVERING

CO-OPERATION IN THE FIELDS OF RESEARCH, DEVELOPMENT, MANUFACTURE AND
ACQUISITION OF DEFENCE EQUIPMENT

1. The Government of the United Kingdom of Great Britain and Northern Ireland and the Royal Netherlands Government, desiring to improve their defence capabilities through closer co-operation in the fields of research, development, manufacture and acquisition of defence equipment, as well as the maintenance and repair of and the overall logistic support for such equipment; desiring to draw mutually the greatest possible benefit from their technological and industrial capabilities; desiring to promote co-operation between Netherlands and British industries with a view to ensuring their development and viability and the viability of European Defence Industry; and desiring to balance as far as possible the economic advantages to both countries arising from the reciprocal procurement of defence equipment by the two countries, have agreed on the following actions.

2. The two Governments consider the choice of Spey SM1A engines for the Royal Netherlands Navy and the Goalkeeper as the close-in weapon system for the appropriate ships of the British Royal Navy, as set out below in paragraph 3, to be a promising start for the future European defence co-operation.

3. a. The Government of the Netherlands will procure 16 Rolls Royce Spey SM1A Engines for their M-class Frigate and further Spey engines for any subsequent ships of the class for the Royal Netherlands Navy with the appropriate spares, tools and installation equipment subject to satisfactory agreement on price and conditions of contract.

b. The Government of the United Kingdom will procure an initial number of six HSA Goalkeeper close-in weapon systems complete with spares, test equipment, support and the appropriate quantity of De Kruithorn ammunition, subject to satisfactory agreement on

/ price ...

price and conditions of contract and on the understanding that the Government of the Netherlands will procure the Goalkeeper system for the Royal Netherlands Navy.

c. For those ships for which the Royal Navy has in its forward plans a requirement for CIWS, the UK Government will, again subject to satisfactory agreement on price and conditions of contract, select the Goalkeeper system unless ship fitting constraints make it impossible.

d. The Government of the United Kingdom will refrain from sponsoring the development or introducing a similar or competitive system for those ships referred to in paragraph 3c.

4. The two Governments will enter into Memoranda of Understanding in support of the agreements in this text.

5. The two Governments will begin discussions forthwith on further reciprocal purchases of military equipment and prepare "shopping lists" of likely future equipment requirements. The two Governments will consult together before decisions are made on the procurement of items from these lists with the aim of constructing, over a period of time, technologically and economically balanced packages.

6. Finally, the two Governments will begin discussions on the formal arrangements necessary to ensure that the aims set out in paragraph 1 above are achieved. In particular these arrangements should provide the means for regular consultations between defence officials of both countries and should also make provisions for a regular review of progress at Ministerial level.

7. Signed in duplicate in the English language.

For the Secretary of State for Defence on behalf of the Government of Great Britain and Northern Ireland

..... *John Patten*

Date *16 July 1984*

For Minister of Defence on behalf of the Royal Netherlands Government

..... *[Signature]*

Date ..18.1.84.....



19 JAN 1984

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10 DOWNING STREET

From the Private Secretary

12 January 1984

National Defence Technological Capabilities

The Prime Minister has seen your Secretary of State's minute of 6 January and the accompanying report by officials on the areas of defence technology where it is essential that a national capability should be retained.

The Prime Minister would like to discuss with Mr. Heseltine possible further work by a similar group (under MOD chairmanship). Three matters may be worth further consideration:

- a) The strengths and weaknesses of our defence industries and technologies in terms of international competitiveness;
- b) The scope for adopting a more open system of equipment procurement for non-essential technologies;
- c) The scope for achieving greater standardisation and collaboration within NATO.

We will be in touch separately to arrange a meeting.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence

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PRIME MINISTER

National Defence Technological Capabilities

I attach:

- (a) a minute by Mr. Heseltine;
- (b) the report of the working group;
- (c) a minute by the Policy Unit.

The Policy Unit suggest (see Page 2 of (c)) that a similar group should now consider three further subjects. I can either minute, with your authority, saying that you wish this to happen or arrange for the Defence Secretary to discuss these questions with you first. I have already told his office that you would like to see a paper on promoting further competitive-
ness in the UK defence industry and think it would be more tactful, before commissioning three more pieces of work, if you discussed the desirability of this first with Mr. Heseltine.
Agree?

Yes

A.S.C.

mt

11 January, 1984

MR COLES11 January 1984NATIONAL DEFENCE TECHNOLOGICAL CAPABILITIES

The report on Essential Defence Technologies sets out a short and clearly defined list of those areas in which an indigenous capability is essential for defence purposes. This is an important statement for future procurement decisions.

Michael Heseltine's response is too dismissive. The report arose from the difficulties we had with the HARM/ALARM decision. The political and industrial considerations are important but procurement can only be better informed against a considered judgement of what is strictly essential.

The Secretary of State points out that the list excludes virtually all the main systems and sub-systems for our maritime, land and air defence roles. However, this does not mean that we should rely on our allies for the future supply of our ships, submarines, aircraft, tanks and their associated systems. It does mean that we can now consider the wider industrial and political aspects of procurement decisions in the context of commercial rather than strategic criteria.

None of this undermines the importance of our defence equipment industries. But we must ensure that our industries are, or become, internationally competitive. It is in the interests of our Forces and the national economy that we achieve the best value for money from defence procurement.

Value for money and a more open system of procurement for non-essential technologies need not lead to a decline in the size of our defence industrial sector. If we are able to achieve overseas sales and long production runs in those areas and technologies in which we have a competitive advantage, the size of our industrial base might well increase - even though its shape would change.

However, we should recognise that we cannot realistically expect to be successful in all areas. As with other industrial sectors, our general approach should be to allow the market greater scope to identify and encourage our successful defence industries

We prefer to see the competitive forces emerging within UK industry and will need to use the threat of overseas competition judiciously to move our defence industries forward to providing better value for money.

Recommendations

We recommend that the current report should be accepted as a useful input to future procurement decisions.

We recommend that a similar Group under MoD chairmanship, including Policy Unit representation, should be asked to build on this work.

We suggest that the next stages should be to consider

- the strengths and weaknesses of our defence industries and technologies in terms of international competitiveness
- the scope for adopting a more open system of equipment procurement for non-essential technologies
- the scope for achieving greater standardisation and collaboration within NATO.

I have discussed our lack of information on the first issue with Geoffrey Pattie. It is vital that we have a clearer idea of where our defence industrial strengths lie. This study would need to take into account both military and industrial issues and would be a necessary prelude to any further changes in our approach to procurement.

Greater standardisation and improved collaboration within NATO is a desirable objective given the increasing economic pressures upon NATO countries. There are significant political problems involved but it is now opportune to take a closer look at some of the defence and industrial implications. I shall be accompanying Geoffrey Pattie to an international conference in France in February on this theme.

The suggested further work of the Group would be complementary to the paper which the Secretary of State is preparing on the steps which are being taken to promote competitiveness.

D.P.

DAVID PASCALL



58/1

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PRIME MINISTERNATIONAL DEFENCE TECHNOLOGICAL CAPABILITIES

When we discussed the choice of a defence suppression weapon for the RAF in Cabinet in July I was invited to arrange for officials to produce a comprehensive report on the areas of defence technology where it is essential that a national capability should be retained. An official working party consisting of representatives from the MOD, the Cabinet Office, the Treasury, the Department of Trade and Industry and the No 10 Policy Unit has now considered this question. A copy of the working party's report is attached.

2. As you will see the working party, in line with its remit, has taken a narrow view of the technologies which are essential. The report sets out those advanced technologies where an indigenous capability must be preserved, either on national security grounds or to maintain our ability to react quickly to changes in the threat in an emergency. The report does not address the much broader range of technologies which are also essential to the maintenance of our defence capability but which could, in theory, be supplied from foreign sources.

3. To get a more rounded picture I therefore felt that it would be helpful for colleagues to be aware of some of the technologies which are not covered in the report. These are at Annex C. It will be seen that the list includes virtually all the main systems and sub-systems for our maritime, land and air defence roles. A strict interpretation of the report would be that indigenous technological capacity for these systems is not essential and that it would be acceptable to rely on our allies for the future supply of our ships, submarines, aircraft, tanks and their associated systems. This is clearly not practical politics. Nor; I believe, would it be in the interests of our Forces and the national economy.



4. My conclusion is that decisions on major defence equipment projects will continue to be taken in the light of a broad range of defence, industrial and political considerations. While the report is a useful statement of the technologies we could in no circumstances do without, it should not be taken in any sense to be a complete statement of the technologies which, in the real world, we need to retain.

A handwritten signature in blue ink, appearing to be "M. J. Spence".

Ministry of Defence

6th January 1984

ESSENTIAL DEFENCE TECHNOLOGIESINTRODUCTION

1. At their discussion on 28 July 1983 on the choice between the United States HARM anti-radiation missile and the British ALARM missile, the Cabinet invited the Secretary of State for Defence to arrange for officials to consider and report on the areas of defence technology in which an indigenous capability should be maintained. Summing up their discussion, the Prime Minister indicated that, before Ministers were faced with further decisions of the same kind on major defence equipment projects, officials should produce a comprehensive report on the areas of defence technology which it was essential to retain in the United Kingdom. In accordance with these conclusions, a Working Party of officials from the Ministry of Defence, the Treasury, the Department of Trade and Industry, the Cabinet Office and the Prime Minister's Office, was set up, and this paper comprises its report. It should be noted that in accordance with its instructions the Working Party considered only those technologies where an indigenous capability is judged strictly essential from the military viewpoint; no attempt has been made to cover the future of the defence industrial base, or the broader range of technologies where in the MOD view, an indigenous capability offers substantial benefits for defence but where these are insufficient in themselves to merit such a capability being categorised as essential.

Technologies Required to Support Military Capabilities

2. Judgements made in this paper on what technologies are essential for defence purposes are based on the following broad statement of defence policy (Command 8288):

a. The UK will continue to maintain its four principal defence roles; an independent element of strategic and theatre nuclear forces committed to the Alliance; the direct defence of the UK Base; a major contribution to Allied Command Europe; and a major maritime effort in the Eastern Atlantic and Channel.

b. The UK will fulfil, without prejudice to prime defence tasks within the NATO area, Britain's special roles and responsibilities overseas.

3. On this basis, a number of military capabilities can be identified which could not be achieved or would be jeopardised to an unacceptable extent if certain systems capabilities, and the associated equipments and supporting technology, were not available from UK sources. Such systems capabilities fall into two categories:

a. those where acquisition from foreign sources is either impossible or cannot be contemplated;

b. those where procurement from overseas can be acceptable provided this does not prejudice national security or undermine the indigenous capability.

Capabilities in category b reflect in the main situations where rapid

response may be necessary to counter unexpected developments in the threat at a time of crisis when our allies may be unable or unwilling to provide adequate and timely support. Our electronic warfare capability was, for example, a vital asset in the Falklands conflict where it enabled us to devise quickly means of countering systems deployed by the Argentines, notably Exocet, anti-aircraft missiles and gun systems. While our allies should, in principle, be prepared to provide such support when we are operating within NATO, we cannot depend entirely on their so doing in these critical areas in situations where prompt action is required, where their specialists may well be stretched to the limit in meeting similar but different problems experienced by their own forces, and where their priorities may differ from ours. These arguments do not apply to the bulk of equipment purchases for the Armed Services. They are valid only in those limited areas where critical modifications to equipment are practicable within the timescale of a brief but intense conflict; in such circumstances overseas purchase is acceptable provided there is relevant indigenous knowledge on how the equipment functions. Special considerations apply to cryptographic equipment, some elements of which give rise to questions of national security. The essential requirement in Category b items is for expertise in research, equipment development and system integration. This will in general involve both Industry and Government R & D Establishments.

4. Annex A provides the list of system capabilities that need to be maintained in these two categories and relates them to essential military capabilities. Cross-references are included to a list in Annex B of technologies which are required indigenously to support them. It should be noted that the integration of systems is often, in itself, a demanding technological task, and that the ability to integrate the various classes of system listed in Annex A represents implicitly a further range of essential capabilities. The respective roles of Industry and the MOD Research Establishments are also indicated in Annex A.

5. The electronically orientated technologies included in the list of Annex B have wider applications in both civil and military markets and are being pursued, therefore, to a considerable extent by Industry for commercial reasons. While an increasing degree of self-sufficiency in Industry should be encouraged, the more demanding nature of the defence requirement is likely to result in a continuing need for Government funding of research and development.

6. The lists in the Annexes concentrate on technologies that are evolving fast and where retention of competence necessarily involves continuing research and development. They do not include the large and diverse range of mature supportive technologies in which it is reasonable to expect an adequate level of continuing expertise in British industry. For example, the Falklands Campaign demonstrated the need to retain nationally the ability to modify ships and aircraft to fulfil roles for which they have not been designed. While the ability to purchase such platforms indigenously cannot be argued to be essential purely from a defence viewpoint, it is obviously essential, nevertheless, to retain sufficient of the relevant design, development and engineering skills to be able to carry out such modification tasks quickly in a time of national crisis.

7. MOD officials have investigated the costs of maintaining these essential technologies in the UK. The only readily available figures relate to equipment procurement or to Government Establishment running costs. No costs are identifiable for the maintenance of the technologies as such. However, the following broad message has emerged. The minimum intramural cost of maintaining the nuclear warhead capability is of the order of £250M per annum. The cost of maintaining the strategic deterrent is documented elsewhere. Expenditure on maintaining technologies essential to chemical and biological defence, and to internal security and counter-insurgence, is relatively small, the total annual spend in each of these areas covering research, development and procurement being only of the order of £20M per annum. The research and development spend on communications security is about £11M, although this depends in addition on technologies embedded amongst those required to maintain our electronic warfare capability. Electronic warfare techniques are themselves usually embodied in sophisticated equipments, and their cost is not separately identifiable. The procurement cost for all such equipments is likely to be of the order of hundreds of millions of pounds per annum within an annual equipment budget of more than £7Bn.

Conclusions

8. The conclusions to be drawn from this study are:

a. We have identified five areas of defence capability where for strategic or military reasons it is essential to maintain indigenous technology; the list may well require updating as technology develops further and as changes become apparent in the nature and extent of the threat;

b. in two of these areas - strategic nuclear deterrence and IS/COIN capabilities - procurement from foreign sources is either impossible or unacceptable;

c. in the remaining three areas - electronic warfare, cryptography, chemical and biological defence - overseas procurement can be acceptable provided that a UK technological capability is preserved;

d. the five capabilities depend on a number of supporting technologies, many of which have wider civil and military application;

e. no estimate can be provided for the premia that may be associated with procuring these capabilities and technologies indigenously; if however one excludes the strategic deterrent, the annual cost of the relevant procurements is small in relation to the total equipment budget.

SERIAL	ESSENTIAL MILITARY CAPABILITY	DERIVED SYSTEM CAPABILITY	CATEGORY (See Para 3)	RESULTANT ESSENTIAL TECHNOLOGY (See Annex B)	LOCATION (See key below)
(a)	(b)	(c)	(d)	(e)	(f)
1	Strategic Nuclear Deterrence Essential nuclear technology not available from abroad.	Nuclear Warhead Production Nuclear Submarines (power plants and vessel integration)	a a	A D A B C D	AWRE and relevant ROF's DCW, AMTE, AUWE Firms - Vickers (Barrow), Rolls-Royce Associates
2	Electronic Warfare Quick response necessary and feasible to changes in threat. Rapidly advancing technology.	Electronic Intelligence (ELINT) - Collection and Assessment Electronic Countermeasures (ECM) and Counter-Countermeasures (ECCM) ECM-resistant homing for guided weapons (radar, anti-radar and infra-red) ECM-resistant surveillance systems Electronic Support Measures (ESM)	b b	D E F I) D E F G H)	RSRE, GCHQ, ASWE, AUWE Principal Firms - MEL, Racal, Thorn-EMI ASWE, RAE, RSRE Principal Firms - BAeD, Ferranti, GEC, Plessey, Racal, Thorn-EMI, STC, MEL
3	Communications National security demands independent capability.	Cryptographic Equipment	b	D E F	CESG Principal Firms - Racal, MSDS (Portsmouth)
4	Chemical and Biological Defence Rapid response necessary to counter unexpected chemical and biological agents.	Development of techniques and equipment for threat detection and protection	b	J	CDE Principal Firms - Thorn-EMI, Avon Rubber, Remploy
5	Internal Security and Counter Insurgency (IS/COIN) Indigenous response essential to counter evolving terrorist threat (eg Northern Ireland).	Explosive Ordnance Disposal (EOD) Counters to improvised explosive and nuclear devices	a a	D F G J	RARDE, RAE, RSRE No major industrial support

Key to Government Establishments

AMTE Admiralty Marine Technology Establishment
 ASWE Admiralty Surface Weapons Establishment
 AUWE Admiralty Underwater Weapons Establishment
 AWRE Atomic Weapons Research Establishment
 CDE Chemical Defence Establishment
 CESG Communications Electronic Security Group
 DCW Deputy Controllerate Warships
 GCHQ Government Communications Headquarters
 RAE Royal Aircraft Establishment
 RARDE Royal Armament Research and Development Establishment
 ROFs Royal Ordnance Factories
 RSRE Royal Signals and Radar Establishment

TECHNOLOGIES THAT NEED TO BE MAINTAINED TO MEET DEFENCE NEEDS

- A. Nuclear materials, refining and fabrication.
- B. High strength, high temperature materials and precision fabrication techniques for high integrity pressure vessels.
- C. Nuclear engineering including quiet high reliability pumps and pump motors.
- D. High reliability electronic components including nuclear hardening.
- E. Very High Performance and Very Large Scale Integrated Circuits (VHPIC/VLSI) including computer aided design tools and associated software, fabrication tools and techniques, and specialised materials.
- F. Signal processing techniques for extraction of signals from background clutter/noise, and pattern recognition.
- G. Millimetre wave and infra-red sensors and seekers and associated specialised materials, including techniques for protection against laser sensor damage weapons.
- H. Precision navigation, guidance and control.
- I. Advanced materials and techniques for reduction of radar, acoustic and infra-red signatures.
- J. Materials and techniques for detection of chemical, nuclear and biological threats and for protection against them.

LIST OF CAPABILITIESa. Main Platform

1. V/STOL and Conventional Aircraft
2. Helicopters
3. Conventional Submarines
4. Surface Ships
5. Main Battle Tanks (MBT) and other armoured vehicles

b. Main Platform Systems Areas

6. Avionic systems design and integration
7. Submarine systems design and integration
8. Ship systems design and integration
9. MBT systems design and integration

c. Main Sub Systems Technologies

10. Guns and armour
11. Lasers
12. Guided weapons, including torpedoes
13. Ground, airborne and naval radar
14. Surface ship and submarine sonar
15. Aero engines
16. Conventional warheads
17. Ammunition

Note

(1) For items 6, 7, 8 and 9 the design and integration work includes Navigation, guidance and control, target acquisition, weapon systems management and control, and management of counter-measures systems.

(2) Some aspects of items 7, 12 and 13 are covered by the list of essential technologies.

bc AT
Mr. Redwood

JP

10 DOWNING STREET

From the Private Secretary

6 January 1984

As you know (my letter of 14 December), the Prime Minister told the Secretary of State for Defence when they met on 14 December that she was looking forward to seeing the paper on indigenous technologies in defence, in which Cabinet expressed an interest on 28 July. It would be helpful to know when the paper is likely to be available.

Another matter which was discussed at the meeting on 14 December was the question of competitiveness in the UK defence industry. The Prime Minister would be grateful if she could see a paper as soon as possible describing the steps which are being taken to promote competitiveness.

ATC

Richard Mottram, Esq.,
Ministry of Defence.

8

PRIME MINISTER

Competitiveness of the UK defence industry

Andrew Turnbull has shown me a recent letter from the Chief Secretary suggesting that, when OD discusses Mr. Heseltine's paper on essential indigenous technologies, it should commission a paper on improving competitiveness in the UK defence industry. You agreed to this suggestion.

I am just a little bit concerned about the procedure. I am not sure that OD will need to discuss the paper on indigenous technologies (though I am sure that you will need to see it and decide that for yourself). In which case, it may not be for OD to commission a further paper.

When you discussed these matters with the Defence Secretary on 14 December he explained the steps which he was taking to improve competitiveness. You told him that you had some doubts as to whether the need for competition in the defence industry was being tackled with sufficient vigour. If you want this to be followed up, I think it would be best for me now to say that you would like to see a paper describing the steps being taken to promote competition. Would you like me to commission this - or would you prefer to wait to see the first paper?

A & C.

3 January 1984

I seem to remember that when these matters were discussed the OD committee wanted to see a paper either on
(i) decisions about weapons which were coming up which would require a view on indigenous technologies or
(ii) decisions on indigenous technologies which were not

SUBJECT



JEK
 VC Master

10 DOWNING STREET

From the Private Secretary

14 December 1983

Dear Richard,

Cost of Defence Equipment

The Prime Minister discussed with your Secretary of State this morning Nick Evans's letter of 22 September and the accompanying paper about the rising cost of defence equipment.

Mr. Heseltine said that two basic questions were involved. Were Ministers likely to wish to deny the best possible equipment to our armed forces? Were we obtaining the best value for money that we could? He doubted whether Ministers would wish to prevent the armed forces receiving the best equipment possible. He believed that everything possible was being done to promote genuine competition in an area where there were certain built-in constraints on competition, for example, the fact that in the case of some items of equipment there were single suppliers. He explained a number of steps which he was taking to improve competitiveness. Industry had been invited to send a team to the Ministry of Defence to comment on its procedures and there was a large exchange programme between the Ministry and industry.

The Prime Minister said that she had some doubts as to whether the need for competition in the defence industry was being tackled with sufficient vigour. She was looking forward to seeing Mr. Heseltine's paper on technologies in which an indigenous capability was essential for defence purposes.

Your Secretary of State said that he had issued instructions that any significant contract which was not open to competition must be referred to Ministers.

Following further discussion, it was agreed that copies of the Defence Equipment Policy Committee papers should be sent to the Policy Unit at No. 10 and that the Policy Unit should in future be represented on the Committee.

Following a general discussion of the problem of collaboration and standardisation in NATO, the Prime Minister said that when we had received your Secretary of State's paper on essential technologies we might have to consider our approach towards NATO collaboration and standardisation.

You are
 Lol Cole.

VK

Richard Mottram, Esq.,
 Ministry of Defence.

E.R.
PRIME MINISTER

Rising Cost of Defence Equipment

You wished to discuss with the Defence Secretary his Private Secretary's letter of 22 September, the attached paper and the questions in my minute of 4 October.

I also attach a new paper by the Policy Unit.

A.J.C.

13 December, 1983

MR COLES13 December 1983THE RISING COSTS OF DEFENCE PROCUREMENT

The Secretary of State's paper reminds us that individual items of defence equipment cost several times more in real terms than their predecessors. This is not an unusual phenomenon. It happens in industry all the time.

However, advances in technology reduce unit costs in defence as elsewhere. Guided weapons achieve more hits at less cost than the systems they replaced. New technology is only introduced if it is more cost-effective.

The Growth of the Threat

The real problem in defence is the growth of the threat, rather than the cost of technology.

Is this trend likely to continue? The paper tells us that the Russians are also experiencing real cost growth and that 14-16 per cent of GDP is devoted to military expenditure. Is this a sustainable position?

Do we know enough about the threat? Recent statements by the CIA seem to indicate that NATO may have over-estimated the levels of Soviet expenditure. Does this have any lessons for our levels of expenditure?

If defence expenditure in NATO is now roughly equal to that in the Warsaw Pact, why is the military balance so much in their favour? How much is this due to greater value for money through long production runs, to cheaper manpower or to a different trade-off between quantity and quality?

The paper tells us that NATO has little choice but to counter the Warsaw Pact's improvements. But if we are never going to be in a position to stop the Warsaw Pact winning a conventional conflict, is such expenditure always cost-effective?

Value for Money

The Warsaw Pact appear to get more equipment for their money than we do, through standardisation. The paper refers to the long production runs and economies of scale which we are unable to match. Why isn't NATO able to achieve even a modest degree of standardisation in major weapons systems?

Even without standardisation we would still expect our market economy to be more efficient than the centrally-planned approach of the Warsaw Pact. It is ironic that the UK in particular and NATO in general fail to exploit the benefits of competition in the one area where our market philosophy should assist us most in our defence against the Soviet threat.

Foreign competition is excluded from serious consideration in the paper. Although we applaud the Secretary of State's initiatives to encourage competition within the UK, the scale of defence industries is such that effective competition needs to be on an international basis.

Similarly, we need to address some of the intrinsic problems associated with collaborative projects. The major procurement decision in the next few years will be the agile combat aircraft. Collaboration is likely to be the preferred approach although we should not rule out the option of a foreign purchase. (Tornado probably cost twice as much as an F16, even allowing for hidden R&D costs and differences in capacity.) If we do decide on a collaborative project, we must ensure that the potential benefits of a European or possibly American collaboration are realised.

Recommendation

The Ministry of Defence are introducing a series of measures to improve value for money in the equipment budget. The Secretary of State is exerting strong pressure to ensure that these reforms are carried through.

Nevertheless, the seemingly inexorable rise in the equipment budget points to the need for more radical options.

Following the HARM v ALARM decision, an interdepartmental Group with No 10 representation has been identifying those technologies in which an indigenous capability is essential for defence purposes. Our final report is currently with the Secretary of State and should be circulated soon. A short and clearly defined list of essential technologies will be an important development for future procurement decisions.

In view of this outcome, we suggest that a similar small interdepartmental Group should then be asked to consider two further questions:

- would not a more open system of defence procurement for non-essential technologies lead to better value for money for the defence equipment budget?
- what is the scope for achieving greater collaboration and standardisation within NATO?

We anticipate that the Secretary of State for Defence will advise that these questions are not new and are under continuous review. However, by assessing them together, by comparing the experiences of the Warsaw Pact and by looking at future prospects over a reasonably long time horizon, it should be possible to form a clearer idea of where Britain's best interests lie and how value for money in the defence equipment budget could be improved.

Co-ordination of Procurement Decisions

The covering note to the Secretary of State's paper also refers to the question of the co-ordination of Ministerial decisions on defence procurement. We suggest that it would be helpful for No 10 to receive copies of the Defence Equipment Policy Committee (DEPC) review of business expected in the following three months, and for the Policy Unit to attend DEPC as appropriate.

DLP.

DAVID PASCALL

PART 1 ends:-

ASC to RTA 24/6

PART 2 begins:-

O. Pascall to ASC 13/12,

