


SECRET

10 DOWNING STREET

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FILE TITLE: Procurement of Weapon Systems HARM/		SERIES DEFENCE
ALARM Air Launched Missiles		
Cost of Defence Procurement		PART: 8
PART BEGINS: January 1990	PART ENDS: July 1990	CAB ONE: 

PREM 19/2935

SECRET

● PART 8 ends:-

Mod to CDP 30.7.90

PART 9 begins:-

Mod to CDP 2.8.90

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has 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.

Reference: OD (90) 9

Date: 12 April 1990

Signed Wayland Date 22 October 2016

PREM Records Team



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

MO 26/11D

30th July 1990

Duty Clerk
Strachan
ED

Dear Charles,

Done

TORNADO AIR DEFENCE VARIANT

My Secretary of State wrote on the 26th July to the Prime Minister on this subject. I am afraid that there was a typing error in paragraph 6 of the minute which did not make any difference to the general sense but did make a nonsense of the end of that paragraph. I enclose, with apologies, a revised page 3 which includes the complete paragraph 6, and I would be grateful if you would arrange for this page to be substituted for the original.

I am copying this letter and its enclosure to the Private Secretaries of members of OD, and to Sonia Phippard (Cabinet Office).

Yours sincerely,

Janet Binstead

(MISS J R BINSTEAD)
Private Secretary

Charles Powell Esq
No 10 Downing Street



cc/cu

27/7

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/2D

July 1990

Peter

WILL REQUEST IF REQUIRED

Your predecessor confirmed, in his letter of ~~28~~ June, that he, like Norman Lamont, shared the view expressed in mine of 14 June that we should not increase in present circumstances the overall target rate of profit on non-competitive contracts. This was extremely helpful. Alan Clark announced our decision on 24 July - I enclose a copy of the Hansard.

I read with interest the suggestion that officials should consider the future role of the Review Board. As you know, the latter's responsibilities involve not only producing recommendations as to the overall target rate of profit but also examining the actual operation of the pricing arrangements including, particularly, the "equality of information" aspects both in theory and, as necessary, in practice. In our continuing search for value-for-money on non-competitive contracts we are considering the possible adoption of what we are terming colloquially a "reference pricing" approach where sensible. To carry that initiative forward effectively, we shall need to build up the data-base available to our negotiators and also to modify in certain respects how the "equality of information" obligation on contractors is addressed.

The Rt Hon Peter Lilley MP



The Review Board as an independent and authoritative source of advice is likely to have an important contribution to make in the short term in these respects as both sides come to terms with the challenge which this approach will entail.

On the other hand, I recognise that the credibility of the Review Board will not be maintained if its recommendations are too readily set aside. I suggest that officials - led by the Director-General of Defence Contracts - should look at the pros and cons specifically in the context of offering us advice as to the steps which we should take, irrespective of the longer term, regarding the annual review which the Board would otherwise expect to launch later this year.

I am copying this letter to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Health, Transport and Energy, the Chief Secretary to the Treasury, the Chief Whip and to Sir Robin Butler and Mr Willacy.

A handwritten signature in black ink, appearing to be "Tom King". The signature is stylized, with a large, sweeping initial "T" and a long horizontal stroke extending to the right.

Tom King



TUESDAY 24 JULY 1990

MINISTER OF STATE FOR DEFENCE PROCUREMENT

MR PATRICK THOMPSON (CONSERVATIVE) (NORWICH NORTH)

170 Mr Thompson To ask the Secretary of State for Defence if he will make a statement on the Report by the Review Board on its Sixth General Review of the Profit Formula for Government Contracts.

MR ALAN CLARK

The main recommendation in the report is for an increase, based on comparability, in the overall target rate of return on non-competitive contracts.

After careful consideration I have concluded that we cannot adopt that recommendation and that the current target rate should remain in force. This decision implies no criticism of the Review Board. It is based on my assessment in present circumstances that the maintenance of the existing target rate for such contracts will ensure adequate industrial resources to meet our current needs.

The report raises a number of other issues relating to the operation of the profit formula and the pricing of non-competitive contracts. My officials will be pursuing these with representatives of the CBI and with the Review Board, as appropriate.

A copy of the Review Board's report has been placed in the library.



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ATB

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 July 1990

Dear Simon,

TORNADO AIR DEFENCE VARIANT

The Prime Minister has read with gathering gloom the Defence Secretary's minute of 26 July about the costs of upgrading the Foxhunter Radar to make it effective against the new electronic counter-measures developed by the Soviet Union. She would want a discussion in OD before any decisions are taken.

I am copying this letter to the Private Secretaries to Members of OD and to Sonia Phippard (Cabinet Office).

*Yours sincerely,
Chris*

C. D. POWELL

Simon Webb, Esq.,
Ministry of Defence

19A-E



Rice Minister

MO 26/11D

Another
900m gone
me

This says - in first
pages - letter to Foxhunter
Radar won't work
against modern Soviet
fighters unless we
spend a lot more
money on it.

Copy No 1 of 30 Copies

PRIME MINISTER

COP.

TORNADO AIR DEFENCE VARIANT

fly off

My minute of 13th December 1989 outlined the studies which I had set in hand into options for the future of the Tornado Air Defence Variant (ADV). Your Private Secretary's minute of 14th December said that you would wish to have by the early summer provisional results of the British Aerospace (BAe) study of the radar. We have now also received BAe's assessment of the fatigue life of the Tornado ADV.

Ref Fly

2. Useful progress has been made in both studies, and the issues are clearer than in December. We now need to carry out further work to decide the right route to take, and we shall do this as quickly as we can. The work will take into account the Operational Analysis studies which I described in my earlier minute, as well as the wider ranging work on options for change within the defence programme on which I am reporting to you separately. There have, of course, been major developments in Europe since the Tornado ADV studies were set in hand. However, the specific electronic countermeasures (ECM) threat from the Soviet Backfire bomber remains.

Radar

3. BAe were asked to explore the scope for further upgrading, beyond the current two stage recovery programme, the Tornado ADV's



AI24 Foxhunter radar to give it an effective capability against the jammer carried by the Backfire bomber. They were also asked to examine whether there would be advantage in replacing the AI24 with a radar of more modern design. As I explained in my earlier minute, BAe's study was intended to give us the critical technical information which would enable us to begin realistically to identify and assess the options for the Tornado ADV. BAe are due to make a full report in August. But, as agreed, they have recently provided an interim statement.

4. The BAe study has so far come up with eight radar options, spanning various levels of capability ranging from a modest improvement over the AI24 Stage 2 radar to an assured performance against all current and foreseen ECM threats. None of these options is cheap, and none could be implemented before the mid-90s. Four of the eight options would involve modifying the AI24; they range from a fairly limited upgrade to an extensive re-design. The other four options would entail replacing the AI24 with a different radar. BAe have proposed the Blue Vixen (with minor adaptations to match the Tornado ADV), two more extensive variants of the Blue Vixen, or the ECR90 radar. The Blue Vixen radar is currently in development for the Sea Harrier mid-life update. The ECR90 has, as you know, now been selected for EFA.

5. A preliminary assessment has been made of all eight options. All offer a better Electronic Counter-Counter Measures (ECCM) performance than the AI24 Stage 2 radar. However, a limited upgrade of the AI24 could not cope with the Backfire jammer. At the other extreme, the high capability offered by the ECR90 could probably not be made available to the Tornado ADV until after partner nations' EFA requirements had been met. BAe are, therefore, effectively offering us a choice between a major modifications of the AI24 and fitting a derivative of the Blue Vixen.



C

6. Our scientists are now looking particularly carefully at the risks involved in these two approaches. None of the options proposed is risk free. But the scientists' preliminary view is that the risk involved in modifying the AI24 is significantly greater than in fitting a derivative of the Blue Vixen. This is essentially because the basic design of the AI24 is old and does not currently have the techniques which provide a good resistance to jamming. The Blue Vixen, on the other hand, already has most of these techniques and their performance is due to be evaluated in flight trials over the next 12 months.

7. The studies done by BAe so far have given us some broad pointers. We have yet to receive the detailed costings. But it is clear from the scale of the work involved that there is no "cheap fix" to the ECM threat. We have now asked BAe to analyse the options in a great deal more detail to establish the most cost-effective way forward; our own scientists and technical experts will be fully involved in this work. It is imperative that we pin down precisely all the costs and risks entailed in each option. I must also take into account the pressures on the defence budget over the coming years. I need to be clear that the cost of modifying or replacing the Tornado ADV radar is fully justified in relation to other claims on my budget and other possible enhancements to our air defence capability. The Operational Analysis studies which we already have underway will make a key contribution here. In view of the question of affordability, I have separately asked my officials to examine possible low cost modifications, not addressed so far in the BAe study, to the AI24 which would remove some of the shortcomings of the radar (although not providing an answer to the ECM threat) and could be implemented more quickly.

8. If our studies confirm that a major modification or replacement of the radar is necessary, cost-effective and affordable, I would see us, as the next step, inviting companies to submit bids in an open competition against a cardinal point specification for a radar

DEFENCE
Procurement
Pt 8



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11



which met the threat. (The recent take-over of Ferranti Defence Systems by GEC will clearly have an impact on such a competition; it will also enable technical co-operation between the two companies). Such a competition would be open to overseas radar manufacturers as well as British. This approach would be fully consistent with our more commercial strategy towards procurement. It could, however, be politically controversial. We would have to face criticism that, despite spending some £900m on the AI24, it had not kept pace with the threat.

Fatigue

9. The position here is more clear-cut. BAe's study confirms that the fatigue problems are less severe than initially feared. Fatigue testing has shown that some structural modifications will be necessary to prevent cracking in the central fuselage. Modification of the entire fleet will take some years, but work will need to start later this year if we are to avoid grounding the older aircraft. The estimated cost is £23 million, although the initial outlay will be very modest. Thereafter, analysis suggests that a further set of modifications will be required as aircraft pass their mid-life point, but this will not be reached for some years. These further modifications would sustain the aircraft for the remainder of its currently planned life (and possibly beyond). On this basis, a minimum programme of fatigue modification for the Tornado ADV fleet is estimated to cost £200 million (including the £23 million mentioned above). A figure of this order is quite normal for a large fleet of combat aircraft.

Conclusion

10. BAe have done a lot of useful work very quickly. It is now clear that technical solutions can be found to meet the jammer



threat. Moreover, these solutions will not be significantly constrained by the fatigue life of the airframe. But there is no "cheap fix". The questions which we now have to answer are: exactly how much will these solutions cost; how much additional capability will we get for a given expenditure; how much money is it worth spending on an aircraft which will be over half way through its planned life by the time any major improvement programme could be implemented; and how much money can we sensibly afford? Work is in hand to answer these questions. The Operational Analysis studies which are due to report towards the end of this year will provide important objective data. Our in-house examination of possible off the shelf alternatives to the Tornado ADV is also continuing. I shall, in addition, need to take into account the work on options for change in the defence programme. There is a lot of work now to be done on this, and I will report again on the best way to proceed as soon as possible, which is likely to be early next year.

11. I am copying this minute to OD colleagues, and to Sir Robin Butler.

Ministry of Defence

26th July 1990

(T K)

DEFENSES Plaintiff R 8



CONFIDENTIAL

CF 1/16
MARSHALL of CAMBRIDGE
(Engineering) Ltd.

THE AIRPORT, CAMBRIDGE, CB5 8RX

From: MICHAEL MARSHALL, D.L.,
CHAIRMAN AND CHIEF EXECUTIVE.

MJM/LAC/L4b

The Prime Minister,
10 Downing Street,
LONDON
SW1A 2AA

cf ②
Eric Hinton
Well-deserved
thanks
TELEPHONE: COMPANY (0223) 61133
DIRECT (0223) 373231
FAX (0223) 324224

25th July 1990

A nice letter
MS

R26/7

27/7

Dear Prime Minister,

You will probably be aware that, following your visit to Cambridge for your meeting with Chancellor Kohl prior to the Konigswinter Conference and after much subsequent tendering and negotiation, we have finally been successful in the competition to carry out the Maintenance Support of the RAF TriStar aircraft for the next four years.

This is a great relief for all of us at Cambridge particularly at this time of defence cuts as it does give us the opportunity, together with the substantial commercial airline work which we are currently carrying out for McDonnell Douglas on the MD-11 and for Delta Air Lines on their TriStars, to build up Cambridge as a centre of excellence for wide-bodied aircraft in the UK.

I would like to thank you personally for your own interest and intervention for which all of us here are most grateful.

Whilst writing, I am pleased to enclose a copy of a small booklet which we prepared for the 50th Battle of Britain Anniversary celebrations and which gives some background of our own Group from 1909 to 1990.

I hope very much that following your success in the next General Election you will be able to find time for another visit to us at Cambridge.

All best wishes,

Eric Hinton

Michael Marshall



clb

21

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July 1990

TRISTAR MAINTENANCE CONTRACT

Thank you for your letter of 19 July about the result of the call for tenders for the Tristar maintenance contract. The Prime Minister was very pleased to know that the British firm won.

(C. D. POWELL)

Miss Jane Binstead,
Ministry of Defence.

COMMERCIAL IN CONFIDENCE

P



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 071-21 8211/3

MO 25/16D

19th July 1990

Miss Austin

Dear Charles

A satisfactory outcome
Very pleased
MS
C DP
19/7

TRISTAR MAINTENANCE CONTRACT

You will recall that, following Mr Michael Marshall's approach to the Prime Minister at Cambridge at the end of March, Marshall of Cambridge (Engineering) Ltd (MCE) were invited to submit a proposal for the above contract. Evaluation of this proposal showed that it merited further consideration. Because MCE had made it clear that they could not submit a fully compliant tender it was necessary to provide the other bidder, Deutsche Airbus (DA), with the opportunity to bid against the same degree of non-compliance. Revised tenders were sought from both companies on 15th May and received on 7th June 1990. Some four weeks afterwards, and when Ministers were already considering the results of the assessment of the tenders, MCE submitted a further reduction in their quoted prices.

The results of the tender analysis showed that the MCE were very slightly cheaper than DA but required a greater degree of financial protection. Minister(DP) has concluded that the contract should be awarded to MCE, subject to the satisfactory completion of the contractual negotiations which are now underway.

Yours sincerely

Jan R Binstead

(MISS J R BINSTEAD)
Private Secretary

C Powell Esq
10 Downing Street

ccp

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COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

16 July 1990

Tom King

*CCP
1977*

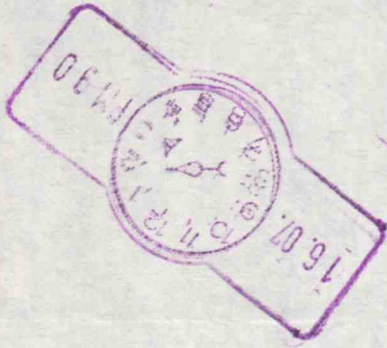
EH101

Thank you for your letter of 29 June. *-HAP*

2. I was grateful for your confirmation of most of the way forward our officials had identified.
3. Our officials will need to keep very closely in touch on the studies into the future anti-submarine warfare force mix, in view of their potential bearing on your multi-billion pound investment programme in this area. I quite take the point, which I understand lies behind the remarks in your letter, that the results need not automatically be circulated to OD immediately they are available. You and other colleagues may prefer to consider them when there is a relevant procurement decision to be made. If that is later, it would be sufficient for the results to be circulated amongst officials in the first instance. I also appreciate that if decisions on "options for change" are delayed to the point that some of the work will have to be re-done, there may have to be some slip in the date of a report. But I trust that results can otherwise be available in March 1991, as officials originally envisaged.
4. I am copying this letter to the Prime Minister, to other members of OD and to Sir Robin Butler.

NORMAN LAMONT

DEFENCE: PROCUREMENT Pt 8.





MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/16/1D

29 June 1990

317

De Norman,

EH101

at head

Thank you for your letter of 15th June giving your understanding of the programme of work planned in the wake of the recent discussion of the EH101 (MERLIN) helicopter.

In general I agree with your understanding. I certainly hope that by next January it will be possible to gauge the prospects for a satisfactory competition for prime contractorship. I agree, too, that we should aim to complete by then the further work to establish the full implications of purchasing alternative helicopters, in case it should prove impossible to complete the EH101 project.

I do not, however, think it would be sensible to assume that the outcome of the studies on the future anti-submarine warfare force mix will be available as early as next March. There is a great deal of ground to be covered and the findings will need to be properly assessed. The outcome of work on options will also have a bearing. I certainly hope that the work will have progressed

The Rt Hon Norman Lamont MP



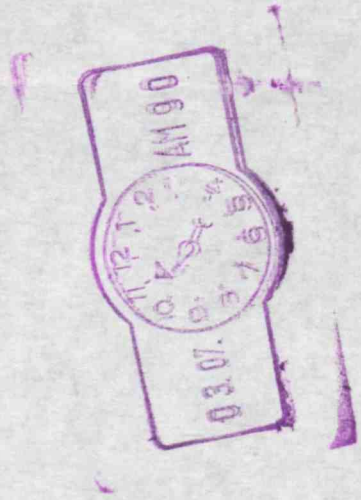
sufficiently for useful conclusions to be drawn by the time a decision needs to be taken later in 1991 on the placing of a contract with a prime contractor.

I am copying this letter to the Prime Minister, to other members of OD and to Sir Robin Butler.

2
[Handwritten signature]

Tom King

DEFENCE - Procurement
A 8



dti

the department for Enterprise

1. *CSP*
2. *n.b.P.M.*
BTP
29/6

COMMERCIAL IN CONFIDENCE

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5622
Our ref PB4AOU
Your ref
Date *X* June 1990

Draw Secretary H draft
all request of negot

REVIEW BOARD FOR GOVERNMENT CONTRACTS: SIXTH GENERAL REVIEW

Your letter of 14 June sought my agreement to your proposal that we hold the target rate or return on non-competitive Government contracts at the present level of 21% on capital employed, rather than raise it to 25.9% as recommended by the Sixth General Review of the Review Board for Government Contracts. I have since seen Norman Lamont's letter to you of 25 June giving his support.

You are right that your proposal will cause adverse reactions from defence contractors and at a time when they are under pressure on a number of fronts, for example, your current moratorium on contracts and the prospect of cuts in the defence budget. The timing is unfortunate. However your proposed response to the Review Board's report will not be unexpected and I agree that economic realities have to be faced. I am therefore prepared for you to proceed as you suggest.

For the future I believe that we have to decide whether we want to continue with the Review Board system. Industry will be unwilling to participate in this if it feels that the Government side is going to disregard recommendations that are to its disadvantage. The Review Board itself may question the case for its continued existence. I have an open mind about what we do in the future and I agree with Norman that our respective officials should look at the pros and cons of your Department negotiating direct with industry.



dti

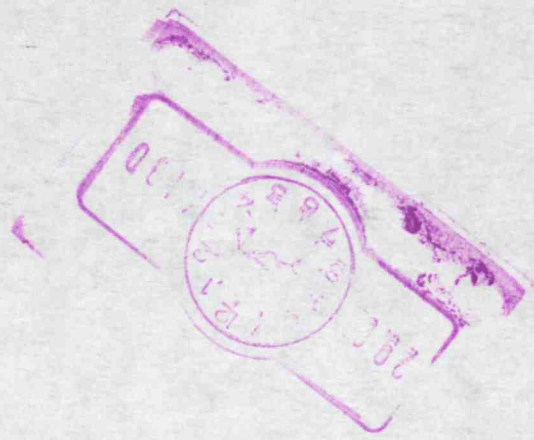
the department for Enterprise

I am copying this letter to the Prime Minister, the Lord President, The Chancellor of the Exchequer, the Secretaries of State for Health, Transport and Energy, the Chief Secretary to the Treasury, the Chief Whip and to Sir Robin Butler and Mr Willacy.

Yours sincerely
[Handwritten signature]

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





CONFIDENTIAL
COMMERCIAL IN CONFIDENCE



Cam
24/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

26 June 1990

Dear Tom

CONTRACT FOR THIRD TRIDENT SUBMARINE

Thank you for your letter of 7 June about the negotiations with Vickers Shipbuilding and Engineering Limited (VSEL) over the contract for the third Trident submarine (SSBN07). *will request if required*

2. I continue of course to welcome the improvements in contractual conditions which have been secured in negotiations with VSEL. But I remain concerned about the increase in price between the second and third Trident boats. The basic shipbuilder price for the second boat was some £378 million in 1986-87 prices, which is £454 million revalued to 1989-90 prices. You now propose a slightly higher price of £462 million in 1989-90 prices for the third boat. (The overall cost including weapons etc in both cases is of course very much higher, especially in cash terms).

3. I recognise that the price of the third boat is for a better contract and includes the propulsion plant which was supplied by MOD for the second. Nevertheless we would have secured a significant reduction in real terms, if VSEL had improved their productivity to the same extent as industry generally, particularly bearing in mind that they could apply lessons learned in constructing the previous two boats.

4. I understand that it has been put to my officials that comparisons based on measures of general inflation and productivity improvements across industry, are not appropriate for the shipbuilding industry. However I cannot agree that it would be better to calculate the comparisons using inflation and productivity figures specific to that industry alone. This is of course much more than a technical point.

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5. We used to employ specific price indices in public expenditure planning until we adopted cash planning. Planning and thinking in cash, adjusted only by general prices indices when necessary, improves incentives to control prices. There may be similar advantages in not using specific indices automatically to govern negotiations with industry. The onus should always be on industry to justify the wage increases it has conceded and the productivity improvements it has achieved, in relation to comparable changes in unit costs elsewhere in industry. This is particularly important with a monopoly supplier like VSEL. I hope that steps can now be taken to incorporate this point into future negotiations with the company, so that the effort which undoubtedly goes into contract negotiations with them may result in a better deal for the taxpayer.

6. Nevertheless, in spite of my continuing reservations, I recognise that progress has been made over the past year and we are to some extent bound by the way those negotiations have been conducted. If you believe that a £10 million saving against the previous target price is the best that can be achieved at this stage, I am prepared to accept in principle that the SSBN07 contract should be let as you propose. This is on the understanding that at least a £10 million reduction will be secured - a further reduction in the detailed discussions which I understand are still needed would of course be most welcome. Perhaps your officials could let me know the precise figure when they have completed those negotiations.

7. I am sending a copy of this letter to the Prime Minister, to other members of MISC 7, and to Sir Robin Butler.

Norman Lamont
NORMAN LAMONT

n.b. P.M.



JHP

26/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

th
25 June 1990

Dear Tom

REVIEW BOARD FOR GOVERNMENT CONTRACTS 6TH GENERAL REVIEW

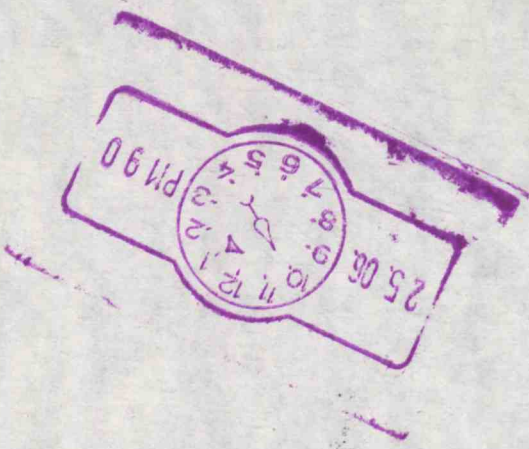
Thank you for copying to me your letter of 14 June to Nick Ridley. *will request if required*

2. I agree with you that we should not accept the recommendations of the Review Board, which would cost you estimate some £100 million in a full year. Your officials will be aware that mine have a number of doubts about the way the Board has reached its recommendation. The most important objection to the Board's conclusion is however simply that an increase in the prices paid under non-competitive contracts is unnecessary. There is I understand sufficient interest from industry in non-competitive defence contracts at the present profit rate, and no need for the taxpayer to pay more than the market requires.

3. I also wonder if, so long as some contracts continue to be let non-competitively, a Review Board is the right way of determining a profit rate. This is not the first time we have not accepted the recommendations of the Board. I think it would be helpful if officials could consider the pros and cons of negotiating instead direct with industry, and report back to us, alongside the other aspects of the profit formula on which you envisage further work.

4. I am copying this letter to the Prime Minister, Geoffrey Howe, Nick Ridley, Kenneth Clarke, Cecil Parkinson, John Wakeham and Tim Renton, and to Sir Robin Butler.

Norman Lamont
NORMAN LAMONT





Cell
(2)

Prime Minister

CD
21/6

MO 26/2/2D

PRIME MINISTER

MAJOR MOD PROCUREMENT PROJECTS

I enclose the latest set of reports on Major MOD Procurement Projects. My own comments are as follows:

1. EH101

We recently discussed the EH101 helicopter with Ministerial colleagues. As I told you we shall be issuing tenders for the prime contractorship within the next month, and on the response to this we shall determine our future action. In the meantime Westland's have now agreed in principle on a fixed maximum price for their share of the common airframe development.

2. Aldermaston

The major re-building programme at Aldermaston was for some time a source of problems in terms of delay and cost overrun. In 1988 we installed a private firm as project manager of the programme and there have been some significant improvements, including costs since being contained. In view of the importance of this programme I am keeping a close eye on its progress.



3. Pindar

I made a personal site inspection of the PINDAR project which is in the basement of the MOD. I then asked Bill Barlow the Chairman of BICC, whose company Balfour Beatty are prime contractors, to come and see me, to leave him in no doubt about my concern over this project. As a result he is now taking a personal interest in improving the management arrangements.

4. IUKADGE

This crucial project for the coordination of the UK Air Defence is seriously late. GEC, Siemens and Hughes are the companies concerned and I have conveyed my concerns very directly to the Chairmen concerned. I have since received personal assurances from all these that action is being taken to get it back on track. Hughes' software is a critical element and I took the opportunity when Dick Cheney was lobbying me to buy US tanks to say that Hughes' performance was likely to put us off any further US purchases. I am glad to say that that message had an electric effect on Hughes! We are now monitoring it closely to see if we get what is now promised.

15th June 1990
Ministry of Defence

(T K)

EH101 ASW HELICOPTER FOR RN

Programme Value:

£2,648M

Problems

- No maximum price on development contract.
- Main contractor EHI - the joint venture Westland/Agusta company not in full control of the programme.
- No contractual requirement to prove that the total mission system works.

Current Situation

- Detailed negotiations are continuing with Westland on their maximum price proposal and the conditions they have attached. It is planned to complete these negotiations shortly so that they can be put to the Westland Board.
- The 'Gruppo Operativo', introduced by Westland and Agusta last year in response to the Department's criticisms of EHI, is now beginning to have a positive effect on the control of the programme.
- Industry were asked in April to express an interest in bidding to become prime contractors and to assume responsibility for the overall performance of the complete aircraft, including its mission systems equipments, based on a detailed specification to be completed by the end of May. Tenders will be invited in the summer.
- Further OD meeting due.

REBUILDING PROGRAMME AT ALDERMASTON

Programme Value:

£1093M

Original Problems

- Inadequate project definition.
- Inadequate project management control.
- Inexperienced industry over-reliant on MOD/AWE in key nuclear safety areas.
- Split in responsibility between MOD and PSA.
- Technical difficulties.
- Cost escalation.

Current Situation

- National Nuclear Corporation, who are now the project managers continue to play a strong role in the effective management of the overall programme to meet timescales and costs. Changes in working practices introduced by the new A90 installation contractor have led to improvements in productivity which augurs well for completion of the work early next year.
- Replacement of the radioactive containment ventilation system (Zone 1 ductwork) in the final two bays at A90 has been completed on schedule. Recent difficulties with the materials handling control system are being addressed by AWE, NNC and the supplier and an acceptable re-scheduling of work has been agreed. Overall commissioning work will accelerate shortly when a further support contract is placed on NNC Ltd; introduction of radioactive material is expected by mid-1991.

PINDAR: RELOCATION OF MOD/CABINET OFFICE CRISIS MANAGEMENT
ORGANISATION INTO HARDENED ACCOMMODATION

Equipment and Installation Programme £55.7M

Works Programme £53.0M

Problems

- Management and control of a large hybrid works/equipment project involving PSA and MOD contractors.

Current Situation

- The Systems Implementation prime contractor (Siemens Plessey Defence Systems (SPDS)) has established his core team, and work is progressing satisfactorily to consolidate the planning and technical baseline of the contract. Completion of this initial work package was achieved on schedule in April.
- On the works element, serious concerns remain with the lack of progress, and with the deficiencies in management control, on PSA's refurbishment programme.
- There is evidence that the works contractor is not performing effectively, and is experiencing difficulty in properly programming and progressing construction and installation work. These concerns have been discussed directly by the Secretary of State and the Chairman of BICC, the works contractor's parent group. Until programme and progress are substantially improved, PSA are withholding payment on interim claims.
- Current procurement cost estimates for the overall programme remain as previously reported.
- The PINDAR ISD remains at late 1992, within the previously declared range. However, the risk to achievement of this date is now substantially increased on account of delays on the works programme.

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IMPROVED UNITED KINGDOM AIR DEFENCE GROUND ENVIRONMENT
(IUKADGE)
INTEGRATED COMMAND AND CONTROL SYSTEM (ICCS)

Equipment and Installation Costs (Basic System) - £239M

Problems

- The Prime Contractor, UKSL (a consortium consisting of Marconi, Siemens-Plessey, and Hughes, have failed adequately to design, and to maintain the design coherence of the ICCS system throughout the development programme.
- As a direct result, the ICCS design is unsound and the system failed to pass the contractual tests during the summer of 1988.
- UKSL are making very slow progress in fixing the known faults and do not expect to complete the basic ICCS before 1992.
- The current system design does not provide a sound basis upon which the rest of the Air Defence system can be built; it lacks the flexibility, robustness and expansion capability required.

Current Situation

- The continuing high level pressure on the partner companies has had positive results. They have agreed to freeze their legal claim until the end of the project; they have now deployed additional resources to UKSL in a revised management structure; and they have decided to upgrade the main computers at their expense.
- A regular review meeting with the managing directors of the partner companies has been set in place to maintain this pressure on UKSL.
- UKSL have completed a major revision of their implementation schedule and strategy (their "Way Ahead Plan") and are continuing to analyse and rectify software problems.

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18/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

15 June 1990

Dear Secretary of State

EH101

Our officials have been discussing how work on the EH101 (Merlin) helicopter and related anti-submarine warfare (ASW) issues might best be taken forward in accordance with the Prime Minister's summing up of our meeting of 4 June. I am writing to record, in broad terms, my understanding of the approach they identified.

2. I think it clear that we should press on in four main areas: first, we should aim to proceed as quickly as possible with the competition for a prime contract for Merlin. I understand that MOD hope to issue two invitations to tender next month. Current indications are that it will probably take about 9 months to generate comprehensive tenders and a further 3 months to evaluate them. As the Prime Minister said, only then will we be able to take a final view as whether or not Merlin should be bought. However, your officials hoped that by January 1991 enough work will have been carried out to enable us to take a view on whether or not bids are likely to be received at a reasonable price that transfers all relevant risk to the contractors, or whether the prospects for the project are so poor that further Government investment in the project would be undesirable.

3. Secondly, we should continue to maintain the momentum of the Merlin project, while keeping to a minimum further financial commitments. This will mean spending some further money on integrating the RTM322 engine and upon Royal Navy-specific development work. Ideally, however, expenditure on production investment should be postponed, and in any event it should be kept to the minimum possible. My officials are in touch with yours to

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give formal Treasury approval to expenditure up to mid 1991, within the sum of £211 million requested, broadly on the basis that commitments will be limited as far as possible and officials here will be kept informed.

4. Thirdly, by January we must be in a better position to consider the main alternatives to Merlin, in case that is necessary. These are Seahawk and an upgraded Sea King, or a mix of the two. In the case of Seahawk, further work needs to be carried out in-house on likely ship-fitting costs. These were recently estimated to be much higher than thought last December when you sought my agreement to order the latest batch of Type 23 frigates. Given the high manpower and running costs imputed to Seahawk, it will also be necessary to do further work on possible ways of minimising operating costs, including the scope for increased automation. At the same time, it will be useful to define more precisely the options for upgrading Sea King.

5. Finally, it is important that we press on as quickly as possible with work on the balance of investment in ASW assets, following the work on "options for change" which you have in hand. I understand that MOD has already begun studying the full ASW force mix for the early part of the next century, and that results will be available to report to OD by March 1991. Our officials will need to keep closely in touch, and mine are in discussion with yours about the terms of reference and content of the study.

6. I am copying this letter to the Prime Minister, to other members of OD and to Sir Robin Butler.

Yours sincerely

Aileen Campbell

^{pp}NORMAN LAMONT
(Approved by the Chief Secretary and
signed in his absence)

DEFENSE: Procurement P 8



PAC

NS

PERSONAL

FILE



a: /foreign/ Webb. vls

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 June 1990

You will recall that OD decided that we should take on an independent consultant to advise on the EH 101 project, and Professor Frank Hartley was subsequently recruited to carry out a study of it and give advice. This he has done and has now submitted his expenses. I believe that last time this arose, over EFA, the Ministry of Defence met the costs and I think it would be appropriate were they to do so again this time. I should be grateful if you would consult your Secretary of State about this. No. 10 has no funds for this purpose, and I think the Prime Minister would take it kindly if the Defence Secretary could find room for it in his budget.

BF |

Could you kindly let me know quite quickly whether he is content? I do not think we ought to leave Professor Hartley unremunerated for too long.

(CHARLES POWELL)

Simon Webb, Esq.,
Ministry of Defence.

PERSONAL

NS



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 June 1990

Thank you very much for your letter of 6 June. I have passed on the enclosed report to the Prime Minister. I will try to process your invoice as rapidly as possible.

With many thanks for all your help once more.

(CHARLES POWELL)

Professor F. R. Hartley

MS

Cranfield Institute of Technology
Central Business Exchange
Central Milton Keynes MK9 2EN, England
Telephone (0908) 674444
Fax No (0908) 674422

Cranfield

from the Vice Chancellor
PROFESSOR F R HARTLEY DSc FRSC

Prof Hartley
Professor Hartley
final reflections on
the EH101
mt *CB* *11/6*

FRH/ebp

6 June 1990

The Prime Minister
10 Downing Street
London
SW1A 2AA

Dear Prime Minister

Thank you very much for giving me the privilege of assisting with consideration of the EH-101 MERLIN system. I am sure that the decision to proceed, subject to identification of a suitable prime contractor, was the correct one for several reasons.

1. The EH-101 helicopter is a technically superb helicopter far beyond any other helicopter currently flying. It has great civil and military (export) potential, but that potential will only be realised if the Ministry of Defence purchases it for military use.
2. Similarly, the RTM-322 engine is technically superb and a long way ahead of the competition. But again, Rolls Royce will find it difficult to sell if the EH-101 project does not go ahead.
3. The key remaining problem with the EH-101 Merlin system is the System Integration. For this the prime contractor route proposed by the MoD is the best route for ensuring that the Government no longer carries responsibility for the risks involved. I believe those risks are not technical risks, but rather risks of the cost required to achieve a complete system.
4. Once fully costed bids have been received at the end of the year, it will be necessary in the light of these, to compare the risks involved. The issues here will be:

\continued...

- i. If IBM is to be the prime contractor, the principal responsibility for achieving the integration will fall to IBM(US) and so the now considerable UK helicopter integration capability that Westlands have built recently will rapidly wither.
 - ii. If a GEC/BAe consortium becomes the prime contractor, how much delay will be introduced due to neither company having helicopter experience.
5. Mr Lamont was concerned at the cost of what he described as yet another anti-submarine warfare (ASW) capability. A successful ASW capability depends on what is called a layered defence based on several systems, one of which is the use of Maritime Patrol Aircraft (MPA). If we were to attempt to replace the EH-101 MERLIN system with extra MPA, three comments are pertinent:
 - i. In the North Atlantic the cost of the extra MPA's would be very much greater than the projected cost of MERLIN.
 - ii. MPA would be unsuitable and unable to operate in many Out-of-Area situations where we lacked suitable adjacent airfields.
 - iii. A Maritime Patrol Aircraft because of its relatively high minimum speed is unable to deploy an Active Dipping Sonar (ADS). ADS will be an essential component of the total system needed to find the very quiet third and fourth generation Soviet submarines.

Yours sincerely

Frank Hartley

Cranfield Institute of Technology

Central Business Exchange
Central Milton Keynes MK9 2EN, England

Telephone (0908) 674444

Fax No (0908) 674422

from the Vice Chancellor

PROFESSOR F R HARTLEY DSc FRSC

Cranfield

FRH/ebp

6 June 1990

Mr C Powell
Private Secretary to the Prime Minister
10 Downing Street
London
SW1A 2AA

Dear Charles

I enclose a note for the Prime Minister following the discussion on the EH-101 MERLIN helicopter on Monday evening.

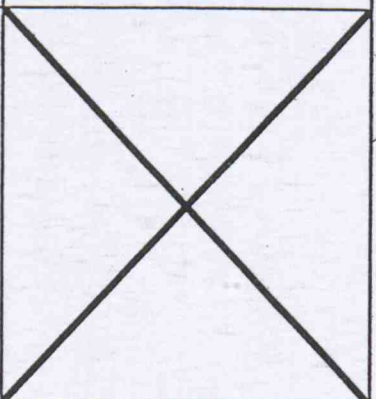
I also enclose for your attention an invoice for the expenses I incurred. I am afraid these are a little higher than anticipated because after my meetings with the MoD and consideration of their papers, I was a little concerned at the quality of the information I was being given concerning the technical risks remaining in the helicopter itself. I therefore visited Westlands to see and assess those risks for myself. As a consequence of this I was able to assure the Prime Minister, in a brief aside during the meeting, that there are no remaining insurmountable technical risks in the helicopter itself. Indeed what we now have is the finest helicopter in the world which, when fitted with the Rolls Royce-Turbomeca RTM-322, will be at least 15 years in advance of anything else flying.

So long as the MoD buy the MERLIN system, the future sales of that helicopter for both civil and military purposes should be very large indeed. Sadly this would not be true if MoD did not go ahead with MERLIN; it would be taken quite unfairly as a reflection on the helicopter rather than the total anti-submarine warfare system.

Yours sincerely

Frank

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2ND PRESENTATION TO OD - MONDAY 4 JUNE 1990

"PROCUREMENT ASPECTS"

1. (Good afternoon, Prime Minister). I am now going to deal with the procurement aspects of this programme. The EH101 grew out of studies in the 1970s into a replacement for the Sea King helicopter. Because of the potentially high cost of a national programme, it was decided to pursue a collaborative project with Italy. To spread the cost further, it was decided to expand the military programme, to include civil versions of the same basic design. The cost of the UK share is borne by the MOD, DTI and Westland as shown here. As you can see, the MOD is bearing over 90% of the UK cost.

2. I would now like you to see how this collaborative programme, constructed in the conventional style of the early 1980s, produced an incredibly complex network of diffuse responsibilities, militating against any clear focus for running the project. The collaborative arrangements are covered by MOUs between the MODs, and a parallel one between the DTI and their Italian opposite number (MICA). There is also an inter-company agreement between Westland and Agusta.

3. The development contract for the airframe is placed with EH Industries Ltd (EHI for short), a joint management company set up and owned by Westland and Agusta, who are also the main subcontractors and share common development work equally. So although in theory the management company EHI controls their subcontractors, in turn the subcontractors own the management company. The original intention was for industry to contribute to the cost of common development work, but in the case of Westland the UK Government agreed in 1984 to fund the whole of the UK's share, in order to ease the company's then considerable cash flow problems. In return, Westland committed themselves to reimburse the MOD by bearing the first part of the Production Investment costs.

4. Failure to agree on common mission equipments for the UK and Italian naval helicopters resulted in the main sensors being developed nationally. Separate contracts were placed on the manufacturers concerned, and these equipments are being supplied as Government-Furnished Equipment.

5. Given their weak financial position, Westland refused in 1984 to accept anything other than an essentially cost-plus arrangement for their share of airframe and avionics development, albeit with the incentive of sharing costs above a target figure. We have for several years endeavoured to persuade them to agree to modify the contract into one with a maximum price, and I am pleased to say we have now agreed this maximum price in principle, although we have not been able to persuade Westland to accept the full risk of delays or other problems occurring on the Italian side.

6. Italian bureaucracy, and a lack of coordination mixed with failure to provide the necessary resources and manpower by the two companies caused substantial delays.

7. However, matters have now improved somewhat and technical progress with the individual equipments has been better. Eight of the nine pre-production aircraft are now flying and a total of over 600 flying hours have been achieved. PP5 (shown here), the aircraft fitted with the Royal Navy's mission equipments, flew for the first time in October 1989, and so far the aircraft and sensors are performing well, although they are not yet fully integrated.

8. There are only two remaining technical problems on the air vehicle: vibration and the tail rotor design. Neither is out of the ordinary for this stage in a major development programme, and solutions to both have been promised. Indeed the solution to the vibration problem, using Westland's active vibration control technology, is likely to lead to the smoothest helicopter flying today. This will be one of several technology selling points for the helicopter and Ron Oxburgh will want to expand on these at the end of the presentation.

9. As I have already mentioned, one of the major causes of earlier delays was EHI's inadequate control over the programme. We made great efforts to get the companies to appoint an independent Chief Executive but the Italians refused. We had to fall back on what I believe is a less satisfactory solution: a small management group of directors of Westland and Agusta. While this is not ideal, it has brought about some improvement.

10. The contractual position remains unsatisfactory, however. Under the present arrangements, the major mission equipments for the Royal Navy variant are being developed separately with little responsibility borne by EHI or Westland. The contract with EHI only requires that company to ensure the equipments operate on board the helicopter to their individual current engineering specifications. Integration, therefore, is at MOD's risk, and no-one is contractually responsible for the overall performance of the helicopter with its mission system. You will I think recognise this scenario as sharing several unhappy parallels with the ill fated Nimrod AEW.

11. An independent assessment of the programme was carried out by consultants in 1988. Their principal conclusion was that the helicopter and the selected mission equipments could be integrated to provide the level of performance required by the Royal Navy.

12. The consultants also advised that, if the operational requirement were to be met, attention was needed to five key areas as shown here. We plan to incorporate all five. The most important of these was that more engine power was needed. To achieve this, we propose to fit the Rolls Royce/Turbo Meca RTM 322 engine. Essentially, there are two options. In order to meet the full time-on-station requirement, an uprated version of the engine and a new gearbox would be needed. This would be expensive and take time to develop. We therefore intend to fit a less powerful version of the engine, which is currently available, and which will provide the Mark 1 aircraft with a level of performance which the Royal Navy regard as acceptable initially. We can decide later, in the light of experience, whether it would be cost-effective to uprate the power level to provide a Mark 2 Aircraft.

13. Finally, the consultants concluded that it would be feasible to define a specification based on performance. A contract was placed with the consultants to write such a performance specification, which has now been completed.

14. So, how do we move forward? Assuming that we decide to procure an ASW helicopter, we are faced with only three choices. Firstly, we could cancel the EH101; in this case, as you heard earlier, the only conceivable alternative would be to buy the US Seahawk LAMPS III. Secondly, we could carry on with the existing EH101 programme under the current arrangements. Or thirdly, we could continue with EH101, but with the appointment of a prime contractor to complete development of the Royal Navy variant and to produce a first batch of aircraft against the new performance specification.

15. The results of an investment appraisal of the options are shown here. In accordance with the conventions for investment appraisal, the figures exclude sunk costs and VAT. The first line shows the cost of 50 Seahawk Lamps III alone though as you have heard this is not a viable option, and is presented here just to provide a baseline. As you will see from the second line, buying Seahawk LAMPS III with 10 additional Maritime Patrol Aircraft would be over £1bn more expensive than EH101 over the life of the aircraft. This is mainly because of the additional personnel needed and the older technology of Seahawk and the cost of operating the extra Maritime Patrol Aircraft. Contained in these figures there is also a substantial cost, in the region of £450m, involved in modifying our ships to carry Seahawk.

16. At the last OD discussion you enquired about the legal implications of cancelling EH101. The Legal Advisors have confirmed that the only obligations in the event of cancellation would be financial, and would amount to some £190M. This figure is included in the acquisition cost shown for Seahawk. Also, the FCO advises that cancellation of EH101 would be very damaging to our relationship with Italy and it would probably signal the end of Westland's helicopter design capability.

17. The line of figures showing the option of EH101 without a prime contractor is in my view unrealistic. Without using a prime contractor we would, I believe, spend far more and take much longer than option three, before we even knew whether we would be able to complete development. Hence the question marks.

18. The revised procurement strategy, based on the appointment of a prime contractor, would provide us with a guarantee of effective performance, a fixed price achieved through competition, and confidence in the predicted 1997 in-service date. Major companies, including IBM, BAe, and GEC, have expressed interest in bidding for the prime contract. If such a company were prepared to take on the task of systems integration at a reasonable price, I believe the programme remains viable. If no-one is prepared to take on the risk, it must raise doubts about whether we should continue, because if no commercial organisation is prepared to take on the risk, then it hardly seems sensible that the Government should do so. However, the serious interest which major companies are showing in bidding suggests that there is a good prospect of success and we should know, one way or the other, by the end of this year. Under this approach EHI will remain subcontractors for the air vehicle with the work being done by Westland and Agusta.

19. I would emphasise that the costs shown here are for 50 helicopters. If, as MOD plans assume, we were eventually to buy more, the EH101 with prime contractorship would become relatively more attractive as numbers increase. I therefore recommend that if we are to continue with EH101 to meet the Royal Navy's ASW requirement, we should pursue the prime contractorship route.

20. Prime Minister, the presentations so far, have concentrated on the Naval, and primarily ASW, variant of this helicopter. But of course the EH101 is designed to carry out many other naval and military tasks. These include sea area surveillance, airborne early warning, troop carrying, heavy stores movement, Maritime counter-terrorism and Aid to Civil Power, particularly after natural disasters. It would also play a key role in supporting peace time tasks such as the operational patrols currently being conducted in the Gulf, the South Atlantic, and the West Indies.

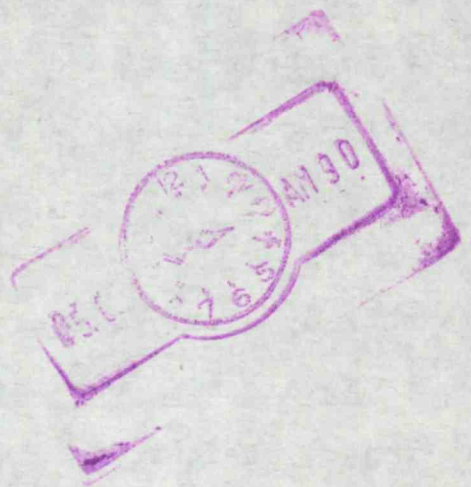
21. As I said earlier, the EH101 collaborative development programme was built around requirements for both military and civil versions. Because of its unique size and capacity for Civil Variant has early and good prospects in off-shore oil and gas support activities in the North Sea. Other uses include long range search and rescue, Coastguard tasks and short-haul passenger carrying. The latter would provide commuter and airport feeder services linking international airports with city centres, or other commuter traffic focal points where fixed wing aircraft are not a feasible alternative.

22. This diversity of roles gives the EH101 undoubted potential for both military and civil sales; it will enter service with no Western competitors of its size and sophistication. Its production and sales are likely to extend to 2020 and, for spares, well beyond that.

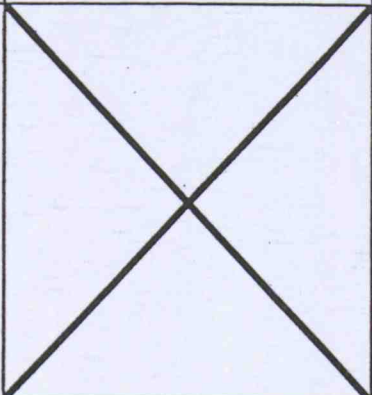
23. Export prospects are to an extent dependent on political developments and on the UK and Italian Ministries of Defence going through with their own purchases. Current estimates of the exports market for both civil and military versions are encouraging.

24. There is already firmly expressed intent by the Canadian Forces for the Naval ASW variant and they have placed a contract for Project Definition. A requirement for some 30 aircraft is currently being quoted. Canada also has a requirement for about 50 support helicopters and, in the civil field, they are showing interest in Search and Rescue as well as Coastguard variants.

25. In summary, therefore, Prime Minister the EH101 is an Anglo-Italian collaborative project, but it incorporates a significant number of important UK technical advances, and shows every promise of being an aircraft of which the UK can be justly proud.



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 June 1990

Dear Simon,

EH101 HELICOPTER

A meeting of Ministers under the Prime Minister's chairmanship received a presentation this afternoon from MOD officials on the helicopter EH101 project. Those present included the Lord President, the Foreign Secretary, the Defence Secretary, the Trade and Industry Secretary, the Chief Secretary, Sir Robin Butler and CDS. The texts of the MOD's presentation are enclosed.

A number of points arose in the ensuing discussion:

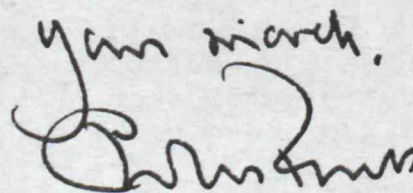
- it was hard not to be sceptical about the prospects for the project in view of the long delays, escalating cost and seeming inability of Westland and Agusta to complete it to specification. There was a strong feeling that a great deal of public money had been spent without much to show for it so far. There were similarities with other ill-starred projects such as the Nimrod AEW aircraft.
- there were still a number of technical question marks over the EH101, including its ability to remain on station long enough to prosecute submarine contacts successfully; and the effectiveness of its Stingray Mark 1 torpedoes against the most modern Soviet submarines. But the major problem remained that of integrating the EH101's various systems. The management structure for the project failed to apportion clear responsibility for this.
- some doubts were expressed about the commitment of the Italian Government to the project, although MOD's latest information was that they intended to continue it.
- on the other hand, it was clear that there would be a major Soviet submarine threat into the next century, to which the United Kingdom would be particularly vulnerable, given our dependence on maritime trade routes across the Atlantic and our out-of-area responsibilities. We had to preserve an effective ASW capability.
- the EH101 represented a major technical advance in several areas. A number of prototypes were now flying. If the project could be successfully completed, it would represent a major strengthening of Britain's ASW capability and could also offer good export opportunities, both in the naval and other versions.

SECRET

- there was no fully satisfactory alternative to the EH101 on offer, capable of carrying out the same mission. The American Seahawk LAMPS III helicopter represented older technology and its performance parameters fell well short of those of the EH101 (stemming in part from the different American concept of ASW). It would also require expensive alterations to our frigates, as well as additional manpower.
- it was generally acknowledged that meeting our requirements by additional SSNs rather than the EH101 would be significantly more expensive. At the same time, it was felt that further work was needed on the relative contributions of submarines, frigates and helicopters, and Maritime Patrol Aircraft to the overall effectiveness of our ASW capability.
- the crucial consideration in whether to go on with the EH101 project was whether a prime contractor could be found to take on the work of completing the project to a fixed price, including integration of all its systems. Without a prime contractor, it was highly doubtful whether the project could be completed satisfactorily. A number of companies had expressed interest. But it would probably take until the end of the year for them to study the specifications and decide whether to tender.

The Prime Minister concluded that the general feeling amongst colleagues was clearly that we must preserve an effective ASW capability. But no decision could be reached on the feasibility of completing the EH101 project, until we knew if a prime contractor would be prepared to come forward on reasonable terms. It was unlikely that this would become clear before the end of the year and no sensible decision on the way ahead could be reached until then. The terms of the proposed contract should be made available to colleagues, including the Law Officers, in advance. Meanwhile, work should continue on possible alternatives to EH101, in case it proved impossible to complete the project: and on the overall balance of our investment in all ASW assets.

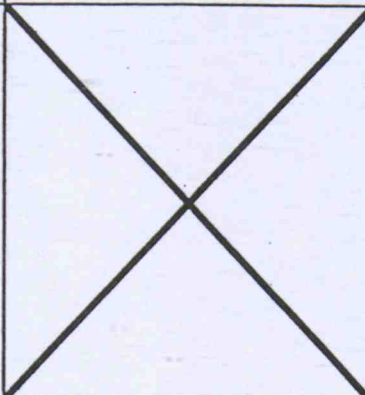
I am copying this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Foreign Secretary, the Trade and Industry Secretary, the Chief Secretary, the Attorney General and Sir Robin Butler.

Yours sincerely,


(C. D. POWELL)

Simon Webb, Esq.,
Ministry of Defence.

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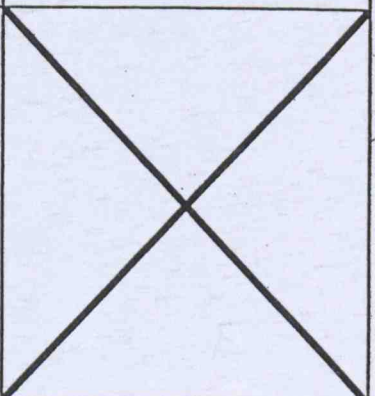
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PRIME MINISTER

EH101 HELICOPTER

MOD are to give you a presentation on the EH101 helicopter on Monday afternoon. Your principal ministerial colleagues will attend, as will Professor Hartley.

You will find in the folder my note of your discussion with Professor Hartley, which identifies the main questions which need to be asked about the project. In summary form they are:

The Requirement

- in view of longer warning times and reduced risks of war, is investment in anti-submarine warfare on this scale still necessary?
- even if we assess that the threat still exists, can we still afford to meet it? Or should we try to renegotiate our anti-submarine role and rely on the Americans to take on our part?

Technical Aspects

- the Royal Navy originally said the helicopter must remain on station over the target for three hours. They now accept only one hour twenty-one minutes. Is this really long enough for it to carry out a worthwhile mission?
- to overcome the problem of inadequate power, the Navy are proposing a more powerful engine. But this will mean re-designing the air frame and gear box. What will be the additional cost? What added delays will it impose?

- will the Stingray Mark 1 torpedo be an adequate weapon against new Soviet submarines? Or shall we have to develop the Stingray Mark 11? What will be the additional cost? Should it not be added to the cost of the EH101?
- can the problems over the capacity and throughput of the mission computer be overcome?
- how great are the technical difficulties over the global positioning system, the active dipping sonar and the data link from helicopter to ship?
- what assumptions are made about operator work load?

Management Problems

- when will work on the specifications be complete in order that potential prime contractors will bid? Will the target date of end-June be met?
- does the MOD have the capacity to assess the bids from the prime contractor? If not, who will provide it?
- if the EH101 is eventually procured, is there an adequate system for testing acceptability (ie. mission test facility, fully instrumented ranges and adequate numbers of test pilots)?

Prime Contractor

do MOD expect a prime contractor to come forward on reasonable terms?

- is it agreed that without a prime contractor the project should be terminated now?

Alternatives

- do any of the alternatives to EH101 make better military or financial sense?

- or is the only alternative to abandon a sea-borne anti-submarine capability altogether?

The MOD were commissioned to do a study of alternatives to the EH101. This has just been completed and is in the folder. You ought to glance at it. Not very surprisingly, it concludes that the EH101 is the best option.

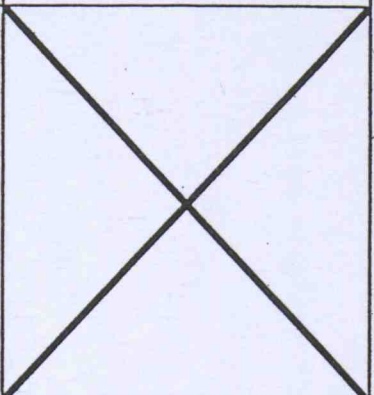
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C. D. POWELL

1 June 1990

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DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>2935</i> (one piece/item number)	Date and sign
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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 30D

15th May 1990

Prime Minister
to be aware
CAB
16/5

Dear Charles,

DEFENCE TECHNOLOGY ENTERPRISES LIMITED

The Prime Minister may recall the work of Defence Technology Enterprises Ltd (DTE) in the field of the commercial exploitation of defence technology, and may wish to be aware of serious difficulties in which the company now finds itself.

DTE is a company, funded by a consortium of banks, with which the MOD has an agreement for the civil use of technology emerging from our Research Establishments. We do not have a financial stake in DTE, but allow it access to the Establishments, receiving in return a small down payment each time DTE takes up an option on technology. The MOD may also receive a share of DTE's profits, although in fact the company has yet to make a profit after five years of existence.

Late last month it became clear that DTE was facing a serious short-term shortage of cash and that the shareholders were unwilling to put in any more money. They were also doubtful about its medium term prospects. The Board of DTE has accordingly decided to institute an immediate programme of economies, which, on current plans, would entail concentrating the firm's efforts on licensing the few projects from their existing portfolio that offer significant early returns. We understand that work on the more speculative side of the business - ferreting out new technology for potential civil development - will largely cease.

This will entail the dismissal of most of DTE's twenty five staff, which may attract public attention because of the considerable backing the firm has enjoyed from Ministers as an example of co-operation between the public and private sectors. We have contributed a great deal of time and effort into fulfilling our side of the agreement with DTE; and our Ministers have therefore

Charles Powell Esq
No 10 Downing Street

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noted the decisions of the Board with regret. They have decided however that we should not depart from well-established Government policy by channelling public money into a firm which was specifically established as a privately financed organisation.

A copy of this goes to Martin Stanley (DTI).

Yours,

Jessie R Binstead

(MISS J R BINSTEAD)
Private Secretary

SUBJECT cc
MantelNOTE FOR THE RECORD

EH101 HELICOPTER

The Prime Minister had a talk this afternoon with Professor Frank Hartley, Vice-Chancellor of the Cranfield Institute of Technology, about the problems surrounding the EH101 Helicopter project. Professor Hartley described the EH101 as the most unsatisfactory military project which he had ever come across.

The concept

Professor Hartley said that the concept of the EH101 was not a bad one. It represented a relatively cheap solution to the very difficult problem of detecting and attacking the new generation of larger and quieter Soviet submarines, well beyond the range of land-based helicopters. The individual helicopters were admittedly expensive. But the United States spent very much more on their system of multi-layered defence - comprising aircraft carriers, guided-wing aircraft, and two helicopter variants - to deal with the same problem.

Professor Hartley commented that the EH101 was sometimes presented as a multi-role helicopter. In practice its anti-submarine role, especially in the North Atlantic, was crucial. Other uses were subsidiary to that.

The Requirement

The requirement was for a system to defend naval units against attack by the new generation of much quieter Soviet submarines. We had no adequate defence at present against this. If the political assessment was that the threat would remain, then we needed an adequate defence against it and the EH101 concept was well adapted to provide this.

Technical aspects

Nonetheless there were a number of technical question-marks over

the project, as it had evolved.

The Royal Navy had originally specified that the helicopter should be able to operate up to 125 nm from its frigate and remain on station over the target area for three hours. They were now prepared to accept a specification that meant the helicopter could only remain on station for 1 hour 21 minutes. This was not because the requirement had changed, but because the RN had under-estimated the amount of power which the helicopter required. An answer was needed to the question whether 1 hour 21 minutes was sufficient time for the helicopter to carry out a worthwhile mission.

Partly to solve the problem of inadequate power, the Royal Navy were now proposing to use the RTM 322 engine for later models of the EH101. But this was actually more powerful than the existing airframe and gear-box of the EH101 could cope with, and there would have to be extensive redesign of the latter. This would add between £250 million and £400 million to the cost of a second batch of helicopters and take 4/5 years to complete.

There were also unanswered questions over the EH101's weapons system. It was designed to take the Stingray Mark I torpedo. But it was far from certain that this would be adequate against new generation Soviet submarines. It might prove necessary to develop a Stingray Mark II if the EH101 was to be fully effective. This could add enormously to the cost of the project: and could not be in service before 2005.

There were still technical risks with some of the components of the EH101's systems, although they were relatively modest. The capacity and throughput of the mission computer was too small (between four and six times too small according to a 1988 study, although there had been some subsequent work). The global positioning system, the active dipping sonar and the data link from helicopter to ship were all in relatively early stages of development. The last study of operator work-load had been conducted in 1975.

Management Problems

Professor Hartley identified a number of potential management problems. The first concerned the failure to complete work on the specifications which would have to be accepted by a prime contractor. The target for approval of these was now end-June. But in the absence of a dedicated team in MOD to carry out this work, there was likely to be further slippage.

Once the final specifications were complete, the prime contractor would have six months to bid for the completed development and production of the first 50 helicopters. The MOD would in turn have six months to assess the bids. It was not clear that they had the technical resources and manpower to do this satisfactorily.

If the EH101 was eventually procured, there would need to be an adequate system for testing acceptability. This would require a mission test facility, fully instrumented ranges and adequate numbers of test pilots. It was not clear how much planning ahead the MOD had done on this.

Prime Contractor

Professor Hartley was absolutely clear that appointment of a prime contractor was essential to successful completion of the project, if a decision was taken to go ahead with it. The MOD did not have the technical and management resources to supervise completion of the project adequately. European Helicopter Industries (EHI) were too weak to take the financial risk, and would only come back to the Government for more money if they ran into difficulties. The only sensible way to proceed was to transfer the risk from the taxpayer to a prime contractor. It was exceedingly unlikely that any other course would cost less. Two major consortia were likely to express interest. IBM - who had undertaken systems integration for the American Seahawk - using EHI as their sub-contractor; and BAe/GEC. But if no prime contractor came forward who was prepared to accept the technical and financial risk on reasonable terms, then it must be

extremely doubtful whether it would be worth proceeding with the project.

Alternatives to the EH101

Professor Hartley was dubious whether there were practical alternatives to the EH101. It would not make sense to acquire the American Seahawk since they relied on elaborate processing equipment carried aboard the frigate. The RN frigates were not designed for this and there would be problems in accommodating the equipment and the extra personnel needed to operate it. Any solution involving more fixed-wing aircraft or submarines was likely to be more expensive still. In his view, the only practical alternative to the EH101 would be to renegotiate our anti-submarine role and rely on the Americans to deal with the submarine threat in the North Atlantic beyond the range of land-based helicopters. This would deprive us of an adequate anti-submarine capability not just in the North Atlantic but for out of the area tasks too. It was a matter of political judgement whether this would be acceptable.

Conclusion

Professor Hartley said that his own conclusion was that the right course, assuming the threat was assessed to continue, was to complete the EH101 project by transferring the risk out of government and to a prime contractor.

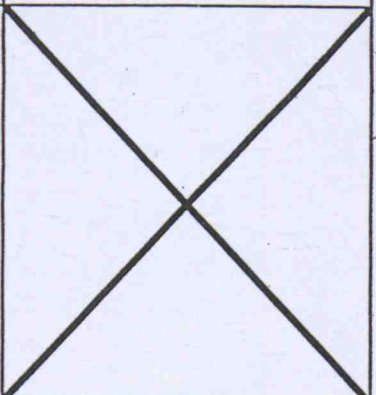
C.D.P.
CHARLES POWELL

14 May 1990

cc: Sir P. Crook

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PRIME MINISTER

EH101 HELICOPTER

Professor Frank Hartley is coming in to see you on Monday to talk about the EH101 helicopter. We have commissioned him as an independent expert to advise you (as over EFA). He has spent time in the past fortnight in MOD, reading papers and talking to those principally concerned with the EH101 programme. We have set aside an hour-and-a-half for the meeting.

The Problem

You are familiar enough with the problem. We have spent £900 million and are still without a helicopter. The revised programme cost is £2.65 bn. That would be for half the number of helicopters originally envisaged: they would be below the original specifications: and four years late. The cost of each helicopter would be £53 million.

The decision we face is whether to press on and complete the programme on these terms, or pull out now.

Why the problem has arisen

The basic reasons why the project has gone wrong are:

- it is a joint Anglo/Italian project, with all the problems that come with divided responsibility.
- both the companies involved, Westland and Agusta, face considerable problems and lack good management. There have been recent improvements at Westland: the head of Agusta - which is state-owned - is the former harbour master of the port of Genoa, appointed because it was the Socialists turn!
- the technical complexities of the project were greatly under-estimated.
- requirements have been refined and changed at several stages of the helicopter's development.
- contracts for the equipment were placed with several

individual suppliers, but no-one was given responsibility for overall systems integration (i.e. for making sure that the bits fitted together, and the whole thing worked).

- no ceiling was set on MOD's liability for Westland's share of the costs.

All in all, a familiar story. You will want to check the analysis with Professor Hartley and see if he reaches the same conclusion.

The need for an anti-submarine capability

I don't think there's any real doubt that we shall continue to need an anti-submarine capability. Reductions in Soviet forces have been largely in land and air forces. Their navy remains relatively untouched. They continue to invest heavily in newer, larger and quieter submarines. The UK will remain particularly vulnerable to submarines because of our dependence on sea-lanes. None of this necessarily means that you have to have helicopters: there may be other ways of conducting anti-submarine warfare (see below).

Alternatives to the EH101

If we are going to consider cancellation of the EH101, we need therefore to be clear:

- is there an alternative that can do the job?
- would it represent better value for money, given that close to £1 bn has already been sunk in the EH101?

The main alternatives would be either different helicopters bought off the shelf: or a mixture of hunter-killer submarines and maritime patrol aircraft.

The only available helicopter looks likely to be the American Sea Hawk. Its great advantage is that it exists, is well-tried and would be available. It is possible that Westland could get a share in manufacturing it. The disadvantage is that it is less

capable than the EH101: its range is shorter and it cannot carry so many weapons or so much equipment. This stems from a basic difference in philosophy between us and the Americans. They put more of the electronics on the ships, and therefore have smaller helicopters with shorter range (they also have other layers of anti-submarine defence). American helicopters would not therefore be a good fit with our frigates: and because of their shorter range, we might need to supplement them with more Maritime Patrol Aircraft, thus adding to the cost. We would need to calculate whether overall it would be an even more expensive solution than pressing ahead with EH101.

The other alternative would be to rely for future anti-submarine warfare on a combination of the next class of hunter-killer submarines and Maritime Patrol Aircraft. Some preliminary technical work shows this would be more effective in terms of submarine kills than reliance on helicopters. But it is even further in the future: and we already have the frigates, whose usefulness would be much reduced without helicopters (although you might be able to upgrade the existing Sea Kings to fill the gap).

If we were starting from scratch, it might make sense to switch horses: but given what we have already spent on frigates and on development of the EH101, would it really make sense?

Salvaging the EH101 Programme

The alternative course is to press ahead with the EH101, trying to limit the Government's liability. This is the course which MOD recommend: they propose appointing a prime contractor with responsibility for delivering a fully-functioning, integrated helicopter and weapons system by 1997 (albeit of lower standard than originally envisaged).

There are quite a lot of arguments against this. When you are in a hole, it doesn't usually make sense to dig even deeper. There are doubts about Westlands financial resilience and ability to bear a fixed price without going bust or threatening to do so. There must also be some question whether we can find a prime

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contractor to take on the risk: even if you can, the premium is bound to be very high (MOD estimate £360 million). And you still won't get a helicopter to the original requirement. But at least we would know the worst, in terms of cost: our liability would be fixed.

These are the basic issues on which you will want Professor Hartley to advise. In summary:

- does he think Westland/Agusta are technically capable of delivering an adequate helicopter by 1997? Or is there a significant risk that further technical problems will arise, or the in-service date will slip further?
- what sort of confidence can we have in the revised costs? Will they really be a fixed ceiling?
- can it be done without appointing a prime contractor? Or are Westland too weak financially and managerially?
- can we rely on a prime contractor to deliver? Or are they likely to find the problem just as insoluble?
- would we be better off looking at alternatives?
- if so would it be helicopters plus Maritime Patrol Aircraft?
- or a mix of hunter-killer submarines and Maritime Patrol Aircraft?
- what are the likely in-service date, cost and capability penalties of these options?

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CHARLES POWELL
11 May 1990

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European Fighter Aircraft (Radar)

4.16 pm

The Secretary of State for Defence (Mr. Tom King): With permission, Mr. Speaker, I wish to make a statement about the selection of the radar for the European fighter aircraft.

The House will be aware that the great majority of contracts for the development of this aircraft, including those for the engine and the airframe, have already been let, and good progress is being made in those. However, the decision on the choice of the radar has remained outstanding. The radar is the key element of the aircraft's weapon system as it governs EFA's ability to detect and identify airborne targets beyond visual range and to engage those that are hostile, and to achieve this in a very difficult electronic environment. The radar is thus required to meet a most demanding specification, and it has required the most rigorous scrutiny of the alternative proposals to establish whether they met the necessary criteria.

Against that background, the NATO EFA management agency proposed the selection of the ECR90 radar offered by the consortium led by Ferranti. There were, however, concerns about the possible technical, commercial and financial risks involved in pursuing that choice.

Those concerns have now been resolved and I can inform the House that the four EFA partner nations—Germany, Italy, Spain and the United Kingdom—have selected an international consortium, known as Euro radar, led by GEC Ferranti Defence Systems Limited, to develop the ECR90 radar for EFA. Accordingly, Eurofighter, the EFA airframe prime contractor, is today awarding the radar sub-contract to them. The development contract will be awarded on a firm price basis and will be of six years' duration.

I am pleased to be able to make this announcement today, and I express my gratitude to my ministerial colleagues in our partner nations and their officials for their constructive and helpful approach. I also pay tribute to my hon. Friend the Minister for Defence Procurement and the officials of the Procurement Executive for their considerable efforts in bringing matters to such a satisfactory conclusion in what the House will recall were exceptionally difficult circumstances.

My statement today represents a major milestone for British airborne radar technology in this most important multinational development project, and I commend it to the House.

Mr. Martin O'Neill (Clackmannan): I welcome the Secretary of State's understandably long delayed statement on the award of the EFA radar contract to the ECR90 consortium led by Ferranti Defence Systems. This will provide the job security guarantees for which the workers in Edinburgh and throughout the United Kingdom have waited for so long.

Can the Secretary of State comment on the employment consequences for other GEC employees at present working for Marconi Radar? Now that the Ferranti Defence Systems financial base has been re-established, may I ask him to explain the means by which the technical, commercial and financial risks to which he referred have been resolved? In particular, can he dispel the rumours mentioned in *Jane's Defence Weekly* of 17 March 1990

that the British Government had signed a memorandum of understanding with the West German Government covering indemnification by Britain in the event of cost overruns in the development budget? Has consideration been given by the parties involved to the suggestion by the Luftwaffe that a more defensive role could be sought for the aircraft?

Again, I express my congratulations and those of my right hon. and hon. Friends to all those who have been involved in winning this contract, which we hope will remove the last obstacle from the realisation of the project, which is so important for the defence of Europe and the cutting edge of British technology.

Mr. King: I am grateful to the hon. Gentleman for what I take to be a clear welcome for the Government's efforts in this respect. Perhaps he would prefer to forget his earlier comments when he suggested that there had been some kind of dirty dealing. He is right in saying that there has been a major effort to achieve this important contract, which will be of great benefit, not least to those who work in the old Ferranti radar division and who are a key part of GEC Ferranti Defence Systems. While I cannot answer the point that he raised about Marconi, I am authorised by GEC to say that it expects that 95 per cent. of the British share of the work will be done in Edinburgh. That assurance is important because it implies recognition that the technical contribution of Ferranti workers is important.

There is not a memorandum of understanding because a memorandum of understanding exists between all member countries in the consortium. However, the British Government have given a side letter to the German Government, of which the House was notified in a departmental minute. It gives assurances about any extra costs that might be incurred by the German company responsible for the integration of the radar. That side letter is backed by a back-to-back indemnity from GEC, the parent company of GEC Ferranti Defence Systems. Therefore, there is no risk to public money and the commercial risks have been properly backed by a properly resourced defence contractor. That is an important element, the achievement of which was a key ingredient in securing this important contract.

Mr. Michael Jack (Fylde): This news will be of great relief and will be warmly welcomed by my constituents in Fylde who work on the prototypes of the aircraft. I congratulate my right hon. Friend and his hon. Friends on their efforts.

Will my right hon. Friend confirm that the announcement could not have been made if the four partner countries were not fully committed to the project all the way through the development to the production phase? Can he assure me that the selection of the radar will present no barriers to export possibilities for the aircraft and that export customers will be fully involved at an early stage in the development to ensure that what orders are available can be executed quickly?

Mr. King: On the latter point, that will certainly be true, subject to the normal controls on the export of military equipment. I can give that assurance, and my hon. Friend understands that well.

I thank my hon. Friend for his welcome. I am aware that this has been a worrying period for many people involved in the project. The House does not need me to

[Mr. King]

rehearse the exceptionally difficult commercial developments that occurred and the previous difficulties of Ferranti, which threatened to jeopardise the whole project. It has been a matter of some encouragement that we have found other companies that were prepared to become involved in the way that they have. It is encouraging for the future of British industry that the project has gone ahead in the way that it has.

Mr. Menzies Campbell (Fife, North-East): The Secretary of State will be aware that his announcement will be met with unanimous approval throughout the United Kingdom, not least because it removes an economic and military uncertainty.

On the point raised by the hon. Member for Clackmannan (Mr. O'Neill), did I understand the right hon. Gentleman to say that there is no risk to the United Kingdom Government in financial terms in the event of any cost overruns on the project? He will be aware that this year general elections are planned in Germany and that a body of opinion is not wholly in favour of continuing German participation in the EFA project. As Secretary of State for Defence, what consideration has he given to the possible consequences for United Kingdom defence policy if Germany reduces or even withdraws from its agreed participation in the EFA programme?

Mr. King: The hon. Gentleman's understanding is correct in that the undertaking in the side letter given by the British Government of entering into a contingent guarantee, which has been reported to the House, is backed by a back-to-back indemnity—a total indemnity—against any such costs arising from GEC. Therefore, the answer to the hon. and learned Gentleman's point about whether costs fall to the British Government is no.

The hon. and learned Gentleman asked what cognisance we took of a possible change of Government in the Federal Republic of Germany. I do not know what cognisance the German Government thought of taking of any possible change in this country. I do not know what the project's future or the prospects of workers in Ferranti Defence Systems would be were the appalling prospect of a change in the Government here to come about. Our purpose is to deal with the position as it is and work in this country's best interests. I am sure that all our efforts and those of the workers in GEC Ferranti Defence Systems will ensure that there is no such change of policy.

Mr. Keith Mans (Wyre): I welcome my right hon. Friend's statement. Does he agree that his announcement ensures that this country and Europe will remain at the forefront of airborne radar development into the foreseeable future, which is important?

Mr. King: I am grateful to my hon. Friend. I think that this is recognised by those with a far greater expertise than me to be a significant development in radar that will give a significant capability to EFA. As I made clear in my statement, that is the key element in the aircraft's capability. We believe that we have now achieved the best radar for the purpose and the alliance—one that will give it a fine aircraft. I hope that the prospects for the aircraft with the radar will be extremely good.

Mr. Gavin Strang (Edinburgh, East): Is the right hon. Gentleman aware that he has been absolutely right to

stand firm in support of the ECR90 system because of its enormous importance in relation to the development of indigenous European technology and British industry but, above all, because he has a responsibility to the pilots who will eventually fly the planes. In standing firm, he has ensured that they will have the best radar system available. Does he accept that by confirming the GEC Ferranti Edinburgh operation as world leaders in airborne radar he is providing the basis for, probably thousands of jobs in the next century, radar systems that will go into the European fighter aircraft and systems that will be sold for other planes and, hopefully, other civil uses?

Mr. King: I am grateful to the hon. Member. I am aware of the close interest that he takes, and has done for a considerable period, in this matter. That is understandable because of his constituency interests. I note his comments, which I presume to take as a measure of the confidence of his constituents who work for the company in their prospects, provided the contract can be achieved. I take great encouragement from that.

Mr. Jonathan Sayeed (Bristol, East): I congratulate my right hon. Friend and his fellow Ministers in the Ministry of Defence on standing firm on this contract. The contract is excellent news. Does he agree that, despite the commercial difficulties that Ferranti has had, the decision to take the ECR90 is a ringing endorsement of the technical expertise of the Ferranti GEC company, not just by us, but by other countries, some of which were trying to promote their own radars?

Mr. King: I am grateful to my hon. Friend. I think that there is wide recognition of the technical skills and capability of those involved, particularly in the original Ferranti company. Financial resource is required as well as technical skill on a project with the length of life that this one is likely to have. That is why the development of GEC Ferranti Defence Systems was a key element in the successful achievement of the contract.

Dr. John Reid (Motherwell, North): This is good news for Britain, British technology and particularly for Scotland and Scottish workers in GEC Ferranti, including those in my constituency. Will the Secretary of State make it plain that, whatever discussions took place during Ferranti's troubled period, today's decision had nothing to do with political pressure but was taken on the merits of the case? Is that not a vindication of the importance that was placed on Ferranti throughout that troubled period by hon. Members on both sides of the House? Will he join me in congratulating all involved in Ferranti on their efforts, as I congratulate him—it would be less than generous not to do so—for his efforts and sterling work to ensure that the contract eventually came to where it should, Britain?

Mr. King: I am grateful to the hon. Gentleman. I hope he did not think that I was churlish. I have sought to pay tribute to the technical competence and capability of those who worked in the original radar side of Ferranti. Clearly technical merit, confidence in management capability, and the resources available in support of the project have been key elements in the achievement. While it has been the responsibility of the companies to demonstrate their commercial and technical capability, I hope it is also seen that the Government have fully backed and supported their efforts.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 26/11/9S

CDP/EF

8th May 1990

Dear Charles,

RADAR FOR THE EUROPEAN FIGHTER AIRCRAFT

Further to my letter of 4th May, I now attach a copy of the statement which my Secretary of State intends to make this afternoon. I am copying this to the Private Secretaries to members of OD, to Jim Gallagher (Scottish Office), Colin Pipe (Attorney General's Office), Murdo MacLean (Chief Whip's Office), and to Sonia Phippard (Cabinet Office).

Yours

Janet Binstead

(MISS J R BINSTEAD)
Private Secretary

Charles Powell Esq
10 Downing Street

With permission, Mr Speaker, I wish to make a statement about the selection of the radar for the European Fighter Aircraft.

2. The House will be aware that the great majority of contracts for the development, including those for the engine and the air frame have already been let, and good progress is being made in these. However, the decision on the choice of the radar had yet to be confirmed. The radar is the key element of the aircraft's weapon system as it governs EFA's ability to detect and identify airborne targets beyond visual range and to engage those that are hostile, and to achieve this in a very difficult electronic environment. The radar is thus required to meet a most demanding specification, and it has required the most rigorous scrutiny of the alternative proposals to establish that it met the necessary criteria.

3. Against this background the NATO EFA Management Agency proposed the selection of the ECR 90 radar offered by the consortium led by GEC/Ferranti. There were however concerns about the possible technical, commercial and financial risks involved in pursuing that choice.

4. These concerns have now been resolved and I can inform the House that the four EFA partner nations, Germany, Italy, Spain and the UK, have selected an international consortium, known as Euroradar, led by GEC Ferranti Defence Systems Ltd, to develop the ECR 90 radar for EFA. Accordingly Eurofighter, the EFA airframe prime contractor, is today awarding the radar sub-contract to them. The development contract will be awarded on a firm price basis and will be of 6 years' duration.

5. I am very pleased to be able to make this announcement today and I would like to express my gratitude to my Ministerial colleagues in our partner nations and their officials for their constructive and helpful approach. I must also pay tribute to my hon Friend the Minister for Defence Procurement and the officials of the Procurement Executive for their considerable efforts in bringing matters to such a satisfactory conclusion in what the House will recall were exceptionally difficult circumstances.

6. My statement today represents a major milestone for British airborne radar technology in this most important multinational development project, and I commend it to the House.



Prime Minister

CD

8/5.

PRIME MINISTER

THE EH101 HELICOPTER*Minutes attached*

At the meeting of OD on 19 April I agreed to report on any new financial commitments my Department had entered into on the EH101 project and, if so, to consider in consultation with the Attorney General whether they could legally be suspended or rescinded pending decisions by Ministers on the future of the project.

In short we have not entered into any new commitments beyond those flowing from the launch aid contract that the Secretary of State for Defence entered into with Westland on behalf of my Department in 1984 and the related Memorandum of Understanding between the UK and Italy on the development, manufacture and marketing of the civil version. The launch aid contract provides for the payment of £60 million towards development of the commercial version of the helicopter and its recovery via levies on all versions except those supplied to the two Defence Ministries. The outstanding £18 million under this contract should, other things being equal, be paid to Westland by about August 1991.

As a result of the slippage in the helicopter development programme, and thus the possibility that the market prospects for the helicopter would suffer, we have considered very carefully whether it was proper to continue with launch aid payments to Westland. The launch aid contract with Westland provides for unilateral termination by HMG "if substantial doubts



the department for Enterprise

have arisen as to the market prospects of the commercial EH101". The market review that we have recently completed showed that, assuming that first deliveries of the helicopter took place in 1995 as is currently expected, the market prospects for the helicopter had not deteriorated. Indeed compared with the original 1983 forecast, slightly higher sales were forecast, albeit over a longer period. An assessment was also made of the effect on sales if hypothetically, as a result of yet further slippage, first deliveries were not made until 1997 or even as late as 2000. Sales were expected to suffer only marginally under the former scenario, but would fall by almost half under the latter.

The conclusion I have drawn from our review of the market prospects for the helicopter is that we have currently no grounds for terminating the contract with Westland. We shall however be keeping the situation under close review and in particular the effect on sales of the utility version should the Ministry of Defence decide not to go through with their purchase. (The launch aid contract provides separately for the possibility of unilateral termination of our launch aid contract should the Ministry of Defence cancel their contract for the development of the RN version.)

What is clear from our recent review is that the sooner the helicopter goes into production the better will be its prospects in world markets. Early production will also shorten the workload gap that Westland currently face. Accordingly I hope we shall be able to reach decisions on the future of the project and convey these to industry.

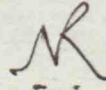


dti

the department for Enterprise

The Solicitor General has been consulted on the terms of this minute.

I am copying this minute to other members of OD and the Attorney General and to Sir Robin Butler.



N R

8 May 1990

DEPARTMENT OF TRADE AND INDUSTRY

PB4AMW



cglc



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

MO 26/11/9J

4k May 1990

EP 415.

Dear Charles,

RADAR FOR THE EUROPEAN FIGHTER AIRCRAFT *dyr*

As you will know, it was not possible for my Secretary of State to make his Oral Statement on this subject on 1st May, as tentatively forecast in his minute of 20th April to the Prime Minister.

The side letter to the MOU has now been signed. GEC have also completed execution of the indemnity. The contract for the radar has been agreed, and will be signed on Tuesday 8th May. My Secretary of State therefore intends to announce this in the form of a Statement after Prime Minister's Questions on Tuesday 8th May.

I enclose a copy of the draft of the statement for my Secretary of State to make, although he may wish to adjust the wording in the light of any developments over the weekend.

I am copying this letter to the Private Secretary's to members of OD, to Jim Gallagher (Scottish Office), Colin Pipe (Attorney General's office), Murdo MacLean (Chief Whip's Office), and to Sonia Phippard (Cabinet Office).

Yours,

(MISS J R BINSTEAD)
 Private Secretary

Charles Powell Esq
 10 Downing Street

CONFIDENTIAL

MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2JG

Telephone 01 219 2111



CONFIDENTIAL

DRAFT STATEMENT FOR S OF S TO MAKE TO PARLIAMENT ON EFA RADAR
SELECTION

With permission, Mr Speaker, I wish to make a statement about the selection of the radar for the European Fighter Aircraft, more commonly known as EFA.

2. I am delighted to tell the House that the four EFA partner nations have selected an international consortium, led by GEC Ferranti Defence Systems Ltd, to develop the ECR 90 radar for EFA, and that Eurofighter [the EFA airframe prime contractor] has awarded the radar sub-contract to the GEC Ferranti Defence Systems consortium. The development contract will be awarded on a firm price basis and will be of 6 years duration. It will be supported by a side letter to the EFA development Memorandum of Understanding which indemnifies the German Government for certain additional costs that might arise. The financial risk will be borne by GEC and its industrial partners, thus safeguarding public funds.

3. This most encouraging announcement has been possible only after the most rigorous scrutiny of each of the competing bids by the EFA partners. This whole process has admittedly taken rather longer than we would have liked but since the radar is required to meet a demanding specification, it was absolutely right that the partner nations should be sure that the correct choice was being made. I am in no doubt that it has been.

4. The radar is a vital element of the aircraft's weapon system and the key to EFA's ability to detect and identify airborne targets and engage those that are hostile, particular in a severe electronic environment and with the opposing forces beyond each other's visual range. I am confident that the GEC Ferranti consortium is fully equipped to meet the technical challenge of developing this next generation of airborne radar.

5. I have been gratified by the keen interest in EFA taken by members on all sides of the House. I am confident that this news will be well received by the House today. Equally, the radar selection decision will be very welcome both to the GEC Ferranti Defence Systems Company and to its workforce.

6. This decision will ensure that the United Kingdom keeps a strong and healthy capability in the field of airborne radar. It also provides further evidence that the four partner Governments are wholly committed to the programme. As my colleague, Dr Gerhard Stoltenberg, the German Defence Minister, and I agreed in January of this year, there is a need for a modern, agile fighter aircraft in the future. Moreover, an agile aircraft with the characteristics of EFA will be essential to maintain an effective air defence of the UK beyond the late 1990s. EFA, we believe, is the best solution to meet the requirement of our Air Forces in the

second half of the 1990s and beyond. The Italian and Spanish Governments are equally committed to this view.

7. I commend ^{this} ~~the Government's~~ decision to the House.

DEFENCE : Prounnet Pt 8,

MEETING RECORD.

SECRET



SUBJECT MATTER

12(a-b)
a.
The Prime Minister
call
a: (Person)
defence

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 May 1990

The Prime Minister had a talk this morning with the Defence Secretary covering a number of issues.

Tristar Maintenance Contract

The Defence Secretary gave the Prime Minister an account of further discussions with Marshalls of Cambridge, as a result of which they had indicated readiness to adjust certain aspects of their bid. These discussions were continuing. He thought they would probably result in the award of the contract to Marshalls, but no decisions had yet been reached.

European Fighter Aircraft

The Defence Secretary reported that agreement had finally been reached to go into the next phase of the EFA programme, with a British radar. He would be making a statement on this to the House on Tuesday 8 May.

Dual Capable Aircraft

The Defence Secretary reported that he would be having further discussions with the US Defence Secretary shortly on the proposal to withdraw F1-11s from Upper Heyford and station F15Es at Bentwaters. The proposal could give rise to some difficulties locally.

Defence Options

The Defence Secretary gave the Prime Minister an account of the work in hand on future options for defence. He warned that, even with quite radical proposals, there would be difficulty in producing any immediate savings from the defence budget. The Prime Minister emphasised that she would like to see an early start to discussions with our Allies under the Brussels Treaty about the possibility of reductions in our stationed forces in the Federal Republic of Germany. The Defence Secretary undertook to consider how this should be set in motion.

SECRET

Prime Minister's visit to Coulport

The Prime Minister confirmed that she would like to go ahead with her visit to Coulport on 12 May, even though she would not be able to welcome a SSBN returning from patrol. She understood that arrangements were in hand for her to visit a SSN, as well as inspect a SSBN tied up alongside.

C. D. POWELL

Simon Webb, Esq.,
Ministry of Defence.

le M



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 May 1990

SELECT COMMITTEE ON DEFENCE: 1990 INQUIRY INTO TRIDENT

Thank you for your letter of 3 May. We discussed this and agreed that it would probably be better if the call to Lord Tombs came from the Ministry of Defence and you kindly agreed to take this on.

DOMINIC MORRIS

Miss S. J. Ambler-Edwards,
Ministry of Defence

DT



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

D/S of S/PS/20/194S

3rd May 1990

Dear Dominic,

SELECT COMMITTEE ON DEFENCE: 1990 INQUIRY INTO TRIDENT

As I mentioned to you yesterday, the Select Committee on Defence, as part of its current Inquiry into Trident, has put a number of questions to the Department relating to Aldermaston and contractorisation. One question which we have already answered, under cover of a Management in Confidence caveat, concerns the matter of any reimbursement received by Lord Tombs in recognition of his work in preparing the Tombs Report (see the relevant extract from our Memorandum of Evidence attached).

The Committee has now asked us to consider removing the Management in Confidence caveat from our answer. Ministers here have no problem with that in principle but take the view that, as a matter of courtesy, Lord Tombs should be informed that the information which we have passed to the Committee may now be published in due course.

As we discussed, it may be more appropriate if the approach to Lord Tombs were to come from No 10 and you kindly agreed to make the necessary telephone call. I would be grateful if you could let me know when Lord Tombs has been informed.

Yours ever
Sue

(S J AMBLER-EDWARDS)(Miss)
Private Secretary

Dominic Morris Esq
10 Downing Street

(where sidelined)

1990/91 is likely to be very small; the contract will not commence until later this year and payments to the management contractor will only be made on the achievement of specified objectives.

Q5 The Committee wishes to know whether Sir Francis (now Lord) Tombs or his employers were reimbursed by MOD for his work in preparing his report on AWE production and engineering tasks.

A5 Neither Sir Francis Tombs nor his employers were reimbursed by MOD for his advice to Ministers.] M-I-C

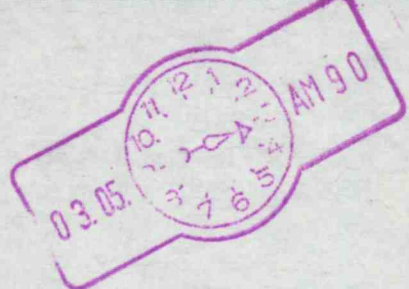
Q6 a) The Committee would like to receive the 1 March 1990 staffing figures as soon as they are available.

A The total manpower strength of AWE on 1 March 1990 was 6504. R
At Aldermaston and Burghfield, there were shortfalls in the following categories:-

	Aldermaston	Burghfield
Supervisory, Admin, Executive	36	13
Specialist	151	1
Craft	174	29
Non-Craft	136	12

Note: the increase in staff shortfalls since the 1 March 1989 figures quoted in the Committee's previous report is due to an increase in the staff requirement, rather than a reduction in numbers.

(where sidelined)



P. Minister

You may like to note how our AWACS is coming along.

CDD 2/5

mf

AWACS Aircraft for Britain Completes Airworthiness Tests



First Boeing E-3D AWACS (airborne warning and control system) aircraft for the U. K., shown here passing Washington's Mt. Rainier, recently completed airworthiness testing and is being prepared for system flight qualification testing this summer.

The U. K. has ordered seven of these militarized 707 versions and France has ordered four.

Features that distinguish the E-3D from previous AWACS models include the refueling probe over cockpit and ESM (electronic support measures) pods at the wingtips.

System flight testing is to begin in mid-August after airworthiness instrumentation is removed and mission avionics are installed.

The aircraft will fly to RAF-Waddington in the U. K. for further testing in mid-October, and deliveries to the RAF are scheduled to begin in the spring of 1991.

Personnel from the European aerospace companies that will install mission equipment on later aircraft are training in Seattle with the Boeing Defense & Space Group's Aerospace and Electronics Div., which builds the E-3D. □

New Air Force One Undergoes Refueling Tests

LOS ANGELES



The new Air Force One presidential aircraft is shown clad in a green protective coating during refueling tests with an Air Force/McDonnell Douglas KC-10A tanker.

Tests were also conducted with a

Boeing KC-135E tanker. Boeing Military Airplanes is supplying two modified new 747-200s for the Air Force One mission. The first aircraft is to be delivered this September, and the second aircraft in June, 1991. □

[But you don't need one of these!]

file



a. Marshall.
ddg

cc: MOD

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 May 1990

Thank you for your letter of 1 May about the R.A.F. Tristar Maintenance Contract. I have brought the points you make to the attention of the Prime Minister and also to the Ministry of Defence. I know these points will be considered carefully alongside the detailed proposal which you submitted to the Ministry of Defence on 9 April.

Charles Powell

Michael Marshall, Esq., D.L.

EE

SECRET
FM WASHINGTON
TO DESKBY 011800Z FCO
TELNO 996
OF 011615Z MAY 90
AND TO DESKBY 011800Z MODUK
INFO PRIORITY BONN, UKDEL NATO, PARIS

MODUK FOR DUS(P), D NUC POL SY, HEAD S9 AIR
US DUAL-CAPABLE AIRCRAFT IN UK
SUMMARY

1. AMERICANS PRESENT THEIR FULL PROPOSALS, AGREED BY CHENEY. NO SURPRISES, BUT AN UNDERTAKING TO SYNCHRONISE THE DRAW DOWN OF F111 AT UPPER HEYFORD WITH THE BUILD UP OF F15E AT BENTWATERS, SO THAT THE PROPOSALS COULD BE PRESENTED TO PUBLIC OPINION AS A PHASED REDUCTION OF DCA, BEGINNING IN 1992, TO APPROXIMATELY HALF THE EXISTING NUMBER.

DETAIL

2. WE HAVE BEEN GIVEN THE FINAL SET OF PROPOSALS FOR US DCA IN BRITAIN, AS APPROVED AT THE END OF LAST WEEK BY CHENEY. THE PACKAGE IS AS FOLLOWS:

(A) REMOVAL OF 66 F111E AIRCRAFT FROM UPPER HEYFORD, WHILE MAINTAINING THE AIRFIELD FOR DUAL-BASING. THE EXISTING WING WOULD RETURN TO THE UNITED STATES BUT DEPLOY TO UPPER HEYFORD IN WARTIME, REMAINING PART OF SACEUR'S STRIKE PLAN, AND PRACTICE THESE ARRANGEMENTS (USING SOME AIRCRAFT ONLY) FOR A FEW WEEKS EACH YEAR. US MANPOWER AT UPPER HEYFORD WOULD BE REDUCED FROM CURRENT LEVELS OF 4,500 TO SOME 350,

(B) ESTABLISHMENT OF 36 F15E AT BENTWATERS.

(C) HARMONISATION OF (A) AND (B) SO THAT THE F111 WOULD BEGIN TO BE WITHDRAWN AS SOON AS THE FIRST F15E WOULD ARRIVE AT BENTWATERS IN 1992. THIS IS EFFECTIVELY AN ADVANCE OF TWO YEARS ON THE EARLIER PLAN FOR THE UPPER HEYFORD WITHDRAWAL, DESIGNED TO AVOID A SITUATION WHERE US DCA NUMBERS WERE SEEN TO BE INCREASING ALBEIT TEMPORARILY AND THE CONSEQUENT ADVERSE IMPACT ON PUBLIC ACCEPTANCE.

3. MILLER SAID THAT THE POSSIBILITY OF LOCATING THE F15ES AT UPPER HEYFORD RATHER THAN BENTWATERS HAD BEEN EXAMINED CAREFULLY BUT IT HAD NOT BEEN POSSIBLE TO FIND A WAY OF CRAMMING THEM IN. THE AMERICANS ASSUMED THAT WE WERE IN FAVOUR OF RETAINING THE F111 COMMITMENT, ALBEIT BY

PAGE 1

SECRET

THIS IS A COPY. THE ORIGINAL
REMOVED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

DUAL-BASING (WE DID NOT DISSENT). THAT BEING SO, THERE WERE PRACTICAL CONSTRAINTS, IN TERMS OF WARTIME OPERATIONS, TO DOING EVERYTHING AT UPPER HEYFORD: INADEQUATE RAMP SPACE, INSUFFICIENT ROOM FOR THE UNIQUE EQUIPMENT AND FACILITIES REQUIRED FOR F15S AND NOT ENOUGH HARDENED AIRCRAFT SHELTERS. BENTWATERS WAS 100 NAUTICAL MILES CLOSER TO THE SOVIET UNION, WHICH HELPED MILITARILY. THERE WOULD ALSO BE DISTINCT MILITARY DISADVANTAGE IN PUTTING ALL THE EGGS IN ONE BASKET, IN TERMS OF DEGRADED SURVIVABILITY.

4. WE ASKED ABOUT NOISE LEVELS CREATED BY F15. MILLER SAID THAT HE HOPED WE WOULD NOT MAKE THIS A CENTRAL POINT. HIS STAFF HAD TOLD HIM THAT MEASUREMENTS HAD BEEN TAKEN LAST YEAR BY THE THIRD AIR FORCE BASED ON OPERATIONS IN ICELAND, WHICH SHOULD ALREADY HAVE BEEN MADE AVAILABLE IN LONDON. THESE GAVE SIMPLE DECIBEL-LEVEL READINGS. BUT IT WOULD NOT BE POSSIBLE TO BE PRECISE UNTIL THE AIRCRAFT ACTUALLY OPERATED AT THE LOCATION IN QUESTION, GIVEN THAT QUOTE SOUND FOOT PRINTS UNQUOTE WERE PECULIAR TO THE INDIVIDUAL SITE. THE AMERICANS APPRECIATED THAT THIS WAS AN IMPORTANT MATTER FOR US, BUT SUGGESTED THAT THE RADICAL EASING OF THE NOISE PROBLEM AT UPPER HEYFORD SHOULD MORE THAN COMPENSATE FOR THE NEW NUISANCE AT BENTWATERS, PARTICULARLY AS THE LATTER WAS MUCH CLOSER TO THE SEA.

5. MILLER ADDED THAT CHENEY HOPED TO BE ABLE TO DISCUSS THIS WITH THE DEFENCE SECRETARY IN THE MARGINS OF THE NPG MEETING AND THAT IT MIGHT BE POSSIBLE TO HAVE MR KING'S SUPPORT IN PRINCIPLE, EVEN IF IT WAS NECESSARY (AS WE INDICATED IT PROBABLY WOULD BE) TO SECURE CABINET AGREEMENT SUBSEQUENTLY. A SIMILAR HOPE EXISTED IN RESPECT OF PLANS FOR THE FUTURE USE OF HOLY LOCH BY US SSNS.

ACLAND

YYYY

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PAGE 2
SECRET



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

MO 25/16D

1st May 1990

*Dear Charles*TRISTAR MAINTENANCE PROJECT

Thank you for your letter of 1st May enclosing the letter of the same date from Mr Michael Marshall, Chairman and Chief Executive of Marshall of Cambridge Engineering Limited (MCE). *will COP?*

Mr Marshall's letter does not raise any new points. No doubt the details will be discussed when my Secretary of State meets the Prime Minister to discuss this matter on Thursday 3rd May.

As you know from Julian Scopes' letter of 26th April and the table attached thereto, we do not accept the proposition that the MCE bid does not contain cost plus elements. Nor do we accept that there are sufficient penalties on the firm for inadequate performance; the liquidated damages they are prepared to accept are well below those accepted by Deutsche Airbus and the reduction they offered on their management fee under Section 3 of the bid is not in our view sufficient penalty on the firm. Julian Scopes has already mentioned the RAF view on this competition, and this is an aspect to which my Secretary of State will refer on Thursday.

While discussions are continuing on the merits of the bids for this competition, I suggest you can only acknowledge Mr Marshall's latest letter. I attach a draft accordingly.

Yours

(MISS J R BINSTEAD)
Private Secretary

Charles Powell Esq
No 10 Downing Street

DRAFT FROM PS/PRIME MINISTER TO MICHAEL MARSHALL

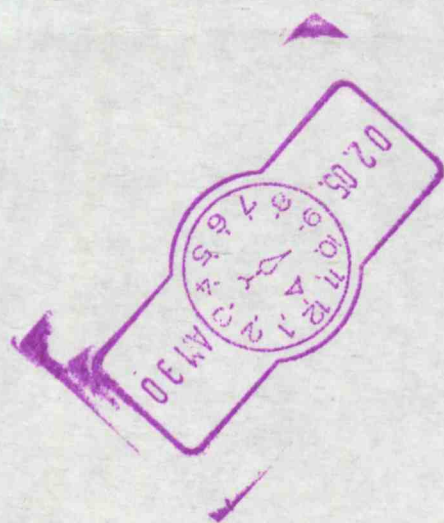
Thank you for your letter of 1st May about the RAF Tristar Maintenance Contract. I have brought the points you make to the attention of the Prime Minister and also to the Ministry of Defence. I know these points will be considered carefully alongside the detailed proposal which you submitted to the MOD on 9th April.

Ch

dy

(a:marshall.dsg)





Michael MARSHALL

8/5



file

ed

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Ack/ 1 May 1990

I enclose a copy of a letter I have received from Mr. Michael Marshall, Chairman and Chief Executive of Marshall of Cambridge.

I should be grateful if you would let me have an early draft reply please.

(CHARLES POWELL)

Miss Jane Binstead,
Ministry of Defence.

A handwritten signature in dark ink, appearing to be 'CP' or similar initials, located in the bottom right corner of the page.

From: MICHAEL MARSHALL D.L.

CHAIRMAN AND CHIEF EXECUTIVE

MARSHALL of CAMBRIDGE
(Engineering) Ltd.

TELEPHONE: (0223) 61139

FAX: (0223) 324224

TELEX: 81208

AIRPORT WORKS, CAMBRIDGE
CB5 8RX

MJM/JAG/L4b

1st May 1990

Charles Powell, Esquire,
Private Secretary,
10 Downing Street,
London
SW1A 2AA

Dear Mr Powell,

TriStar Majors

I would be grateful if you will thank the Prime Minister for her personal interest and involvement in the decision on the TriStar Majors and we hope very much for the sake of all concerned that our tender will prove acceptable.

I was concerned with your earlier reactions on the telephone that you thought that our bid was of a cost plus nature. I want to assure you that the Marshall tender is a fixed price with penalties where requested in Sections 1 and 2. In Section 3 the Marshall costs are totally fixed price with penalties.

A few other points:-

1. Marshall is currently doing most of this work for the RAF, including several recent rescue missions to Brize Norton within hours of the request for help. Cambridge is also regularly flown to for assistance as it is "just down the road" from Brize Norton. The RAF will be dismayed if they have to rely on Germany for this support.
2. Marshall will be investing £1 million in support of this contract and will be building up its existing network of spares support.
3. If Marshall fails to gain this contract it will find it increasingly difficult in gaining export work on TriStars particularly if the contract was awarded to MBB, which is part of the huge Deutsche Aerospace Industry which with Government support has ambitions to dominate European aerospace. By comparison Marshall is small, private, efficient and effective and is at this very moment doing some work on a TriStar for a Canadian operator who was let down by MBB, as well as work on the Royal Jordanian TriStar following similar work for other major TriStar operators.

-2-

4. As Design Authority for the RAF TriStar Marshall is anxious to retain "hands-on" contact with the RAF aircraft, particularly in view of the unique structural integrity of the modified aircraft.
5. No other major European Government would place such an important support contract overseas. It might have been possible for the Majors but for the arisings it simply will not work and will end in trouble.

Thank you again for giving us the opportunity of tendering - this is particularly appreciated by me as I have just taken over the Company from my father and this contract forms a key plank in the credibility of my growth proposals for the future and will help both directly and indirectly to generate employment and give our Company the opportunity to grow its own niche markets in support of the world's wide-bodied aircraft.

If there is any more information with which I can help please don't hesitate to make contact.

Yours sincerely

Michael Marshall

2



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 26/16/1

Ria Minnie 30th April 1990
i.e. someone has
woken up a bit late
in the day. cgr. 30/4 *mt*

Dear Charles,

You may wish to be aware of the arrangements for a Press Facility on board HMS NORFOLK, the RN's first Type 23 frigate, tomorrow. These arrangements were made, and the press informed, some weeks ago.

The Press Facility will include a brief fly past by the RN EH101 (Merlin) pre-production aircraft and a presentation on the EH101 by Westland. Merlin is designed specifically to operate from the Type 23 and it is as natural a part of the programme for presenting this class of ship as is the Command System, about which there will be a presentation by Dowty Sema.

Measures will be taken to guard against the possibility of the media using the occasion to exaggerate the extent of the Government's commitment to the project. Westland will be told informally, at a senior level, that their presentation should not be used as a platform for implying firm and final Government commitment to Merlin as the next RN ASW helicopter but should be factually-based and confine itself to describing the EH101's ASW capabilities. Filming of the fly-past will be limited to shots taken of the helicopter from the ship (and not, as had previously been planned, from another helicopter flying alongside). The EH101 flight should not therefore have any great impact on the media, particularly as it will be in the latest grey RN livery, which is not so well known as the traditional dark blue.

I am copying this letter to Carys Evans (Treasury), Martin Stanley (Trade and Industry), and Sonia Phippard (Cabinet Office).

Yours sincerely
John Wood

pp. (MISS J R BINSTEAD)
Private Secretary

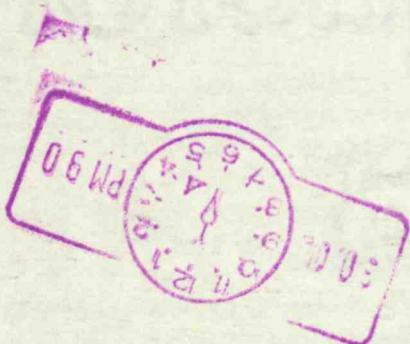
Charles Powell Esq
No 10 Downing Street

AEROSPACE

DEFENCE PROCUREMENT

MINISTRY OF DEFENCE
HEADQUARTERS, WHITE HALL, LONDON SW1A 2DD

Telephone: 01-275 2111



COMMERCIAL IN CONFIDENCE



C/ WIDOWS/ FOREIGN/ TRISTAR.
Thw

10 DOWNING STREET
LONDON SW1A 2AA

De PC

From the Private Secretary

27 April 1990

Tristar Maintenance Contract

Thank you for your two letters of 25 and 26 April about the Tristar maintenance contract. The Prime Minister would like to discuss these further with the Defence Secretary on his return before any final conclusion is reached. We will make arrangements for a meeting as soon as possible.

I am copying this letter to Simon Webb in the Defence Secretary's Office.

CHARLES POWELL

Julian Scopes, Esq.,
Ministry of Defence.

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FILE A: FOREIGN/BINSTEAD
(MEM)



bcc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 April 1990

EH101 HELICOPTER

Thank you for your letter of 26 April. I have spoken to Professor Hartley who will get in touch with Mr. Nicholls. We are aiming for him to be fully briefed and ready for a meeting with the Prime Minister by the week 14-18 May.

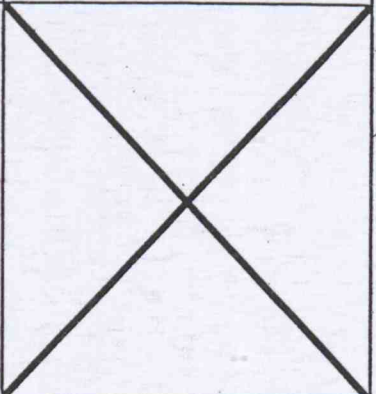
CHARLES POWELL

Miss J. R. Binstead,
Ministry of Defence

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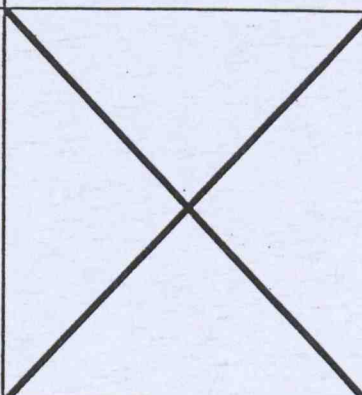
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CCPC



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 26/16/1S

14-18

26th April 1990

Dear Charles

EH101 HELICOPTER

Thank you for your letter of 23rd April about Professor Hartley, who is to carry out a technical appraisal of the EH101 programme. I have not had a chance to show your letter to the Defence Secretary.

We are putting together an initial set of papers to serve as an introduction to the project. I suggest that, in the first instance, Professor Hartley gets in touch with Mr N H Nicholls (Assistant Under Secretary of State (Systems)) at the MOD. His telephone is 01 (from 6 May 071) 218 2217.

I am copying this letter to Sonia Phippard (Cabinet Office).

Yours

(MISS J R BINSTEAD)
Private Secretary

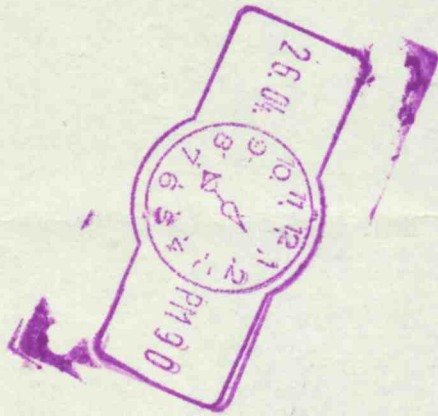
Charles Powell Esq
10 Downing Street

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DEFENCE: Procurement

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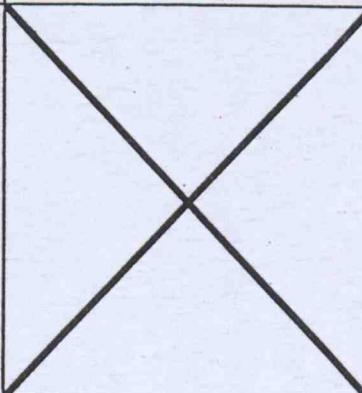
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24K

FROM: CHIEF SECRETARY
DATE: 23 April 1990

PRIME MINISTER

RADAR FOR THE EUROPEAN FIGHTER AIRCRAFT

I have seen a copy of Tom King's minute of ^{Apr} 20 April to you.

2. I understand that it is now intended that Tom will today personally sign a side letter to the EFA Development Memorandum of Understanding (MOU) which will provide a financial guarantee of up to DM200 million to the German Government against the risk of possible costs arising from delays in delivery by GEC of the EFA radar. I note Tom's assurance that this guarantee will in turn be covered by a watertight "back to back" agreement with GEC, and that the MOU side letter will not come into force until the GEC indemnity has been finalised.

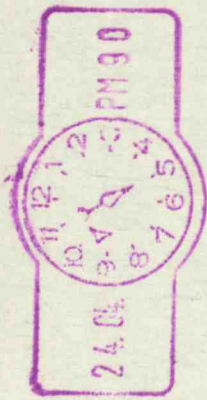
3. I understand that the GEC indemnity will in practice ensure that no risk to public funds arises from the UK's commitment under the MOU side letter. On that basis, I am content for Tom to proceed as he plans. However, notwithstanding the fact that there will be no practical risk to public funds, it seems that the UK guarantee gives rise to a contingent liability which will have to be reported to Parliament. My officials will advise Tom's about this aspect before any statement is made in the House.

4. I am copying this minute to OD colleagues, Malcolm Rifkind, Patrick Mayhew, and Timothy Renton and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to be 'N. Lamont'.

NORMAN LAMONT

DEFENCE: Procurement Act



DEFENCE: Procurement Act

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 April 1990

Dee Simon,

EH 101 HELICOPTER

At OD last week, the Prime Minister said she would like the advice of an independent expert on the prospects for the EH 101 helicopter and possible alternatives to it. This is a procedure which we followed at the time of the original decision to go ahead with the European Fighter Aircraft.

I have been in touch with Professor Frank Hartley, now Vice Chancellor of the Cranfield Institute of Technology, who helped us over the EFA. He would be very happy to do the same task in relation to the EH 101 and will be in touch with me later this week to discuss detailed arrangements. On the pattern of last time, he will need access to all the main papers relating to the project and an opportunity to talk to some of the key officials concerned, including the Chief Scientific Adviser and the Head of Defence Procurement. Once he has had time to absorb the material and reflect on it, I will arrange for him to have a discussion with the Prime Minister.

BB I should be grateful if you could set in hand work on assembling a full dossier of papers for Professor Hartley. You might like to give me a name for someone he should contact to co-ordinate his necessary work and meetings at the Ministry of Defence. It would be helpful to have this before next Friday, when I am due to speak to him again.

I am copying this letter to Sonia Phippard (Cabinet Office).

John Mack,

C. D. POWELL

Simon Webb, Esq.
Ministry of Defence

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MO 26/11/9D

PRIME MINISTERTHE RADAR FOR THE EUROPEAN FIGHTER AIRCRAFT

In my minute of 22nd January I said that agreement on the selection of the ECR 90 radar for EFA was near, subject to our meeting two German conditions: reassurance on the commercial viability of Ferranti and an indemnity for Germany against excessive risk. These conditions have now been met, to the satisfaction both of the Germans and of Italy and Spain.

2. Firstly the GEC take-over of Ferranti Defence Systems is now complete. This has provided the Germans with the necessary assurance that the radar will be developed and built by a company with an entirely firm commercial and financial base. Moreover, Lord Weinstock has given me a written assurance that GEC will assume, in full, the contractual liability for the development of the ECR 90 radar for EFA.

3. For budgetary and political reasons Dr Stoltenberg felt that he had to be able to demonstrate to the Bundestag that Germany faced no risk of additional costs rising from the late delivery of ECR 90 to the German company (MBB/Dornier) responsible for radar integration into the weapon system. On this we have proceeded as described in my minute of 22nd January. A side letter to the EFA Development Memorandum of Understanding (MOU) has now been drafted and, after lengthy discussions, agreed by our EFA partners. Essentially it provides an indemnity to Germany, up to a ceiling of 200 million DM, in the event that the GEC/Ferranti consortium causes additional costs at MBB which are directly related to the radar development. The ceiling figure will not be proofed against inflation and is inclusive of any taxes.

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4. To avoid any charge to public funds under this arrangement, as you and Norman Lamont rightly required, a back to back agreement has been negotiated with GEC to ensure that the financial risk of 200 million DM deriving from the MOU side letter is transferred to GEC and its consortium partners. Using the services of Macfarlanes, the city lawyers, a satisfactory and legally enforceable document has now been drawn up and has been agreed with GEC. I confirm that the terms of the back to back agreement pose no risk to public funds. Treasury officials have been kept fully in touch with development during negotiations and have seen the final texts of both documents.

5. We have finally reached a position where this matter can be settled. The urgency we now face is particularly because of the pressure over the choice of radar on Dr Stoltenberg in the Bundestag. At the Anglo-German Summit, he emphasised that he could no longer delay in view of the increasing pressure in the Bundestag from the Opposition against the whole project, and I promised him an outcome by the end of April. The next urgent step is for the side letter to be signed, and there is an opportunity for the National Armaments Directors to sign it formally on 24th April when they have a meeting in Brussels. If we can do that it will then take some further days for GEC formally to execute the indemnity. The radar contract will not be signed until this has been completed. The MOU side letter has no legal force until the contract is signed.

6. We are pressing Eurofighter, the main development contractor, to complete negotiations for an early signature of the radar contract with the GEC/Ferranti consortium to enable work to proceed on this critical system for EFA.

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7. This will be good news for all those who have campaigned for the EFA radar and will be well received by a good number of MPs, and the Opposition will find it difficult not to welcome the successful outcome of the extremely difficult negotiations. I therefore aim, subject to the views of the Lord President and the Chief Whip, to announce this in the form of an Oral Statement after your Questions on Tuesday week (1st May).

8. I am sending copies of this minute to OD colleagues, to the Secretary of State for Scotland, the Attorney General and the Chief Whip, and to Sir Robin Butler.

Jack Vinstead

(T K)

Ministry of Defence
20th April 1990

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

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PRIME MINISTER

EH 101 HELICOPTER

OD tomorrow morning will take the Defence Secretary's paper on the EH 101 helicopter, which you read over the weekend. Since then, the Chief Secretary has put in a note which you ought to see: and there is a Cabinet Office brief. The Policy Unit may also put in a note.

We have yet another defence procurement disaster on our hands. The prime responsibility for embarking on it belongs to Mr Heseltine. It was on his advice that the decision to proceed to full development was taken in March 1983.

The scale of the disaster is apparent in the stark figures. If we adopt the Defence Secretary's recommendation we shall get half the original number of helicopters, below the original specifications, four years late and at twice the cost. Each helicopter will cost £53 million.

As always when you are in a hole, the key decision is whether to go on digging or go and try something else. The Defence Secretary's solution is to try to cap the disaster by getting a fixed price, appointing a prime contractor to be responsible for systems integration and taking a decision to accept the best job that Westland are able to do. It is expensive, but at least it is all out on the table and we know the worst (or think we do).

The alternative is to say this is just so awful that we are not going to plunge in deeper. We write off the £900 million already spent (about the same as Nimrod) and look for an alternative. The trouble is what alternative. We cannot look to the Americans because they have a different philosophy: they put more of the electronics on the ship and therefore have smaller helicopters with shorter range. We go for smaller ships and bigger and more sophisticated helicopters - and we have already built the ships. An option would be to just build more and slightly upgraded Sea King helicopters. They would not be state of the art in

technology terms but better than nothing. We could consider other means of conducting anti-submarine warfare. In essence that means using fixed-wing aircraft. But what do you fly them off? And would they be any cheaper?

What you cannot do is nothing. If we are going to change our defence posture towards a more active maritime defence role, then anti-submarine warfare will become more not less important. We cannot opt out of it.

Looked at in this way, it seems to me that the Defence Secretary's paper is not an adequate basis for a decision. It is hypothecated entirely on going ahead with the EH 101 naval version and rules out anything else. If Ministers are going to take a responsible decision, they need a paper which assesses the alternatives and possibly even gets in some outside advice (as you did over EFA). You cannot just gaily sign a cheque for another £1.8 billion on the basis that 'There Is No Alternative'.

In the light of the horrendous experience with the naval version, I doubt there will be any support in the Committee for even thinking about going ahead with the utility EH 101. I would have thought the sooner we opt for a mixture of Black Hawk (built in the UK) and Chinooks (with proper offset arrangements for purchase from the US) the better.

C.D.P.

Charles Powell

18 April 1990

c: OD (mj)

DEFENSE Procurement (T)

Binomial

You ought also

to reach a

conclusion on

the Utility Version

— cancel and

substitute a mix

of Blackhawk and

Chinooks.

C.

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PRIME MINISTER

c Sir Robin Butler

THE EH101 HELICOPTER
OD Meeting after Cabinet on Thursday 19 April
(OD(90)9)

KEY ISSUES

1. The key issues relating to the Naval version on which you may wish to focus are:

- (a) What went wrong and why? Who was responsible?
- (b) Do we need this helicopter?
- (c) Can we reduce the costs or get some of our money back?
- (d) What are the lessons for the future?
- (e) Are the Defence Secretary's proposals for a two-stage approach including the purchase of 50 helicopters the best way forward?

The utility version has not yet reached a decision point, but you may want to have clear answers on:

- (a) the progress being made towards a decision;
- (b) whether the lessons identified in discussion of the Naval version are being implemented.

The Chief Secretary has commented on the naval version in his minute of 17 April, copied to OD colleagues.

ADDITIONAL BACKGROUND

2. At the OD meeting on 15 March you called for a paper from the Defence Secretary on the Naval version, in view of the unsatisfactory state of the project. The Defence Secretary considered that the meeting should also cover the

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utility version which was discussed by OD on 24 November 1988, when the then Defence Secretary was asked to make a recommendation by the end of 1989 on a choice of helicopter for the medium support role. In fact the necessary studies have taken longer than expected and are not yet completed.

3. You may recall that in June 1988 the PAC published a report on the Naval version which criticised MOD for:

(a) failing to avoid a cost plus contract;

(b) failing to make one prime contractor responsible for achieving a fully integrated weapon system; and

(c) taking an undesirable risk in placing the main development contract in March 1984 before completing their enquiries into Westland's financial prospects.

The report also brought out the fact that Westland's Italian partner Agusta, unlike Westland, were working to a maximum price on the development contract. In their response to the report MOD said that Westland's later financial difficulties were unforeseeable in March 1984.

HANDLING

4. After the Defence Secretary has introduced the paper you might invite general comments, particularly from the Trade and Industry Secretary and the Chief Secretary. You might then suggest that the Naval version and the utility version be considered separately in that order.



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A. NAVAL VERSION

(a) What went wrong?

We have a project whose cost has risen by 43% from £1853m. to £2648m. and with no helicopters for delivery until 1997 at the earliest after a 4 year delay in the in-service date. The Defence Secretary's paper blames the earlier procurement policy, bad management by Westlands and inefficiency by Agusta and Italian parliamentary delays. The key decision for Full Development was taken on the advice of the then Defence Secretary in March 1983. Mr Heseltine commended the project as breaking new ground in bringing together the resources of Government and private industry in a programme aimed equally at meeting defence needs and maximising exports. So far there are no orders for the civil variant of EH101, though the Canadians are apparently interested in the Naval version. You may wish to draw conclusions from this case:

(i) Ministerial decision-making and supervision should have been better directed.

(ii) The original operational requirements set by the Defence Staff were unrealistically high and badly defined. Joint decision-making between the Defence Staff and the procurement departments was poor. A joint venture operation with the Italians did not work.

(iii) Costs were allowed to escalate sharply without proper management and financial control.

(iv) No ceiling was set on MOD financial liabilities.

(v) OD should have been alerted earlier to the time slippage.

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(vi) A prime contractor for the system as a whole should have been designated much sooner, and responsibilities defined more clearly from the outset.


(b) The lessons to learn

The Defence Secretary's paper suggests that vital lessons have been learned from this disaster. You might seek agreement on these:

- (i) no major projects should be approved without a designated prime contractor with full responsibility for concluding the integrated project on time and within budget;
- (ii) much more careful attention should be paid by the Defence Staff to setting realistic operational requirements;
- (iii) Ministers should be given more opportunities to check on the progress of a project, including OD discussion, and should be alerted much earlier if time or cost slippage occur;
- (iv) all projects should have a clearly defined maximum price with suitable penalty clauses for non-performance, and a ceiling on MOD liabilities;
- (v) within MOD the supervision arrangements, and responsibilities, should be significantly tightened.
- (vi) any international project, involving collaboration with other countries, should have the same controls and penalties built into it from the start, with the financial responsibilities clearly defined.

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(c) The costs

There have been massive cost overruns on this project, with most of the blame attaching to the companies and the Italians. The Chief Secretary might be asked to comment. It would be useful to know now:

- (i) whether we can reclaim some of the misused funding from the companies (Westlands and Agusta) and from the Italian government;
- (ii) whether there is more we can do to reduce the planned additional expenditure e.g. by export orders;
- (iii) if we can have a clearer assurance than in the paper on the negotiations for a maximum price with Westlands;
- (vi) whether we need to pay so much extra (£360m.) for a new prime contractor: whether this would represent value for money in view of existing contractual obligations;
- (v) why the cheaper US Seahawk would be unacceptable as an alternative (the Chief of the Defence Staff could be questioned on this aspect).

(d) The next steps

You will wish to establish whether the two-stage approach set out in the Defence Secretary's paper is sensible. This decision needs to take account of the alternative proposals in the Chief Secretary's minute. These are that further work should be undertaken on helicopter options and the balance of anti-submarine forces before new financial commitments to EH101 are

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made. This difference of view will need to be explored. These assurances need to be obtained:

- (i) an assurance that the prime contractor would have full control and responsibility for the whole project;
- (ii) an assurance that accountability will be clear between the prime contractor and EH Industries, including the Italian end;
- (iii) an undertaking that the technical risks of incorporating a new engine (RTM322) now are acceptable;
- (iv) an assessment of the operational implications of going for a lower level of requirement for the first batch of 50 aircraft, despite improved Soviet submarines (the Chief of the Defence Staff could be asked for an assurance that the penalty would be acceptable and that the helicopter is essential);
- (v) a clear undertaking from MoD that the maximum price will be negotiated soon and held to in practice with no further cost or time slippages;
- (vi) an assurance from MoD that the incompetent procurement practices of the past have been abandoned and the lessons set out earlier have been accepted;
- (vii) an undertaking to keep Ministers fully informed of progress and to report again to OD not later than Spring 1991 (or earlier if you think this is too long).

Depending on the discussion of the Chief Secretary's points, and if the Defence Secretary gives satisfactory assurances, you might then confirm that he may proceed as proposed. This would mean that the Defence



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Secretary would be free to proceed with integration of the new engine and with production investment (paragraph 16 of Appendix A), in addition to the purchase of 50 helicopters at the lower requirements level.

B. UTILITY VERSION

This could turn out to be another procurement disaster. The Defence Secretary is not asking for a decision now, and will report again in the autumn. You might nevertheless put down some markers now.

(i) phase one of project definition has taken longer than proposed earlier. The initial operational requirements were again too ambitious. There is now the added complication of the post-CFE study. We need to have a clearer indication of when the Defence Secretary will make proposals on the future of the utility version as well as the purchase of 14 new Sea Kings;

(ii) whatever decision is reached must not reflect the same defects in the procurement system already identified. The lessons must be implemented this time;

(iii) the decisions must not be taken for industrial reasons. They must be justifiable in military and sound financial terms;

(iv) Ministers must have a clear warning if the project is going wrong.

LV Appleyard

L V Appleyard

Cabinet Office
18 April 1990

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18 April 1990

OD meeting folderTHE EH101 HELICOPTER

CAN.

It is self-evident that this project is an appalling mess.

Tom King's note deals with both the naval and RAF utility version of the EH101. But the case of the naval version is the more pressing; it is running 4 years late and around £1 billion over budget. This is the one on which to concentrate.

The Naval Version

There are two main issues:

- is cancellation a feasible option;
- if not, what is the most cost-effective way of putting the programme back on track.

(a) Feasibility of Cancellation

Tom King argues that cancellation is not a realistic option. The Chief Secretary, however, believes we need a proper comparison of the possible alternative helicopters, and to relate this to an analysis of what would constitute an optimum mix of anti-submarine warfare (ASW) weapons (ie including submarine and maritime patrol aircraft) over the longer term.

On this I agree with the Chief Secretary.

On the narrow issue of what represents the most cost-effective helicopter, Tom King is probably right to argue for the EH101. The US designed Sea Hawk is its strongest competitor. It would be marginally cheaper to buy and run. But it would be

significantly less capable:

- it carries two torpedoes; the EH101 is designed to carry four.
- its range and time on station is about half what the navy are looking to get from the EH101.

But this straight comparison ignores the broader question of whether or not the money which we will spend on EH101, could be better spent on other elements of our anti-submarine armoury.

The Treasury and MOD have been, for example, discussing future requirements for the next class of hunter killer submarines. These discussions have suggested that submarines and maritime patrol aircraft may be the most cost-effective way of tackling enemy submarines.

Attached at the Annex is a graph which shows that even in the relatively Southern latitudes of the Faroes/Iceland/ Greenland gaps where the contribution of ships and their helicopters is greatest, they are still less effective than 30-40 maritime patrol aircraft. Moreover a maritime patrol aircraft costs around £15 million. But fifty EH101 could end up costing us over £50 million each.

Conclusion

The MOD may have very good answers to all of this. But before committing ourselves to another major tranche of expenditure on EH101 we need a proper analysis of these options.

(b) Improvements to the Contract

In the event of OD agreeing to continue with the naval version, Tom King proposes to appoint a new prime contractor in 1991 who will take over responsibility for completing development and producing the first 50 helicopters. For this MOD expect that we

would have to pay a premium of £360 million. This reflects the fact that bidders will be aware of the risks involved in taking responsibility for partly completed work.

The Chief Secretary questions whether this additional cost represents good value for money, given that at present Westland and Agusta are contractually committed to producing a helicopter in which all the components (airframe, radar, sonars etc) work together as specified.

On balance I think the MOD approach is the right one:

- it is good procurement practice to limit the government's liability for cost overruns on major defence projects by negotiating contracts which shift the risk to industry. Inevitably there is a price to be paid for having this greater certainty;
- the existing contractual liabilities of Westland and Agusta relate to processes not objectives. All the equipment may work together exactly as the Navy wants but may still not be capable of hitting the target! The purpose of appointing a new prime contractor would be to make him responsible for producing a piece of equipment capable, not only of operating to the agreed specifications, but also of achieving its mission-destroying enemy submarines;
- there is no point in shifting development risk away from Government and onto Westland if they are not financially robust enough to bear it. If costs got out of control, there is a danger Westland could always exert political pressure on the Government by threatening to go bankrupt. MOD are right to want to appoint a new prime contractor with sufficient financial muscle to make a maximum price contract stick.

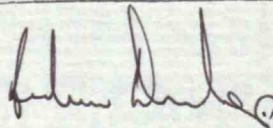
Conclusion

If it is decided to proceed with the naval version then the right way forward would be to appoint a prime contractor by competition who would be responsible for systems integration.

RECOMMENDATION

1. Before agreeing to the continuation of the EH101 naval version, a paper should be commissioned urgently to compare all the options in relation to the overall mix of anti-submarine weapons.

2. The MOD should continue to hold discussions with industry on the appointment of a prime contractor for the project. Every effort should be made to avoid committing the government to spending on a prime contract in advance of any decision to do so.

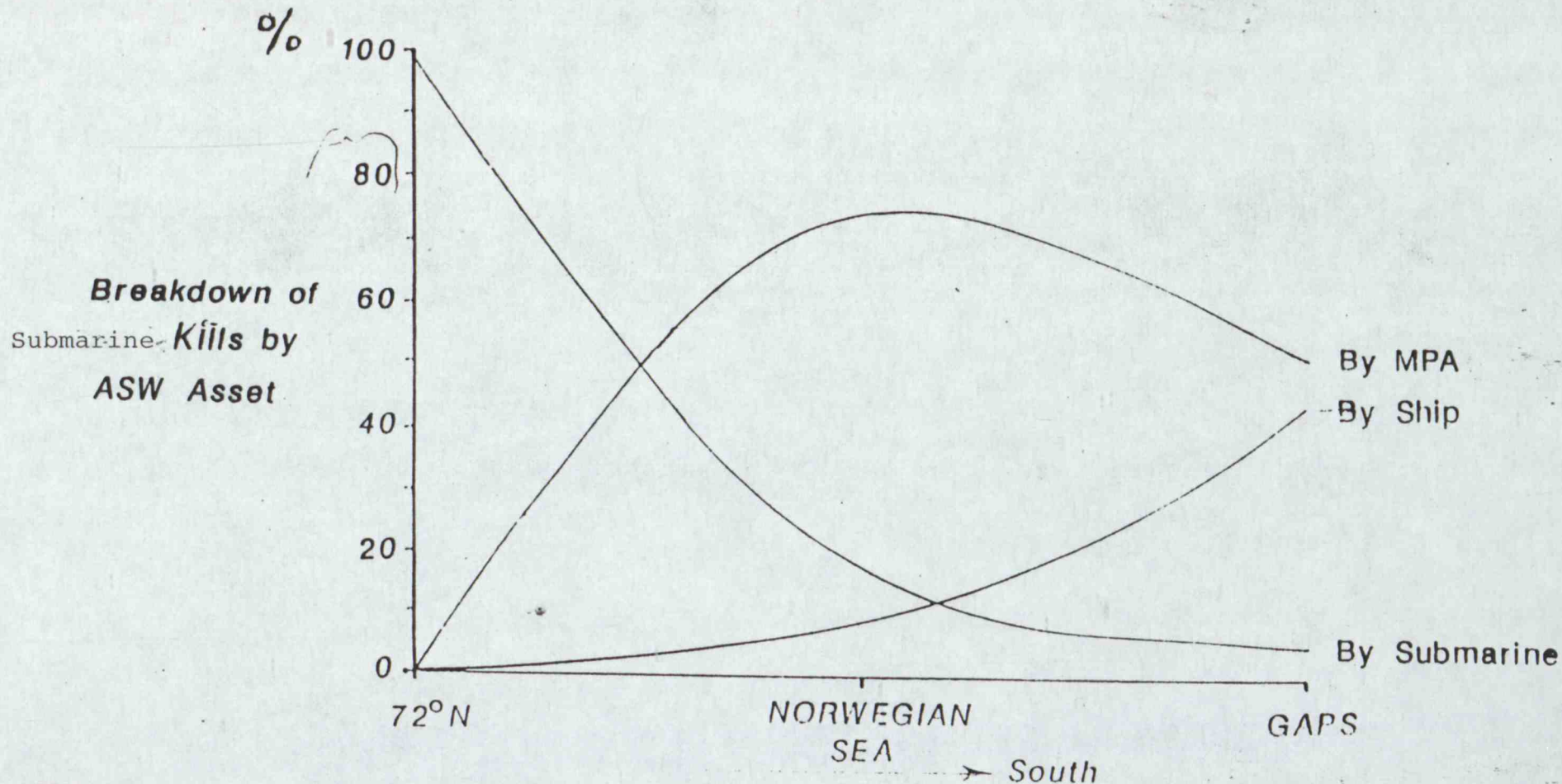


ANDREW DUNLOP

ANNEX

SECRET UK EYES A

MOD estimate of the relative contribution of submarines, ships and MPA to the destruction of enemy submarines.



KEY:

ASW = Anti Submarine Warfare
MPA = Maritime Patrol Aircraft

DEFENCE: Procurement P18

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FROM: CHIEF SECRETARY
DATE: 17 April 1990

e DP 17/4

PRIME MINISTER

THE EH101 HELICOPTER: OD(90)9

I thought that it would be helpful to let you know my reactions to Tom King's memorandum ahead of our discussion in OD.

2. I fully agree that, for the reasons which Tom sets out in his paper, we should defer a decision on the RAF utility EH101 and, in the meantime, review whether a support helicopter purchase is still necessary and, if so, which option represents best value for money.

3. The immediate problem is the naval EH101 programme. As Tom brings out very clearly in his paper, this is a deplorable story. In 1983 Michael Heseltine estimated that development and production of 50 naval aircraft would cost £1.1 billion, which is equivalent to £1.6 billion uprated to 1989 prices allowing for general inflation. Nearly £0.9 billion has been spent or committed already; but we still face further costs estimated at nearly £1.8 billion, which is more than the entire development and production costs estimated in 1983 and adjusted for inflation. If the order were confined to 50 helicopters - and the case has yet to be made for any more - they will cost almost £53 million each. On top of that, the in service date has slipped by 4 years.

4. Against this background, and before entering into any further substantial commitments, we need to be fully satisfied that there is no acceptable alternative course. Tom dismisses the options of either continuing to use Sea Kings or purchasing the US designed

6

SECRET UK EYES A
COMMERCIAL IN CONFIDENCE

Sea Hawk, which could be built by Westlands, for approximately £1.1 billion. 50 Sea Hawks would be nearly £0.7 billion cheaper than the outstanding costs of procuring 50 Merlins but Tom explains - paragraph 10 of Annex A - that there would be a serious gap in operational capability and "the cost of covering this gap, if it could be done at all, could be considerable." While recognising the operational and industrial concerns I think that, subject to any points which Tom might make in discussion, we might consider calling for some further advice on this before we make any new commitments to production expenditure this summer. This work might set out more fully the balance of the costs and of the operational capabilities of the EH101 and the other helicopter options; it could then go on to set the helicopter options in the context of plans for investment in all anti-submarine assets over the next decade, and examine why expenditure of an extra £1.1-1.8 billion to purchase ASW helicopters represents better value for money than other possible options for conducting anti-submarine warfare.

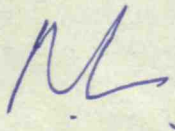
5. Irrespective of whether, and when, we go ahead with the EH101 I think we need more information on the case for appointing a prime contractor at a cost of £360 million. On the face of it, such an appointment is an attractive proposition for bringing control to this project. But before we go along this route I think we need to be satisfied in more detail on whether a premium of £360 million does indeed present good value for money. My understanding is that the company is already contractually committed to deliver an aircraft with all its sub-systems working to specification and at the same time. If this is so, I think that before we enter into any commitments, or any indication that a prime contractorship is anything more than an option under consideration, we need to be clearer on precisely what value added we will get from the £360 million by comparison with the present contractual arrangements. In particular we need to know more about the argument that the costs should be offset by in-service savings.

c

SECRET UK EYES A
COMMERCIAL IN CONFIDENCE

6. Whatever we conclude on this project, or on any variants, expenditure will of course need to be kept within the agreed public expenditure plans for defence, and the development costs contained within the agreed defence R&D ceiling.

7. I am copying this minute to Tom King, to other members of OD, and to Sir Robin Butler.



NORMAN LAMONT

cebjup

(1)

6

PRIME MINISTER

EH 101 HELICOPTER

You may want to see the attached OD paper on the EH 101 helicopter, which is to be taken in OD on Thursday. It is - as you expected - a very unsatisfactory story.

The main conclusions are:

- we face a vast cost over-run on the naval version. The cost of completing the project would be more than twice the original estimate (£4.3 billion against £1.9 billion). The complexity of the project was seriously under-estimated: and the original contract was effectively cost-plus.
- but there is a serious need for a naval helicopter and no viable alternative, from the United States or elsewhere.
- the Defence Secretary therefore proposes ordering half the original number at a reduced specification: we shall probably never order the second half.
- he also recommends in effect cancelling the Utility version, but makes ^{no}~~the~~ proposal yet for a substitute.
- on the question of responsibility, there is a chronology at Appendix 1. The first major decision was taken in November 1979: the second in March 1983.

C.D.P.

C. D. POWELL
15 April 1990

A:\FOREIGN\EH101.DAS

SECRET.

S

CM



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218

12th April 1990.

Dear Charles,

We had circulated the attached paper on helicopters in draft to 'OD Departments' in case they pickles in draft over the weekend. You might like a copy for your return from Bermuda. I hope the sun shone.

Yours

Simon.

Charles Powell Esq.

No 10.

Robert Rhodes James, M.P.
(CAMBRIDGE)



HOUSE OF COMMONS
LONDON SW1A 0AA

②
Rice Rhodes
CDP
15/4

April 10th, 1990

Dear Prime Minister,

R1214

I am most truly grateful to you for your personal intervention in the rather complex matter of the Marshalls-MoD negotiations over the vital TriStar contract.

I had, obviously, urged upon Tom King and his Ministers how crucial this is both to the company and to Cambridge, but had not bothered you with the matter, as I know how heavy your burdens are.

I hope that matters can be resolved in our favour - and of Britain's - and the only purpose of this letter is to thank you most warmly for your interest and concern.

Yours,

Robert

mt

Rt Hon Mrs Margaret Thatcher, FRS, MP

PA

CCPC.
②



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 25/16D

4 April 1990

Mr Prime Minister
Marshalls have been
given a last chance
to put in a bid.

Dear Charles,

top end. CBP/b/y

MARSHALL OF CAMBRIDGE (ENGINEERING) LTD

Thank you for your letter of 30th March following the Prime Minister's word with my Secretary of State about future arrangements for servicing the RAF Tristars.

Marshall of Cambridge has been the conversion Design Authority for the Tristar Tanker aircraft since the first contract was placed in 1983. In addition, as a result of MOD's general policy of competitive procurement, the Company has also successfully bid for other RAF requirements.

The requirement to which Mr Marshall referred is for four years of maintenance support to RAF Tristar aircraft (from June 1990). A significant proportion of this work is currently undertaken by Marshalls, the remainder by British Airways (BA). This requirement was put out to competition on 20th September last year, with a return date of 15th November.

Eleven firms, including Marshalls, were invited to tender. Only two firms, Deutsche Airbus (previously Messerschmit-Bolkow-Blohm) of West Germany and the Hong Kong Aircraft Engineering Company (HAECO) - with Marshalls as sub contractor - in the event submitted bids. Three British companies attended the bidders' conference - BA, Marshalls and Qualitair. We understand that BA prepared a bid but decided not to submit it after consideration by the BA Management Board. Marshalls, however, declined to bid because the company felt that the invitation to tender would require an investment in a spares inventory which represented, in its view,

Charles Powell Esq
No 10 Downing Street



too high a commercial risk for the anticipated profit that a competitive bid might offer. Despite its expressed misgivings, we understand that Marshalls only finally decided not to bid when it failed to secure an agreement with Air Canada which would have allowed it access to the airline's Tristar spares. There is no reason why Marshalls should not have submitted a bid. With the experience gained over the past three years with the various Tristar spares stockists it was very favourably placed. As a result of this competition we are on the point of placing the contract with Deutsche Airbus; its bid is £5M cheaper than the only other bid (from HAECO), is acceptable technically, and our enquiries show nothing to reduce the Department's confidence in the company's ability to fulfil the contract satisfactorily. The value of the contract is some £36M over four years.

Marshalls have advised Deutsche Airbus that, in the event of Deutsche Airbus being awarded the contract, they would provide the necessary design authority support. In addition, Deutsche Airbus might subcontract some Contractor's Working Party work to Marshalls.

Our original contracts have had to be extended and we are now at a point where further extensions are impracticable. There is thus a need to finalise the arrangements for this contract if the availability of RAF Tristars is not to be placed at risk. We have however told Mr Marshall that we are willing to consider a bid from his company, whether compliant or non-compliant if this is submitted within the next seven days. He has undertaken to do so, making clear however that his company could still not consider a compliant bid. We will report further as soon as Marshall's response has been received and considered.

Yours sincerely,

John Colston.

(J P COLSTON)
Private Secretary

DEFENCE: Procurement
pr 8



MEETING RECORD
SUBJECT COMPLETED

PERSONAL



FILE
DA
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 March 1990

MARSHALLS OF CAMBRIDGE

The Prime Minister had a word with the Defence Secretary, following the end of the Anglo-German Summit today, about the decision not to continue the RAF's contract for servicing Tristars with Marshalls of Cambridge. The matter had been raised with her by Mr. Michael Marshall the previous evening, when she had flown to Cambridge for the Konigswinter Conference. In essence, his complaint was that the call tender had been drawn up in such a way as to make it impossible for Marshalls to apply. As a result they were losing the business which mattered a great deal to them: and to make it worse they were losing it to a German firm.

The Prime Minister continued that to her knowledge, Marshalls had been doing this work for a considerable period and had performed wonders during the Falklands War. The RAF had a long association with them and that should be taken into account. Moreover, it was inconceivable that the Germans, in a similar situation, would let such a contract to a British company. She thought the matter ought to be looked into further. There should be a rethink.

The Defence Secretary said he was looking into this and if matters had not advanced too far, would carry out an urgent reappraisal.

(CHARLES POWELL)

Simon Webb, Esq.,
Ministry of Defence.

PERSONAL

KK

3(a)

PRIME MINISTER

RA

FERRANTI/GEC

The Department of Trade and Industry tell me that Mr Ridley will be making a statement at 0900 tomorrow, Friday, with his decision about whether to refer the Ferranti/GEC deal to the MMC.

The Director General of Fair Trading has advised Mr Ridley that he should not refer the case, on grounds of public interest. I am told Mr Ridley himself was concerned about the adverse competition aspects of the case. But after some deliberation, he decided to accept the Director General's advice not to refer. His press notice tomorrow will spell out that the decision not to refer is on public interest rather than competition grounds, and as such is exceptional.

llc6.

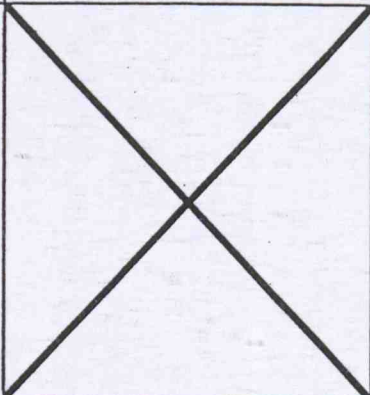
mf

PAUL GRAY

8 February 1990

C:\ECONOMIC\FERRANTI.DAS

A The National Archives

DEPARTMENT/SERIES <p style="text-align: center;">..... <i>PREM 19</i></p> PIECE/ITEM <i>2935</i> (one piece/item number)	Date and sign
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Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 January 1990

See diary.

EFA RADAR

The Prime Minister has seen the Defence Secretary's minute of 22 January about his discussions with the Federal German Defence Minister on the radar for EFA and the provisional conclusions reached. She thinks the Defence Secretary and his officials are to be congratulated on the progress made. She hopes that the Trade and Industry Secretary will be able to reach conclusions on the competition aspect as rapidly as possible, so that the Germans cannot blame us for any delay. She notes the intention to support the proposed Government financial guarantee to the German Government covering the risk of over-runs on the radar with a "back to back" agreement with the firm. The Prime Minister regards this as indispensable: an agreement with the company would have to be in place before the project as a whole could be approved by Ministers.

I am copying this letter to the Private Secretaries to members of OD, to the Private Secretaries to the Chief Secretary and the Secretary of State for Scotland and to Sir Robin Butler.

*Your sincerely,
C. D. Powell*

C. D. POWELL

Simon Webb, Esq.,
Ministry of Defence.

CONFIDENTIAL

CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 25 January 1990

Ric Hunter
A bit gaudy.
COP 257i
CG/PC(2)

PRIME MINISTER

EFA RADAR

I have seen a copy of Tom King's minute of 22 January to you.

2. The understanding he reached with Dr Stoltenburg about giving the EFA radar development contract to a revised ECR90 consortium looks potentially very useful. We need however to look carefully at some of the details before taking a final decision on it.


3. I note that Tom proposes to provide a UK Government financial guarantee to the German Government, covering the risk of time overruns on the radar and their effect on aircraft integration, in the form of a "side letter" to the present memorandum of understanding. We previously rejected the idea of a Government guarantee, for the reasons set out in the letter of 28 July from Tom's office to yours. I would be strongly opposed to any guarantee that involved a contingent liability on the Exchequer, particularly given the risk that the radar development might take longer than expected bearing in mind previous difficulties with airborne radars such as Nimrod and Foxhunter, which were developed by GEC/Marconi. I am sure therefore that we could only accept the idea if there was a full and watertight "back to back" agreement, and no risk to public funds as Tom says.

4. My officials understand from Tom's that the "back to back" agreement and "side letter" have not yet been negotiated in detail with the Germans and GEC. I would like this to be completed in consultation with my officials. Until we are satisfied with the precise terms, we will not be in a position to take a final decision on this aspect of Tom's proposals.

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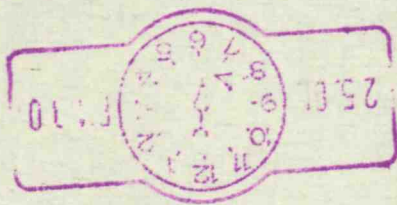
5. I note that Nicholas Ridley will be considering the competition aspects of GEC's proposed purchase of Ferranti Defence Systems. Quite apart from this case, there seems to be an increasing concentration of the UK defence industry, especially around BAe and GEC. We will clearly need to await Nicholas's decision, as Ferranti themselves do not appear to be in a strong enough financial position to provide the "back to back" element of the package which Tom has proposed.

6. I am copying this minute to Tom King, to other OD colleagues, to Malcolm Rifkind, and to Sir Robin Butler.



NORMAN LAMONT

DEFENCE: Procurement pr. 8.





10 DOWNING STREET

Prime Minister

CEC's intended

acquisition of

Ferranti Defence

Systems is now

public, as of this

evening.

C.D.P.

CONFIDENTIAL

PRIME MINISTER

23 January 1990

EFA RADAR

Tom King's minute offers what appears to be a neat solution to a tricky problem.

The Germans are now prepared to accept ECR90 on two conditions:

- (a) reassurance about Ferranti's future;
- (b) indemnification against cost overruns up to a ceiling of DM 200 million.

GEC are seen as the answer to both:

- they would acquire Ferranti Defence Systems;
- they would meet the DM 200 million financial guarantee.

Comment

First, the financial guarantee. This proposal looks fine in principle. Stoltenberg will be able to tell his German constituency that he has obtained a Government guarantee, underwritten by GEC. We must ensure that no financial liability will fall on the Exchequer, and that sound procurement practice is upheld.

You will want, therefore, to be certain that what is acceptable in principle is matched in the fine print. Who, for example, will bear the financial liability if there are cost overruns above DM 200 million?

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I understand that MOD have only a verbal agreement with GEC. The details of any "back-to-back" agreement have still to be negotiated. Approval must, therefore, be made subject to a successful outcome of those negotiations.

Second, the competition aspects. This is a matter for the OFT in the first instance. But MOD are recommending that a GEC takeover of Ferranti Defence Systems should not raise any defence problems.

There can be no doubt that such a takeover will reduce competition. But this must be seen against the background of Ferranti's current predicament. How much competition will a financially weakened Ferranti offer? The answer must be not much.

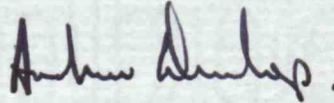
There are, however, two points worth clarifying:

- (1) are the MOD certain that GEC are the only company (UK or foreign) who are interested in Ferranti's defence business? Realistically they probably are. If the whole EFA project is not to founder, we need a solution to Ferranti's problems rapidly. This inevitably limits the field. However it is still worth making sure this is so.
- (2) Tom King's minute states that we have no additional future requirement for airborne radar for the next twenty years or so. But, as we know to our cost, the history of radar procurement is a troubled one. How often has the MOD been forced to negotiate "get-well" programmes (eg for radars like Foxhunter and Blue Vixen) with Ferranti and GEC? What impact would a reduction in domestic competition have if we require such programmes in the future?

CONFIDENTIAL

Conclusion

Under the circumstances Tom King looks to have found the only realistic deal in town. But we must remember that Arnold Weinstock's great skill is in securing taxpayers money to put into GEC's balance sheet. We must be certain that there are no loopholes in this deal. I recommend that you agree to Tom King's proposals, but only when you are satisfied on the points raised above.

A handwritten signature in dark ink, appearing to read "Andrew Dunlop." The signature is written in a cursive style with a period at the end.

ANDREW DUNLOP

CONFIDENTIAL

cepc

CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE & MARKET SENSITIVE



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

23 January 1990

Dear Tom,

CD 23/1

EFA RADAR

WITH COP.

I have seen a copy of your minute of 22 January to the Prime Minister reporting yesterday's developments in your discussions with Dr Stoltenberg, and inviting the views of colleagues.

I congratulate you on the progress which has been made and the success of your negotiating tactics. As you are aware my continuing specific concern has been the desire to see the future of the Edinburgh operations of Ferranti Defence Systems (FDS) secured. FDS' significance to Scotland lies not only in its production facilities and the high grade employment it provides - some 6,000 jobs in Edinburgh - but also in its substantial research and development capability. The spin-off from that both in terms of sub contracting and of the movement of skilled personnel into other areas of the market is of very significant value to the Scottish economy.

You mentioned the possible competition issue raised by an acquisition of FDS by GEC. Clearly MOD's view as consumer of the product concerned must carry some considerable weight. In any case whether or not one considers there to be continuing competition depends on what one considers the market to be. Given the increasing concentration of the defence industry in Europe, I should have thought the possibility of competition at European level would be sufficient. It is in any event questionable whether both GEC and FDS would have chosen to remain in the airborne radar business once the decision on EFA had gone against one or other of them and they were faced with the prospect of no further significant domestic order for the next 20 years.

I welcome your solution to a difficult problem and hope that colleagues will agree that this is a satisfactory outcome. An early decision on this issue will clearly help to restore Ferranti's stability and credibility in the marketplace.

I am copying this letter to the Prime Minister and other members of OD and to Sir Robin Butler.

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND

dti

the department for Enterprise

gpc

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

CONFIDENTIAL AND MARKET SENSITIVE

Charles Powell Esq
Private Secretary
40 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line
Our ref 215 5623
Your ref PE2AKV

Date 23 January 1990

Dear Charles,

EFA RADAR

with WP?

As you know, my Secretary of State is at present visiting the US but we have reported to him the contents of the Defence Secretary's minute of 22 January to the Prime Minister, reporting the outcome of his discussions with Dr Stoltenberg on the EFA radar contract.

With Mr Redwood's agreement, I am writing to make two points about the duty my Secretary of State has under the Fair Trading Act to decide whether GEC's projected acquisition of Ferranti Defence Systems should be referred to the Monopolies and Mergers Commission for investigation.

First, there is the question of the time to be taken in reaching a decision. We will do everything we can to encourage the Director General of Fair Trading to offer advice quickly on this case. There has already been contact between OFT and officials both here and in MOD to enable all possible background work to be done, not least in looking at the evidence on market shares for airborne radar identified in the MMC's report on the GEC-Siemens acquisition of Plessey. But whether the two to three weeks deadline referred to in the Defence Secretary's minute can be met will depend on how rapidly GEC and Ferranti are in a position to put forward a specific proposal for the OFT to consider.

Second, it is important not prejudge in any way the decision which my Secretary of State will have to take, once the Director General of Fair Trading has provided his advice, on whether the proposed acquisition should be referred to the MMC. It is helpful that the Defence Secretary made it clear to Dr Stoltenberg that the position as far as Ferranti's

mt



Recycled Paper



the department for Enterprise

CONFIDENTIAL AND MARKET SENSITIVE

future was concerned was ad referendum to his colleagues. When GEC's plans are made public, we will make it clear in response to press enquiries that the proposed acquisition will be subject to consideration under the Fair Trading Act in the normal way. The decision whether to refer will depend on the view of my Secretary of State takes of the public interest aspects of the merger, including the likely effects of the merger on competition. The MOD will of course be invited by the OFT to contribute its views on the competition and other aspects of the merger as part of the confidential assessment on which the DGFT's advice will be based.

I am copying this letter to John Colston (Ministry of Defence) and the Private Secretaries to other members of OD, to Jim Gallacher (Scottish Office), and to Sonia Phippard.

Yours etc,

NEIL THORNTON
Principal Private Secretary



Recycled Paper



CCP
2
Callender
Dunlop

Prime Minister

MO 14/3 L
26/11/9

ms

So far, so good. But
- we cannot assume we
will not be a reference of GEC's
take-over of Renault's defence
systems.

PRIME MINISTER

EFA RADAR

- At Germany's Cabinet's
resolve on EFA is weakening

I met my German colleague today for discussions on a range of Anglo/German issues, including in particular the choice of radar for EFA.

it is not certain whether it
will be ready to commit Germany.

2. In accordance with your guidance, I pressed Dr Stoltenberg very hard to accept ECR 90 on both technical and operational grounds and made clear that we could not under any circumstances accept another radar. He for his part continued to argue that MSD 2000 was perceived by Germany as a less risky proposition (which I disputed); and that it would not be possible to let such a large contract with Ferranti in its current state. It was clear, however, that he was anxious to reach a decision on the radar, partly for budgetary reasons, but chiefly since he believes that without a positive decision in the next two or three weeks, there is a real risk that pressures, from the SPD, the FPD and even from within the CDU/CSU, to cancel the programme will prevail in the months preceding the general elections in the Federal Republic. Nor did he want to be left with the responsibility of precipitating a two radar solution by going against the preference of the other three partners.

CBP
23/1

3. After some discussion he indicated accordingly that he could consider ECR 90 on two conditions. These were, firstly, that for reasons of financial prudence he had to be convinced that Ferranti was a safe bet. Secondly, for both political and budgetary reasons,

P.S. DIT observations
now attached -
and Policy unit
CBP

CONFIDENTIAL



he had to demonstrate to the Bundestag that Germany faced no risk of extra costs arising from the late delivery of the radar by the ECR 90 consortium to Messerschmitt Bolkow Blohm (MBB), the company responsible for integrating the radar into the aircraft.

4. On the first of these points, I was able to tell him that we were aware that GEC has been discussing with Ferranti over the past few days the possibility of acquiring Ferranti's Edinburgh operation (Ferranti Defence Systems) including the airborne radar division. We understood that a decision was now imminent and that an announcement was likely very shortly. This not unnaturally came as a great surprise to the Germans and, in my opinion, was instrumental in persuading them that they could now accept an ECR 90 solution.

5. On the question of shedding the perceived technical risk associated with ECR 90, I sought to respond to Dr Stoltenberg's concerns, which he had raised in a letter to me, by exploring the possibility of appending a "side letter" of interpretation to the Memorandum of Understanding (MOU) on the development of EFA, similar to the proposals made by Germany to guarantee the other nations against risks associated with MSD 2000. This would be supported by a 'back-to-back' agreement with GEC under which they - if possible in concert with the other members of the consortium - would have to be prepared to provide a guarantee against any extra costs at MBB attributable to delays or defaults on the part of the ECR 90 consortium, up to a ceiling of DM 200 million. The consortium's liability would be limited to DM 200 million in current cash terms, ie the sum would not be proofed against inflation. There would be no charge to public funds. Dr Stoltenberg agreed that an arrangement of this nature met his concerns and undertook to recommend it strongly to his Ministerial colleagues, with a view to reaching a final decision within the next two or three weeks.

CONFIDENTIAL

CONFIDENTIAL



6. We recognised that any further consideration of this proposal would be ad referendum to our respective Ministerial colleagues. I believe, however, that Stoltenberg sees this way forward as a solution to this long running problem, as do I. If both Governments can agree to this course of action within the next two to three weeks, we shall get the radar we want for the RAF. We shall also avoid all the problems and extra expense of a two radar solution, guarantee a very substantial body of work for Ferranti Defence Systems in Edinburgh, and tie the Germans in, at a critical period in East/West relations, to a collaborative programme to develop a major new weapons system.

7. I recognise that colleagues will wish to take an urgent view of these latest developments, and my officials stand ready to brief other Departments as required. I recognise also that Nicholas Ridley will wish to receive early advice from the Director General of Fair Trading concerning the impact of GEC's proposed purchase of Ferranti Defence Systems. As Ferranti Defence Systems' major customer however, I have looked carefully at the implications of the purchase and do not believe that there are any adverse implications to which I shall need to draw attention, since their only product of any consequence, for which there are not alternative domestic sources, is the airborne radar, for which we have no foreseeable future requirement for the next twenty years or so.

8. I am sending copies of this minute to OD colleagues and to the Secretary of State for Scotland, and to Sir Robin Butler.

22nd January 1990
Ministry of Defence

(Tom King)

CONFIDENTIAL

celk
000692



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

CR
18/1

18 January 1990

Dear Tom

PROJECT PETROS

has

We met on 15 January to discuss this correspondence which rests with my letter of 21 December to you.

2 You explained why continuing to use mark 85-based equipment for up to 10 years was not, in your view, a practical option. You also emphasised that you felt there was now no mileage in attempting to negotiate a better deal with the Americans for mark 90 equipment.

3 I therefore said that I was content for project Petros to go ahead, on the basis set out in your letter of 19 October to me.

4 I am copying this letter to the Prime Minister and Douglas Hurd, and to Sir Robin Butler.

[Handwritten Signature]
NORMAN LAMONT

DEFENCE: Procurement P17.



PART

7

ends:-

CST to SS / Defence 21.12.89

PART

8

begins:-

CST to SS / Defence 18.1.90



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