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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

DEFENCE SALES

Note by the Chancellor of the Exchequer

The Secretary of State for Defence, in his paper OD(80)70, draws attention to five factors which may inhibit defence sales. The first four are not negligible, and need consideration; but the purpose of this note is to emphasise the fifth factor.

2. Equipment sells if it is what the customer wants, if it is competitively priced, and if it is delivered when required. However sophisticated, a product will not sell if a rival performing essentially similar tasks is cheaper. For example, the Royal Navy set specifications for the Type 22 frigate at such a level that the possibility of collaboration with the Dutch was lost in 1970. Now other producers, including the Dutch, undercut the price of British frigates. No Type 22s have been sold and British yards have not a single current major warship export order. This is not the only case where high technical standards have made an article too expensive to sell.

3. The problems of producing and selling the right good at the right price is mainly for industry. But we are all agreed that public purchasing policy should be used to encourage efficiency in private industry.

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4. Specifications should be more sensitive to export potential. The Prime Minister assured the SBAC "that the prospects of overseas orders will be a factor which will play an increasing part in deciding our own operational requirements." Collaboration with industry should be sought at the start of the design stage. Contractors should be encouraged to suggest to the Ministry of Defence areas where different specifications might improve the chance of exports. As representatives of the defence industry have stressed, frequent changes to technical standards during development lead to delay and increased costs, and thus reduce the likelihood of sales.

5. Industry maintains that greater delegations of responsibility, and thus the transfer of greater risk from MOD to them, will improve performance in general, and in particular on cost and time, as will greater reliance on fixed price rather than "cost plus" contracts. We should seek to put this to the test. By this route, and by more competition on contracts, we might induce those defence industries whose overall performance and marketing ability have suffered from too much concentration on the home market to become more competitive and market-oriented.

Recommendations

6. I suggest that in addition to the actions in OD(80)70, the Secretary of State for Defence might in consultation with defence industry as necessary, examine more specifically and in due course report on -

(a) the scope for modifying specifications so that the requirements of the Ministry of Defence are met in a way compatible with the needs of industry, eg for exports;

(b) the scope for modifying procurement procedures and the form of contracts so as to encourage efficiency and competitiveness.

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