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OD(80)70

COPY NO 45

25th November 1980

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

DEFENCE SALES

Note by the Secretary of State for Defence

1. This year we hope to earn about £1.2 billion from defence sales. But competition is fierce and we must fight hard to maintain our market share. The USA and the USSR take 70% of the market; France follows with 7.5%; the UK and Germany come next with about 5% each. Our target should be at least to match the French.
2. We must re-examine a number of factors:
 - a. Foreign policy constraints;
 - b. Security constraints;
 - c. Financial factors;
 - d. Difficulties over collaborative projects;
 - e. Export potential of Service equipment.

Foreign Policy Constraints

3. These affect areas with sensitive military balances, countries directly threatening the UK or its dependencies, and those with a poor human rights record. There are also arms control considerations. We have taken a more positive attitude than the previous Government. Nevertheless we must exploit any opportunities to extend our markets. Defence sales should be seen as a legitimate component of foreign policy (vide France): we must give them support in Ministerial visits, and we should defend them unapologetically in public.

Security Constraints

4. We are trying to loosen COCOM rules for China, whilst tightening them for the Soviet bloc. But Soviet penetration also imposes constraints on traditional markets (e.g. India); and lax security in certain promising markets (e.g. the Gulf states) hinders our sales effort.

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Financial Factors

5. Our policy on credit for defence sales is more rigid than that of some competitors. We always seem obliged to follow a competitor's lead instead of making an initially attractive offer. Moreover the cost of sales-related training in the UK can deter customers, while any proposal to charge full costs for exhibitions would further impede our marketing.

Collaborative Constraints

6. Collaboration on defence equipment can limit our freedom over defence sales. We are experiencing difficulty with the Germans, over Tornado and FH70, and the French, who are promoting Mirage in India over Jaguar. We shall need to negotiate freer marketing arrangements in future.

Industrial Attitudes

7. Industry's performance varies greatly. Costs and delivery dates are not always met, and there is sometimes a negative attitude. Industry too often pays insufficient attention to customer requirements, after-sales service and help with training. For their part they claim that MOD's procurement procedures add to costs and delays. I am pursuing these issues with top management in the defence industry.

Export Potential of UK Defence Equipment

8. This is probably the most difficult aspect. We must concentrate on our leading products, rather than spread our effort too thinly. But picking winners will not be easy. Our prime aim in determining Services' equipment requirements is to enable them to carry out their NATO role. But we also need to give full weight to sales considerations. We cannot, if we are to meet our NATO role effectively, develop equipment primarily for export and expect our own Services to use it - as the French sometimes do. Industry's view is that we do not get the balance right at the moment.

9. In the light of this conflict of requirements I last year instructed my Department to give greater emphasis to the sales potential of our equipment, coupled with aggressive marketing. Given the re-equipment cycle it will take time for this to show results. I have also put in hand through the National Defence Industries Council a major joint study of defence procurement processes which will lay particular emphasis on what can be done to make our defence equipment more exportable. It is only through a joint approach with industry - which so far has not been imaginative on this - that we shall make significant progress.

10. In addition, I propose to establish within the MOD a Ministerially chaired working group to give greater impetus to defence sales and to resolve conflicting views. I also suggest, subject to colleagues' views, that this group be expanded as necessary to act as an inter-departmental task force, to co-ordinate our efforts on major sales projects and to consider constraints on a case by case basis.

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Recommendations

11. I invite colleagues:

- a. to note the work already in hand (paragraphs 4, 6 and 7);
- b. to agree the further steps proposed (paragraphs 8 and 9); and
- c. to agree to give greater Ministerial impetus to defence sales (paragraphs 3 and 10).

Ministry of Defence
25th November 1980

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