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OD(79) 5th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 23 JULY 1979 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs and Minister
of Overseas Development

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Biffen MP
Chief Secretary, Treasury
(Item 3)

Marshal of the Royal Air Force
Sir Neil Cameron
Chief of the Defence Staff (Item 3)

Sir Anthony Duff
Foreign and Commonwealth Office
(Item 1)

Sir Clifford Cornford
Ministry of Defence
(Item 3)

SECRETARIAT

Sir John Hunt
Mr R L Wade-Gery
Mr R M Hastie-Smith
Air Commodore J B Duxbury

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1. RHODESIA

Previous Reference: OD(79) 3rd Meeting

The Committee had before them a memorandum by the Foreign and Commonwealth Secretary (OD(79) 21) on policy to carry forward the Government's strategy of bringing Rhodesia to early legal independence with the widest possible international acceptance; and a memorandum by the Foreign and Commonwealth Secretary (OD(79) 19) on possible dangers to British political and commercial interests.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the course proposed in his policy paper (OD(79) 21) seemed to be the best available in the circumstances. A difficult time lay ahead, in the Parliamentary debate on 25 July, at the Lusaka Conference and thereafter. But so far the situation had evolved less unfavourably than might have been expected, despite some unhelpful public comment from among the Government's own supporters. Following his visit to Washington and London Bishop Muzorewa seemed to have taken in the case for changes in the Rhodesian constitution. At Lusaka it could be best to avoid revealing our intentions beyond announcing, at a fairly late stage, our plan for a constitutional conference. When issuing invitations to that conference, we should announce our outline plans for an independence constitution. Details would then be explained to the Bishop, with a view to securing at least his tacit agreement when we tabled them at the constitutional conference, which would meet in London on 4 September. The Patriotic Front would probably attend but soon walk out having rejected our proposals. We should then negotiate these with the Bishop's Government and defend them internationally as being comparable to the terms on which others of our former territories had been brought to independence. Finally, we should need to persuade the Bishop to arrange a Test of Acceptability with our help, probably in the form of a referendum, on the basis that at its successful conclusion we would grant full legal independence. This strategy offered our best chance of carrying with us the United States Government, our European partners and moderate opinion in Africa and elsewhere. We could not expect support from Nigeria, Tanzania, Zambia or Mozambique; and some damage to our interests was therefore likely, particularly in Nigeria. But if moderate opinion supported us we could hope to avoid the full range of political and economic damage described in OD(79) 19.

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In discussion there was general agreement that the proposed strategy offered a reasonable prospect of carrying with us moderate opinion in the United States and elsewhere. Speed was essential. But the timing would be very tight, particularly between Lusaka and the constitutional conference; and if all else failed we might still need to fall back on granting independence on the basis of whatever minimum political changes the Rhodesian Government would accept. We could not expect help from the Commonwealth Secretary General, Mr Ramphal, whose views were clearly one-sided. But others, such as the Australian Government were now showing more understanding. We had a good case on solidarity grounds for insisting on full political support from our European allies, although we could not altogether hope to avoid their profiting economically at our expense in Nigeria and elsewhere. It would be important to do all we could to avoid economic damage to our interests from spreading beyond the minimum, and to involve others with us in any aid operation which might in due course be needed to restore the Rhodesian economy. In that context it was noted that the economic benefit to Rhodesia of sanctions being lifted would be very great if others followed our example, but not if we acted almost alone; and that in the worst case, if our strategy failed, we might have to cope by ourselves with a major rescue operation which would not necessarily be limited to financial measures.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the strategy proposed. We should aim for constitutional changes affecting particularly the blocking power of the whites and the status of the Public Commissions. In Parliament on 25 July the Government should make no bones about being unable to disclose their negotiating hand. At Lusaka and afterwards, our tactics would need to be kept flexible enough to deal with the situation as it developed. At the same time great care would be needed to avoid undermining the internal position of Bishop Muzorewa.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion.

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2. ARMS FOR THE ROYAL ULSTER CONSTABULARY

THE FOREIGN AND COMMONWEALTH SECRETARY said that the State Department in Washington had now decided to hold up export clearance for an outstanding delivery of arms for the Royal Ulster Constabulary (RUC). They wished to placate the Irish-American lobby in Congress. But in order to have this effect the decision would need to be made public; and that would produce a strong reaction in this country, since it would seem to identify the RUC as a partisan faction. He proposed to take up the matter with the Americans in robust terms.

THE PRIME MINISTER said that she had been in touch with President Carter about Northern Ireland and would be ready to raise this particular matter with him if necessary.

The Committee -

Took note.

In discussion, attention was drawn to the large amount of research and development work which the Government had done. Estimates for the cost of fitting the project had increased since the start of the project and significantly since 1977. It was not clear what we had gained for the £75 million already spent. The cost of further price rises would have to be borne by the Budget, which had not been agreed beyond 1980-81. Our European allies, including the French, seemed willing to accept a transfer of the loss. Against this, it was argued

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3. FUTURE LIGHTWEIGHT TORPEDO

The Committee considered a memorandum by the Secretary of State for Defence (OD(79) 17) recommending continuation of the British lightweight torpedo (LWT) project known as Sting Ray. They also had before them a dissenting minute of 23 July from the Chancellor of the Exchequer to the Prime Minister; and also a letter dated 23 July from the Secretary of State for Trade's Private Secretary to the Prime Minister's Private Secretary supporting continuance of the project on industrial grounds.

THE SECRETARY OF STATE FOR DEFENCE said that, as his professional advisers had unanimously confirmed, only Sting Ray would meet the operational requirements of the Royal Navy and Royal Air Force in the 1980s, particularly for anti-submarine action in shallow water. The improved "Neartip" version of the American Mark 46 torpedo would be the nearest alternative. But it would be less satisfactory than Sting Ray and would therefore need earlier replacement, at unknown cost, by the Advanced LWT which the Americans were already beginning to develop. If we continued Sting Ray we could hope to develop its eventual successor in collaboration with the French. Managerial control of the Sting Ray project had been improved and the contractor would be subjected to a strict penalty regime.

THE CHANCELLOR OF THE EXCHEQUER said that the estimated cost of the Sting Ray project had already risen sharply and was likely to go on doing so, since major technical problems were unsolved and the final target price not yet agreed. Collaboration and export prospects seemed doubtful. Cancellation would not cause unemployment problems and there were other calls on the expertise involved.

In discussion, attention was drawn to the danger of cost escalation in any research and development project where the Government paid the bill. Estimates for the cost of Sting Ray had increased dramatically since the start of the project and significantly even since 1977. It was not clear what we had gained for the £75 million already spent; nor what effect further price rises would have on the Defence Budget, which had not been agreed beyond 1980-81. Our European allies, including the French, seemed willing to manage with Neartip or even less. Against this, it was urged

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that we were particularly vulnerable to the Soviet Navy's new trend towards shallow water operations. Allied navies were waiting to see what lead we gave. Defence procurement from the Americans was often cheaper in the short run but not always the best course for British industry, and the previous Government had been attacked by the Conservative Opposition when there were suggestions that Sting Ray might be abandoned. Although technical problems remained, we should probably not need to spend more than a further £80 million on development in order to establish that these could definitely be overcome. But it would be difficult to maintain the project's momentum unless a contract covering also production of the first 250 torpedoes were now authorised as proposed.

THE PRIME MINISTER, summing up the discussion, said that the operational case for Sting Ray appeared to be strong. But the Committee were concerned at the way costs had risen and at the danger of further increases before the remaining technical problems were overcome. They should therefore have further cost information before them before reaching a final view on the future of the project, so that they could consider its impact on the future of the Defence Budget and on public expenditure generally.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Defence to arrange provision of the further information required.

Cabinet Office
24 July 1979

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Secretary of State for Industry

23 July 1979

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

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cc Mr Wade-Gery
Mr Haslegrave

Dear Bryan

LIGHTWEIGHT TORPEDO

My Secretary of State regrets that he will not be able to attend the OD meeting on 23 July, as he is making a statement to the House on shipbuilding.

I should, therefore, like to record briefly my Secretary of State's views on the Secretary of State for Defence's Memorandum OD(79)17. He endorses the conclusion that STING RAY should proceed and believes that it is providing a major opportunity for UK industry to gain experience in the application of advanced technology systems which will be of benefit not only to the UK capability in lightweight torpedoes, but generally in the field of advanced systems analysis and the application of microprocessors.

He would also suggest, however, that the industrial implications of major defence procurement decisions need to be taken into account as early as possible in the decision-making process. In circumstances where resources are inevitably restricted, my Secretary of State feels that it is important that the relative benefits to UK industrial capability of different defence requirements are assessed in the broad context of our industrial interest and the competition position of UK firms.

I am sending copies of this letter to the Private Secretaries to the Members of OD and to Martin Vile.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

cc Mr Wade-Grey
Mr Harris-Smith

PRIME MINISTER

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FUTURE LIGHTWEIGHT TORPEDO

The Defence Secretary recommends in OD(79)17 that we should continue development and production of Stingray at a total estimated cost of £700 million at September 1977 prices (around £800 million at today's prices).

2. The alternative is to buy Neartip from the Americans at a total estimated cost of £150 - 200 million at September 1977 prices (less than £250 million at today's prices and exchange rates). The cost difference is therefore some £550 million. The operational arguments in favour of Stingray would need to be exceptionally strong before they could overcome such a compelling financial case.

3. In considering this balance, we must give adequate weight to the following factors:

- (a) The cost estimates for Stingray have grown explosively. The original development contract (approved in 1973, to be in service by 1979) was at an estimated cost of £26 million. Today's estimate of the development cost (for service in 1983) is £260 million. Even since 1977 there have been real increases of 45 per cent and 27 per cent in the costs, respectively, of development and production.



- (b) Stingray has already suffered major technical setbacks and, although £75 million has already been spent, there are still significant risk areas (warhead, propulsion and homing systems) which could lead to further time and cost overruns; Neartip however is a modification of a proven torpedo (the Mark 46) already in use in the Royal Navy;
- (c) Neartip is considered adequate to meet the US Navy's operational requirements through the 1980s and is likely to be purchased by other NATO navies. There are few signs of overseas interest in purchasing Stingray.
- (d) Neartip, while not fully meeting the Royal Navy's operational needs, will allow some improvement in capability over the present Mark 44 and 46 American torpedoes the Royal Navy operate, and could be in service in substantial numbers at least a year sooner than the earliest deliveries of Stingray.
- (e) The industrial and employment arguments in favour of Stingray are not strong. It does not seem essential to establish an indigenous torpedo building capacity to duplicate that in the US on which we and other NATO allies have relied hitherto. Cancellation of Stingray is said to give rise to "no significant employment problems".
- (f) The advanced lightweight torpedo (the planned US successor to Neartip) has better design specification than Stingray, should be available to us within five years of the time Stingray will enter service in numbers, and would enable us to avoid the expense of developing a Stingray successor (theoretically in collaboration with allies but in practice much more probably on our own).



4. If we develop Stingray to completion we shall have established an indigenous torpedo making industry, at heavy cost, which will lay claim to future orders and support, whether or not we can meet our requirements more economically from existing US sources. The additional cost of Stingray over Neartip (the bulk of which arises in the shorter term, when our public expenditure difficulties are at their most acute) adds to the substantial and growing pressure which the defence budget imposes on national resources. Purchase of Neartip would however free significant resources for alternative use. In my view the financial considerations point overwhelmingly to the cancellation of Stingray and the purchase of Neartip, and in due course the advanced lightweight torpedo, from the Americans.

5. I am sending copies of this minute to the other Members of OD and to Sir John Hunt.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

23 July 1979