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operation of HMS ENDURANCE by FIG rather than HMG would, of course, need to be carefully considered.

4. Against this background, the problem of ENDURANCE's disposal has been further discussed with the Defence Sales Organisation and the FCO. In your minute of 28 October you said that S of S believed it to be politically impossible to sell the ship to Brazil. We have deferred telling the Brazilians that the ship cannot be sold to them pending the outcome of the approach to the NERC and because refusal to let Brazil have the ship could have implications, both for our relations with the Brazilians and for the Accounting Officer, of which S of S should be aware before the die is cast.

5. As S of S knows, the Brazilians are keenly interested in acquiring the ship. S of S mentioned to me before his 9 November meeting with the two MPs that the Brazilian Minister of Economic Planning had denied during a recent call on him that the money was available. (The deal would involve £1.5M for the ship and a further £.5M for the two Wasp helicopters; and there would be continuing benefit to British industry through the provision of spares and support.) But the Brazilian Embassy continue to maintain that the necessary funds will be forthcoming. Since they know that Brazil has been given first option on the vessel, as the first bidder, they will be aggrieved if the offer is declined, especially if the ship remains on the sales list.

6. S of S will remember that the FCO were uneasy about selling ENDURANCE to Brazil; this was because of the effect on the Falkland Islanders (and on the Press, Parliament and public in the UK) of seeing ENDURANCE continue in service flying the flag of a country which supports Argentina's claim to the Islands. They therefore asked that everything should be done to find a non-Latin American buyer. They believe that, depending on how the message is conveyed, turning down the Brazilian offer, while inevitably embarrassing, need not greatly damage UK-Brazilian relations. But a substantial sales package, totalling well over £100M, is currently being negotiated with the Brazilians, much of it associated with their corvette programme, involving among others Vosper, Ferranti, Marconi and Rolls Royce; the purchase of Lynx helicopters equipped with Sea Skua is also under discussion. The Brazilians have separately shown interest in purchasing HMS INTREPID. More generally, defence - and in particular naval - relations with Brazil are currently very cordial. A great deal is thus at stake. This points to the need to avoid antagonising the Brazilians.

7. The problem is that the MOD is required to dispose of surplus ships and equipment for the best possible price. Because of her special characteristics, ENDURANCE will not be an easy ship to sell. The only countries who could have any possible interest in her are effectively confined to Antarctic Treaty signatories, -who are for the most part unacceptable on political grounds, eg Latin American countries (to all of which the same objections would apply as Brazil), the Soviet Union and Poland. But the Australians are beginning to show interest in the ship; and other potential buyers could still conceivably materialise.

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There is therefore a strong case for retaining the ship on the Sales List, at least until her return to the UK next Spring.

8. However, if the ship remains on the Sales List and the Brazilians are told that their offer cannot be accepted, there is nothing to stop them from putting in a higher offer. By the same token, if no direct Government purchaser is found and the ship is then demilitarised and offered for sale on the general market the Brazilians would again be in a position to attempt to buy the ship through an agent. The embarrassment of declining Brazil's present offer for the ship would obviously be compounded in this event.

9. There are only two ways in which this awkward situation could be avoided (either of which from the FCO's point of view would resolve the political difficulties): to put ENDURANCE in reserve on her return to the UK or to remove her from the Sales List and scrap her. The first option is unattractive. It would cost some £80K per annum, for which no money is available; and it would keep alive indefinitely the campaign to reprieve the ship - indeed, it would reinvigorate it, since it would be inferred that the Government was having second thoughts. Nor would it be easy convincingly to explain why the ship's disposal had been held up.

10. If, on the other hand, the ship were withdrawn from the Sales List, the MOD would implicitly be foregoing receipts to the defence budgets of £2M; the scrap value, in comparison, is estimate at only some £100K. Not only would Treasury agreement be required but a Minute would have to be laid before the House which would have to explain why the ship was being scrapped rather than sold; this could again lead to embarrassment vis a vis Brazil. Finally, special measures would again be necessary to ensure that any eventual purchaser did not subsequently sell the ship to Brazil.

11. All of this strengthens the case for retaining the ship on the Sales List. We have discussed with the FCO how, if S of S still feels that the ship should not be sold to Brazil, the news can most tactfully be conveyed to Brazil without causing excessive (and, with a view to the sales prospects referred to above, damaging) offence. Their advice is that the Brazilians should be frankly apprised of the political difficulty of selling the ship to any Latin American Country (rather than to Brazil alone); they are bound to be aware of the controversy that has already been caused by the decision to pay off ENDURANCE. The point should also be made that the veto on the sale of ENDURANCE was peculiar to that ship and did not extend to other sales that might be in the offing or to other ships in which the Brazilians might be interested. The FCO feel that this would have to be done at a suitably high level (preferably by a message from an FCO or MOD Minister to his Brazilian counterpart, to be delivered by our Ambassador in Brasilia).

12. In considering the way ahead, S of S will wish to give careful consideration to the possible damage to our salesprospects should the Brazilians offer for ENDURANCE be declined. In addition, the FCO have asked that before any final decision is taken the matter should be discussed with their Ministers. Should S of S wish to minute the Foreign Secretary I should be happy to provide a draft.

13. There is one further loose end: at his meeting on 9 November

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S of S offered to let Messrs Shersby and Ogden know the outcome of the approach to the BAS. Subject to your views, I would propose to incorporate this in the letter we are engaged in drafting to pick up the points raised by the two MPs. You will remember that S of S asked the MPs to treat the approach to the BAS in confidence.

7 December 1981

N H Nicholls
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Head of DS 5