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PRIME MINISTER

DEFENCE PROCUREMENT

I saw Cranley Onslow on 7th July to discuss the points in his letter of 30th June to you and I have seen your letter to him of 7th July. — *no 2nd carbon*

2. Cranley's main concern is that the Government should buy as much defence equipment as possible from British firms and he made particular reference to the Infantry Fighting Vehicle (on which we have of course now announced a British solution) and to the AV8B (where the industrial arguments are in fact highly complex). I did not get onto the question of how we compare procurement costs of British and overseas defence equipment nor did I encourage him to think that there was much mileage in the idea of special transfer payments to Defence (his second point) in cases where British equipment is bought in preference to cheaper but equally acceptable foreign items.

3. On his third point about the R & D levy on defence sales I was able to tell him that the Defence Budget is in fact credited with the receipts from these levies. Apparently this point is not well understood in industry and although it is really an internal matter for the Government, I am putting this right. We did not spend much time on his fourth point. There is in fact already close consultation between my Department and the Department of Industry at both Ministerial and official levels.

4. As regards his fifth point, I welcomed the idea of engaging back-benchers in helping to promote defence sales overseas, but said I wished to think further about it. It could be useful. We shall need to avoid occasions when individual commercial interests might prejudice credibility and there will be occasions when it would certainly be wiser



for a visiting back-bencher not to become involved. But these do not seem unmanageable points.

5. On this basis Cranley seemed well content with our discussion.

6. I should I think add that we are receiving other approaches, in addition to Cranley's, on the question of how we compare the costs of satisfying Government requirements by purchase from British industry or from overseas. We were approached privately recently by some senior members of the Defence Industries Council on this point, and I know the Society of British Aerospace Companies are also concerned. In the case of defence equipment, they recognise that the MOD aim is to buy British unless there are overriding reasons of cost, performance or timescale which argue strongly to the contrary. They are also aware of our record with some 90% of our equipment budget spent with British industry on national or collaborative projects. They are, however, concerned at what they allege to be the basic approach of the economic Departments that in terms of employment and economic activity overall a pound spent overseas is the same as a pound spent in Britain and that straight cost comparisons should determine procurement decisions. They question the economics of this; they are concerned about the retention of industrial capabilities; and they do not believe any of our competitors behave in the same way.

7. I am not really in a position to comment on some of this and have not done so. But I wonder whether we do not need to give more thought to these issues or at least to engage manufacturing industry in a dialogue about them to clear up misunderstandings, perhaps on both sides.

8. I am sending copies of this minute to Geoffrey Howe, Keith Joseph, and John Nott, and to Sir Robert Armstrong.

Ministry of Defence

17th July 1980



Handwritten mark or signature in red ink.

18 JUL 1960

