



Mr Alexander

for O.D.

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PRIME MINISTERSALE OF HMS INVINCIBLE

In the Defence White Paper "The Way Forward" (Cmnd 8288), which I published in June, I announced that we intended to keep in service only two of the three Invincible Class carriers ordered by the Royal Navy.

2. In spite of the excellent performance of HMS INVINCIBLE in NATO exercises in the East Atlantic during the summer - and the undoubted shortages of ASW assets - my Department has, with my authority, been negotiating with the Australian Government for her sale as a replacement for HMAS MELBOURNE. Prior to this the Australians had been considering a new carrier to be built in the United States - British Shipbuilders having been excluded at an early stage.

3. Terms of the sale of HMS INVINCIBLE have now been agreed with the Australian Department of Defence, and the Australian Defence Minister, Mr Killen, wishes to submit proposals for the approval of the Australian Cabinet during the first two weeks in December. A formal announcement could then come before Christmas.

4. Officials from my Department have visited Australia and the price agreed for the ship, ad referendum to Ministers, is £175M (excluding stores and any aircraft or helicopters), and a date of September 1983 has been proposed for her handover to the Royal Australian Navy. This date is related to the entry of HMS ILLUSTRIOUS - the second carrier - into operational service which is planned for July 1983.



To cover possible slippages in ILLUSTRIOUS's entry into service, there is provision for the handover to be deferred by up to six months and for the handover dates to be reviewed if delays arise from events outside the UK Government's control.

5. In order to keep two carriers in service the sale of HMS INVINCIBLE to Australia in 1983 will mean that HMS HERMES must be kept until 1985 when HMS ARK ROYAL enters service. While the retention of HMS HERMES will lead to additional costs of some £30 million to the Defence Budget, it is clear that Australia attaches very great importance to the early acquisition of a new carrier. Although INVINCIBLE would cost nearly £350 million to build today the net revenue of £145 million obtained from the sale will make a large contribution to the Defence Budget in the mid-1980s at a time when it will be under very great strain. It could also lead to substantial orders of ammunition, missiles, spares, etc for many years to come, and there is a good prospect for sales of the helicopters and aircraft to be embarked on the ship.

6. I greatly regret having to propose the sale of a fine ship of proven capability, like HMS INVINCIBLE, particularly before 1985 when HMS ILLUSTRIOUS and HMS ARK ROYAL will both be operational. Such a sale will distress the United States, our NATO allies, our political supporters in the country, and, of course, the Naval lobby. Unlike the older frigates which we are selling as part of the Defence Review decisions, INVINCIBLE has only been in service with the Royal Navy since March 1980. The Chief of the Naval Staff strongly believes that we can and must afford to keep her - if necessary in a reserve status as back up for the other two. But I have to recognise that pressures on the defence budget in 1983 and onwards are almost



certainly greater than even those identified in the summer at the time of the defence programme review, when we decided we could afford to retain in service in the long term only two of the new class of Carriers. The recent figures agreed for the Defence Estimates will place the forward programme in deep jeopardy and therefore it is hard to reject the opportunity now offered to sell HMS INVINCIBLE to the Australian Government on the terms set out above.

7. The sale of HMS INVINCIBLE and the prospective sale of two Hunt class Mine Counter Measure ships, on which negotiations are well advanced, would do much to re-establish the UK's position as supplier to the Royal Australian Navy and to strengthen the traditional links between the two Commonwealth navies.

8. In view of the high political sensitivity of this unique sale I should be grateful to discuss this with you and OD colleagues before I confirm the sale to the Australians. I am, therefore, copying this minute to members of OD and to Sir Robert Armstrong.

JW

Ministry of Defence
30th November 1981