

Ref: B06346

PRIME MINISTER

c Sir Robert Armstrong

OD: Sale of HMS Invincible

BACKGROUND

FLAG A The Defence Secretary's minute to you of 30th November recommends that we sell HMS Invincible to Australia for £175 million in 1983 (when her sister ship Illustrious will be ready) and spend £30 million on retaining the veteran HMS Hermes until 1985 (when the third sister ship, Ark Royal, will be ready). He wants an urgent decision, because the Australian Defence Minister is waiting to submit the deal to the Australian Cabinet. And he wants a collective decision, at a meeting of OD, because the plan will be politically controversial; the Chief of the Naval Staff already opposes it, and he is bound to be supported by others including Government backbenchers and the United States Administration.

2. The minute has been circulated without warning and less than 48 hours before OD's meeting. It was not properly concerted with the Treasury, with whom hurried consultations are now taking place today. The Committee may therefore be reluctant to be bounced. Only half an hour is available for the whole meeting, and most of that will be needed for the earlier item (Iraq).

3. HMS Invincible is the first of our new "through-deck cruisers" or small aircraft carriers designed to carry Sea Harrier aircraft and Sea King helicopters. Although three were ordered, this summer's Defence Review decided that we could and should manage with only two. This was a consistent part of the wider decision to rely more on submarines for anti-submarine warfare, and less on vulnerable surface ships. If we are going to sell, Australia's close Old Commonwealth ties with Britain make her an ideal purchaser; there are few others as commercially reliable, politically democratic and militarily committed to the Western Alliance.



4. Without more information it is hard to judge if the price is right. But the Government will undoubtedly be criticised for selling for £175 million (or perhaps less, in real terms, see below) a ship which we shall later replace with a twin costing £350 million (at today's prices).

HANDLING

5. The Defence Secretary should explain why a decision is being sought at such short notice. The Chief Secretary, Treasury, will wish to comment on the financial aspects; the Foreign and Commonwealth Secretary on our Allies' reactions; and the Lord President on those of Parliament and the public.

6. You will need answers to the following questions in particular.

a. Could a decision not wait until it can be better prepared? OD is meeting again on 16th December. Would an announcement before Christmas be well timed, eg viz-a-viz the Alliance?

b. Is the Chief Secretary content with the price? Should the net gain be used to increase the Defence Budget or reduce public expenditure? Is the price fixed in money terms, so that it will be less in real terms if payment does not start until 1983? What credit and interest terms are contemplated?

c. Why not sell, at cost, one of the two not yet built? If a suitable buyer could be found, that should be both better financially and better for morale in the Navy.

d. How likely is a backbench revolt?

CONCLUSION

7. Unless there are convincing arguments against delay, you may wish to postpone the decision until 16th December and ask for more information on points which are raised in the discussion (or would be if time permitted).



8. Failing that, the Committee will probably be prepared to accept the judgement of the Defence Secretary - who will be the main sufferer from any criticism - on the best way to follow through one of the key decisions of the Defence Review. But in the light of the Chief Secretary's comments there may be riders to add on the precise financial terms.

A handwritten signature in blue ink, appearing to read 'R Wade-Gery'.

1st December 1981

R L WADE-GERY

CONQUEROR