



10 DOWNING STREET

*Refer to JS
see A Duguid*

B/F 8.4.80

From the Private Secretary

31 March 1980

Dear Ian,

RAF COMMUNICATIONS AIRCRAFT

The Prime Minister has considered Sir Keith Joseph's minute of 28 March on the above subject, and she has also read the minutes of the E(EA) meeting on 27 March when it was discussed. She has decided that it is in the national interest for the RAF to buy the British Aerospace Jetstream aircraft in preference to the Beechcraft Air 200. She has directed that the extra capital costs should be met from within the Defence Budget, and the necessary financial assistance to British Aerospace should be provided by the other Government Departments concerned.

The Prime Minister has asked why this issue was put to Ministers so late, who was responsible, and what action is being taken to ensure that it does not happen again.

I should be grateful for a report on this matter.

I am sending copies of this letter to the Private Secretaries to members of E(EA) Committee, the Minister of State for Defence and Sir Robert Armstrong.

Yours sincerely

Tim Laker

Ian Ellison, Esq.,
Department of Industry.



① Find the extra
£4m without recourse
to the Budget to the Treasury
and buy British.

PRIME MINISTER

② Enquire how this
decision came to be left

RAF COMMUNICATIONS AIRCRAFT

E(EA) considered on 27 March a proposal to replace the existing
RAF Communications fleet of Devon and Pembroke aircraft with either
the American built Beechcraft/Eagle King Air 200 or with the
British Aerospace Jetstream 31. The Sub-Committee failed to agree
and an urgent decision is needed before the option on the American
aircraft expires on Monday 31 March.

A decision on this is essential
by Monday. I would have thought
that the extra cost of buying
British (£3½ m or 30% plus
launching aid) in this case is
excessive, and that the RAF
should buy the Beechcraft.

Agree?

(or would you like to
discuss with
Minister?)

minutes and show

is the responsibility what

action is very later. ref.

D.
2/3

The RAF requirement has been reduced from 18 to 14 aircraft. It
can be met adequately by the Beechcraft Air 200, which is already
in production. This is a relatively straightforward aircraft.
The cost would be £11½ million.

The British Aerospace Jetstream is not yet in production. It can
be delivered by March 1983. The RAF can accept this operational
penalty. It is a more expensive aircraft to operate, and the RAF
is also prepared to carry these additional costs. But the RAF is
not prepared to pay the higher capital cost, of at least £15
million for 14 aircraft, out of the present Defence Budget. In
addition, British Aerospace would require launching aid of £6.5
million, though this would be required in any case if the aircraft
goes ahead, whether for the RAF or for any other customer. The
Scottish Office, with help from the Northern Ireland Office, are in

/principle ...



principle prepared to put up about £5 million. But no finance is available to bridge the gap on capital costs. The British Aerospace Board in principle support the continuation of the Jetstream project. Department of Industry advice, however, is that this is not a project which justifies Government assistance.

The Ministry of Defence argue strongly that they cannot be expected to find these additional costs out of a severely constrained Defence Budget. The Scottish Office, (represented at this meeting by the Minister of State, Alex Fletcher, because the Secretary of State had a constituency interest) believes that wider considerations apply. In particular, I am reminded that when OD considered future Defence procurement at its meeting on 20 March, they agreed to the policy 'of buying as much equipment as possible from British industry or European collaborative arrangements'. The issue is whether this is such a case, or whether the extra costs are altogether excessive.

It is unsatisfactory that Ministers should be asked to take such decisions at extremely short notice. I understand that, in this case, this is because every attempt has been made to bridge the gap in favour of the British aircraft, and that the final position only became clear about ten days ago. But because the deadline expires on 31 March, and there is no meeting of E until 3 April, I fear I have no alternative but to report the Sub-Committee's disagreement to you and ask you to take the final decision. A

/majority ...



majority of the Sub-Committee clearly favour the American aircraft; but obviously the views of the Scottish Office must carry due weight.

Efforts have been made to extend the 31 March deadline but there is a sellers' market for the Beechcraft and the deadline has been extended already, and it is clear that Beechcraft are not prepared to accept orders for the plane after 31 March at the present price.

I am sending copies of this minute to the members of E(EA), the Minister of State for Defence and to Sir Robert Armstrong.

KJ

K J

28 March 1980

PM said subsequently:

*"I expect capital costs to be found by MOD.
of launching this to be managed by
Scottish Office"*

Department of Industry
Ashdown House
123 Victoria Street
London SW1

CONFIDENTIAL



Defence

10 DOWNING STREET

From the Principal Private Secretary

MR. WRIGHT

RAF COMMUNICATIONS AIRCRAFT

I have shown the Prime Minister your minute AO1945 of 16 April 1980.

She was grateful for the account of events which led to the situation where Ministers were asked to take final decisions at extremely short notice. She is glad to learn that you are reminding Departments of the need to warn you and, where appropriate, us here, whenever significant Ministerial disagreement on an important issue looks likely. She does not propose to pursue any further the particular question of how the choice of RAF communications aircraft was handled.

C. A. WHITMORE

17 April 1980

SP

CONFIDENTIAL

1.
Prime Minister
I cannot see why the MOD did not ask the firms to extend their tenders by an extra month, i.e. until the end of April, in order to allow this - takes enough time to consider the issue properly. I doubt whether this would have made more than a marginal difference to Beech's costs and delivery dates. But that is now water over the dam. I think the only general importance of copying correspondence to all concerned. Agree to leave further actions as set below?
Tad/Biv

MS

CONFIDENTIAL

Ref. A01945

MR. LANKESTER

RAF Communications Aircraft

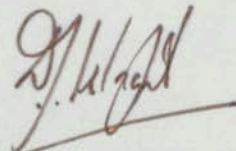
In my minute to you of 1st April I promised a further report on the reasons why the Prime Minister had to be brought in at the last moment to settle the dispute between Departments on the order for new communications aircraft for the RAF.

2. We have pursued this with the main Departments concerned and I attach an explanation of events from the Ministry of Defence, which gives the clearest account. It does not make clear, however, that the critical letter of 21st March 1980 from Lord Strathcona to Mr. Younger (mentioned on the penultimate page of their chronology) was not copied to either you or us. It was only when Cabinet Office officials saw Mr. Younger's reply of 24th March that we were able to set the E(EA) wheels in motion, leading to the meeting of the Committee on 27th March.

3. MOD would argue that the critical loss of time occurred because of BAe's successive alterations to their offer - the final version of which did not reach them until 18th March. But the failure by MOD to copy Lord Strathcona's letter of 21st March to all those Departments likely to be interested compounded the difficulty.

4. This is by no means the first occasion on which a failure by a Department to copy Ministerial correspondence to you or to us has subsequently led to problems. Equally however we do not want to insist that all such correspondence be copied to the centre because this would lead to a good deal of wasted effort all round. I am nevertheless arranging for Departments to be reminded of the need to bring us, and where appropriate you, into the picture early whenever there is a prospect of a significant Ministerial disagreement on a policy issue.

X
see P5(100)6 of 16/4


(D.J. Wright)

16th April, 1980

DRAFT

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

RAF COMMUNICATIONS AIRCRAFT

1 As the following diary of events indicates, there were unusual factors which complicated the consideration of the replacement of the present RAF Devon/Pembroke communications aircraft:

- a. The Ministry of Defence had planned for replacement of its Communications aircraft fleet in 1980/81 because other heavy expenditure in later years was seen as precluding any further opportunity until the 1990s. These plans were brought into question at the end of January 1980 when the Cabinet decided on a further reduction of the Defence Budget from £8063M to £8001M. This required re-examination of planned expenditure and it did not become clear until early March that sufficient funds could be found for purchase of the cheaper Beech aircraft. The need for an early decision was related to the expiry date of the Beech tender on 31st March 1980 (with unnecessary higher costs and revised deliveries thereafter) but action was delayed by a late indication that BAe were preparing a further cost proposal.
- b. Defence Ministers were in no doubt that Secretaries of State in DOI and Scottish Office appreciated the problems to be faced in the selection of an aircraft for the RAF need.

between Mr Pym and Mr Younger (copied to Sir Keith Joseph and Mr Nott)
Letters were exchanged from the Autumn of 1979 onwards.

There was no reason to believe that BAe would not be presenting their case to these Departments as well as to MOD. While the result of the tender competition showed a clear cost advantage in the Beech offer, before the implications of this could be considered by MOD Ministers and views obtained from DOI and the Scottish Office, Mr Younger advised ^{on 13 Feb 1980} that BAe were reviewing their bid and were asking for a delay to any final decision. When received this revised bid did not alter the cost balance sufficiently to change the situation but again ^{on 2 Mar 1980} before MOD action was initiated, the BAe Chairman/spoke of yet another revision to come. Until this bid was received it was not clear whether there would be a case for inter departmental Ministerial consideration or not. Regretably BAe were not sufficiently helpful with costs and MOD saw no option but to communicate the final facts as they stood on 21st March 1980. It was then, at the request of Secretary of State for Scotland, and with Minister of State DOI support, that the matter was referred to E(EA) Committee at its meeting on 27th March 1980.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

2 The key events in the procurement process for replacement RAF Communications Aircraft were as follows:-

- 23 May 1979 Mr Younger requests information about MOD intentions over Devon/Pembroke replacement in connection with Jetstream 31.
- 15 June 1979 Mr Pym replies to Mr Younger, indicating that Jetstream 31 will be fully evaluated.
- 31 August 1979 Aircraft Requirement (ASR 408) endorsed by the Air Force Board.
- 11 Sep 1979 Procurement Executive instructed to initiate procurement action and preparation of tender documents begins.
- 25 Sep 1979 Further letter from Mr Younger to Mr Pym about the case for Jetstream 31, copied to Sir Keith Joseph and Mr Nott.
- 3 Oct 1979 Invitation to tender issued to BAe, Beech/Eagle and Cessna.
- 22 Oct 1979 Mr Pym replies to Mr Younger, copied to Sir Keith Joseph and Mr Nott, describing the tendering exercise then current.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

- 29 Nov 1979 Tenders received from BAe, Beech/Eagle and Cessna. Technical assessment begins.
- 14 Dec 1979 Tenderers asked to extend their bids from 31 December 1979 to 31 March 1980 mainly because of uncertainties about availability of resources within the MOD Budget. Beech/Eagle and Cessna agree while BAe extends to 31 January 1980 only (although this too was subsequently extended).
- 14 Jan 1980 Tenderers requested to improve dates of delivery in order to ease budgetary position since funds could only be earmarked in 1980/81.
- 14 Jan 1980 First draft report on tenders circulated within MOD.
- 31 Jan 1980 Cabinet reduction of Defence Budget 1980/81 from £8063M to £8001M.
- 1 Feb 1980 Assessment of tenders submitted by Controller Aircraft to Minister of State for Defence, the Lord Strathcona.
- Feb/March 80 (throughout) Close consideration given within MOD to availability of funds in 1980/81 for this requirement.

13 Feb

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

- 13 Feb 1980 Mr Younger writes to Mr Pym indicating his understanding that the BAe offer was not acceptable on price and delivery grounds. Mr Younger informed Mr Pym that BAe were urgently reviewing their bid and requested that no final decisions should be taken until this bid was received.
- 15 Feb 1980 BAe submit a revised tender price.
- 22 Feb 1980 CA submits assessment of BAe revised tender price to Lord Strathcona.
- 28 Feb 1980 Lord Strathcona holds meeting with Air Staff and Procurement Executive staff to consider the assessment of tenders and the requirement in the light of budgetary constraints. Further work commissioned on options for reducing numbers of aircraft or procuring cheaper aircraft in order to reduce budgetary effect.
- 7 Mar 1980 Mr Pym writes to Mr Younger informing him that bids are still under consideration.
- 10 Mar 1980 VCAS reports to Lord Strathcona on possible revisions in the RAF requirement following the meeting held on 28 February 1980.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

/12 Mar

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

- 12 Mar 80 Sir F Page, Chairman of British Aerospace Aircraft Group, calls on Controller Aircraft to inform him that a further revised bid is in the final stages of preparation.
- 18 Mar 80 BAe revised offer received in MOD.
- 19 Mar 80 CA advises Lord Strathcona that further bid from BAe, including the provision of £6.5M launch aid, still left the Jetstream option twice as expensive as King Air 200.
- 21 Mar 80 Lord Strathcona writes to Mr Younger, Sir Keith Joseph, Mr Nott and Mr Biffen about BAe's revised bid in relation to the Beech/Eagle tender and seeks their agreement to the purchase of 14 aircraft (a reduction from 18 in consideration of budgetary constraints) from Beech/Eagle.
- 24 Mar 80 Mr Younger's office reply indicating his opposition to the proposal and suggests discussion in E(EA).
- 26 Mar 80 Mr Biffen replies indicating his agreement.
- 26 Mar 80 Mr Butler replies indicating that DOI oppose the purchase and agreeing that issue should be discussed in E(EA).

Y27 Mar

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

27 Mar 80 Meeting of Ministers in E(EA) Committee, leading to
Sir Keith Joseph's submission to the Prime Minister.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

16 APR 1969

