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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 35/5

18th September 1980

Dear Clive,

My Secretary of State has looked into the queries on the possible re-equipment of The Queen's Flight (TQF) recorded in Mike Pattison's letter of 13th August and yours of 10th September.

Mr Pym has concluded from his enquiries that leasing is neither practicable nor necessary. The advice he has been given (on which please see the note at Annex) is, in fact, that leasing would defeat the purpose of the exercise because it would be very considerably more expensive than outright purchase. Various schemes would be possible, but in broad terms the lease would become as expensive as outright purchase after about five years, and tax law requires that a lease should last for ten years (thus ruling out the option of a one year lease). During the lease the aircraft would belong to a finance house which would be subject to the normal risks of business, and a coat of red paint could not necessarily convert them into RAF aircraft for legal purposes. My Secretary of State does not consider that it would be appropriate to hire the principal aircraft for TQF in this manner; and the Treasury will not normally agree to leasing as a means of meeting a continuing commitment at a higher overall cost than outright purchase. As regards the need for any such arrangement in order to keep a lien on the aircraft there must, of course, always be some risk that a customer will make an offer which BAe are bound to entertain, and this risk will increase the longer we delay. On the other hand the firm is well aware of our interest and they would tell us of any enquiries, so that we have a good early warning system; nor would it be right to make a formal arrangement involving a degree of liability (and penalty payments for withdrawal) unless we had a reasonable prospect of going ahead.

C A Whitmore Esq

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Against this background my Secretary of State has asked the Under Secretary of State for the Royal Air Force to have yet another look at the possibility of purchasing the aircraft outright. As the Prime Minister has recognised, there can be no question of purchasing the two BAe 1-11s from this year's Defence Budget but Mr Pym has considered whether, with a degree of hard bargaining with BAe, an acceptable purchase scheme could be devised for the future. He understands that we might be able to persuade the firm to agree to reduce the price of the two 'green' aircraft to £8.5M, to spread the purchase price evenly over two years with the first payment in April 1981, and to buy from us at a fair price the aircraft which would be displaced from TQF and 32 Squadron by the BAe 1-11s (as explained in the working party report which the Prime Minister has seen). Allowing for the cost of bringing the aircraft up to TQF standard, this suggests a gross cost of about £7M in each of the years 1981/82 and 1982/83, partly offset by the proceeds of selling the displaced aircraft; BAe cannot yet put a figure to the amount they would be prepared to offer. In broad terms the annual cost of outright purchase might thus be about twice the annual cost of leasing the aircraft; overall, outright purchase is clearly the better solution. At first sight such a deal would be not unattractive although it would still represent an unacceptably high charge to the Defence Budget, and my Secretary of State would be prepared to consider, if that was the Prime Minister's wish, whether it could be confirmed with the firm and, in that event, whether, and notwithstanding the very acute pressures to which he fears the Defence Budget will continue to be subject in the coming years, Government money could be found to pay for them.

The arguments both for and against re-equipment have been fully rehearsed in previous correspondence, and Mr Pym assumes that the Prime Minister would not wish to see a full restatement of them in this letter. In brief the arguments in favour are that if we purchased two BAe 1-11s we would be taking the last opportunity which seems likely to arise for the next eight years to bring up-to-date an increasingly outmoded means of air transport for the Queen and senior members of the Government; and we would be making a distinct contribution to the British aviation industry. Against that, heavy costs would fall on the Defence Budget and Mr Pym has asked me to emphasise that he cannot commit himself to meeting even a part of them and that there is no Defence argument as such in favour of so doing; and we would be equipping the Flight with aeroplanes which are not ideal, and will fairly quickly become outdated. In general, Mr Pym considers that it would be reasonable for a contribution to be made from other budgets for this purchase, particularly from those of the Secretaries of State for



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Industry and for Trade who have both represented to him the industrial, commercial and non-defence advantages of equipping the Flight with more up-to-date aircraft, and bearing in mind the use made of TQF aircraft by other senior Ministers; and he would look for support from the Prime Minister in this. There is also the political dimension. On this the question is quite simply whether the risk of adverse publicity to the Queen, and the Government, that could arise from a non-essential re-equipment of the Queen's Flight at a time of acute economic difficulty for the country, and of large, and rising unemployment, would be such as to outweigh any tangible gains. Public interest could extend into other questions, such as the maintenance of HMY Britannia. My Secretary of State would himself also have to bear in mind the possible - perhaps probable - criticism of such a use of defence funds at a time when the equipment programmes of all three Services are being severely constrained. The timing of any announcement would, of course, be relevant but it would not be practicable to think in terms of deferring an announcement once serious negotiations with British Aerospace had begun: they would be virtually certain to leak.

My Secretary of State would be most grateful for the Prime Minister's advice, and is, of course, at her disposal if she would like a word: if she did judge that the doubts rehearsed above notwithstanding it would be right to make an attempt now to secure a re-equipment, he would like further to examine the ideas above (and any others that may be offered) and bring forward firm proposals. Otherwise it would be best to regard the matter as closed in the shorter term,

*Passage deleted and closed, 40 years, under FoI Exemption.*

*Yours m.v.  
Bryan*

*Wayland  
27 August 2013*

(B M NORBURY)

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3/5-19-9-80

10 DOWNING STREET

From the Principal Private Secretary

10 September 1980

Dear Brian,

THE QUEEN'S FLIGHT

This is to confirm what I said to you when we spoke on the telephone this morning about The Queen's Flight.

The Prime Minister knows that you are already considering, in accordance with Mike Pattison's letter of 13 August, the alternatives of purchasing the two BAC 1-11s from next year's defence budget or of leasing the aircraft over a period of time. She would now like you to look not only at the broad option of leasing but also at the suggestion that we might lease the two aircraft for a period of one year, at the end of which we would decide whether to buy them outright or to return them to British Aerospace. You agreed to deal with this further option in the note which you hope to let us have towards the end of next week in response to Mike Pattison's letter of 13 August.

Yours very truly,

Alfred Blunt

B.M. Norbury, Esq.,  
Ministry of Defence.

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COST OF AIRCRAFT LEASE

Assuming that a Finance House is prepared to operate a leasing scheme for two BAe 1-11 aircraft bought "green" and then converted to TQF standard, there are several possible schemes including the following:

- a. Immediate Single Stage Lease - The aircraft are sold to the Finance House by BAe on signature of contract, BAe finance work in progress from the balance between contract price and cost-to-date, HMG starts payment of premiums immediately;
- b. Two Stage Lease - HMG leases the aircraft "green" and pays premiums on the "green" price at once; on completion of modifications the premiums are increased to cover full value;
- c. Single Stage Lease on Delivery - HMG pays a peppercorn at once, BAe pays the cost of work in progress, and HMG pays premiums to cover full cost from delivery.

2. Assuming the 25% writing-down allowance in the latest Finance Act, a London Interbank Offered Rate of 13% and a 10-year full pay-out lease, half-yearly payments per £1,000 of value will be £90 for premiums paid in arrears and £85 for premiums paid in advance. The cost of leasing the BAe 1-11s would depend on the scheme adopted (para 1 above), the rate of interest charged, the method of payment, and any commitment or allied payments charged by the Finance House. For illustration, scheme a. above might cost about £3 - 3.5M a year; scheme b. might cost about £2 - 2.5M a year to start with and £3 - 3.5M a year thereafter; and scheme c. might cost about £3.5 - 4M a year.



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PRIME MINISTER

The Queen's Flight

The attached letter from the MOD sets out the issues for and against buying the two BAe 1-11s very clearly (it rules out leasing on what seem to me to be sound grounds). The cost would be at most £14 million spread evenly over 1981/82 and 1982/83.

If we are to go ahead with the purchase, Mr Pym seeks your support in trying to persuade Sir Keith Joseph and Mr Nott to find at least some of the money. No doubt they would resist such a suggestion; and I detect that Mr Pym is not toally determined about it. Nonetheless, as he points out, now would be a difficult time - with the cuts being made in the defence programme - for the the defence budget to be seen to be bearing the cost of these aircraft.

We now need to decide in principle whether we are going to buy the BAe 1-11s or not. I think that it would be helpful if you were to discuss this with Mr Pym. We might usefully have Mr Pattie and the Chief of the Air Staff there as well; and we could deal with the SSP Aircraft Project at the same time (there are papers on this elsewhere in this box). Shall we arrange such a meeting?

✓  
es  
ms  
fah.

27 September, 1980

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MISS STEPHENS

Arranged for 1600 on  
Monday 22 October.  
Ch. 30/9.

10 DOWNING STREET

Defence

From the Principal Private Secretary

29 September 1980

Dear Brian,

THE QUEEN'S FLIGHT

I have shown the Prime Minister your letter of 18 September, 1980 which sets out clearly the issues on the question of re-equipping The Queen's Flight.

She agrees that we should now try to bring this matter to a conclusion and to that end she would like to have a meeting with your Secretary of State, Mr. Pattie and the Chief of the Air Staff.

She proposes to take advantage of that occasion to discuss with the Defence Secretary Mr. Warwick Collins' proposal for a Single Seater Propeller Driven Fighter (SSPF) about which you wrote to me on 7 July 1980 and on which there has been correspondence recently in The Times, together with an article by Mr. Collins himself in the Daily Telegraph of 22 September.

We will be in touch with your office to arrange a time for the meeting.

Yours ever,

John White.

B.M. Norbury, Esq.,  
Ministry of Defence.

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