



MO 14/5

Prime Minister.

MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-2307822 218 2111/3

16th December 1981

I have told the MOD  
that I do not think that  
the time they suggest you take at X/  
below is good enough to deal with  
the points at X/ since they think the  
Frazz may raise with you tomorrow.

I have therefore suggested that when MNSH  
see you this evening, he offers you some more  
specific advice than is contained  
in this letter.

Dear Clive,

AKL

16xii

SALE OF HMS INVINCIBLE

You told us that the Australian Prime Minister has indicated that he would like to speak to the Prime Minister tomorrow morning, between 9.15 and 9.45 am, on the subject of the proposed sale of HMS INVINCIBLE to the Royal Australian Navy. We have no sure evidence as to what Mr Frazer will say, but it might be of help if I draw together here the events of the last few days:

- a. OD agreed on 2nd December that the Defence Secretary could, at his discretion, confirm arrangements for the sale of HMS INVINCIBLE to Australia on the basis set out in his minute of 13th November (copy at Annex A).
- b. Subsequently my Secretary of State discussed the proposed sale on a number of occasions with the First Sea Lord who urged strongly that the sale should not be proceeded with, in view of the loss of ASW capability that this would represent. The Defence Secretary explored exhaustively with the First Sea Lord the alternative savings which would have to be made to compensate for the loss of sales receipts should INVINCIBLE not be sold, and at a





meeting in Cornwall on the evening of Friday 11th December he instructed the First Sea Lord that the ship had to be offered for sale.

c. On 12th December, the Defence Secretary confirmed to Mr Killen, the Australian Defence Minister, that HMG was prepared to sell HMS INVINCIBLE on the basis of the agreement initialled by negotiators in Canberra on 20th November (copy of telegram at Annex B), but only on the condition that about £95 million of the sale price of £175 million would be paid to us in 1982/83 in view of the serious problems facing the defence budget in that year. The Australians had earlier given us to understand that they were themselves considering such a schedule of payments. In negotiations we have said the offer of sale is open until the end of the year.

d. The Australian Cabinet considered the possible purchase of INVINCIBLE at their meeting on Tuesday (Monday/Tuesday night in the UK). They did not reach a decision and information reaching us via our High Commission indicated that there was a conflict of view between Australian Departments over the proposed early large payment which would require them to seek a supplementary estimate on a programme which was likely to be contentious. Mr Frazer was also reported to be very worried about Parliamentary opposition to the purchase, not only from the Labor party and democrats but from his own back bench. Our suspicion was that the Australians might seek to defer a decision until January or even February. Such a delay would pose Ministers here with difficult problems in reaching final agreement on our Defence Estimates, and the measures which might be necessary to bring the programme down to





/ the target set in the absence of certainty about the  
sales receipts. The Defence Secretary therefore sent  
/ a personal message to the High Commissioner (copy at  
Annex C) giving discretion to transmit this to  
Mr Killen which produced an encouraging response  
(Annex D).

e. The Australian Cabinet met again on Wednesday morning (Tuesday/Wednesday night here) following which Mr Frazer rang you.

It is still possible, although now less likely that Mr Frazer wishes to confirm an Australian purchase of HMS INVINCIBLE. More likely he is either seeking:

- X
- a. to keep the offer open until early next year (the next Australian Cabinet is on 20th January) and/or
  - b. seek some flexibility in the size of the initial payment.

Y.

We would recommend that the Prime Minister stresses that we believe HMS INVINCIBLE is the right choice for the Royal Australian Navy and represents excellent value for money; and emphasises the need for an early decision, and the need for an early payment. Our remarks on this have not been made lightly. But we would not recommend that this be pressed to the point at which Mr Frazer would be forced to take a decision now if this was against purchase.

The negotiations on the Australian side have been handled by Admiral Rourke, who initialled the draft sales agreement on behalf of his Government. Admiral Rourke is the Chief of Australian Naval Materiel (CNM) and has been a firm but fair



negotiator. If appropriate, the Prime Minister may wish to pay tribute to his efforts.

I am copying this letter to Brian Fall (FCO) and to David Wright (Cabinet Office).

*Yours ever,*

*David Omand*

(D B OMAND)





Annex A

MO 14/5

PRIME MINISTERSALE OF HMS INVINCIBLE

In the Defence White Paper "The Way Forward" (Cmd 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.

*Jaw*

Ministry of Defence

30th November 1981



FROM MODUK  
TO BHC CANBERRA  
INFO 10 DOWNING ST  
FCO

FROM: MOD Resident Clerk for High Commissioner. Desk by 122100Z Dec

1. Sale of HMS INVINCIBLE. Grateful if you would pass following message to Mr Killen from Secretary of State.

"1. I am sorry that I have not been able to write to you earlier but I am now in a position to confirm, with the concurrence of my Cabinet colleagues, the United Kingdom Government's agreement, subject to satisfactory terms of payment, to the sale of HMS INVINCIBLE to the RAN on the basis of the draft sales agreement initialled by Adm Rourke and Mr Paren at the conclusion of their negotiations in Canberra 20th November, based on 30th September 1983 as the due date for handover of HMS INVINCIBLE to the RAN.

2. The draft sales agreement left open for further discussions the payment schedule for the ship. Adm Rourke has since proposed a payment schedule under which approximately £95M (\$255M) would be paid between April and June next year. There are a few minor points of detail which we would wish to discuss on the payment schedule but for our own budgetary reasons we would need to receive a substantial early payment next year along the lines of the proposals of Adm Rourke as a condition of the sale.

3. When the ship is handed over to the RAN we will wish to retain the name HMS INVINCIBLE for the Royal Navy. You will understand that we wish to preserve the long historical continuity of the Royal Navy's use of the name. I believe, however, that it was always your intention to rename the ship on entry into RAN service.

4. We have received from our High Commission a draft of your proposed press announcement on HMS INVINCIBLE. The High Commission will be giving you any comments we have on the proposed text of your announcement, together with the parallel statement which we shall be making in London.

5. As you will know the Royal Navy is parting with HMS INVINCIBLE with extreme reluctance. She is a fine ship of proven capability and will I am sure serve the Royal Australian Navy well. I hope that the sale of INVINCIBLE and the current discussions between our Departments on the possible acquisition of two Hunt class MCMV ships will do much to strengthen the traditional links between our two Navies and to re-establish old ties between the RAN and the British Defence industries."

2. Signal follows for BDLS Canberra on Australian Ministerial announcement.



IMMEDIATE

Annex C

VV

SECRET

ZPA002 15/0007 349E0025 SPECIAL HANDLING

FOR ZPA

IMMEDIATE/IMMEDIATE 142100Z DEC 81

FROM MODUK  
TO BHC CANBERRA  
INFO FCO LONDON

SECRET

PARAPHRASE NOT REQUIRED

UNCLASSIFIED COPY OF MESSAGE

EXCLUSIVE

SECRET EXCLUSIVE  
SIC AAA/A2P  
FCO LONDON FOR RESIDENT CLERK  
DESK BY 0800 LT

EXCLUSIVE FOR HIGH COMMISSIONER FROM SECRETARY OF STATE  
FOR DEFENCE (IN ABSENCE OF HIGH COMMISSIONER DEPUTY HIGH  
COMMISSIONER TO ACTION).

HMS INVINCIBLE

1. AS YOU KNOW THE ROYAL NAVY IS DEEPLY CONCERNED ABOUT MY DECISION TO SELL INVINCIBLE TO THE RAN. MY TALKS WITH THE FIRST SEA LORD HAVE BEEN PROTRACTED BUT I HAVE INSISTED, PRIMARILY BECAUSE THE NAVAL PROGRAMME IS GRAVELY OVER-STRETCHED AND THE SALE PROCEEDS ARE REQUIRED TO OVERCOME OUR BROADER FINANCIAL DIFFICULTIES. ANY DELAY BY THE AUSTRALIAN CABINET IN AGREEING TO THE PURCHASE AND A CONSECUTIVE ANNOUNCEMENT THIS WEEK WILL STRENGTHEN THE PRESSURES ON ME HERE TO WITHDRAW THE OFFER.

2. IT FOLLOWS FROM WHAT I HAVE SAID THAT A PRIME JUSTIFICATION OF THE SALE REQUIRES A LARGE EARLY PAYMENT TO SOLVE NEXT YEARS BUDGETARY DIFFICULTIES AND ALTHOUGH I WOULD NOT INSIST IN STICKING RIGIDLY TO POUNDS 95M THE FORWARD PAYMENT MUST BE CLOSE TO THIS. I CAN APPRECIATE THAT MALCOLM FRAZER IS CONCERNED ABOUT THE PARLIAMENTARY AND OTHER OPPOSITION TO THE PURCHASE BUT LOOKED AT FROM THIS END THE SHIP IS VIRTUALLY NEW AND A VERY CONSIDERABLE BARGAIN. IF THERE ARE NOW DELAYS IN COMING TO AN AUSTRALIAN DECISION I BELIEVE IT MAKE IT VERY DIFFICULT FOR US AT BOTH ENDS.

3. IF YOU FEEL IT APPROPRIATE TO TRANSMIT THIS MESSAGE TO MR KILLEN PRIOR TO THE CABINET MEETING IN A FEW HOURS TIME I WOULD BE HAPPY FOR YOU TO DO SO BUT I LEAVE IT TO YOUR JUDGEMENT. WE NEED TO SELL AND WE NEED THE FORWARD PAYMENT BUT IT WILL BE INCREASINGLY DIFFICULT TO HOLD THE POSITION FOR VERY LONG HERE

ORIGINATOR LOWE RES CLERK 6002

BT

Resident Clerk



FLASH

SECRET

Annex D

SECRET UK EYES ALPHA  
FM CANBERRA 150342Z DEC 81

PARAPHRASE NOT REQUIRED

MOD

XXX

TO FLASH MODUK

UK EYES A

TELNO SIC AAA/A2P OF 15 DECEMBER  
INFO FLASH FCO (FOR RESIDENT CLERK)

157007

EXCLUSIVE

EXCLUSIVE FOR SECRETARY OF STATE  
FROM HIGH COMMISSIONER  
HMS INVINCIBLE

202

YOUR SIC AAA/A2P 142100Z DEC 81 TRANSMITTED TO MR KILLEN AT 1330  
LOCAL JUST PRIOR TO CABINET MEETING, WHICH MAY EXTEND UNTIL TOMORROW  
16 DECEMBER. HE SAID QUOTE THIS DOES IT FOR ME, I WILL INFORM PM  
UNQUOTE. YOUR TELEX MAY WELL HAVE SAVED THE DAY.

2. NOW UNDERSTAND THAT PM DID NOT SIGNAL AUSTRALIA HOUSE LONDON  
OR MAKE A TELEPHONE CALL TO NO 10. IN VIEW OF YOUR MESSAGE HE MAY  
NOT NOW DO SO. WILL KEEP YOU INFORMED.

MASON

NNNN

S U S

RES CLERK @ 15/0455Z

EXCLUSIVE  
UK EYES A  
SECRET

PARAPHRASE NOT REQUIRED

UNCLASSIFIED REPLY OR REFERENCE