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MINISTRY OF DEFENCE
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19th February 1982

Dear John,

HMS INVINCIBLE

In your letter to me of 17th December you recorded the telephone conversation between the Prime Minister and Mr Frazer about the possible sale of HMS INVINCIBLE. Since then the subject has been discussed at least once in the Australian Cabinet, but no decision has yet been made on whether they wish to purchase the ship. We know that the Australians are conscious that the two Prime Ministers had agreed on a deadline of end-February, and we are now told that it is very likely that there will be a decision next Wednesday or Thursday. It is quite possible that Mr Frazer may wish to talk to the Prime Minister, possibly in advance of a final Australian Cabinet meeting, and the purpose of this letter is to forewarn you of that possibility.

Despite the fact that the decision was taken in 1980 to replace the Australian carrier (HMAS MELBOURNE) this requirement has now been re-opened in Canberra. Mr Killen is still in favour of a new carrier and has put his proposal to buy HMS INVINCIBLE to his Cabinet. There is by no means unanimity on this issue within Government ranks however, and we understand for example that Mr Killen is to give a "factual briefing" to his backbenchers on Monday to try to win them over. The Opposition remains antagonistic.

Apart from the questioning of the requirement itself, there are doubts within the Australian Cabinet about whether they could afford to buy HMS INVINCIBLE in 1983 particularly given our requirement for a sizeable early payment. You are aware of the strong budgetary reasons for the early payment which led the Defence Secretary to decide finally to offer the ship for sale in 1983, having obtained the backing of OD. We understand that the Australian Treasury is now looking for public expenditure cuts, and that decisions on their defence budget will be taken at the same time as a decision on HMS INVINCIBLE.

Mr Frazer clearly faces an internal row whatever he decides about HMS INVINCIBLE. The most likely outcome that we can predict is that he will decline, on budgetary grounds to buy the ship in 1983 on the basis of our preferred schedule of

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of payments. He may well however not take a clean decision to get out of the carrier business; instead he may seek the Prime Minister's agreement to a new round of negotiations leading for example to the handover of HMS INVINCIBLE in 1985 with payments spread out between now and then.

The Memorandum of Understanding drawn up with the Australians (which includes the payments schedule) relates solely to a 1983 handover. We have made it clear to the Australians that if they wanted to wait until 1985 that would require a separate Ministerial decision. We have told them that we cannot predict what the outcome of such reconsideration would be, given the importance which had been attached by Ministers to a substantial early payment in the next financial year and the political difficulties there would be in dragging out the arguments both in Parliament and in the Royal Navy. It is not clear, however, that they accept this position and they may well regard it as a negotiating point by us.

Should Mr Frazer telephone the Prime Minister and seek an extension of time, or look towards a 1985 date, then Mr Nott believes he should be told that for both budgetary and political reasons a decision cannot be delayed any further. He should be warned that Ministers here would want to consider their position very carefully in the light of anything he said, but it would be best to be totally realistic about the lack of prospects for either extending the deadline or switching to a later date of purchase.

I am copying this letter to Brian Fall (FCO) and David Wright and Robert Wade-Gery (Cabinet Office) with the request that they ensure that it is given appropriate protection.

Yours ever,
David Omand

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