



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/TT/1/6

16 January 1981

Will see K.J.'s
reply first.
This decision will be very
badly received
in.

1. TPL P.
2. PRIME MINISTER

As forecast in November, MOD
have now settled on an
American engine in preference to
a Rolls Royce one for tank transporters.
I think the earlier cabinet office
advice (below) remains valid.
Acquiesce?

Dear Ken

Keith Joseph's letter of 18th November to
Francis Pym expressed concern that we might buy the
Cummins KTA 600 engine instead of the Rolls Royce CV12.
In his reply of 21st November Francis said that the
Ministry of Defence would negotiate further with both
RRM and Cummins under the aegis of Scammell Motors,
the prime contractor. This has now been done. Both
offers have been significantly improved and the attached
table summarises the outcome.

The balance of advantage on cost ground still
rests clearly with Cummins. In view of the pressures
on the Defence Budget, I can only confirm the judgement
Francis had reached that the choice should be to adopt
the Cummins engine manufactured entirely in the United
States of America. The extra cost of choosing the
Rolls Royce CV12 would be some £5 million (75%) above
the cost of buying the Cummins engine. Even the
compromise course of the Cummins engine partly manufactured
in the United Kingdom (which would create only about
12 new jobs) would cost an extra £1 million which would
have to be found at the detriment of other defence
objectives.

/ I am ...

Kenneth Baker Esq MP

I am, of course, sympathetic to the other factors which Keith mentioned, and I fully accept that it is in the national interest to put work wherever possible with a British as opposed to a foreign firm. Rolls Royce contend that if they do not get this order some 80 jobs may be at risk during 1984-1986 which, over the period, could cost the Exchequer some £1 million in unemployment and redundancy costs. The premium however, for choosing Rolls Royce is too great. In the circumstances, therefore, we will shortly inform the companies that the Cummins engine is preferred.

I am sending copies of this letter to Keith Joseph and to the recipients of the previous correspondence.

yours with regret.
Tom

Lord Trenchard

COMMERCIAL IN CONFIDENCE
COMMANDER TANK TRANSPORTER

Estimated cost comparison between RRM and Cummins options (£M at Nov 80 prices) (VAT exclusive).

ITEM	RRM (a)	CUMMINS		VARIATION	
		US manufactured (b)	35% UK Content (c) (Note 1)	(a)-(b)	(a)-(c)
1. Installed cost of validation and production engines (230)	4.705	3.140	3.708	-1.565	-0.997
2. Spare engines, direct from supplier (20)	.320	.214	.253	-0.106	-0.067
A. Total (1 + 2)	5.025	3.354	3.961	-1.671	-1.064
3. Estimated spares and contract repairs over 20 years lifetime	4.705	3.140	3.708	-1.565	-0.997
B. Total (2 + 3)	9.730	6.494	7.669	-3.236	-2.061
4. Fuel consumption differential	1.709	-	-	-1.709	-1.709
C. Total (3 + 4)	11.439	6.494	7.669	-4.945	-3.770
5. Effect of £ falling from 2.35£ to 2.00£ (250 engines)	-	.587	.450	+0.587	+0.450
Total (4 + 5)	11.439	7.081	8.119	-4.358	-3.320
6. Import Duty - if payable	-	.695	.264	+0.695	+0.264
D. Total (5 + 6)	11.439	7.776	8.383	-3.663	-3.056

NOTE 1 Cummins on reconsideration of the capital expenses they would bear have revised the percentage UK content from 50 to 35.



From the
Minister of State
Norman Tebbit MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

Lord Trenchard
Minister of State
Ministry of Defence
Main Building
Whitehall
London SW1

26th January 1981

D. Tom,

TPM

Thank you for your letter of 16 January addressed to Ken Baker about the choice between the Cummins KTA600 engine and the Rolls-Royce CV12 for the new Commander Tank Transporter. Following the recent allocation of Ministerial duties in the Department, I am responsible now for all matters involving the vehicle industry.

I note that the further negotiations MOD have held with Rolls-Royce and Cummins still leave a balance of advantages on cost grounds clearly with Cummins and this must of course be given careful weight. However, I note that the extra cost of choosing the Rolls-Royce CV12 engine would be some £5m above the cost of the Cummins option only in the event that sterling stays at \$2.35 and that no import duty is payable. Furthermore, the job loss associated with the business choice would not be restricted to Rolls-Royce Motors, but would spread downstream to that company's components suppliers where the number of employees affected would, I understand, be significantly greater, with consequentially greater Exchequer costs. I know that you will agree that it is vitally important that when spending money we are seen not to have made decisions to the detriment of our own industries except where the case is demonstrably strong.

I am also concerned about the credibility of Government purchasing policy in this case, given that, as pointed out by Keith Joseph in his letter of 18 November, Rolls-Royce Motors developed the CV12 engine in preference to a cheaper 8-cylinder version following advice from the Ministry of Defence. This is, I realise, not an easy case, and in view



of the above circumstances it seems to me that it should perhaps be considered by colleagues collectively if you feel unable to change your view.

I am copying this letter to recipients of the previous correspondence.

Norman

NORMAN TEBBIT



10 DOWNING STREET

Prime Minister

Naman Tebbit is handling
this at DoI. His officials
are advising him not to
fight the MoD decision.

If he takes this advice, do
you want to intervene,
or let Lord Trenchard
go ahead?

MAF

23/1

Must
intervene.

Any such
decision will be
highly dangerous to
R.R. morale.
R.R.

From: S R Douglas - Assistant Private Secretary



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
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D/MIN/TT/1/6

1 April 1981

Dear Peter,

not copied to us.

Lord Trenchard wrote to Mr Tebbit on 12 March about the choice of engine for the Army's new Tank Transporter and the Chief Secretary to the Treasury wrote to Mr Tebbit about this on 23 March. *- not copied to us*

I am writing to let you know that, as part of the annual scrutiny of the forward Defence Programme, we are looking again at our requirement for Tank Transporters in the mid-1980s. Initial indications are that we will be purchasing fewer than had been planned. Until, therefore, the way ahead is somewhat clearer, we do not intend to place an order for the engine.

The Minister is still of the opinion that unless the majority of the price difference can be closed we will have to buy the Cummins engine, and he notes the Chief Secretary's support for this view.

I am copying this letter to Terry Mathews (Chief Secretary's office) and to Mike Pattison at No 10.

*Yours
Stephen*

Peter Mason Esq
Private Secretary to
Norman Tebbit Esq MP
Minister of State
Department of Industry

Discussed w PM
MA



MO 26/4

PRIME MINISTER

COMMANDER TANK TRANSPORTER:
CUMMINS KTA 600 ENGINE

I shall be having a talk with Keith Joseph about this matter.

2. I am sure you will agree that Cabinet Committees are not an ideal forum for deciding complicated issues of procurement policy, if it can possibly be avoided. The amounts at stake here (£1.6M) are very small but seen in the context of alternative savings (and alternative consequences for British industry), the issues here are pretty uncontroversial. You may wish to be reminded of the recent list of savings to make up the £200M reduction - and we are still looking for the outstanding balance of £40 million out of this list.

3. The Ministry of Defence can hardly be criticised for failing to support British industry. I set out the figures below:

	Cash	Constant Prices (Sept 79 Survey Prices)
1978/79	£2.9 billion	£3.5 billion
1979/80	£3.6 billion	£3.6 billion
1980/81	£4.7 billion est.	£4.1 billion

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covering SECRET



It is inevitable that changes will be forthcoming in the future programme - some of them controversial ones. Otherwise I shall have to ask the Chancellor for a higher Budgetary allocation in 1981/82 - and 82/83.

4. I shall let you know the outcome of my talk with Keith Joseph.

JW.

Ministry of Defence

17th February 1981

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DEFENCE CUTS 1981/82 (ALREADY AGREED)

	£M	
1. Tri-Service measures -		
a. Recruiting	12.2	Prolongs undermanning. Structural disruption. Loss of recruiting in good years before demographic trough.
b. Fuel stocks	50 (approx)	Affects war readiness and compliance with NATO standards.
c. B vehicles (general purpose, load carriers etc)	35.3	Vehicle shortages. Retention of over-age vehicles, leading to uneconomic repair. Industrial implications still under examination.
2. Sell/scrap 1 cruiser and 2 frigates	2.0	Affects declarations to NATO
3. Sell 1 additional stores ship (TARBATNESS)	3.9	
4. Sell or scrap 5 Tribal class frigates	8.9	Affects declarations to NATO
5. Dispose of HMS BULWARK 6 months early	2.6	Affects declarations to NATO
6. Disband 781 Sqn (Communications) and close fixed wing function at Lee-on-Solent	2.7	Staff Side and Trade Union interests, strong local issue
7. Recast ship repair programme: cancel conversion of NORFOLK and sell (82/83). Defer ANTRIM 1 year. Delay BACCHANTE's modernisation	4.1	Industrial implications
8. Reduce Royal Marines winter training	1.9	Affects specialist reinforcement to vulnerable area of NATO
9. Territorial Army - training, works etc	9.5	Detracts from emphasis placed on reserve forces in 1980 Statement on Defence Estimates

	£M	
10. Slow down computerised artillery target engagement system (BATES) by 1 year	1.4	Delays enhancement of artillery effectiveness in BAOR
11. Slow down delivery of mines (BARMINE)	1.4	Affects war maintenance reserve
12. Blowpipe air defence missile - cancel some improvements, delay others and defer some production	4.0	Will affect Army's air defence capabilities. Industrial implications for Shorts still being examined
13. Reduction of strike Vulcans by 1 squadron equivalent, brought forward	5.5	Affects declarations to NATO in long range theatre nuclear capability. Also national strike cover.
14. Run down Canberra Photographic Recce squadrons early	1.0	Affects commitments to NATO
15. Hold Buccaneer establishment to 24	0.4	RAF maritime/strike attack capability to be reduced by one-third
16. Reduce long-range maritime patrol, Vulcan, fast jet and communications flying	31.4	Reduced capability to meet Service tasks, Fast jet measures must affect operational standards.
17. Defer purchase of 14 Jetstream and further 18 Hawk	17.2	Industrial implications
18. Defer electronic counter-measures for Jaguar	4.1	Reduces planned future capability of Jaguar
19. Reduction in Shackleton Airborne Early Warning Force	1.0	Affects declarations to NATO (Nimrod AEW not due until 1984/85)
20. Extensive further cuts in works programme for all 3 Services (other than TA)	91.7	Major industrial implications for the construction industry, felt in many parts of Britain. Very few new contracts will be let, and will take many years to recover ground lost. Comes on top of long series of works cut-backs, leading already to a seriously run-down defence estate.



10 DOWNING STREET

File Note

Treasury would like
the CST to be
present at the
meeting.

Deferre



Treasury Chambers, Parliament Street, SW1P 3AG

M A Pattison Esq
No. 10 Downing Street
London SW1

13 February 1981

Dear Mike, ^{MAP}

The Chief Secretary has seen your letter of 10 February about the MOD order for engines for tank transporters. He would welcome an opportunity to attend the proposed ad hoc Ministerial meeting to discuss the order, and would like to see Lord Trenchard's paper when this is ready.

Copies of this letter go to the other recipients of yours.

Yours ever,

Terry Mathews

T F MATHEWS

Private Secretary



10 DOWNING STREET

From the Private Secretary

10 February 1981

254
Defence

Engines for Tank Transporters

Thank you for your letter of 4 February about the progress on a paper for E Committee.

The Prime Minister has now concluded that it would be preferable to settle this matter in an ad hoc meeting of Ministers rather than in E. When Lord Trenchard's paper is ready, I should be grateful if you could circulate it to those involved in this correspondence, and Caroline Stephens here will then find a date for a meeting. The Prime Minister will wish your Minister and Mr. Tebbit to attend. I should be grateful to know which other Departments would like to send a Minister.

Tebbit's Office
I am sending copies of this letter to Richard Tolkien (HM Treasury), Peter Mason (Department of Industry), John Wilson (Scottish Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

M. A. PATTISON

Colin Balmer, Esq.
Ministry of Defence.

From: Colin Balmer, Private Secretary

2



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
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D/MIN/TT/1/6

Prime Minister

4 February 1981

For information.

*(This is, of course, Rolls Royce Motors, not
the aero-engine business.)*

Dear Mike

*MRD
6/2. mb.*

Thank you for your letter of 28th January asking that Lord Trenchard should put a paper to 'E' Committee on the choice between Cummins and Rolls Royce engines for the Army's new tank transporter.

U Lord Trenchard was also approached by the Chairman of Rolls Royce Motors, Mr David Plastow, about this, and as a result Rolls Royce have submitted a further presentation to us which contains a number of new points, particularly about the relative consumption of spare parts by the two engines. Since we need to look at these points very carefully, Lord Trenchard is unlikely to have ready a paper for 'E' Committee until towards the end of next week.

I am copying this letter to Richard Tolkien, HM Treasury, Peter Mason, Department of Industry, John Wilson, Scottish Office, Richard Dykes, Department of Employment and David Wright, Cabinet Office.

How was

Colin Balmer

M A Pattison Esq.,
10 Downing Street



10 DOWNING STREET

From the Private Secretary

28 January 1981

Dear Balmer

The Prime Minister has seen a copy of Lord Trenchard's letter of 16 January to the Department of Industry about the choice between the Cummins KTA 600 engine and the Rolls Royce CV12 for the new Commander Tank Transporter. She has also seen Mr. Tebbit's reply of 26 January.

The decision proposed by your Minister of State is likely to be badly received, and may have a considerable impact on morale at Rolls Royce. She agrees, therefore, with Mr. Tebbit that collective discussion is needed, and she has asked that your Minister of State should put a brief paper to E Committee.

I am sending copies of this letter to Catherine Bell (Department of Industry), Richard Tolkien (HM Treasury), John Wilson (Scottish Office), Richard Dykes (Department of Employment), and David Wright (Cabinet Office).

Yours ever

Mike Pattison

C. V. Balmer, Esq.,
Ministry of Defence.

ce: J01
HMT
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CSG

1.

PRIME MINISTER

I told Mr. Tebbit's Office that you were uneasy about the Ministry of Defence proposal to settle for the Cummins engine for their tank transporters. As a result he has registered objections and asked for collective discussion - see attached letter.

If you agree, I will now ask that the Secretary of State for Defence should put a draft paper to E, to allow collective discussion before a decision is reached. (There is a case for saying that this properly belongs in E(PSP) or E(EA), or alternatively in an ad hoc meeting: but I am sure you wish to be involved, and as the Secretary of State for Defence has been retained on E, I think it would be most convenient to add this to the agenda of a scheduled meeting).

Amie

MMP

27 January 1981