

PRIME MINISTER24 June 1983

cc Mr Mount  
Mr Coles ✓  
Mr Jackling

HARM/ALARM

I hesitate to offer advice on this technical subject and do so because of the immediate and longer-term expenditure implications of a decision to buy ALARM.

Expenditure on defence equipment could cost around £8 billion in 1984-85: 80% of this is likely to be spent on British equipment, 15% on collaborative projects, 5% on imported equipment. The increasing cost of each generation of equipment threatens to push this expenditure up rapidly - fast enough by itself to threaten our longer-term objectives on expenditure and taxation, given our pledges in respect of other major categories of public expenditure.

Our defence equipment industry which includes some of our most successful businesses. But a committed buy-British approach is not always consistent with value for money and is in effect an industrial support system without a coherent strategy. We need to distinguish, more clearly than we have up till now, those items of equipment which we are especially good at producing, in terms of total development times and cost, from those with less promising prospects. If we are to contain, let alone reduce, the real growth in defence procurement costs over the next five to ten years, we need to adhere to a discriminating approach to procurement, and to pursue it in a more competitive framework (fewer cost-plus contracts, more competitive tendering).

A decision to buy ALARM would be a departure from such an approach:

- it would expose our very valuable ground-attack Tornados (worth over £6 billion) for an extra 2 years;



- ALARM would cost at least £150 million, or 60%, more than HARM;
- there is a likelihood of cost escalation by a further £60-70 million (Marconi has slipped badly on two recent contracts with MoD); this would raise the premium to over £200m;
- Seeker head technology is not one of those judged by a recent MoD review of defence technologies to be strategic for this country: this was the reason competitive bids were invited.

The preservation of jobs argument looks attractive at first blush, as many do, but it doesn't bear analysis. ALARM would provide 6,000 more man-years of work than co-producing HARM, at an extra cost of £25,000 a man year - roughly double the average wage of those concerned. This ranks with the most expensive proposals for job maintenance which in other contexts we rightly resist, eg the Invergordon smelter. There are more efficient ways of securing jobs within the defence industries eg by developing other advanced missile projects (SRARM) where we have better prospects of export orders. It is doubtful whether third countries would prefer ALARM to the much cheaper HARM alternative. Defence industries involve high-technology, of the kind our industrial future depends upon but this does not mean that we can expect to succeed in all of them, particularly in competition with our major ally, the United States.

We can and do succeed in producing equipment which is better than the Americans', and <sup>in</sup>persuading the Americans to buy or co-produce it (Harrier and Hawk aircraft). Those in Congress and the Administration (such as Mr Weinberger) who support buying our equipment on its merits have a tremendous uphill struggle. A choice of ALARM could well set these efforts back and damage our exports of other equipment (of the Hawk especially).



A discriminating approach to procurement, guided by competitive considerations, would actually do more to improve the performance of this important industry and provide us more defence for our money. Departing from this policy could have substantial hidden costs. A decision in favour of ALARM, even though the cost penalty (up to £200m) and operational disadvantage (2 years additional exposure) weigh strongly in favour of HARM, would be the clear signal to many other British equipment suppliers that the MoD is a soft touch. This would condition their bidding and increase procurement costs considerably.

NICHOLAS OWEN