



MO 26/7

PRIME MINISTERDEFENCE SUPPRESSION WEAPON FOR THE ROYAL AIR FORCE

You should know, as background to our discussion next Wednesday, that the Ministry of Defence has in the last few days received additional proposals from TI and Lucas on the terms of purchase of HARM, and from BAeD on the terms of purchase of ALARM. As you know the details of the competition have been widely reported in the press and in these circumstances it is not surprising that revised offers are coming forward.

ALARM

2. BAeD have offered to absorb development and initial production costs equivalent to £97M, provided that missiles beyond an initial 750 and up to 2000 are paid for by the Ministry of Defence at a unit price significantly higher than that in the original offer. The new proposal is self-contained and I am assured there will be no consequential effects on the prices paid for other Ministry of Defence purchases from British Aerospace Dynamics.

3. The effect of this offer is that the total costs of ALARM become £291M for 750 missiles and 360M for 1000 missiles. The cost differential between HARM and ALARM reduces to £37M from £134M. The extra cost margin reduces to 15% from 55%. The new arrangement remains cheaper than the original offer up to a total purchase of 1620 missiles. On the other hand the new arrangement would mean that the extra cost differential between ALARM and HARM will diverge and not converge as under the original offer.

4. As propriety demands Lucas Aerospace have been told that British Aerospace Dynamics have submitted a revised bid and been given the opportunity of putting in a further revised offer of their own.



Having consulted Texas Instruments, Lucas have said that if the order is for 750 missiles, they do not want to change their offer, although they would want to reconsider if a larger order were to be placed now.

HARM

5. Before they had been notified of the BAe offer, TI/Lucas had offered two further options, both of which now have the necessary US Navy approval. The first is an invitation to UK firms to compete for the production of high technology microwave sub-assemblies worth about 20% by value (£10M) of the seeker. This would cost us an extra £5.5M to establish and qualify the UK industrial facilities and work force. In return we would stand to gain 400 man years additional work at the UK firms concerned who could include Ferranti, Plessey, MSDS and perhaps others as well as Lucas.
6. The second proposal is to set up a UK HARM seeker repair depot at TI Ltd at Bedford (where repair facilities for other TI supplied UK equipment exist). This would cost us an extra £20M, to create some 750 man years work over 15 years.
7. Both options are unattractive in financial/employment terms. The premium per extra man year is three times as great for the sub-assembly work as for the original UK HARM offer; the premium for the repair facility would be seven times as great.
8. So far as the more important matter of technological benefit is concerned, neither option would add significantly to the UK national radar technology base. The sub-assemblies perform functions to be found in many UK designed equipments. The UK depot repair facility would give the UK nationals employed a very detailed knowledge of the seeker head; but they would be employed by the subsidiary of a US firm, and one which would be very reluctant to countenance departures from common standards of seeker head configuration. It is therefore very unlikely that we would gain a national capability to improve



missile performance in the light of evolving threats or in a crisis. Indeed, if for any reason UK/US technology transfer relations deteriorated, we could find that modifications could be withheld from us.

9. In summary, these additional Lucas/TI options do not appear particularly attractive and any decisions on taking up either could follow an initial decision to buy HARM, rather than influence the decision directly.

10. I am sending a copy of this minute to other members of the Cabinet and to Sir Robert Armstrong.

Mitrofan

[Draft approved by the Defence Secretary and signed in his absence]

Ministry of Defence
15th July 1983

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From the Principal Private Secretary

SIR ROBERT ARMSTRONG

DEFENCE SUPPRESSION WEAPON

In view of the revised proposals put forward by British Aerospace and Lucas, the Prime Minister has asked that the paper prepared by the Cabinet Office should be revised to take account of the latest developments. The meeting of the Cabinet scheduled for this Wednesday should be deferred until next Tuesday, 26 July, and a revised paper should be circulated as a basis for the Cabinet's discussion.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Mottram (Ministry of Defence).

E. E. R. BUTLER

18 July 1983

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