

CFM (2)

Ref.A083/2635

PRIME MINISTER

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Prime Minister

A.J.G.

Surface to Surface Guided Weapons for the Royal Navy

with PM

You may find it helpful to have a note on the Secretary of State for Trade and Industry's minute dated 8 September to the Secretary of State for Defence.

2. Other Ministers have supported the Defence Secretary's proposal; but the Secretary of State for Trade and Industry has asked for the Defence Secretary's views on a number of points in the Defence Secretary's proposal to purchase the Harpoon missile from the United States rather than the Sea Eagle missile from British Aerospace:

(a) He says that British Aerospace have quoted a fixed price of £185 million before VAT and asks how the Defence Secretary's estimate of cost for Sea Eagle is calculated at £258.5 million: the VAT inclusive price quoted for Harpoon is £218.3 million.

(b) Mr Parkinson draws attention to British Aerospace's ability to meet the timescale required by the Royal Navy.

(c) He expresses concern about the broader implications for British industry, in particular its ability to compete in the future for the next generation of surface to surface missiles.

(d) He draws attention to the export prospects of Sea Eagle which MOD itself estimated at £30 million a year.

3. I recommend that you should await the reply of the Defence Secretary to the Secretary of State for Trade and Industry's letter before deciding whether to comment yourself. In the light of that reply, we shall have to consider whether the issue should be discussed in OD. I believe that an OD discussion

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will probably prove necessary, but a firm decision on this point need not be taken yet. I will submit further advice in the light of the responses to Mr Parkinson's minute.

Re

Approved by
ROBERT ARMSTRONG
and signed in his absence

16 September 1983

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Defence: Harm / Alan

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Secretary of State for Trade and Industry

8 September 1983

SECRET UK EYES A
COMMERCIAL IN CONFIDENCE

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1

*See now Sir Robert
Amstrong's minute of
16 September.
Mr's Box*

*Mr Parkinson
is against Mr Heseltine's
proposal to buy Harpoon
as opposed to Sea
Eagle*

Mr Martin

DA 8/9

Dear Michael,

Your minute of 1 September to the Prime Minister sought agreement to your proposal to procure surface to surface guided weapons for the Royal Navy from the McDonnell Douglas Astronautics Company: the Harpoon missile.

2 I have to say that, for a number of reasons, I am not satisfied that the arguments in favour of Harpoon over the BAE Sea Eagle SL missile are as compelling as you suggest. The principal arguments concern cost and timescale. On cost, you say that the Sea Eagle missile could be made comparable to Harpoon on operational grounds only with additional development, and that the cost differential, taking account of this, is some £40 million. The operational deficiencies to be made good are recorded in paragraph 4 of the note attached to your minute. However, BAE made a presentation to Norman Lamont on 1 September and expressed considerable confidence that their latest bid, made at the end of August in response to your Department's request in the light of the more demanding RN operational requirement, offered a version of Sea Eagle SL which was fully compliant with the up-graded requirement and which was for a fixed price of £185 million before VAT. This seems to compare very favourably with the VAT inclusive price you quote for Harpoon of £218.3 million. I should like to be clear about the basis on which the cost of Sea Eagle SL for the Type 23 requirement which you put at £258.5 million is derived from BAE's most recent bid. I imagine also there is some uncertainty about the Harpoon bid price, which presumably will be procured on FMS terms from USG.

3 On timescale, I note that BAE's latest bid provides for basic specification missiles to be provided at no extra cost for deployment on Type 22 frigates until those which meet the up-graded requirement can be made available. Furthermore BAE appear to be confident that the ship system for Sea Eagle could be ready for the Type 22s.



SECRET UK EYES A
COMMERCIAL IN CONFIDENCE

4 I am also concerned about the broader implications for UK industry of the course you propose. On technology, you express the view that our decision to develop Alarm has already provided a sound base for future missile seeker technology and has gone a long way to provide adequate loading for British industry. I understand, however, that the technology involved in the Alarm seeker head is not directly comparable to that required for second generation SSGW missiles - the one being a 'passive' seeker, and the latter 'active'. I believe BAe and MSDS would take the view that a decision against the Sea Eagle SL could have the effect of allowing the UK's capability in the SSGW field to lapse, thus depriving UK industry of the ability to compete in the future for third generation SSGW. I can understand that SSGW technology may not be regarded as essential to the UK on defence grounds, in contrast to the position on Alarm. But if the consequences of a decision in favour of Harpoon are as I have suggested above, we should be aware of this in reaching our decision.

5 I have, finally, one or two comments on other aspects raised in your minute and attachment. On sales (paragraph 9 of the note), I believe MOD Sales advised DEPC in July that, even taking account of possible political and security constraints, export sales of Sea Eagle SL of £30 million per annum were probable, assuming a purchase by the Royal Navy, with the corresponding levy return to MOD. BAe also attach great importance to the concept of a family of Sea Eagle weapons and have already achieved, as you know, export success with a sale of the helicopter-launched version to India. There is a further aspect to the family concept in that I understand that in due course improvements to the air-launched version, already purchased for the RAF and Fleet Air Arm, may be expected. Are you satisfied that a decision against Sea Eagle SL will not impair UK industry's capability to provide an improved air-launched version when the time comes? I note also what you say about the prospects for offset in a Harpoon purchase. I know that DEPC expressed concern on this point and I should be grateful to know whether you remain confident that a suitable MOU can be negotiated. Is there any risk that early announcement of decision in favour of Harpoon could jeopardise the negotiation?

6 I think it would be helpful if colleagues could have your views on the points I have raised before we reach a decision on this project.

7 I am sending copies of this letter to the recipients of your minute.

8 SEP 1983

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