



SECRET

Defence 8

PRIME MINISTER

Future Lightweight Torpedo
(OD(79) 22)

BACKGROUND

When OD discussed this on 23rd July, you concluded by saying that while the operational case for the new torpedo appeared strong, the Committee was concerned at the way its costs had risen and seemed likely to go on doing so before it came into service. You therefore asked for more cost information about the impact of the cost on the defence budget and public expenditure.

2. This additional cost information has now been produced and is agreed as between the Ministry of Defence and the Treasury. Paragraphs 3 and 4 below deal with this, while paragraph 5 deals with a much wider point which is relevant to your decision to have all the Chiefs of Staff present tomorrow.

3. The new cost information shows that, although in its earlier stages the project suffered from serious mismanagement, proper corrective action has now been taken; and that it should be possible to complete the project successfully. It describes the very big increase in the estimated cost of the development and production of this torpedo since 1973 but shows that this position now seems to have stabilised since the estimate prepared in the autumn of 1978 remains valid except for increases due to inflation and additional VAT. The paper also shows that there is a substantial contingency allowance included in the existing estimate to allow for further difficulties which might arise. Finally, there is an important footnote to Annex D of the costings paper which indicates that the American Advanced Lightweight Torpedo is showing signs of increasing significantly in cost.

4. On this the questions to probe seem to be:-

- (a) What degree of confidence does the Ministry of Defence have that they have fully identified the remaining risk areas in this project? Has not the history of other advanced technological programmes shown the likelihood of completely new problems (e.g. on the homing and guidance system) cropping up in unexpected areas at a late stage?



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- (b) Annex D to the cost information shows the financial saving of cancelling Stingray and procuring Neartip. Are the operational advantages of Stingray over the American torpedo really worth this extra outlay?
- (c) From an industrial point of view, are there likely to be sufficient overseas sales or other projects to occupy the United Kingdom industry created to manufacture Stingray once the needs of our own forces have been met?
- (d) Our annual investment in anti-submarine forces, for whom the lightweight torpedo will be one of the principle weapons, is difficult to quantify precisely; but is of the order, including running costs, of something like £400-£500 million a year. Against an outlay of this order, is it worth accepting a second best weapon in terms of operational performance?
- (e) If Stingray is cancelled, it will be the second lightweight torpedo project in succession to suffer this fate. (Mk 31 being the first). In these circumstances will we retain any indigenous industrial capacity to provide a basis for collaboration with allies or will British industry have lost too much confidence?
- (f) If we cancel Stingray and lose the associated industrial capacity, we shall become totally dependent on overseas suppliers, probably the United States, to meet our future needs in this field. In view of its operational importance to us, is this consistent with our long term interests?

5. There is however a much wider point. Whatever the level of the Defence Budget (and of course, despite Mr. Pym's undertaking to "absorb" Stingray within it, no figures for it have yet been agreed for the later PESC years), the fact remains that the extra cost of Stingray means that there is around £500 million (the cost difference between Stingray and Neartip) less to spend on something else. Is Stingray therefore a good buy as compared to e.g. more tanks or more aircraft? This is a perfectly valid question which the present Ministry of Defence organisation is not well suited to answer.



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The three old Service Departments persist to far too great an extent, successive Chiefs of the Defence Staff have failed to distance themselves from the other Chiefs of Staff in terms of taking a personal view on priorities between them, and the concept of equal misery (or relief) still prevails. I believe myself that at some stage you should encourage Mr. Pym to grasp the nettle which all his recent predecessors have avoided (i. e. a full integration of the Ministry of Defence). Clearly you will not want to do that tomorrow: but your questioning about priorities could begin to point the way.

HANDLING

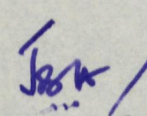
6. You will wish to ask the Secretary of State for Defence to introduce his paper. The Chancellor of the Exchequer should speak next. He is likely to continue to argue the case set out in his minute to you and OD colleagues dated 23rd July. He will suggest that the American alternative Neartip will be cheaper than Stingray; that it meets the operational requirements of the United States and other NATO navies and ought to be sufficient for our needs; that it does not share the technical risks which still exist in the Stingray programme; and that its purchase would allow us to relinquish an indigenous torpedo building capacity which simply duplicates something which exists on a larger scale in the United States.

CONCLUSION

7. The answers to the questions in paragraphs 4 and 5 above are likely to produce a difficult choice between short term financial advantages and our longer term maritime defence interests. The key to the issue is probably the readiness of the Secretary of State for Defence and the Chiefs of Staff to give the project the necessary degree of priority within the defence budget and whether they can satisfy you that this issue of priorities has been properly thought through. If so, the conclusions would be:-

- (i) that we should continue with Stingray as proposed by the Secretary of State for Defence;
- (ii) that the Committee should be informed if the project looks like running into further serious trouble;
- (iii) that prospects for collaboration and exports should be actively pursued.

18th September 1979


(John Hunt)