



Ref: B06271

PRIME MINISTERThe Heavyweight Torpedo
(OD(81) 41)

BACKGROUND

The Secretary of State for Defence is seeking guidance - not at this stage a firm decision - on the choice of heavyweight torpedo for the Royal Navy.

2. The heavyweight torpedo is launched from submarines against both surface ships and other submarines. With the defence review decision to emphasise the submarine as the main weapon platform against Soviet submarines, an effective heavy torpedo is essential. It is quite different from the lightweight torpedo, which is designed to be launched from aircraft and surface ships. But there are some significant similarities between the heavyweight torpedo problem we now face and the lightweight torpedo issue resolved by OD after two difficult meetings in July and October 1979. You will recall that we then rejected a cheaper American alternative in favour of STINGRAY, a British designed lightweight torpedo manufactured by Marconi Space and Defence Systems (MSDS), part of Lord Weinstock's GEC Group. Much play was made with STINGRAY's export potential; and the Chiefs of Staff, in insisting that only the costlier alternative met their operational requirements, formally accepted that they would thereby be leaving less money in the defence budget for other important purposes.
3. The present dilemma over the heavyweight torpedo also features a British model manufactures by MSDS versus a cheaper American alternative (£570 million as against £700 million over 12-15 years). But this time either would meet the (Royal Navy's) operational requirements. The case against buying American is purely industrial and political; and Mr Nott is therefore seeking to establish that, if we buy British, new money should be provided, over and above the defence budget as currently agreed, to cover the extra £100 million involved (the net extra cost falls from £130 million to £100 million because the cost of STINGRAY will rise if the MSDS heavyweight torpedo is not purchased).



4. An important difference between STINGRAY and the present case is that, while the former had a strikingly unhappy history of escalating cost, Lord Weinstock is on this occasion offering (subject to a normal inflation clause) a fixed price contract for development and initial production - though not of course for main production.

5. It was at one time hoped that a deal could be struck with the Americans that they should buy STINGRAY if we bought their heavyweight torpedo (ADCAP). The annex to Mr Nott's paper reports our failure to secure any such undertaking. But the Financial Times of 3rd September reported the possibility of a deal with the Americans whereby we would buy ADCAP on the understanding that they would conclude one of the purchases of British equipment, such as the RAPIER missile for the Rapid Deployment Force, now under discussion; and the manufacturers of ADCAP have offered to offset 35 per cent of the dollar costs by purchases from British industry.

6. The Chancellor of the Exchequer will of course be briefed to oppose any increase in the defence budget for the British torpedo. But even if it is not increased, he is likely to argue for the American alternative, since a premium of £100 million to buy British is not justified on economic or industrial grounds: on the assumption that the defence budget is not to be increased, the consequences of buying the British torpedo would be to reduce purchases of other British defence equipment.

7. It would be a dangerous precedent to provide extra funds for the defence budget to meet the extra cost of buying British. There is no logical basis for managing a block budget such as defence in this way, ~~nor would it be easy to defend politically~~. It is for the Defence Secretary to make his own judgements about what he can get away with politically and to live with the financial consequences. Mr Nott may have put in his plea for extra funds for internal Ministry of Defence reasons, since ADCAP represents the best value for limited defence funds and the Navy in particular would not want to give up other cherished projects to fund the premium for the British torpedo; and he may therefore not be too surprised if he is shouted down by his colleagues. Nor ought he to be too seriously put out if his colleagues



suggest that he should buy British, essentially on employment grounds, but find the money himself. You will note from Appendix 4 to Mr Nott's paper that much of the extra cost of the British torpedo would fall in the years after 1990; and that though there are excesses in the years up to 1986, the annual extra cost even in these difficult early years is never more than £20 million - a very small fraction of a defence budget of over £12 billion a year. Mr Nott and his colleagues are also aware that the decisions on the future of the defence budget earlier this summer not only pre-empted this autumn's Public Expenditure exercise but were also pretty generous in current circumstances.

(Not yet!) 8. The Secretary of State for Industry, the Secretary of State for Employment and the Chief Secretary have been invited, but the Lord Chancellor is unable to be present as he is visiting Belfast.

HANDLING

9. You will wish to ask the Defence Secretary to introduce this paper. If he does not do so unprompted, you might ask him to comment on the overseas sales prospects of the British heavyweight torpedo and on the possibility of striking a bargain with the Americans on the lines mentioned by the Financial Times (paragraph 5 above).

10. You should then ask the Chancellor of the Exchequer and the Chief Secretary to comment; and the Secretaries of State for Industry and Employment to speak on the industrial and employment considerations. You might also invite the Foreign and Commonwealth Secretary to comment on any implications for the Alliance and on the possibility of persuading the Americans to make offsetting purchases from Britain; and you will want the Chancellor of the Duchy's views on the attitude of Parliament.

CONCLUSIONS

11. Since Mr Nott is not asking for a firm decision, but intends to put forward a recommendation after the Party Conference, the discussion need only be summed up in a way which gives him a general political steer. There is likely to be a broad consensus that there can be no question of increasing the defence budget to meet the extra cost of buying the British torpedo. The Committee might then invite the Defence Secretary to consider and report on



- i. the implications for the rest of the defence programme of a decision to buy the British torpedo - in particular, how would he deal with the extra cost in the years up to 1986, and what are the least unacceptable ways of reducing the cash flow problems?
- ii. the possibility of using a purchase of the American torpedo as a lever to secure an American purchase of British defence equipment, or of otherwise increasing 'offset' for British industry.

At the same time Mr Nott should be invited, in the light of i. and ii. and of the Committee's views generally on the industrial and political considerations, to put forward his firm recommendation on the choice of heavyweight torpedo for discussion by the Committee before the end of October.

4th September 1981

R L WADE-GERY

c Sir Robert Armstrong o/r