

When Mr. Heseltine & Mr. Levene came to see me in the Palace, they indicated that

PRIME MINISTER Mr. Levene had seen G.B.C. and A.E.C. had accepted that ① No more money to be paid to G.B.C. until they had reached a satisfactory solution to their problems on this matter and ② They the

NIMROD AEW

You will want to see the attached letter from the Chief Secretary which urges in effect that we should be looking at the possibility of buying American alternatives to Nimrod; and the Policy Unit's note recommending that we should be looking for an alternative British consortium to complete the work on Nimrod (I must say this seems pretty unrealistic to me).

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Otherwise nothing more
I see no reason
to go
back on
that
conclusion
now.

I understand that Mr. Heseltine had a further inconclusive meeting with Jim Prior yesterday. GEC continue to claim that it will cost up to £450 million to finish the project and even that would not bring the system up to the minimum operational requirement set in 1977.

Mr. Heseltine will be replying to the Chief Secretary's minute next week. He is very reluctant to turn to an American option, both because of his instinctive anti-Americanism in these matters and because the Conservative Party (and particularly Geoffrey Pattie) lobbied very hard in favour of the UK/GEC solution in 1977.

I don't seem to have taken a full record of the meeting with Mr. Heseltine and Mr. Levene on 31 July. But from my notes it is clear that they told you that it was not acceptable to go on with cost plus contracts; that they would tell Lord Weinstock that he would receive no more funds for Nimrod AEW until the problems had been solved; and that the maximum amount outstanding was £250 million.

I have confirmed with MOD today that they suspended payments to GEC for development of Nimrod AEW in July; and have recently confirmed that they will not resume them until there is agreement on a solution.

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I suggest we wait for Mr. Heseltine's reply. Thereafter you might like to chair a meeting yourself to look at alternative options.

CDP

Charles Powell

20 December 1985

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
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19 December 1985

Dear Michael,

NIMROD AEW

My officials have had an account of your inconclusive meeting with Jim Prior and Lord Weinstock, and I understand you are to meet again on Thursday.

I realise that, in view of the significant financial, industrial and political implications of this project, you will wish to consult Leon Brittan, myself and other colleagues before any decisions are taken about the way forward. I am clear that we must face seriously the unpalatable option of terminating the project. In order for us to be able to take an informed decision, we shall need hard information on the alternatives to Nimrod AEW. You may wish to explore a number of options but amongst these I attach particular importance to the option of buying the Boeing AWACs or other existing systems, and to the option of buying nothing ourselves but of relying on the existing NATO system.

We shall therefore need, inter alia, a firm and up to date price quote from the Americans on total costs for numbers of AWACs up to nine and for other existing systems. I would be grateful if your officials could obtain this urgently, so that we can avoid further unproductive discussions with GEC (and therefore waste of money).

My officials will of course be ready to help in drafting a paper for the meeting which I take it you have in mind.

I am copying this letter to the Prime Minister and to Leon Brittan.

I do know that you are entirely pleased about the project; on this as you appreciate you have my full support.

JOHN MACGREGOR