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B.07324

PRIME MINISTER

c Sir Robert Armstrong

Nimrod Airborne Early Warning Aircraft

OD Meeting: 12 February

Supplementary Brief

In his minute (MO 26/7/3E) the Defence Secretary describes the revised offer made by GEC, to which reference was made in paragraph 7(d) of my brief (B.07321) of 11 February. He reports that GEC are now prepared to offer fixed prices for the two key features of the radar needed substantially to achieve Minimum Initial Operational Capability (MIOC) within the overall programme cost of £1300 million, quoted in his memorandum. But the maximum risk which the Company is proposed to take is only 15 per cent of the development costs.

2. The Defence Secretary remains concerned about the soundness of the Company's position to achieve MIOC on time; believes that the approach to US companies for alternative solutions should proceed without delay; and recommends that GEC should be required to demonstrate their belief in their proposals by bearing 50 per cent of the risk of development and 50 per cent of the funding for the next six months while alternative US solutions are assessed. The Company would only recover the 50 per cent interim funding (£30 million) if the Nimrod project is allowed to proceed six months from now and MIOC is then achieved on time.

3. The issues remain as set out in paragraphs 5 and 7 of the brief. The main additional question arising from the new offer is whether the Ministry of Defence should bear half of

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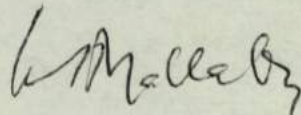


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the cost of keeping the Nimrod project alive while alternatives are assessed over the next six months. Is a 50 per cent cost share the most that the Company is likely to consider? Is an expenditure approaching £30 million by HMG over the next six months justified by the arguments for keeping the project alive -

- a. there would then be increased pressure on US bidders;
- b. there would be the certainty of assessing whether we could afford a US aircraft before abandoning Nimrod, so reassuring our allies that we were intent on acquiring an effective AEW capability;
- c. there would be presentational attractions in giving GEC a final chance of proving themselves on the basis of an equal sharing of costs with HMG while alternative solutions were costed.

4. Subject to discussion in which the views of the Defence Secretary and Chancellor of the Exchequer should be sought, you could lead the Committee to agree that the Defence Secretary's proposals represent an acceptable compromise for keeping the Nimrod project in being at least while the essential work of exploring and costing alternative solutions is undertaken without delay. The need for a decision now to approach US companies remains clear.



C L G Mallaby

12 February 1986