

PRIME MINISTER

R & D PRIORITIES

- to my mind -
There is ^{clear} evidence that the resources devoted to defence r & d are excessive. The result is to leave us worse defended and to damage the civil economy.

The fact is that we try to do too much ourselves, maintaining a defence production capability across the whole range of our defence effort, which itself is wider than that of any other Western country apart from the United States.

This is becoming increasingly clear as weapons and weapons systems become ever more sophisticated and dependent on computers and computer software. Defence procurement disasters of the last few years include:

- Nimrod
- Foxhunter Radar (the radar for the air defence variant of Tornado)
- JTIDS (identification system for aircraft)
- BATES (an artillery targeting system)

Each of these - and one or two others about which you know - has run into trouble primarily through shortage of software engineers and lack of capacity for handling major software projects. The costs in terms of our defence capability are immense, and the result is to damage not only our computer industry but also our ability to apply sophisticated electronics to consumer products.

Part of the trouble is that governments and outside commentators are too easily seduced by industrial pressure groups using the argument that the UK needs such and such a

capability, or needs to preserve such and such a capability, if it is to stay in the forefront of technology. All the evidence shows that spin-off from military projects is limited, to put it kindly.

Peter Levene's efforts ~~at~~ will undoubtedly improve the situation by placing more of the risk with contractors. But the essential problem will remain.

To cut defence r & d would inevitably mean buying more defence equipment overseas, to a large extent from the United States, though the effects would not be felt for a number of years. At present we meet 95 per cent of our defence equipment needs through domestic production, of which about 10-15 per cent is in collaboration with others. That share would fall, at the cost in the shorter term, of lower employment in defence industries. But in the longer term our civil industries would gain, our defence industries would gain by concentrating on fewer products, and we would be better defended at lower cost.

This is another example of industries where shorter term change is needed in the interests of longer term prosperity, and, in this case, better defence.

DLW

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David Norgrove

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10 DOWNING STREET

Prime Minister

You will remember
that you agreed this
should not after all be
circulated more widely,

DBS

18/2.