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*From the Private Secretary*

9 December 1986

I attach a copy of a letter the Prime Minister has received from Group Captain J.K. Palmer.

I should be grateful if you could provide a draft reply for Private Secretary signature. It would be helpful if this could reach me by Tuesday 23 December.

(CHARLES POWELL)

Ian Andrews, Esq.,  
Ministry of Defence.

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The Rt.Hon. Mrs.Thatcher, MP  
10 Downing Street  
London SW1.

9th December, 1986

Dear Prime Minister,

I write concerning the decision you are about to take concerning the Nimrod Airborne Early Warning (AEW) System.

I write under my own volition; I have not been briefed to write, neither does anyone else know that I am writing. I am very conscious that there are doubtless matters of National interest involved - way above my pay grade as the Americans say - but then I believe that what I have to say is important. If I don't say it, perhaps no one else will do so - certainly not in quite the same way.

I am a patriot; I love this country, I believe in its future and the part it has to play in the future of the free world. I served for 37 years in the Royal Air Force before joining the defence industry in 1983. For what it is worth, I am also a Conservative who happens to think Margaret Thatcher is the best thing to happen to this country since Winston Churchill!

My credentials for talking AEW include 30 years in the Air Defence role, spent either flying, lecturing, or writing Operational Requirements in support of air defence systems. Specifically, I wrote the first Air Staff Requirement for AEW for the RAF, I had mid-level MOD management responsibility for the programme between 1979-82, and I have flown all of the systems which have been in contention starting with the American systems some 16 years ago. I therefore believe I can claim an understanding of the operational, technical, financial and commercial issues of AEW which is probably unrivalled.

I am sorry that this letter cannot be shorter, but I have seen so much misunderstanding created recently amongst your colleagues by attempting to reply on a few bull points to make the case. However, if I have to choose such points to retain your interest Prime Minister I'll offer the following:

- \* NIMROD WORKS AND WILL MEET THE RAF REQUIREMENT
- \* ITS EXPORT POTENTIAL IS REAL AND SUBSTANTIAL
- \* AWACS WORKS - BUT WHY PAY MORE AND CRIPPLE BRITISH INDUSTRY ?

\* ADMIRE AMERICAN PRODUCTS - BUT THINK AND BUY BRITISH

The media "leaks" over the weekend of a firm Equipment Policy Committee (EPC) recommendation for AWACS came as no surprise in light of experience with certain RAF staffs since the evaluation phase began in March.

Their scarcely-disguised biased approach to Nimrod reached a new high once the competition became focussed on the E-3A, and of course they found massive support from Boeing on those points outside their sphere of interest i.e. UK jobs, retention of technology, offset programmes and claims of cost advantages. Their steady compiling of negative evidence, as opposed to genuinely objective assessment of the concept, improvements and potential of the GEC system, resulted in a powerful case being made through the RAF chain up to top level in the MOD PE, and thence to the EPC.

The most disturbing aspect of the evaluation is that the conclusions passed to the Equipment Policy Committee appear to have been reached months ago and the evidence since made to fit those conclusions. The basis - for what I acknowledge to be provocative statement - is that by any standards, GEC development progress and reduction of residual risk to a low level has been remarkable. In the past nine months, every reporting and demonstration deadline has been met or bettered; in-flight demonstrations in particular have far exceeded the results promised to the Chief of Defence Procurement in April, and all this has been achieved whilst writing a multitude of reports and proposals both for the UK and French governments, and whilst responding in great detail to the investigations of a number of MOD committees. Throughout the entire period, the RAF have continued to have full access to their 3 Production aircraft and to all GEC development flight data. Boeing on the other hand have experienced very little such exposure and investigation, and have been free - together with supporting British firms totally uncommitted to any form of investigation - to mount a dedicated PR and politico/industrial campaign of influence both in the UK and in GEC's potential export markets overseas.

During this evaluation period it is also worth pointing out that the MOD have shown not the slightest willingness to protect GEC from such disruptive influences as disinformation being passed by competitors, or the pressure of the French to have written papers and demonstrations concurrent with the Company's crucially important commitments to the MOD.

It is of course inevitable in such difficult circumstances that the Company may interpret certain MOD actions as provocative or unduly biased against them. But this programme, certainly since 26th September has been marked by a flood of unsolicited warnings to the Company from MOD staffs, politicians, industrialists and the media that the evaluation was being heavily biased against GEC success. From my experience of 7 years in the MOD (Operational Requirements) department, 4 years in Industry and some 20 years of procurement-related experience, this degree of anti-UK-industry feeling is unprecedented even amongst senior service officers noted for their beliefs that British Industry cannot compete with the Americans, and high level civil servants dedicated to getting full value for money out of defence contracts with UK firms.

It is a fact of life I fear that the US defence industry will always have the edge on their British counterparts. They have an enormous guaranteed in-house market with the US military and, when problems arise in R & D, are able to commit a lot of money using a number of companies under extremely competitive conditions. Their greater investment in R & D, and the sheer size and scope of their defence industry and market, allied to the fact that they already have an empire-like industrial stranglehold throughout the Western world, means they can almost invariably win any major defence project on which they set their sights. Tornado resisted the US challenge only because of the European consortium, otherwise the RAF front line would now consist of F15s and F16s - the RAF's first choice you will recall for air defence and strike attack aircraft.

Going now for Boeing not only hands the lucrative world AEW market wholly to the US, but effectively kills off the British capability and experience built up over 25 years. Plessey, Ferranti, Racal - and GEC one expects - will be around only to pick up the crumbs from the US table. That does not mean that I am anti-American; far from it. I have lived in the USA for a number of years, GEC has a tremendous export prospect using a US aircraft, and I believe that we need the Americans in Europe and in our industry. But, first and last I am British - and if we can produce quality goods at the right price and timescale, which we can, they why should we go elsewhere?

If I appear to be out of line with my criticisms of previous colleagues in the MOD, I should say that I was amongst those who supported an AWACS buy in 1976 (or more correctly, supported an RAF requirement which specified overland performance as mandatory). I also supported cancellation of Nimrod in 1980 when it was clear that the radar development programme was in trouble and when NATO interoperability was a major issue in my Directorate. Later, in 1983, I had serious reservations about the Company's chances of a successful conclusion when the management appeared to have little sense of urgency or a real feel for the work essential to overcome the many problems. That changed however with a new management approach followed by a revised development programme, supported by the export activities, and culminating in a GEC Company-wide support of the GEC Avionics work during the evaluation phase. I have no doubt now that given the same drive and commitment of resources in the future, the Company can meet the RAF CPS in full and meet Growth requirements over the service life of Nimrod, as well as having a lucrative export campaign. To round off the achievements in development and the improved management and other resources, you should be aware that the Company has also put forward a performance, timescale and cost package which is more onerous than any previous defence contract I have ever known.

At this critical stage of decision, many people are saying "The RAF must have the best". The inference is that it must have the best in every respect; that is not possible as you well know. For instance, the RAF don't have the best fighters in the world or the best close support aircraft; the Navy don't have the best submarines and the Army don't have the best communications equipment. I don't have the best car, I doubt if you have the best fitted-kitchen or your husband the best set of golf clubs. We all probably have the best we can afford, that which meets our needs without being gold-plated. The best is often the enemy of the good.

AWACS is the best AEW now in-service, but it is extremely expensive

overall. Nimrod is very close to AWACS in all major respects of performance, and is better in some. It will meet the RAF Requirement and it will offer an extremely attractive export option at a far more affordable price than AWACS. It is also British - which in itself isn't enough - but taken with all the other considerations should be more than enough to guarantee its' retention.

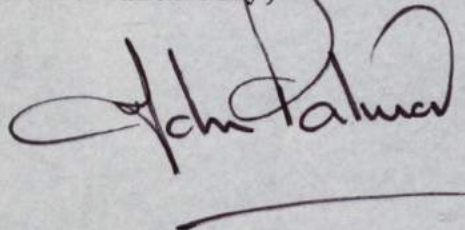
Had the MOD decided to change AEW horses in mid-stream at the time of the intended first RAF delivery in 1984, the Company could hardly have complained. Similarly, a cancellation following the failure to agree a reduced Requirement in January 1986 might also have made sense in that the development risk then was considerable. To cancel now after the allocation of a further £50M, having tied up MOD resources for 9 months, and in the light of the acknowledged great technical improvements, smacks more of a covering up of past procurement errors rather than a balanced review.

A particularly sad aspect of recent months has been that this "Civil War" blood-letting between the MOD and UK industry, has taken place in full view of the UK's greatest competitors in the defence field, the USA and France. It is impossible to imagine similar circumstances being allowed to prevail in Washington or Paris over a foreign purchase, whilst a British company being allowed to lobby in the USA as openly and aggressively as Boeing have been allowed here is unheard of. Indeed, since I left the RAF I have been appalled to see how we commit commercial suicide in our fragmented marketing overseas, whilst the French, Americans and Japanese invariably act as a cohesive unit; government, military and industry working as one.

In summary, I believe the Royal Air Force - if not the MOD in general - are in this instance guilty, at least of over enthusiasm for American products and a determination to pay back GEC for previous shortcomings. I understand their sceptism but in my view, those are not justifiable reasons for pouring millions of pounds down the drain and handing Britain's air defence future and much of its technology to a foreign government.

On the basis of the enormous improvements made in the system, the resultant low risk of the residual work, and the Company's total commitment to meeting the new timescale and budget with commensurate operational performance, I respectfully suggest, Prime Minister, that GEC has every right to expect that it be permitted to complete the Nimrod project.

Yours faithfully,

A handwritten signature in dark ink, appearing to read "John K. Palmer". The signature is written in a cursive style with a long horizontal stroke underneath.

John K. Palmer

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CONFIDENTIAL



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