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B.07626

CC Sir Robert Armstrong
Mr Unwin

Airborne Early Warning (AEW) Aircraft OD Meeting at 5.30pm on Wednesday 17 December

CONCLUSION

Subject to discussion, the Committee might be guided:

- a. to endorse the Defence Secretary's proposal:
 - i. to terminate all existing contracts with GEC Avionics (GAv) and British Aerospace (BAe) for Nimrod;
 - ii. to purchase six Boeing E-3A AWACS with the option of adding two more within six months;
- to agree that this conclusion be referred to Cabinet for decision on
 December;
- c. to invite the Defence Secretary to arrange for the decision to be announced on 18 December, taking into account presentational points made in discussion.

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BACKGROUND

- 2. The decision to proceed with full development of Nimrod AEW was taken in 1977 at a then estimated cost of £856M (at today's prices), for a first delivery in May 1982. Although £930M has so far been spent, a satisfactory avionics capability has not yet been developed, which has entailed running on the increasingly obsolescent Shackletons. (The Shackleton is a derivative of the Second World War Lancaster.) In 1978, our NATO European allies decided to buy 18 Boeing E-3A AWACS, which were delivered between February 1982 and April 1985 within cost estimates.
- The project was reviewed by the then Defence 3. Secretary (Mr Pym) in August 1979 by when the estimate had risen and the delivery date had slipped to late 1982; he and the then Chancellor of the Exchequer (Sir Geoffrey Howe) agreed that the balance of advantage lay with continuing with the project. The cost of the AEW system continued to rise and the estimated date to slip. In November 1983 progress payments to the firm were withheld for six months, after which GAv undertook to submit incentive price proposals for the completion of the development work. At the end of 1984, the previous Defence Secretary decided that the existing development contract should be terminated as soon as possible, at which point incentive contracts, where feasible, and competition would be introduced for the remainder of the programme. Negotiations continued throughout 1985 with the Company, who continued to offer a level of capability which fell short of specification.

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- 4. In February 1986, OD agreed that alternative systems should be explored. GAV were to be told that, nevertheless, the Government's strong preference was for successful completion of the Nimrod project; and that the project would proceed if after six months there was a firm prospect that the full RAF specification could be satisfactorily met within reasonable time. The possibility of a joint purchase with the French was also to be explored.
- 5. In September, the Defence Secretary reported that, in the light of the evaluation of rival systems, five were to be discarded and that AWACS provided the only realistic alternative to Nimrod.
- Secretary reports that, although GAv claim that an aircraft with a radar which meets the 1977 requirement could be available by mid-1989, the current performance of the system still falls well short of this standard; his experts do not believe that it will be attained before the mid-1990s, if at all. In his judgement, to persist with Nimrod AEW carries too great a degree of risk, especially bearing in mind the obsolescence of the Shackleton force, and would be to pour good money after bad. We should therefore switch to the E-3A, which fully meets the 1977 standard (and in some respects exceeds it). It could be in RAF service by 1991.
- 7. In order to provide the desired radar coverage, 8 AWACs are needed. At an exchange rate of \$1.28 to the £, the total acquisition cost of 8

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aircraft is £420M higher than the remaining costs of 11 Nimrods, bearing in mind that the latter aircraft have already been bought. There is insufficient headroom in the defence programme to pay for more than six; the purchase of two more would entail displacing or postponing projects and the opportunity cost has yet to be explored. But even 6 E-3As would represent a more effective operational capability than the Nimrods. The Defence Secretary therefore proposes to purchase 6 E3As now with an option to buy two more within 6 months.

ATTENDANCE

8. All members of the Committee will be present.
The Secretaries of State for Northern Ireland and
Employment, the Chief Whip, and the Chiefs of the
Defence Staff and the Air Staff have been invited to
attend.

HANDLING

9. After the <u>Defence Secretary</u> has introduced his memorandum, discussion should address the following points:

A Nimrod AEW

How confident is the <u>Defence Secretary</u> in his experts' pessimistic assessment? Have there been no indications of recent improvement? Is there no chance that GAV can achieve the RAF requirement by 1989, bearing in mind their management reorganisation earlier in the year and the more stringent contractual arrangements (which require them to bear 50% of the development cost) now in force? And is there no substance in GAV's allegations that the requirement has been made more demanding - as they put it "the goal posts

Isir Calin Fielding will also be available have been moved" - a point disputed in paragraph 4 (and Annex A, paragraph 1) of the Defence Secretary's memorandum? Is the Ministry of Defence vulnerable to criticism that the validity of the conflicting assertions made by MOD experts and by the Company has not been independently assessed? The Company say that the MOD sent in independent consultants to assess what had been achieved, but withdrew them before they could reach any conclusions. (Defence Secretary, Secretary of State for Trade and Industry)

B. E-3A

Can we be confident that the first aircraft will be available by 1991? When will the force (whether of 6 or 8) be complete? How essential are 8, given that the proposal to purchase 6, with an option on a further two, implies that no more than 6 may turn out to be affordable? The 18 existing NATO E-3As are to undertake six patrols, compared with the RAF's 4. Is there not scope for reallocating patrol areas, thus reducing the potential size of the E-3A purchase? What about the French, who are expected to buy 3 E-3As? (Defence Secretary, Chief of Air Staff)

C. Budgetary Implications

Is it yet possible to indicate what projects might have to be displaced from the defence programme in order to make way for extra E-3As? Is this not going to arouse further criticism that the defence budget is overstretched and that something important

will have to be dropped from the defence effort? Would the purchase even of six E-3As cause difficulty in the early years (given the requirement for 95% progress payments to Boeing as against 50% to GAv)? Is there no risk of cost escalation after two years, when increases would be allowed if Boeing's costs rose more than foreseen (Annex B, paragraph 4)? (Defence Secretary) Is the decision (Annex B, paragraph 3) to go for a sterling price really the best option? (Chancellor of the Exchequer)

D. Industrial Implications

A decision to opt for AWACS and cancel Nimrod would, of course, be bitterly resented by GEC but supported by Plessey, Ferranti and Racal. On the evidence presented the balance from the standpoint of UK industry favours AWACS. But a number of worries will need to be borne in mind, given the barrage of criticism with which any decision is likely to be greeted. The MOD believe that the net effect on jobs should be broadly neutral: cancellation of Nimrod would result in the loss of 2,000 direct and 3,000 indirect jobs (although GEC put the figures slightly higher); but Boeing, who have undertaken to spend £1.30 in the UK for every £1 spent in the US, estimate that their offset proposals would create some 3,200 direct and 4,800 indirect jobs. Does the Trade and Industry Secretary agree? The Defence Secretary acknowledges (Annex D) that some of the jobs promised by Boeing might come to the UK even if the E-3A were not purchased. Can he quantify this proportion? How watertight is Boeing's undertaking to

provide 130% offset? How great a proportion will be high technology work? Is there not a risk that any displacement of equipment projects from the defence programme to make way for additional E-3A purchases will have a depressing effect on the UK defence industry?

E. Presentation

If we go for AWACS, this will be the real problem. Both firms have been mounting vigorous campaigns and a number of MPs have been given briefings. A decision in favour of Boeing is likely to be strongly criticised, especially on grounds of cost (particularly when the initial purchase will be less than the total required), the damage to GEC and the British electronics industry and the loss of jobs. Can the Defence Secretary or the Trade and Industry Secretary suggest examples of current government co-operation with GEC which could be quoted in response to such criticism? How do we justify a decision against Nimrod without criticising GEC, which would not be in the national interest? How do we answer GEC's claim that they can meet the RAF requirement at lower cost than AWACS? The Defence Secretary will be circulating before the meeting a further memorandum addressing the presentational aspects. He plans to make an announcement the following day, 18 December (the day before the House rises for the Christmas Recess). There have already been demands that the decision should be debated before it is made final. How does the Defence Secretary propose to handle the announcement? Does he envisage a statement

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