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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~230 7622~~ 218 2111/3

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17th December 1986

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See below

AEW COMPETITION : STATEMENT TO PARLIAMENT

Following this evening's meeting of OD, and subject to the outcome of tomorrow morning's Cabinet, I attach the latest draft of the Statement that my Secretary of State hopes to be able to make to the House tomorrow afternoon.

I am sending a copy of this letter to the Private Secretaries to other members of OD, the Secretaries of State for Northern Ireland and Employment, the Chief Whip and Sir Robert Armstrong.

[Handwritten signature]
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(I C F ANDREWS)
Private Secretary

Charles Powell Esq
No 10 Downing Street

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1. With permission, Mr Speaker, I wish to make a statement on airborne early warning aircraft for the Royal Air Force. I apologise in advance for its length.

2. The House will recall that in March 1977 the then Government announced their decision to proceed with the Nimrod system to replace the Shackleton in the airborne early warning role. Contracts were placed with what is now British Aerospace plc for the necessary work on the Nimrod airframe, and with GEC Avionics Limited for the development and production of its mission system avionics. At that time it was envisaged that the aircraft would be available to the RAF in a training role in May 1982 and for operational service in April 1984.

3. British Aerospace have delivered the airframes in accordance with their contract. But as the House knows, serious difficulties have arisen in the development of the avionics system for the aircraft, and these have led to significant time and cost overruns. On 26 February last my rt hon Friend the then Minister of State for Defence Procurement informed the House that the Government had decided to consider all of the available options, both from

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this country and from overseas, for meeting the RAF's needs before taking a final decision on the way forward. He also announced that for Nimrod itself we had negotiated with GEC revised contractual arrangements involving a sharing of financial risk with the company and giving them adequate incentives for completion. The intention was that, by the end of an interim period of 6 months, GEC would provide us with a firm price proposal against a technical specification aimed at fulfilling the needs of the RAF, and would also demonstrate to us the progress they had achieved on the development of the project. Meanwhile we would explore alternative solutions. On 25 September my noble Friend the Minister of State for Defence Procurement announced that best and final offers were being invited from GEC Avionics for the Nimrod and from the Boeing Aerospace Company for the E-3A aircraft. These offers have now been received and assessed.

4. GEC's offer for Nimrod has been judged against a Cardinal Point Specification based on the Air Staff Requirement endorsed in 1977, with the addition only of an air-to-air refuelling capability. Since 1977 the air threat against the United Kingdom has increased, and we would be setting a higher standard if we were starting afresh today. Nevertheless we have not moved the 1977 goalposts.

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5. GEC's offer covers three levels of attainment. In ascending order, and cumulatively, they have offered 3 aircraft in the second half of 1987 to the standard of the present trials aircraft; 6 aircraft between mid-1989 and mid-1990 which would approach the final standard subject to certain exclusions, of which the most important is the vital secure data link between the aircraft itself and other assets; and 11 aircraft to the final standard between October 1991 and September 1993. The first of these offers is not of any value as the system is not of a standard that could be used for training. The question I have had to consider is whether, taking account of the work GEC have done since February, and in particular of recent flight trials, together with our knowledge of the results they have achieved during the last nine years, I can have confidence that they could deliver aircraft with the second and third levels of performance in the timescales they have offered. This is an assessment of the Nimrod programme against the objective standard of the Air Staff Requirement and not against the E-3A.

6. I am sorry to say that the conclusion I have reached after the most careful consideration is that I cannot have that confidence. GEC have certainly made technical progress

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in some areas since February, and have also accepted contractual terms which would give them the strongest incentive to achieve success. I pay tribute to them for that. Nevertheless there have been technical disappointments as well as progress. The recent flight trials which have been attempted have not produced a consistent and reliable pattern of results. Such results as have been achieved fall well short of the Air Staff Requirement. The company have therefore made proposals for improving the system's performance over the next few years. I have considered the proposals very carefully, but the unanimous view of my scientific and military experts is that the required performance is unlikely to be achieved before the mid-1990s at the earliest, if then.

7. This is a question of scientific and engineering judgement; the likelihood of success does not lend itself to absolute proof one way or the other. I must judge the prospects on the basis of the scientific and Service advice available to me. That advice is clear and unanimous.

8. As I have said, Nimrod AEW should have entered RAF service for training in 1982 and for operations in 1984. Airborne early warning is a vital air defence capability and

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a major force multiplier. The existing Shackletons, which entered service in this role in 1972, are obsolescent and would be of limited value in hostilities. Thus a capability gap has existed for some years and exists today. Its continuation for a further 9 years or more would not be tolerable, either for ourselves or for the NATO Alliance to which we are pledged to make a substantial AEW contribution.

9. Very reluctantly, I have decided that the time has now come to cut our losses on the Nimrod AEW programme, notwithstanding the expenditure of £660M so far. All existing contracts with GEC and British Aerospace are therefore being terminated. Subject to satisfactory completion of contractual negotiations, we shall instead be ordering 6 E-3A aircraft from Boeing with the option of adding a further 2 within the next 6 months. The E-3A is already in service with the NATO AEW Force as well as with the United States Air Force. The RAF version will meet or come close to the 1977 operational standard we have set and in several respects significantly exceeds it, thus enhancing the RAF's capability against the military threat. There is plenty of potential for stretching the system to match further developments in the threat. I am confident that the E-3A will give excellent service with the RAF.

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10. Allowing for termination costs on the Nimrod contracts, the cost of acquiring the six E-3As with initial support will be £900M at 1986/87 prices, which is £240M more than the remaining cost of acquiring 11 Nimrods. The difference represents value for money given our total confidence in the E-3A's ability to perform the operational task in an acceptable timescale. On a through-life cost basis including running costs over 20 years the difference is much narrower, with the E-3A only £70M dearer. These comparisons are confined to future expenditure. *at balance accounts of* ~~If past expenditure is~~ *System.* ~~included on the Nimrod side of the comparison, the E-3A is by far the cheaper system.~~

11. Nevertheless this is a sad statement to have to make. High hopes have been built on the Nimrod AEW project by successive Governments, by industry and on both sides of the House. To acknowledge failure is a bitter pill to swallow, even though I have no doubt that it is the right decision. There are occasions, and this is one of them, when it is necessary to draw a line under the past and start again with a fresh sheet of paper. There are lessons for all of us in

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this outcome, and I do not seek to evade my Department's share of responsibility.

12. While this must inevitably be a sad day for GEC and their workforce, it would be wrong for them, or the House, to view it too tragically. They will remain one of MOD's biggest equipment suppliers; we spent some £800M with them last year. They and other British firms will continue to design and manufacture airborne radars despite the present decision. The loss to British defence technology will be solely in this highly specialised field of large and advanced AEW systems, and it is not strategically vital for this capability to be retained in British industry. In any case, Britain will continue to be involved in this technology through the participation of Racal, Plessey and Ferranti in the E-3A order for the RAF.

13. Furthermore, Boeing's proposals for the E-3A include a contractual commitment on their part to an extremely high level of offset, amounting to £130 to be spent on work for British companies for every £100 which we spend on the E-3A. This commitment has been welcomed by British firms who will be participating in the E-3A project. Boeing are publicly committed to placing high technology work with British

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companies and have an excellent record for honouring undertakings of this kind. Our assessment is that job losses resulting from the cancellation of Nimrod will be equalled if not exceeded by job gains in firms all over the country resulting from Boeing's offset proposals.

14. As I have said, Mr Speaker, the decision I have announced has not been an easy one. I am convinced however that it is the right one and I commend it to the House.

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