



10 DOWNING STREET

From the Private Secretary

14 December 1983

Dear Richard,

Cost of Defence Equipment

The Prime Minister discussed with your Secretary of State this morning Nick Evans's letter of 22 September and the accompanying paper about the rising cost of defence equipment.

Mr. Heseltine said that two basic questions were involved. Were Ministers likely to wish to deny the best possible equipment to our armed forces? Were we obtaining the best value for money that we could? He doubted whether Ministers would wish to prevent the armed forces receiving the best equipment possible. He believed that everything possible was being done to promote genuine competition in an area where there were certain built-in constraints on competition, for example, the fact that in the case of some items of equipment there were single suppliers. He explained a number of steps which he was taking to improve competitiveness. Industry had been invited to send a team to the Ministry of Defence to comment on its procedures and there was a large exchange programme between the Ministry and industry.

The Prime Minister said that she had some doubts as to whether the need for competition in the defence industry was being tackled with sufficient vigour. She was looking forward to seeing Mr. Heseltine's paper on technologies in which an indigenous capability was essential for defence purposes.

Your Secretary of State said that he had issued instructions that any significant contract which was not open to competition must be referred to Ministers.

Following further discussion, it was agreed that copies of the Defence Equipment Policy Committee papers should be sent to the Policy Unit at No. 10 and that the Policy Unit should in future be represented on the Committee.

Following a general discussion of the problem of collaboration and standardisation in NATO, the Prime Minister said that when we had received your Secretary of State's paper on essential technologies we might have to consider our approach towards NATO collaboration and standardisation.

Yours ever

John G. Cole

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Ministry of Defence.