



Prime Minister

To note. The Chancellor
seeks certain assurances before
agreeing to Harpoon.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

A. & C. 9
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PRIME MINISTER

SURFACE TO SURFACE GUIDED WEAPON

I have seen Michael Heseltine's minute to you of 2 April in which he seeks agreement to the procurement of the Harpoon Weapon System to meet the Royal Navy requirement for a new Surface to Surface Guided Weapon. This decision will disappoint British Aerospace, who have fought hard for their Sea Eagle SL System and who have recently heard that a major order from Spain, for which they had hopes for the Rapier missile, has gone to the French. We must expect that some of our Parliamentary supporters will sympathise with the company and there may well be some controversy following an announcement.

2 Nevertheless, Michael makes a strong case for Harpoon. The price differential of £75.5m is substantial and McDonnell Douglas' offset offer of 130% of the purchase price is undoubtedly attractive provided it is delivered. While we would ideally like to source such an important high



technology development from within the UK, I appreciate that the premium we would have to pay for those benefits is simply too high in this case. I hope that the Americans will not exploit their monopoly position in later years as we will be abandoning our present technological capability.

3 There are, however, two other points to bear in mind. Firstly, I do not think it fair to claim that BAe is unlikely to meet the delivery date for the requirement. The company has, in fact, committed some £4m of its own resources to ensure that the development programme remained on target. I would feel happier if this contentious point was excluded from any public statement explaining our decision. Second, BAe attempted to link the Sea Eagle SL decision to an offer to convert the contract for supplying Air Launched Sea Eagle to the RAF to a fixed price basis and to convert the last 100 missiles delivered to the new homing head standard free of charge. I appreciate that this offer came late in an already protracted competition but I hope that its cost implications were fully examined.

4 Subject to assurances on these points and if colleagues are willing to extend our reliance on the goodwill of the US Government and defence contractors, I would reluctantly

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accept that on short term cost ground this contract should go to McDonnell Douglas.

5 I am sending a copy of this minute to OD colleagues and Sir Robert Armstrong.

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9 April 1984

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DEFENCE: Procurement Pt 2

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COMPTON

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Prime Minister.

Mr. Patten will be announcing
the Harpoon decision tomorrow.

A. J. C. 10/4.

MO 26/3

SECRETARY OF STATE FOR TRADE AND INDUSTRY

SURFACE TO SURFACE GUIDED WEAPON

I have seen your letter of 9th April to the Prime Minister in which you accepted my recommendation for Harpoon subject to an assurance on two points.

2. First, you asked that our doubts about BAe's ability to meet the Type 22 timescale should be excluded from any public statement. I can give this assurance. I realise that BAe have invested £4M of their own money in the development programme but I am advised that at least twice that sum would have had to have been invested by now to give an assurance that the timescale could be met.

3. Second, you asked whether we had carefully examined BAe's late offer on Air Launched Sea Eagle. I can confirm that this has been done. The Company have offered to re-negotiate the agreed target cost arrangements for the Air Launched missile and to offer a fixed price if we agree to buy Ship Launched Sea Eagle. Our view is that this offer is not attractive at the figure they have quoted for their proposed fixed price and could cost us more than under the present target cost arrangements. They have also offered to fit to the last 100 Air Launched Sea Eagle missiles the advanced seeker head resulting from a ship launched programme. However, we have no funds set aside for such an improvement and therefore any saving is hypothetical. This latter point was covered in paragraph 7 of the Annex to my OD minute.

4. Finally, I must comment on the concluding sentence of your second paragraph. As I indicated in paragraph 6 of the Annex to my minute of 2nd April, we will not be abandoning our present technological



capability. Air Launched Sea Eagle preserves our capability to produce air-launched anti-ship guided weapons and ALARM protects our capability in the field of seekers. We do not at present have a technology base for naval surface to surface guided weapons having chosen Exocet as our first generation system.

5. I am sending a copy of this minute to OD colleagues and Sir Robert Armstrong. You and they will wish to note that Geoffrey Pattie will be announcing our decision to purchase Harpoon, in my absence in Germany, in the House tomorrow afternoon.

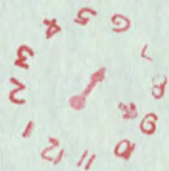
Murphy

[Draft seen and approved by the Secretary of State]

Ministry of Defence
10th April 1984

Defence A2

Procurement



10 APR 1982

cc OP



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~230 7822~~ 218 2111/3

MO 26/3

24th April 1984

nbpm
sub
2/5/4

Dear James,

SURFACE TO SURFACE GUIDED WEAPON

It has come to our attention that there is a necessary gloss which needs to be placed on the final sentence of paragraph 4 of my Secretary of State's minute to Mr Tebbit dated 10th April. This is that the technology base required for anti-ship guided weapons is much the same whether one is considering air launched or ship launched variants. In view of the work being done on air launched Sea Eagle it is not, therefore, accurate to state that we do not possess in the UK a technology base for naval surface-to-surface guided weapons. However the main point is that it would be difficult at this stage for UK industry to compete successfully in this field in view of the strongly established position of its competitors.

I am copying this letter to the Private Secretaries of OD Ministers and to Richard Hatfield in Sir Robert Armstrong's office.

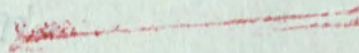
Yours sincerely
Nick Evans

(N H R EVANS)

A Lansley Esq

Defence Procurement Pt 2

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SECRETARY OF STATE FOR DEFENCE

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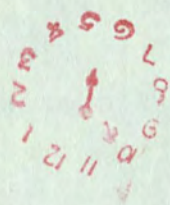
Surface to Surface Guided Weapons (SSGW) for the Royal Navy

1. I am content with your proposal to announce a decision in favour of Harpoon.
2. This is clearly defensible on operational and cost grounds and could be of advantage in the context of our wider defence sales interest in the United States. I do not think that we need be deflected from this course by the Resolution reached at the IEPG State Secretaries' meeting last week to the effect that 'European solutions must constitute a very important factor in the national armaments planning and decision-making process'. But it remains a little unfortunate that our first major decision after the IEPG meeting should result in an American purchase; and it will be particularly important to get the presentation right to our European allies. I am glad that you propose to send messages to your French and Italian opposite numbers after the announcement.
3. I am copying this minute to our OD colleagues and to Sir Robert Armstrong.

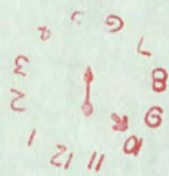
(GEOFFREY HOWE)

Defence Pt 2

Procurement



10 APR 1984



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