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Minister of State
for Defence Procurement

Pine Muntz

D/MIN/GP/4/2

12/4
11th April 1984
[Signature]

/ Attached is a copy of the statement
which Mr Geoffrey Pattie will make
in the House at approximately 4pm ~~this~~
~~afternoon.~~ *tomorrow* →

[Signature]

(D St J Beaty)

Assistant Private Secretary

F E R Butler Esq., PPS/Prime Minister
B J P Fall Esq., PS/FCS
D C R Heyhoe Esq., PS/Lord Privy Seal
M C McCarthy Esq., PS/Secretary of State for
Trade and Industry
R P Hatfield Esq., PS/Secretary of the Cabinet
B Ingham Esq., Chief Press Secretary, No 10

GUIDED WEAPONS FOR THE ROYAL NAVY

WITH PERMISSION, MR SPEAKER, I WISH TO MAKE A STATEMENT ABOUT THE PROCUREMENT OF THE NEXT GENERATION OF SURFACE-TO-SURFACE AND SURFACE-TO-AIR GUIDED WEAPONS FOR THE ROYAL NAVY.

FOR SOME MONTHS WE HAVE BEEN CONDUCTING A COMPETITION FOR A SECOND GENERATION SURFACE-TO-SURFACE GUIDED WEAPON FOR THE FOUR BATCH III TYPE 22 FRIGATES AND THE FIRST EIGHT TYPE 23 FRIGATES. THE CONTENDERS WERE BRITISH AEROSPACE'S SHIP LAUNCHED SEA EAGLE, McDONNELL DOUGLAS' SHIP LAUNCHED HARPOON, AEROSPATIALE'S EXOCET MM40, AND OTO MELARA'S OTOMAT. THE THOROUGH-GOING EVALUATION OF THESE CONTENDERS HAS TAKEN INTO ACCOUNT PERFORMANCE, COST AND TIMESCALE CONSIDERATIONS, AS WELL AS INDUSTRIAL AND EMPLOYMENT FACTORS.

THE COMPETITION HAS BEEN KEEN AND OF CONSIDERABLE BENEFIT IN ASSURING VALUE FOR MONEY. FOLLOWING THE SUBMISSION OF 'BEST AND FINAL' OFFERS FROM THE COMPETING CONTRACTORS THE OUTCOME IS CLEAR. HAVING TAKEN ALL RELEVANT FACTORS INTO ACCOUNT, THE GOVERNMENT HAS CONCLUDED THAT THE BEST CHOICE ON BOTH OPERATIONAL AND COST GROUNDS IS THE McDONNELL DOUGLAS HARPOON. SUBJECT TO AGREEMENT WITH THE COMPANY ON CONTRACTUAL TERMS AND CONDITIONS, WE WILL PLACE A FIRM ORDER FOR HARPOON MISSILES AND ASSOCIATED SHIP SYSTEMS FOR THE BATCH III TYPE 22 AND THE TYPE 23 FRIGATES.

/ I RECOGNISE ...

I RECOGNISE THAT THERE WILL BE DISAPPOINTMENT THAT WE HAVE DECIDED NOT TO BUY BRITISH FOR THIS ITEM OF ROYAL NAVY EQUIPMENT. HOWEVER, THE UK'S POSITION WITH REGARD TO THE HIGH TECHNOLOGY INVOLVED IN ADVANCED MISSILES HAS BEEN PRESERVED BY OUR EARLIER DECISIONS TO PURCHASE ALARM AND AIR LAUNCHED SEA EAGLE FROM BRITISH AEROSPACE. I TAKE THIS OPPORTUNITY OF REAFFIRMING THE MINISTRY OF DEFENCE'S COMMITMENT TO AIR LAUNCHED SEA EAGLE.

THE EMPLOYMENT IMPLICATIONS OF THE VARIOUS OPTIONS HAVE BEEN AN IMPORTANT CONSIDERATION IN OUR DECISION. I AM PLEASED TO BE ABLE TO TELL THE HOUSE THAT McDONNELL DOUGLAS HAVE UNDERTAKEN TO PROVIDE OFFSET WORK FOR BRITISH INDUSTRY TO THE VALUE OF 130% OF THE COST OF THE HARPOON ORDER, OF WHICH HALF WILL BE IN AREAS OF HIGH TECHNOLOGY AND 30% ON THE HARPOON PROGRAMME ITSELF. McDONNELL DOUGLAS' TRACK RECORD ON OFFSET IS SECOND TO NONE AND THEIR UNDERTAKING WILL BE INCORPORATED IN THE CONTRACT. OVER THE PAST SEVEN YEARS THEY HAVE PLACED OVER \$500 MILLION WORTH OF CONTRACTS IN THE UK AT ALL LEVELS OF INDUSTRY AND ON SUB-HARPOON THEIR OFFSET EVENTUALLY TOTALLED ONE AND A HALF TIMES THE PURCHASE PRICE. ANOTHER IMPORTANT CONSIDERATION WAS THE NEED TO REDUCE AS FAR AS POSSIBLE UNCERTAINTIES CAUSED BY FUTURE PRICE AND EXCHANGE RATE FLUCTUATIONS. IN THIS RESPECT WE HAVE ACHIEVED A FIXED PRICE AND AN AGREEMENT WITH McDONNELL DOUGLAS THAT 30% OF THE VALUE OF THE CONTRACT WILL BE PAYABLE IN STERLING.

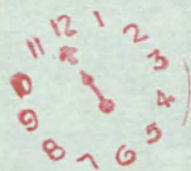
/ THE ...

THE GOVERNMENT ARE CONVINCED THAT THIS DECISION IS RIGHT FOR THE ROYAL NAVY AND RIGHT FOR THE TAXPAYER, AND IS ALSO ENTIRELY SATISFACTORY IN EMPLOYMENT TERMS FOR BRITISH INDUSTRY.

I AM ALSO GLAD TO BE ABLE TO INFORM THE HOUSE THAT TODAY WE HAVE AUTHORISED THE PLACING OF A FIRM CONTRACT WITH BRITISH AEROSPACE FOR THE FULL DEVELOPMENT AND INITIAL PRODUCTION OF THE VERTICALLY LAUNCHED VERSION OF THE SEAWOLF SURFACE-TO-AIR MISSILE FOR THE ROYAL NAVY'S TYPE 23 FRIGATES. THIS IMPORTANT PROGRAMME WILL ENSURE THAT SEAWOLF KEEPS ITS SUBSTANTIAL LEAD OVER ALL ITS INTER- NATIONAL COMPETITORS, AND WILL GUARANTEE THAT THE TYPE 23 FRIGATES HAVE THE MOST MODERN VERSATILE AND DEVASTATING POINT DEFENCE MISSILE SYSTEM AVAILABLE. THIS IS A PROGRAMME OF MAJOR IMPORTANCE FOR THE ROYAL NAVY AND BRITISH INDUSTRY. THE INITIAL ORDER ALONE IS WORTH SOME £250M. TAKEN ALONGSIDE THE SUBSTANTIAL ORDER WHICH WE PLACED SOME WEEKS AGO FOR THE THIRD MAIN PRODUCTION ORDER FOR CONVENTIONALLY-LAUNCHED SEAWOLF, THIS ORDER WILL SUSTAIN THE MOMENTUM OF THE PROGRAMME AND - NOT LEAST - WILL SUSTAIN JOB OPPORTUNITIES AT BRITISH AEROSPACE AND THEIR SUB-CONTRACTORS.

THE ROYAL NAVY HAS TODAY ACQUIRED TWO HIGHLY EFFECTIVE MODERN SYSTEMS WHICH WILL GREATLY ENHANCE OPERATIONAL EFFECTIVENESS.

7 APR 1984



Royal Navy (Guided Weapons)

3.30 pm

The Minister of State for Defence Procurement (Mr. Geoffrey Pattie): With permission, Mr. Speaker, I wish to make a statement about the procurement of the next generation of surface-to-surface and surface-to-air guided weapons for the Royal Navy.

For some months we have been conducting a competition for a second generation surface-to-surface guided weapon for the four batch III type 22 frigates and the first eight type 23 frigates. The contenders were British Aerospace's ship-launched Sea Eagle, McDonnell Douglas's ship-launched Harpoon, Aerospatiale's Exocet MM40, and versions of Otomat from Oto Melara and Matra. The thorough-going evaluation of these contenders has taken into account performance, cost and timescale considerations, as well as industrial and employment factors.

The competition has been keen and of considerable benefit in assuring value for money. Following the submission of "best and final" offers from the competing contractors the outcome is clear. Having taken all relevant factors into account, the Government have concluded that the best choice on both operational and cost grounds is the McDonnell Douglas Harpoon; a proven system, which has a 100 per cent. success rate in over 200 firings since 1978, and variants of which are already in service with the Royal Navy and RAF.

Subject to agreement with the company on contractual terms and conditions, we will place a fixed price contract worth some £130 million for Harpoon missiles and associated ship systems for the batch III type 22 and the type 23 frigates. The total value of the programme is of the order of £200 million.

I recognise that there will be disappointment that we have decided not to buy British for this item of Royal Navy equipment. However, the United Kingdom's position with regard to the high technology involved in advanced missiles has been preserved by our earlier decisions to purchase ALARM and air-launched Sea Eagle from British Aerospace. I take this opportunity of reaffirming the Ministry of Defence's commitment to air-launched Sea Eagle and also of reminding the House that 95p in the MOD's procurement £ is spent in this country.

The employment implications of the various options have been an important consideration in our decision. I am pleased to be able to tell the House that McDonnell Douglas has undertaken to provide offset work for British industry to the value of 130 per cent. of the cost of the Harpoon order, of which half will be in areas of high technology and 30 per cent. on the Harpoon programme itself.

McDonnell Douglas's track record on offset is excellent, and its undertaking will be incorporated in the contract. Over the past seven years, it has placed well over £300 million worth of contracts in the United Kingdom at all levels of industry and on sub-Harpoon its offset eventually totalled one and a half times the purchase price. Another important consideration was the need to reduce as far as possible uncertainties caused by future exchange rate fluctuations. In this respect we have achieved an agreement with McDonnell Douglas that 30 per cent. of the value of the contract will be payable in sterling.

The Government are convinced that this decision is right for the Royal Navy and right for the taxpayer, and is also entirely satisfactory in employment terms for British industry.

In addition, I am also glad to be able to inform the House that today we have authorised the placing of a firm contract with British Aerospace for the full development and initial production — [Interruption.] The House should listen to the next part of my statement. I shall read the beginning of the paragraph again. In addition, we have authorised the placing of a firm contract with British Aerospace for the full development and initial production of the vertically-launched version of the Sea Wolf surface-to-air missile for the Royal Navy's type 23 frigates. This important programme will ensure that Sea Wolf keeps its substantial lead over all its international competitors, and will guarantee that the type 23 frigates have the most modern, versatile and devastating point defence missile system available. This is a programme of major importance for the Royal Navy and British industry. The initial order alone is worth some £250 million. Taken alongside the substantial order that we placed some weeks ago for the third main production order for conventionally-launched Sea Wolf this order will sustain the momentum of the programme and — not least — will sustain job opportunities at British Aerospace and its subcontractors.

The Royal Navy has today acquired two highly effective modern systems which will greatly enhance operational effectiveness.

Mr. Kevin McNamara (Kingston upon Hull, North): This would have been an interesting statement had we not heard it first on ITN and read it this morning in the *Daily Mail*. Even allowing for yesterday's difficulties, which I understand, I should like to know whether this leak will come under the criteria laid down by the Secretary of State for examining leaks from the Ministry of Defence or whether it is just one of those softening up blows for British industry to make it accept what has happened.

This is the second major blow for British Aerospace in the past three weeks. Following the decision on the basic jet trainer, which is to go to a foreign competitor, the Sea Eagle is being sacrificed to our American competitors, and against all the criteria laid down by the Minister of State when he was writing about these matters. He said then that when placing orders we should take into account the possible deterioration in the value of the pound, national consumption and local infrastructure, and the problems of break-up in British design teams and their leadership. On all those criteria, it is impossible to justify the decisions that have been taken.

I have a number of specific questions on the statement. The Minister spoke about a £130 million order for Harpoon, of which 30 per cent. is to be at a fixed price. Therefore, £40 million to £42 million of it is to be at a fixed price. What about the other 70 per cent.? Is that to be subject to the fluctuations of the market and likely, particularly in the light of recent history, to be more expensive to us?

Secondly, how can the hon. Gentleman justify this decision against the history of the trade between the United States and the United Kingdom in defence manufacture, which is over 2 to 1 in favour of the United States, excluding Trident? We are giving more to the United States in this matter, excluding the arrangements that we

have been trying to make with our European NATO colleagues for the development of systems on this side of the Atlantic.

Coming to the question of the local employment problems, can the Minister say that McDonnell Douglas can guarantee the same number of man-hours of employment as British Aerospace felt that it could? Is it able to guarantee that there will be the same amount of high technology and its development in this country as British Aerospace was able to guarantee? Is it not a fact that the 70 per cent. of this contract which is not to be in high technology will be merely in tin-bashing and Meccano work and have nothing whatsoever to do with the development of these areas in British industry?

Finally, is not the whole of the latter half of the statement with regard to Sea Wolf purely and simply a sop to try to satisfy Tory Back-Bench Members because Sea Wolf has already proved its value against Exocet in trials a month or more ago? To throw this in as a biscuit to satisfy the dogs behind him does not disguise the fact that this decision is a gross betrayal of British industry, British technology and British jobs.

Mr. Pattie: It is quite clear from what the hon. Gentleman has said that he is having great difficulty in finding suitable targets. The suggestion that a full-scale development order of £250 million is a sop is a sign of the hon. Gentleman's scale of values. If that is a sop, I should like to know what he considers to be a major order.

The hon. Gentleman talked about employment. There are many companies in this country—I could cite many of them—which are part of the Harpoon programme and which will be extremely pleased by this decision, and also by the ability to participate in other McDonnell Douglas programmes, whether in advanced aeroplanes like the FAT, head-up displays, and other such things. All of this information can be made freely available to the House and to the hon. Gentleman.

The hon. Gentleman talked about the exchange rate in terms of it being 2 to 1 against the United Kingdom. I remind him that when the Government came into office in May 1979 the exchange rate was 4 to 1. Since then we have had the improvement that I have described, and to characterise this agreement in the terms used by the hon. Gentleman is nothing less than a travesty of the truth.

Sir Antony Buck (Colchester, North): Does my hon. Friend agree that the most important consideration is that the Royal Navy should have the finest available equipment? Can he assure us that as a result of the decision that he has just announced it will have? Another consideration is inter-operability with our NATO allies. Would he say a word or two concerning that?

Mr. Pattie: I am grateful to my hon. and learned Friend because, obviously, the prime consideration has to be whether this is equipment which the Royal Navy requires, whether it will meet its requirements, and whether it is a system that the Royal Navy feels will be fully effective in meeting its needs. As I said in my statement, this is a highly mature system which has had over 200 successful firings since 1978. The offer that we were made was one that we could not afford to ignore. Regarding inter-operability, the Harpoon system is used widely by other navies, and it will certainly help us in that regard.

Mr. Russell Johnston (Inverness, Nairn and Lochaber): Can the Minister quantify the financial range of the final offers to which he referred? Is it the case that the operational difference between Harpoon and Sea Eagle was not very great? Does he really think that it is wise, in the long term, to become so dependent upon the United States both in major weapon systems and in the related research and development capacities?

Mr. Pattie: As I said a moment ago, the system has had more than 200 firings as opposed to the British Aerospace contender, which is still under consideration, let alone having any hardware. Therefore, there is hardly a fair comparison. The point about advanced technology is important, and the hon. Gentleman will not be surprised to know that we take it very seriously. That was precisely the consideration that we had in mind when we took the ALARM decision last summer. It is in the homing head that it is important that Britain should retain such very advanced technology. Given that we had that on ALARM and that we had the air-launched Sea Eagle, the way was then open, provided that we got a satisfactory offer, for us to secure Harpoon and obtain the advantage that I have described.

Mr. Peter Thurnham (Bolton, North-East): Is my hon. Friend aware that the announcement will be particularly disappointing to my constituents in Bolton, where an additional 200 jobs would have been created, in some measure making up for the loss of 1,000 engineering jobs at the nearby railway works?

Mr. Pattie: Yes; but I understand that in my hon. Friend's part of the country there are newspaper headlines, extolling the advantages to companies such as Lucas in Burnley, of the subcontract work that is likely to accrue to them from the Harpoon decision.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): Is the Minister aware that his opposite number in Washington could not have got such a statement past his House Appropriations Committee, whose current protection of American jobs is now the guiding principle of American procurement policy? Given the Minister's current anxieties about the Hawk programme, the ejector seat, the 81 mm mortar and the combat support boat, and that he has admitted that competition between those two fine systems was keen, why did he not make the net impact on British jobs the determining factor?

Mr. Pattie: That is precisely what we took into account. The hon. Gentleman has drawn on his considerable knowledge, but, with respect, it is not totally up to date. He described me as having anxieties about hawk and the VTX programme that the United States navy has. However, I have no anxieties about that programme at the present time. The hon. Gentleman also spoke about the 81 mm mortar and the combat support boat. I am fully aware of the developments, and I go to Washington as frequently as my right hon. Friend the Secretary of State will allow me to.

I am also fully aware of the protectionist tendencies in the United States of America. However, the United States is also fully aware of what it sees as similar tendencies in the United Kingdom; tendencies that it thought—I think wrongly—that it detected at the time that we made the ALARM decision last year. I believe that that decision has since been vindicated by subsequent events.

[Mr. Pattie]

I note what the hon. Gentleman says, but it is not an accurate or correct reading of the present situation.

Mr. Jonathan Sayeed (Bristol, East): May I congratulate my hon. Friend on the eloquent way that he has sugar-coated the bitter pill about ship-launched Sea Eagle? Does he agree that it demonstrates a profound problem about defence procurement? I refer to the fact that four companies in four countries have been bidding for the same contract, and that they have all involved themselves in a great deal of research and development which they will not necessarily recoup. Does my hon. Friend have any plans for ensuring that within NATO companies in different countries work together to produce a commonality of weapons systems, and weapons systems that will be cheaper?

Mr. Pattie: My hon. Friend's point is extremely well made, because it takes us away from the passion of the day, if I may so put it. However, the only way of resolving that problem is to harmonise the research and development programme sufficiently early so that such requirements can be harmonised then. Work is in hand on that, but it remains a rather long-term goal.

Mr. James Molyneux (Lagan Valley): In view of Shorts' excellent record of co-operation with Boeing and its expertise in missiles, will there be scope for Shorts in the offset arrangements promised by McDonnell Douglas?

Mr. Pattie: There will be scope for an excellent company such as Shorts to make bids in a variety of areas. I must make it clear that McDonnell Douglas is making an offset commitment up to a certain percentage, as I have said. It is not saying that it will automatically hand over contract A, B or C to a variety of different companies. The commitment is absolute and it remains until it has been met, but the British companies concerned will have to bid for specific items on the contract.

Mr. John Farr (Harborough): I appreciate that my hon. Friend has endeavoured to give a balanced package to the House, but there will be disappointment that the order will be for Harpoon. Will he assure the House that he has carefully taken into account the fantastic amount of money that the Government are spending on the Trident programme—over £15,000 million spread over eight years—a large part of which is on components of American origin?

Mr. Pattie: I think that my hon. Friend misquoted the figure. We are talking about a figure slightly in excess of £8 billion over the lifetime of the Trident programme. I am grateful to him for giving me the opportunity to remind the House that 55 per cent. of the Trident programme will be spent in the United Kingdom. My hon. Friend has expressed concern in the past that a decision of this sort might be tantamount to turning our back on European procurement. I am pleased to be able to tell him and the House that in the past few days we have signed an agreement with the French Government for co-operation on the RTM322 helicopter engine which will be important for both nations.

Mr. David Young (Bolton, South-East): Is the Minister aware that my constituents, like myself, will see the statement as a sell-out by the Government to American interests? Is he also aware that it makes a mockery of the

Conservative party's claim not only to look after Britain's defence but to make Britain independent of other countries? Is he further aware that Hawker Siddeley argued that with this contract will go the technology for the next generation of weapons? What additional cost will attend the air-launched and helicopter-launched versions of the missile since he is now cutting out the third option which would have meant the use of a complete family of weapons?

Mr. Pattie: I suspect that the hon. Gentleman is making a speech that he had ready in case we chose HARM last June. When he was disappointed to find that he had to welcome the Government's decision to buy ALARM. I completely repudiate his suggestion that this is a betrayal or a sell-out. This is the most effective use of the defence budget once we are satisfied that the technology base has been secured, and the homing head, which is an important part of any missile system. I should like to hear who has claimed that the technology for the next generation is being repudiated, because that is untrue.

Mr. Michael Marshall (Arundel): Knowing my interest, my hon. Friend will appreciate that this is a good news, bad news statement, but it would be churlish not to accept the value of what he had to say about vertical-launched Sea Wolf today. What part of the 130 per cent. of the McDonnell Douglas offset which he described will be related to the purchase of Harpoon? As I understood, it, he said that McDonnell Douglas could place up to 130 per cent. in value, including other work unrelated to Harpoon. May I have a breakdown of that? Does he anticipate any further announcements which would encourage British Aerospace and other British defence manufacturing industries in the near future?

Mr. Pattie: The figure that my hon. Friend is asking for is 30 per cent. Without anticipating too much, it is confidently expected that the United States navy will announce that it has chosen the Marconi ICS3 system for an important VHF band communications contract.

Mr. Doug Hoyle (Warrington, North): Does the Minister agree that the success of the air-launched Sea Eagle depended quite a lot on having the naval contract as well? Does he also agree that the price has been overloaded, particularly with a pound that was over valued, and when it includes, I understand, a VAT element of £5 million? Has he not underplayed the technology aspect? Obviously we cannot have British technology being thrown away in this way. Is the hon. Gentleman happy that 10,000 jobs could be at risk? Would it not have been better had he stood up for British interests instead of acting as a Washington poodle?

Mr. Pattie: Without personalising matters too much, those in Washington who have had to do battle with me in the past on other British systems would be somewhat amused to hear me described in those terms. [Interruption.] The hon. Gentleman might care to look at the official record on that score.

I have covered in answer to earlier questions most of the points that he raised. The air-launched Sea Eagle programme was well and truly launched and established in technology terms before the sea-launched version was added, so there is no question of saying that the decision against the ship-to-ship version of Sea Eagle is harmful to the air-launched version.

I again repudiate the suggestion about 10,000 jobs being at risk. We are talking about many jobs being safeguarded and new job opportunities being created.

Mr. Keith Speed (Ashford): Will my hon. Friend say unequivocally which was the Navy's preferred missile? Is he thinking in terms of putting Harpoon aboard smaller craft to give them an effective long-range punch, thus achieving a cost-effective solution?

Mr. Pattie: The Navy's preferred solution was for Harpoon, on the grounds that I described in my statement. It is certainly a matter for close consideration whether we should arm the vessels of which he spoke with a system of this sort, because in that way we would greatly enhance their operational effectiveness.

Mr. Ernie Ross (Dundee, West): The Minister asked who would disagree with his statement. He must be aware of those who disagree with him. My colleagues in AUEW TASS met the Minister on Monday and made clear to him the mistake that he would be making if he opted for Harpoon. Like my hon. Friend the Member for Sheffield, Attercliffe (Mr. Duffy), I should like to know how the Minister can justify to the technologists, designers and researchers in the aerospace and associated industries why, unlike the Americans, who stand up for their industry, he fails regularly to do that. He has certainly failed to do it in this case by removing an important link with export orders. That is the effect of deciding on Harpoon rather than ship-launched Eagle.

Mr. Pattie: The hon. Gentleman's point about technology does not stand up. If he took the opportunity to talk with the design teams in the factories concerned—

Mr. Ross: I do; they are my colleagues.

Mr. Pattie: They would like to have every order that is going, no matter what degree of overloading that might produce. The hon. Gentleman asked me about technology and I am answering that point. In the air-launched Sea Eagle, in the ALARM programme and in the vertical-launched Sea Wolf, we have, in all the vital companies that are involved in this technology, totally safeguarded the technology that we need.

Mr. Robert Atkins (South Ribble): While regretting that British Aerospace has not got the contract for Sea Eagle, may I ask my hon. Friend to agree that it is hardly a sell-out in view of the toughly negotiated offset agreement at which he has arrived, and particularly in view of his reputation and that of the Secretary of State in reducing the ratio since we came to office from 4:1 to 2:1 in the purchase of equipment? While regretting that the contract has not gone to British Aerospace, is it not a fact that we cannot win them all?

Mr. Pattie: I am grateful to my hon. Friend for that comment. It is a case of making the most sensible use of our very straitened defence resources and using our technology base in this country. My right hon. Friend and I would need to be satisfied in a case such as this that all the considerations that would, naturally, concern all parts of the House have been fully met. We are absolutely confident that they have been in this case, and that is why we have taken this decision.

Mr. Paddy Ashdown (Yeovil): Is the Minister aware that, although we may regret this decision, there are nevertheless many aerospace high technology firms

throughout Britain, such as Normal Aire Garratt in my constituency, which will welcome the commitments which he has obtained on the high technology content in the offset? Is he aware, however, that there have been in the past far too many instances where high technology contracts awarded to British firms have been frustrated because the American Government have refused to issue export licences for the technology? How can he assure the House that that obstacle will not frustrate the high technology content in this offset deal?

Mr. Pattie: We shall maintain the closest possible monitoring of the arrangement, as we do with all such arrangements. We have had no problems with previous arrangements with McDonnell Douglas, and we see no reason to doubt future arrangements. I am glad that the hon. Gentleman is good enough to recognise the advantage that will accrue to Normal Aire Garrett—a company in his constituency — almost certainly on the F18 programme.

Mr. Churchill (Davyhulme): Is my hon. Friend aware that his statement today will be most warmly welcomed, especially in relation to vertical-launched Sea Wolf? Will he explain to the hon. Member for Sheffield, Attercliffe (Mr. Duffy) and other Opposition Members that the offset arrangement that my hon. Friend has achieved will potentially provide for more British jobs than would otherwise have been the case? Was not one of the factors in his choice in favour of Harpoon that the Royal Navy initially set about acquiring Harpoon in its sub-Harpoon version in the 1970s? Under which Government did that happen?

Mr. Pattie: It is not a question only of under which Government that happened, but under which Minister. Indeed, the hon. Member for Sheffield, Attercliffe (Mr. Duffy) was Minister with responsibility for the Navy at that time. In the words used today, the Labour Government sold out Britain's interest through the original memorandum of understanding which brought in Harpoon to the British weaponry system. I pay tribute to the hon. Member for Attercliffe because it was a perfectly good weapon. It was the start of a family, and we are glad to add the work that he did.

Mr. Dick Douglas (Dunfermline, West): Will the contract be a fixed price contract? What proposals does the Minister have to gain insight into the research and development lying behind the missile system of McDonnell Douglas? Are not the Americans all too willing to give us the downstream element of production while retaining the research and development?

How will the Minister monitor the subcontract work allocated by McDonnell Douglas to ensure that we maximise the benefit to the United Kingdom economy?

Mr. Pattie: It is a fixed price contract. We shall monitor the subcontract and offset performances in the way that we always do, with a special team. We shall require McDonnell Douglas to give frequent reports on how the contracts are moving and how they are let.

I take the hon. Gentleman's point about downstream improvements. It is an essential term of the contract, which we have secured in dealing direct with the company, that all future improvements on the missile system will be made available to the Royal Navy.

Several Hon. Members rose—

Mr. Speaker: Order. I realise the importance of the statement to hon. Members and their constituents, but I must protect the business of the House. I shall allow questions to continue until 4.15 pm and hope that by that time every hon. Member who has been rising to ask a question will have been called.

Mr. Timothy Wood (Stevenage): Although I welcome the decision about the Sea Wolf missile, is my hon. Friend aware that I regret the decision on the sea-launched Sea Eagle? Will my hon. Friend ensure that the MOD makes it clear to others considering variants of the Sea Eagle missile that the decision in no way shows any lack of confidence in the programme?

I join with my hon. Friend the Member for Bristol, East (Mr. Sayeed) in expressing continuing concern about high technology development and defence contracts within Europe. Is there not always a danger of looking at our systems, saying that they are not good enough and looking to the United States? In the long run, that will be bad for Europe.

Mr. Pattie: I agree with my hon. Friend's last point. One of our prime considerations has been the need to have the system ready for the ships that I described in my statement at the precise moment that those ships are available and required. The time that it would have taken for British Aerospace to have its system ready, fully tried, proved and tested would have been so late that the Royal Navy felt that it would be to its disadvantage to wait. That does not reflect adversely on the ability of the British Aerospace system; it is a matter of when the system will be available.

Mr. Tam Dalyell (Linlithgow): Almost as a throwaway in answer to the hon. Member for Bolton, North-East (Mr. Thurnham), the Minister referred to subcontractors whom he hoped would benefit. Does not the track record of McDonnell Douglas show that it may go to some British subcontractors for the simple operations but for the sophisticated high technology operations it will, as always, go to America? Will not Britain lose out? With all the cash available for the electrical guidance systems, how about a little money for proper circuits in the Falklands hospital?

Mr. Pattie: The hon. Gentleman's last point is not for me. The offset record of McDonnell Douglas, which I described to the House in overall terms, includes a significant proportion of high technology work. The United States knows perfectly well that we are not satisfied with what is colloquially known as tin bashing. We require not only satisfactory assurances but the award of specific high technology elements. As I have said, 50 per cent. of the programme will be spent in the United States on high technology items. That is a satisfactory agreement.

Mr. Christopher Murphy (Welwyn Hatfield): My constituents who work at British Aerospace will obviously welcome the decision about Sea Wolf, but will be disappointed about Sea Eagle. What effect does my hon. Friend think his disappointing statement will have on potential export orders for Sea Eagle?

Mr. Pattie: Potential customers for the ship-to-ship Sea Eagle will ask whether it is in service for the Royal Navy, and will be told that it is not. They will also be told the reasons for that. British Aerospace will have to decide whether it wants to commit a significant part of its private

venture money to developing that part of the family when there are other parts of the family with better export potential.

Mr. Ken Eastham (Manchester, Blackley): How can the Minister be sure that his statement will not affect many hundreds of engineering jobs in the aerospace industry throughout the country? Is he aware that British Aerospace has calculated that the decision will affect £500 million worth of potential exports?

Mr. Pattie: That is the sort of statement that I would expect any company to make in such a position. There is a great deal of potential work on the Harpoon programme. I have already spoken about Lucas Aerospace in Burnley, the royal ordnance factories in Particraft and Chorley, Ferranti in Oldham—not far from the hon. Gentleman's constituency—and the Reliance Gear company in Huddersfield.

The House may not appreciate that the offset opportunities are available for McDonnell Douglas to offer to British industry on other McDonnell Douglas programmes. Therefore, we are talking about the possibility of Ferranti, Manchester, having a potential value order on F18 displays of 140 million dollars. That cannot be bad news for engineers in Manchester.

Mr. Michael Stern (Bristol, North-West): Does my hon. Friend agree that a decision in favour of vertical-launched Sea Wolf would have been taken in the near future anyway, and should be considered separately from the disappointing remainder of his statement? Will he reassure the House that the overall employment effects of his statement—excluding Sea Wolf—are still as valuable as he described? Will he offer that reassurance to my constituents at Filton, who are concerned that their long-term job prospects are at risk?

Mr. Pattie: My hon. Friend's constituents need not see the decision in that light because the loading factors in British Aerospace and Marconi are such that, following the ALARM decision and other decisions on the regular version of Sea Wolf, major orders were placed some weeks ago. My hon. Friend suggested that we had deliberately held back the decision to put the two items together. It was felt that it was important for the House to consider the missile availability in relation to the Royal Navy. It was important for my hon. Friend and his constituents to consider that reason.

Mr. Peter Pike (Burnley): I appreciate the Government's co-operative decision. Obviously, the decision will be welcomed by Lucas Aerospace in Burnley and Burnley Engineering Products. Lucas Aerospace is the largest single employer in Burnley. Will the Minister be more specific about the net effect of the decision on jobs? The overriding factor to be considered must be the total number of jobs. I do not like technology to be lost. At the end of the day, we should preserve technology—Lucas Aerospace is a high technology firm—and provide jobs.

Mr. Pattie: I have said already that there is no reason why there should be any net loss of jobs—the reverse is the case. We have already safeguarded the position of technology, and I shall not weary the House by giving the reasons again. I welcome the support of the hon. Member for Burnley (Mr. Pike). Some years ago, I met several shop stewards from Lucas Aerospace. I know that they will welcome the possible involvement of their company.

The provision of actuators, canisters and sustainer motors for Harpoons will certainly sustain job opportunities in that company.

Mr. Bowen Wells (Hertford and Stortford): Will my hon. Friend assure me that the research and development invested by his Department and British Aerospace in air-launched Sea Eagles will not be thrown away by this decision and that the family of missiles, which should eventually result in a land-launched Sea Eagle, will not be prejudiced by the decision?

Mr. Pattie: I agree with my hon. Friend. The technology relevant to air-launched Sea Eagles will, by definition, obviously continue. We are happy to discuss any further developments that British Aerospace wishes to discuss with the Ministry of Defence.

Mr. Edward Leigh (Gainsborough and Horncastle): I recall my hon. Friend's visit last year at my request, to Rose Forgrove, Gainsborough manufacturers of the lightweight Sea Wolf launcher system. Does my hon. Friend recall that Rose Forgrove is a subcontractor of British Aerospace, and will therefore benefit from the decision? Is he satisfied that there is sufficient capacity at the royal dockyards to ensure that a rapid order is forthcoming?

Mr. Pattie: I believe my hon. Friend will understand that I shall need to look into the possibilities for Rose Forgrove. I remember the visit that I made to my hon. Friend's constituency and that company. The Navy is now actively bringing forward a measure, which is close to his constituents' hearts—the use of Sea Wolf in the Sea Cat launchers. I hope that that programme will come forward soon.

Mr. Peter Griffiths (Portsmouth, North): Will my hon. Friend recognise that, although my constituents will welcome his statements about the Sea Wolf, they will be concerned at the damage caused to the long-term maintenance of highly skilled design teams? Will he assure us that, as Harpoon is an off-the-shelf weapon, in the long run he will consider the introduction of the ship-launched Sea Eagle to the Royal Navy?

Mr. Pattie: No options for the future are closed. I have already answered several questions on the subject of design teams, and we are confident that the design capability is more than safeguarded by the decisions we have already taken.

Mr. David Maclean (Penrith and The Border): Does my hon. Friend accept that it is disappointing that a British firm did not win the competition? Will he confirm that it is an overriding priority for the Ministry of Defence that the lives of British service men are protected by the best weapons systems available, and that those systems will be installed as soon as possible from whatever part of the world they come?

Mr. Pattie: I am grateful to my hon. Friend. Obviously I agree with him.

Mr. Bill Walker (Tayside, North): Does my hon. Friend agree that, although one part of British Aerospace will be disappointed at the decision, another part will be delighted that its programme is to continue? Will he confirm that British Avionics and British Electronics, which are high technology electronics firms, are world leaders and that this programme does not change that?

Will he confirm that the Ministry of Defence is required to buy within a fixed budget and, by buying well, more money can be spent on other items?

Mr. Pattie: I am grateful to my hon. Friend, and I agree with him.

Mr. Neil Thorne (Ilford, South): What steps will be taken in these cases to ensure that the supply lines in a potential future conflict are clear and that there will be no possible hold-up because of some Falkland Islands type conflict, which prevents us from receiving materials or weapons that would be essential to the successful outcome?

Mr. Pattie: That depends almost entirely on the Royal Navy ensuring that it has an adequate supply of missiles and launchers, and I have no doubt that that will be the case.

Mr. Christopher Hawkins (High Peak): Is my hon. Friend prepared to tell us the chances of switching to the British system when it is available? If the case for buying the American system is merely that it is available now, could we not switch to the British system when it becomes available?

Mr. Pattie: I do not wish to give the impression that that was the only reason for the decision. A considerable factor in making the decision is that the American system is available now and has been in existence since 1978. We cannot afford to run two systems, with one following behind the other. If British Aerospace wanted to take the unlikely step of funding a particular development on its own, that would be relevant to the export markets. I do not believe that that step is likely.

Mr. McNamara: Is it not evident from the questions asked of the Minister of State that the majority of hon. Members are of the opinion that British defence is best left in British hands, and that we should use the system we have the ability to produce?

The Minister said that he had been in the United States a long time and that the companies got to know his opinion. Certainly they did—the Minister is a pushover. That is evident from this decision. That has happened throughout the discussions. I refer especially to the hon. Gentleman's comment about my hon. Friend the Member for Sheffield, Attercliffe (Mr. Duffy). More shops have come into commission and more keels were laid under my hon. Friend's recommendations than under this Government. British Aerospace pointed out that it could have provided the items at a fixed price, met the Navy's delivery time and done all that was required. In those circumstances, why was the Minister not prepared to take British Aerospace at its word?

We are in an impossible position because 45 per cent. of the cost of the Trident programme and 30 per cent. of the cost of Harpoon will be offset in the United Kingdom. Will the hon. Gentleman tell the House precisely from where we shall get these contracts? To say that McDonnell Douglas is willing to look around is no guarantee that jobs will be provided and that there will be a high technology input. That is important to the British defence industry.

What guarantee do we have that McDonnell Douglas will make 30 per cent. of high technology purchases in the United Kingdom? How will that occur, against the background of the American Administration's attitude

[Mr. McNamara]

towards high technology contracts in western Europe and the possibility that some part of the knowledge may eventually go to CONCOM.

Does not the hon. Gentleman's statement make a nonsense of the Prime Minister's demand that the British defence industry should produce a family of weapons capable of supplying our defence forces and being exported? The Minister of State and the Secretary of State have denied all those aspects. There is no doubt that that is why the Prime Minister waited until today to send an answer to the letter I sent her on that point. A fortnight ago, she had refused to reply.

Mr. Pattie: We have never said that we would buy British regardless of costs and operational considerations, even though we have said repeatedly that 95 per cent. of the British procurement budget is spent in Britain. The hon. Gentleman's remarks about the securing of offset agreements from McDonnell Douglas are a bit rich from a member of a party which supported a Government who in 1976 initiated the original memorandum of understanding, which was based on sub-Harpoon from McDonnell Douglas and on the TOW missile from Hughes.

Mr. Duffy indicated dissent.

Mr. Pattie: I jog the memory of the hon. Member for Sheffield, Attercliffe (Mr. Duffy) on the Martel system, which I seem to recall was chosen and selected from the French at a time when a competitor existed in Britain. Perhaps the hon. Gentleman is suffering from a bout of amnesia.

We shall monitor the offset arrangements in the same way in which successive Governments, both Labour and Conservative, have managed such arrangements in the past. I have told the House of the achievements of McDonnell Douglas in such matters in the past, and there is no need to repeat them again.

Chemical Weapons

4.21 pm

Mr. Archy Kirkwood (Roxburgh and Berwickshire): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely, "the export of goods used in the manufacture of chemical weapons."

The House will know that a tragic war—the Gulf war—is being waged between Iraq and Iran. This tragedy is distressing because of the number of lives that are being lost daily in the conflict. It is even more distressing because there is evidence that chemical weapons are being deployed. Those who have investigated the allegations have concluded that Iraq has been using chemical weapons and that Iranians have been killed by chemical or biological weapons. The matter, therefore, is urgent.

The matter is specific because the Government have administrative machinery available to them to preclude the export of equipment or substances that can be used directly or indirectly to produce chemical weapons. In spite of that machinery, there is evidence that goods are being exported from Britain to Iraq which could potentially be used for the manufacture of chemical weapons. If that is happening, the United Kingdom Government, wittingly or unwittingly, is assisting and enabling Iraq to have the capacity to acquire chemical weapons.

The matter is urgent because until there is an effective ban it is possible that such goods will be exported from Britain. I was pleased to read today that the Minister for Trade has banned under the Export of Goods Control (Amendment) No. 6 Order the export of a series of chemicals which have been, or could be used in the manufacture of chemical weapons. The Government must be congratulated to that extent and the ban is to be welcomed as far as it goes.

I have evidence that goods such as chemical protection kits and water pumps that could be used in industrial processes for producing these horrific weapons are still being exported. The ban on chemicals is welcome but it is important that the House considers urgently the need to extend the ban from chemicals to the goods that are used in the manufacturing processes.

I consider this matter to be specific, urgent and important. The credibility of the United Kingdom is at stake for it is a matter of international concern. Even at this 11th hour, shortly before the Easter recess, I apply for a specific Adjournment debate forthwith on this important matter.

Mr. Speaker: The hon. Member for Roxburgh and Berwickshire (Mr. Kirkwood) asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely, "the export of goods used in the manufacture of chemical weapons."

I listened carefully to what the hon. Gentleman said, but I regret that I do not consider the matter that he has raised to be an appropriate one for discussion under Standing Order No. 10 and, therefore, I cannot submit his application to the House.