



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

## CONFIDENTIAL

The Rt Hon Michael Heseltine Esq MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1A 2HB

14 March 1985

Dear Secretary of State,

RAF BASIC TRAINER *will request if required*

I was very pleased to learn that the meeting of the Equipment Policy Committee (EPC) on 7 March recommended in favour of the PC-9 as the next RAF Trainer. I look forward to participating in discussions with colleagues about the order before a final decision is made. In the meantime, I felt that it might be useful to let you and the other recipients of this letter consider some further points in support of the PC-9 bid.

### Operational Requirements

We are all agreed that the most important consideration is to ensure that the RAF gets the best aircraft for its operational needs, consistent with the policy of obtaining good value for money. I understand that the EPC recommendation in favour of the PC-9 reflects the opinion of the RAF that the aircraft is without doubt the one which best meets their needs. The PC-9 is the latest turboprop trainer produced by the Swiss company, Pilatus, with whom British Aerospace (BAe) has gone into partnership. Pilatus has a proven track record in designing, producing and selling turboprop trainers throughout the world. The PC-9 has been derived from the highly successful PC-7 turboprop trainer built by the Swiss, of which some 360 have been sold. BAe's claim is that the PC-9 has a superior performance to its rivals, both in the air and on the ground, and that its fuel consumption is lower than that of its competitors; these are no doubt aspects which your RAF assessors of the aircraft have taken into account in their considerations. I should also add that the BAe plant at Brough, where the aircraft is to be assembled, is geographically convenient for access by a number of RAF establishments.

### Employment

The PC-9 will be built on Humberside and at Prestwick, both areas of high unemployment. Some 300-350 jobs are expected to be created at Brough, North Humberside to produce the wings and carry out the final assembly of the aircraft and up to 150 jobs will arise at the BAe Prestwick plant where the fuselage will be assembled. About 80% of the PC-9's equipment will be made in the UK, thereby sustaining employment in a number of sectors of the industry and in various areas of the country. The RAF order should run on to 1990/91 giving job stability over a

long period of time. A reasonable forecast of export sales would mean a further increase in jobs - in Scotland, by up to 100 - and it is hoped to sell the PC-9 on international markets through to 1995, again long-term jobs.

We understand that should BAe win the contract, Pratt & Whitney, who are building and supplying the engine, has offered to increase its purchase of UK-made components with a consequent further increase in the number of UK jobs.

You will be aware that I am particularly concerned about the future prospects of the Scottish BAe plant which currently employs some 1,800 staff at Prestwick and where the main activity is manufacture of Jetstream aircraft. The only other significant activity at the Prestwick plant is production of engine pylons for the BAe 146 airliner and, taken together, these account for 95% of output. Although orders of the Jetstream are building up satisfactorily, there is clear advantage in the plant being able to diversify its activities, and an RAF order for the PC-9 would prove invaluable in allowing it to do so: it would reduce the reliance by BAe, Prestwick on a single programme of work; enhance the prospects of the plant; and give a boost to the local economy which is heavily dependent on the BAe presence.

You should also be aware that BAe is actively considering diversification into ab initio pilot training and Prestwick is a clear favourite location for basing the training school. The PC-9 order is again an important factor to be taken into account. Such a valuable facility as a training school would again impact on the local economy and would be likely to lead to aircraft/training export "package deal" orders.

#### Export Potential

The teaming up of the worldwide reputation gained by Prestwick for Jetstream with the highly regarded Swiss company, Pilatus, will undoubtedly provide the best prospects for export potential in reliable markets. BAe already have serious enquiries from Saudi Arabia, Jordan, Kuwait and Indonesia for the PC-9 and these countries will be watching the RAF's reaction with interest. The combination of the Hawk and the PC-9 will produce a formidable export package which will help UK employment. Conversely, there is a real possibility that failure to secure the PC-9 contract could be damaging to the supply of Hawk and other equipment to the Swiss who have a long tradition of buying from the UK when equipping their defence forces. We understand that, should the PC-9 bid be successful, the Swiss are likely to place an order for some 24 Hawks initially. While extending and furthering British export markets into South America is most desirable, I suggest that we must be careful that this is not done at the risk of jeopardising established outlets for our products, such as in Switzerland, without sound economic justification.

#### Competition

Douglas Hurd, in his letter of 8 March to you, makes reference to BAe's "lion's share" of RAF aircraft orders compared with other companies. This surely reflects customer-satisfaction with BAe products, and is scarcely a reason to look less favourably on its bid.

#### Cost Considerations

I understand that there is only a very marginal price difference between the PC-9 and its only serious rival, the Shorts Tucano.

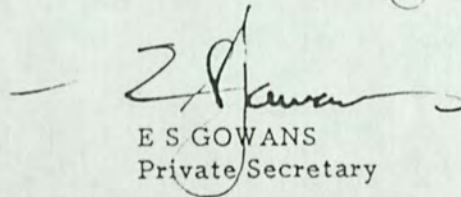
Privatisation

As you will know, we intend to sell off the remaining Government shares in BAe in the Spring or early Summer of this year. The company intends to raise new equity capital at the same time. I understand that, on present plans, it is likely that a preliminary prospectus will be issued early in April. A successful BAe bid for the PC-9 would give just the right signals to the market place at just the right time. The company's appeal for investors would be enhanced by evidence that it is flexible and efficient enough to compete for a contract such as that of the RAF Trainer. In addition, its appeal would also be increased by the inclusion of an ab initio trainer in its product range.

I should, of course, be happy to discuss the detail of the above points and any others with colleagues at the proposed E(A) meeting, which I understand is scheduled for 20 March.

Copies of this letter go to the Prime Minister, Members of E(A), Sir Geoffrey Howe and Sir Robert Armstrong.

*Yours sincerely*



E S GOWANS  
Private Secretary

Approved by the Secretary of State  
and signed in his absence

Defence: Procurement Pt 2

115 Mkt 19987

11 12 1 2 3 4  
5 6 7 8 9