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PRIME MINISTER

26 April 1985

EUROPEAN FIGHTER AIRCRAFT

Some military analysts question whether the agile fighter is the most cost-effective answer to the military threat. If we are (eventually) to commit £5 billion on a new fighter, we need to ensure that it is the plane we want, at the best price, and that it offers us the commercial return which our technical leadership in engines, airframe and avionics deserves.

What is a new fighter for?

Why not ask Michael Heseltine why he (rather than the RAF and BaE) wants a new fighter. The fighter's main task would be to defend the UK, and bases in Germany, from Soviet medium bombers and their fighter escorts. It would seek to identify enemy aircraft well beyond the visual range, and destroy them with missiles. If this failed, the fighter would engage in close-quarter combat, using its agility to the full, 1940s-style.

If we can anticipate the Soviet bombers' targets (airfields, missile bases, control centres, ports), couldn't we defend them more cheaply with surface-to-air missiles like Rapier and air-launched weapons we are developing for Tornado? Countering fighters with fighters is expensive. The "exchange ratio" may be poor (eg one for one). Would we emerge from

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these dogfights with enough aircraft left over to down enemy bombers?

MoD studies indicate that agile manned aircraft is an expensive response to the threat, but it offers flexibility to deal with the unexpected. It is difficult to put a value on this. MH rightly refuses to commit himself on a new aircraft "at any price". Our approach to negotiation should be conditioned by this and the OD paper should address this point.

Collaboration

First, some background. The last fighter we built on our own was the Lightning. The 1964 Labour Government cancelled the TSR2 and ordered Phantoms. Since then, BAe at Warton has been asked to collaborate (Jaguar with the French, Tornado with the Germans and Italians). BAe feel that for 20 years the UK has had to teach the European aerospace industry how to build advanced fighters, as the price for their co-operation; and that this will continue in EFA. So from a technical viewpoint, we don't need partners.

We have been courting the French on EFA. The French have been as difficult as possible on all major aspects - weight, power, design leadership, worksharing, management of the programme. This tactic would enable them to say: we agree on 9.75 tonnes, a 92KN engine, neutral management, workshares based on national offtake, and make it difficult for us to

refuse parity on design leadership, ie joint leadership on engines and airframe or French leadership on airframe, UK leadership on engines. "Parity" would be an industrial scoop for the French because we lead them by a long way on engines and on overall design (ability to combine avionics, airframe and weapons into a system).

Our Options

The French are confident of their own national alternative. To negotiate effectively, we need to be clear about our options. We have four:

1. The national solution (P129). MoD calculate that 200 EFA (to the 4-nation design) would cost us £4,750 million and that 200 of BAe's aircraft (the P120) would cost £6,110 million (nearly 30% more). These calculations are based on the assumption that defence departments foot the entire cost of development (£3,500 million for EFA, £1,700 for P120). But why should MoD do this? Couldn't MoD say to BAe: you fund the development and quote us a firm price (plus inflation to 1995) for, say, the first 50 aircraft? BAe would be on risk for the development, and would therefore minimise it. They would spread its cost over their entire volume - exports and MoD's requirement. If pushed hard, their quote would reflect this.

On the basis of the exports predicted by MoD for the P120 (330), 200 P120s could be produced for no more than £5,250 million - only 10% more than EFA. We might do even better with BAe because they could bargain better with suppliers than could an EFA management, which would be constrained by agreements on national workshares. It would not be open to us to bargain for EFA in this way. There would be a common price which accommodated every partner's costs.

2. Collaborate with our Tornado partners. This arrangement works well, and to cost. German defence and industrial interests are said to prefer this option to collaborating with the French, but the German Government may override their preferences to accommodate the French.

3. An American design, purchased off-the-shelf or manufactured under licence. MoD have not thoroughly explored this option. They have assessed known developments of an existing aircraft (F18) but it is difficult to believe that the world's leading aircraft producer will rely on 1970s' technology from 1995 onwards. Politically, it would be very difficult indeed to abandon our own design capability. The defence argument for keeping it is weak (not an "essential technology" according to MoD's own analysis) but the political interest in this is enormous: fighters are exciting to design, make, fly and behold.

4. A mix of existing aircraft in updated versions (Tornado plus Harrier); Harrier's agility was demonstrated in the Falklands. Between the two of them, these aircraft could give us the longer range ability to shoot down enemy aircraft, and the ability to "mix it" in close combat. MoD may have under-stated the cost advantages of this route which flow from continuity of production and learning on the job.

Line to take

There is a possibility that a national plane would defend us better at only a modest cost penalty, and give us about double the work. We should therefore:

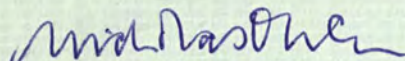
1. Keep this option (and others) in play in parallel with EFA so that when project definition is completed (1986?) we can compare costs with more confidence (costings at present are highly speculative).
2. Negotiate toughly on EFA; it must compete with this, and other options.

The OD paper should suggest an opening and a bottom line negotiating position for the 17 May meeting:

1. The aircraft: there is no point in conceding further on this. Nothing less than 9.75 tonnes and 92KN will do. We have already come down from 10.5 tonnes. Anything

lower than 9.75 would give us a Third World aircraft, useful for terrorising tribesmen, but incapable of carrying the avionics we need to defend ourselves. Better to have missiles than an under-powered vulnerable aircraft. The French may be wrong about the market's requirements 10 years hence: their EFA version may fall between two stools - cheap sporty planes which several countries are making now, and more sophisticated machines which Middle East markets need.

2. Industrial leadership: propose BAe as the project's single prime contractor: it is the only company in Europe with the necessary experience in systems integration. As a fallback, we could concede parity within MH's international consortium. To propose design leadership on engines would provoke the French to demand leadership on the airframe.
3. Management structure: there must be an international organisation. It is our turn to host one. Failing that, could the management be placed with the Tornado organisation in Germany?
4. Whatever organisational solution is preferred, you should ask MH what contractual arrangements he envisages to place contractors on risk, so that costs escalate less than the 30% (in real terms) by which Tornado's costs grew between 1969 and today.


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