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MINISTRY OF DEFENCE

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27th April 1989

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Dear Charles,

EFA RADAR

We have received indications that Chancellor Kohl is being briefed to raise with the Prime Minister the question of the selection of the airborne radar for the European Fighter Aircraft (EFA). Given the magnitude of the other issues to be discussed this weekend, it is perhaps unlikely that it will be raised by the German side. Nonetheless, it is an important issue in Anglo/German defence relations and the Germans have convinced themselves, despite our best efforts, that there is political direction from the highest level in London in favour of the bid led by Ferranti. The Prime Minister may accordingly wish to be aware of the present position.

The EFA airframe development programme now requires the selection of an airborne radar. A consortium led by Ferranti and including Siemens of Germany is offering the ECR 90, a further development of the Blue Vixen radar destined for the Sea Harrier. The competing consortium is led by AEG of Germany (now incorporated into Daimler Benz) and includes Marconi; they are offering the MSD 2000, a design based on the US AN/APG 65 radar installed in the F18 aircraft.

On the basis of total prices, there is little to choose between the two bids and both are affordable within the allowance made in the overall price by the prime contractor, Eurofighter. Officials have not, so far, been able to achieve a common view with Germany over the technical ranking of the two bids, and of the degree of risk to be attributed to each, although discussions aimed at reaching a common view continue. The Germans have argued that both bids meet the requirement, but that ECR 90 has the greater software risk. The view of our experts, which is fully supported by RSRE and British Aerospace and additionally by an independent study by a leading scientific software house, is that the MSD 2000 falls significantly short of the operational requirement; and that there is a considerable risk in the task of rewriting and expanding

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the US software. The ECR 90, for its part, does not fully meet the requirement, but its shortfalls are considered to be slight and acceptable. Until recently, both the Luftwaffe and the German MOD had favoured the MSD 2000. This appears to have much to do with the amount of Federal Government money which has been put into AEG to build up its capability and perform work on German national contracts. The Luftwaffe have recently however shown a readiness to align themselves with British official views which Spain and Italy already share. It is probably not coincidental that the AEG consortium last week made an unsolicited and out-of-time offer of a price reduction. Consideration is now being given by the nations as to how to respond to this.

Against this background, it is not easy to predict what Chancellor Kohl might raise with the Prime Minister. He may complain that there has been no real competition, because of political direction in London; if so, the Prime Minister could simply refute such allegations. He may repeat the claim made by Dr Scholz to Mr Younger that selection of the ECR 90 would cause a cost overrun of 200 to 400 million DM; if so the Prime Minister could point to the firm non-revisable prices which both consortia are prepared to offer together with substantial liquidated damages if they do not perform to time. He might also repeat the German view that the ECR 90 involves a substantially greater software risk than MSD 2000 - the Prime Minister might in reply regret that it has not been possible so far to reach agreement on these technical aspects and express the strong hope that current discussions achieve this.

It is possible also that the matter of the US involvement in the MSD 2000 might come up. Obviously we have no objection of principle to US involvement if this meant good value for money. However, the US are insisting on a formal Memorandum of Understanding (MOU) which would entail a right of veto over exports of the radar (and thus the aircraft), a free flow back of information on developments made at our expense and a guaranteed share for US industry in development and production. For various reasons this MOU gives severe difficulties to us, Italy and Spain although Germany would find it acceptable, and would perhaps find US exportability restrictions a comfortable expedient.

I am sending a copy of this letter to Richard Gozney (FCO).

Yours sincerely,

John Colston.

(J P COLSTON)

Private Secretary

