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The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
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Date 10 February 1988

Dear Charles,

EUROPEAN TRANSONIC WIND TUNNEL (ETW)

I refer to your letter of 4 February to Alison Brimelow. The ETW project has reached a critical stage with the partner nations (France, Germany and the Netherlands) having announced their approvals for participation in phase 3 (construction and initial operation) before the end of 1987. The German delegaton in particular at the project steering committee meetings are becoming increasingly sensitive about the delay in a UK decision, not only because they have commenced site clearance and infra-structure preparations in anticipation of moving into phase 3 but also because they regard the Prime Minister's letter to Chancellor Kohl in June 1985, not unreasonably, as a firm assurance that Britain would participate fully.

at flap

The problem we are facing in the UK is the increased cost. There are three factors in this:-

- a 16% cost escalation as a result of detailed project definition and design;

- the arrangement for deficit financing which, at UK Treasury insistence, resulted in the agreement to pay for three years initial operation after which the ETW company must be self-supporting from revenue;

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- the change in £/DM exchange rate from approximately 4 to 3 over the last three years.

Of these three contributing factors, the last is the most significant. The combined result has been to double the cost of the UK share in the project. This fact has caused a re-appraisal of spending priorities within the Departments concerned (MOD and DTI). The Secretary of Sate for Defence and the Chancellor of the Duchy of Lancaster have now agreed to continue the MOD/DTI equal joint funding arrangement. The Chief Secretary and the Chief Scientific Adviser, however, have said there should be a fundamental review of the need for, and potential benefits of, the project before we proceed. Technically this can be justified on the basis that the MOU the UK signed in 1986 covered only Phase 2,2 and made clear that, while there was a 'firm intention' to proceed to Phase 3, this would be the subject of a separate agreement.

Until the interdepartmental discussions on ETW have reached a conclusion there is no hard information which you can give to Chancellor Kohl's office. The line which has been taken by the UK delegation both at ETW steering committee meetings and in reply to numerous telephone enquiries from the other nations in that the final UK decision continues to be the subject of discussion between Ministers in several Government departments; since this is a lengthy process it is not possible to predict when a UK decision will be announced; however, we do not believe that this should result in a state of undue pessimism in the other participating nations.

I attach a defensive brief for the Prime Minister along these lines.

I am copying this letter to recipients of yours.

Yours
Rosalind Cole

ROSALIND COLE
PRIVATE SECRETARY

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EUROPEAN TRANSONIC WIND TUNNEL (ETW)

Objective (If raised)

To reaffirm UK support for the ETW subject to final consideration in view of major increase in costs.

Line to take

Welcome progress so far on ETW and the benefits of European collaboration on such major projects.

Express UK concern over increased costs and desire for ETW to be self-supporting at an early stage.

Expect to announce final decision shortly.

Background

1 The Prime Minister wrote to Chancellor Kohl in June 1985 (copy attached) welcoming confirmation of UK participation in the ETW. Since then the first 2 phases of the project have been completed and work has been proceeding on final specification for the next, major phase. In the meantime, however, costs have increased significantly. The UK share of construction costs has increased from the initial estimate of £33m in 1985 to £64m now. This is mainly due to the £/DM exchange rate changing from approximately 1/4 to 1/3 over the period. There has also been a 16% cost escalation in project definition and design, and additional costs due to Treasury insistence on agreement to provide deficit finance for only three years initial operation after which ETW must be self-supporting.

2 MOD and DTI have reluctantly agreed, partly in view of the stage that has now been reached and the UK's further statements of commitment, to continue to meet the increased costs equally. The Treasury have, however, asked for a full reappraisal of the need for, and potential benefits of, the ETW before a final decision is taken. The Chief Scientific Adviser, Mr Fairclough, has broadly endorsed this.

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3 The other partner nations - France, Germany and the Netherlands - all declared their intention to proceed with phase 3 of the project before the end of 1987. The Germans in particular are sensitive about the delay because they have commenced site clearance and other infrastructure preparations in anticipation of phase 3.