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Confidential Filing

Purchase of DC10 or Tristar
500 Aircraft for conversion
to aerial TANKER and Freighter
roles.

DEFENCE

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806

December 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6-12-82							
10-12-82							
14-12-82							
<p>PREM 19/6 83</p>							



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Reference

TOTAL COPIES 18

COPY No. 2 3

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
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JF2216

PS/ Secretary of State for Industry

14 December 1982

Richard Mottram Esq
Private Secretary to the
Secretary of State for Defence
Main Building
Whitehall
LONDON
SW1

N. S. P. R.

A. J. C. 14/12

Dear Richard

FALKLANDS WHITE PAPER : STRATEGIC TANKER/FREIGHTER

I am writing to acknowledge receipt of a copy of your Secretary of State's minute of 9 December to the Prime Minister about the strategic tanker issue. Mr Jenkin is glad to note that, having weighed the various arguments, Mr Nott has found in favour of the Tristar option. Of the two options that is certainly calculated (on the available evidence) to bring the most benefit to UK industry.

2 I am copying this to John Coles (No 10), the Private Secretaries to the other members of OD and to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary

44 DEC 1982



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Defence

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Nott MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

Mod are negotiating with 14 December 1982

the Treasury.

N. S. P. N.

A. J. C. / 11.

Dear Secretary of State

STRATEGIC TANKERS

I have seen your minute of 9 December to the Prime Minister. Her Private Secretary subsequently wrote to yours on 10 December. I am also aware that MOD officials have now completed a first assessment of the rival offers.

I accept that, on the basis of the information now available, the Tristar looks the better choice, but a modest delay in announcing a decision could be financially advantageous.

It should be possible to improve either offer in a number of respects in the course of contractual negotiations. An announcement in advance of such negotiations must inevitably weaken our position; and since we are in a buyers' market I see no risk of a financial penalty from any delay.

I am aware of the presentational and political advantages of an early decision; and that there are operational reasons for not delaying it too long. But it should be possible for your officials to clarify the areas of uncertainty and explore the room for manoeuvre within the competing tenders in time for you to make an announcement in the course of the debate next week on the Falklands White Paper.

I am copying this letter to the Prime Minister, other members of OD and Sir Robert Armstrong.

Yours sincerely

J. A. G. G. G.

for LEON BRITTAN

(Approved by the Chief Secretary 22.12.82)

14 DEC 1982



CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 13 December 1982

PRIME MINISTER

*This wrongly addressed minute
is to be replaced by another
one. A.S.C. ¹⁴/₁₂
h-a.*

STRATEGIC TANKERS

(no notes)

I have seen your minute of 9 December to the Prime Minister. Her Private Secretary subsequently wrote to yours on 10 December. I am also aware that MOD officials have now completed a first assessment of the rival offers.

2. I accept that, on the basis of the information now available, the Tristar looks the better choice, but a modest delay in announcing a decision could be financially advantageous.
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5. I am copying this letter to members of OD and Sir Robert Armstrong.

J.S. Greig

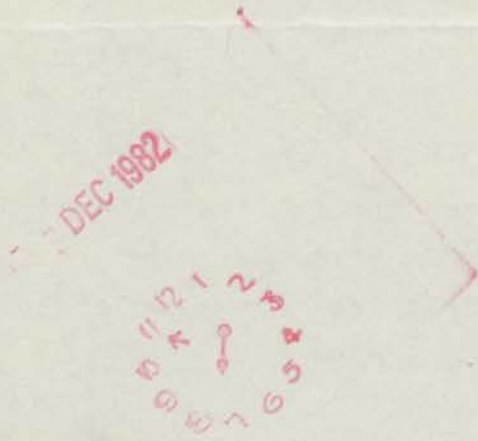
for

LEON BRITTAN
[Approved by the Chief Secretary
and signed in his absence]

Defence:

Purchase of DC10

Dec 82



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10 DOWNING STREET

From the Private Secretary

10 December 1982

FALKLANDS WHITE PAPER: STRATEGIC TANKER/FREIGHTERS

The Prime Minister has seen Mr. Nott's minute of 9 December concerning the choice of aircraft involved in the purchase of strategic tanker/freighters for the RAF.

Subject to the views of OD colleagues, the Prime Minister favours Tristar on the assumption that your analysis of the rival bids confirms that this option is the more attractive, and that the current trials of Tristar are successful.

I am sending copies of this letter to the Private Secretaries of the Members of OD, the Secretary of State for Industry, and Sir Robert Armstrong.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL

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BR.

HU



Agree to Tristar subject to:-
(a) views of OD colleagues
(b) fuller analysis of rival bids
(c) current trial of Tristar
being successful?

MO 26/5

PRIME MINISTER

Yes no

A. & C. $\frac{9}{12}$

FALKLANDS WHITE PAPER: STRATEGIC TANKER/FREIGHTERS

You will wish to be aware of the basic factors underlying our choice of aircraft to meet the vital purchase of strategic tanker/freighters for the RAF.

2. Given the clear need for large tankers, it makes obvious sense to make them capable of carrying men and equipment as well. We have considered five aircraft types as candidates for conversion. Three of them - the Boeing 707, Airbus 300B and Boeing 747 - were rapidly rejected on a variety of cost, timescale and capability grounds. This leaves two possibilities - the freighter version of the McDonnell Douglas DC10, and the Lockheed Tristar. To be viable a minimum of four aircraft are required. Both types could be bought quickly on the secondhand market and in either case the first tanker could be ready in 18-19 months, all four tankers being completed within 24 months in the case of the DC10, and 28 months in the case of the Tristar.

3. However, the DC10 already has a freight capability, whilst the Tristar would require a return-to-works programme which would not be completed for a further 17 months - meaning that the purchase of DC10s would almost halve the time to provide us with a full tanker/freighter capability.

4. British Airways have six Tristars which they wish to sell as a package; and buying all six would ease the freighter conversion programme, although it would not lessen the total time required for the full four aircraft freighter conversions to be completed. In the case of the DC10 only four aircraft would be needed, and



McDonnell Douglas would both buy and be prime contractor for the conversion of the aircraft, although sub-contract work would go to British Aerospace (BAe) and British Caledonian (B Cal). MOD would buy the BA Tristars direct and conversion would be carried out by Marshalls of Cambridge. Flight Refuelling Limited could be involved in either case.

5. The main arguments in favour of the DC10 are, first, that it has a greater freight capacity and the fleet of four tankers can be available in two years together with freighting capacity, or little more than half the time required to produce the tanker/freighter version of the Tristar. Second the existence of the KC10 tanker variant of the DC10, now in service with the United States Air Force provides greater confidence in the McDonnell Douglas conversion programme (no design work has yet been completed on Tristar tanker or freighter conversion); it also gives us a greater guarantee of continuing logistic and training support over the expected lifetime of the RAF aircraft independently of the future plans of civil operators on which Tristar support would rest.

6. But there are strong arguments in favour of the Tristar. Although smaller and less capacious than the DC10, the Tristar consumes less fuel and therefore has greater refuelling capability than the DC10 in any extended sortie scenario. First analysis of the rival quotations, just received and on which we are still working, suggests that the Tristar option of six aircraft is cheaper, at £131M against £153M for the four DC10 (both maximum prices covering purchase and conversion only though the DC10 offer appears to provide better protection against cost overruns). For this money the Tristar option gives two additional aircraft, with the extra operational flexibility which that would confer when all six were in service. Operating costs would be greater for six Tristar than for four DC10s, though Tristar is the cheaper per aircraft.



7. There are also the industrial and commercial arguments, about which Patrick Jenkin and Arthur Cockfield have written to me / (copies attached). These are not all one way. McDonnell Douglas have indicated a willingness to sub-contract work within the UK and have entered into discussions with BAe and B Cal accordingly, though the implications of this for cost and timescale have still to be resolved. On the other hand we have the certainty that conversion of the Tristar would be carried out almost entirely in the UK, mainly by Marshalls of Cambridge. Selection of the Tristar would avoid an RAF purchase of an American engine, which Rolls Royce see as commercially damaging. Much more important, by buying Tristar we would bring about a very substantial improvement in British Airways' finances and thus reduce the need for Government financial support.

8. To sum up, although operationally the balance of argument favours the DC10, principally because the freighter capability would be available earlier and with greater certainty in timescale, either aircraft will meet the operational requirement and the Tristar option gives more aircraft in the longer term. In cost terms the Tristar option is significantly cheaper, which provides a cushion against the greater technical and cost uncertainties which it involves. In industrial and commercial terms Tristar is clearly preferable.

9. It seemed clear from Tuesday's discussion in OD that the Committee was disposed to favour the Tristar option. I come down in favour of the Tristar when all the operational financial and industrial arguments are put together. Our final decision however must await completion of analysis of the rival bids and, very important indeed, the remaining trials at Boscombe Down (recent Boscombe Down trials have thrown some doubt on the ability of the Tristar to refuel a Hercules to maximum all-up weight. Further urgent trials are being undertaken to establish this capability for both options; these are planned to be completed next Sunday). Provided these final factors do not change the picture significantly,



and subject to colleagues' views, I should like to be in a position to announce a decision in favour of Tristar in my statement on 14th December on publication of the White Paper.

10. I am copying this minute to OD colleagues, Patrick Jenkin and Sir Robert Armstrong.

MHL [initials] (private secretary)

[approved by Mr Mott and signed : in absence]

Ministry of Defence

9th December 1982



CONFIDENTIAL

From the Secretary of State

The Rt Hon John Nott MP
Secretary of State for Defence
Main Building
Whitehall SW1

24/5

2 December 1982

STRATEGIC TANKERS FOR THE ROYAL AIRFORCE

I understand that the Royal Air Force are actively considering the purchase of several wide-bodied civil aircraft for conversion to aerial tanker and freighter roles. The principle contenders are the DC10 and Tristar-500 aircraft. British Airways could make up to 6 Tristars available. I am writing to urge you to take up the British Airways' offer, in preference to the DC10.

Patrick Jenkin and his officials have indicated the industrial advantages of the Tristar purchase, not only in terms of business for Rolls Royce, but also in work for Marshalls of Cambridge. I fully support what they have said. I have in addition a special interest relating to British Airways.

Since you appointed him as BA Chairman, John King has done a great deal to reduce the airline's overmanning and its excess capacity. The latter includes aircraft bought or ordered against unrealised expectations of traffic growth. The recession which has prevented the profitable use of aircraft, including the Tristar fleet, has inevitably increased the difficulties. The result is a continuing financial burden on BA, and thus - whether we like it or not - the Government. It might seem strange to the outside observer that when the Government through its ownership of BA effectively has a fleet of redundant Tristars on its hands it should propose to buy further similar aircraft from other sources.

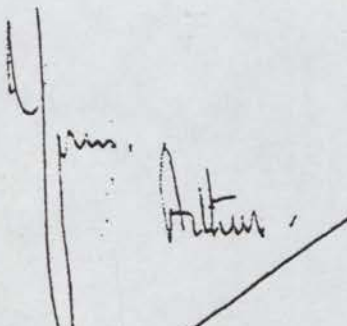


From the Secretary of State

I believe that BA's offer is a realistic one, and includes a great deal of support and additional items. The attractiveness of the package must have been further enhanced by the recent movement in the exchange rate.

I hope therefore that you will conclude that the wider benefits to the Government's general objectives, and the work which will accrue to our aircraft industry, justify a decision in favour of the Tristar.

Copies of this letter go to the Prime Minister, Patrick Jenkin, Geoffrey Howe and to Sir Robert Armstrong.


LORD COCKFIELD

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TOTAL COPIES 11

JH 400

COPY No. 1



26/5

DEPARTMENT OF INDUSTRY 49
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

2 December 1982

The Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1

Dear John,

I have seen a copy of Frank McFadzean's letter to you of 24 November expressing concern about the choice of tanker/freighter aircraft which I understand your Department may be on the point of making.

2 On the basis of information with which my officials have been provided it appears that your officials are likely to recommend the purchase of four DC10 aircraft to meet the recently established Air Staff Requirement. The ultimate choice is for you, but unless there are overriding operational reasons to support the DC10 option, I feel bound to point out that on the evidence to date there would be a clear UK industrial advantage in your purchasing the six BA L1011 Tristars which are I understand available.

3 The industrial element in favour of the DC10 option is the possibility of some sub-contract work for British Aerospace. However, this would be entirely at the discretion of the aircraft manufacturer (McDonnell Douglas) and the extent of BAE's possible involvement has yet, we believe, to be defined. On the other hand, the conversion of the L1011 Tristar would take place almost entirely in the UK involving Marshalls of Cambridge and, to a lesser extent, Plessey, Shorts and Smiths. As a result, and using MOD's own figures, barely 12 per cent of the programme cost of converting the Tristars would involve overseas expenditure, as against nearly 60 per cent in the case of the DC10s.

4 Another important consideration in favour of purchasing the Tristar is that this would prevent GE obtaining a foothold for their CF6 engine in the RAF. Rolls fear that GE would use such a foothold to their commercial advantage and Rolls' disadvantage around the world, especially when it became known publicly and that the MOD requirement could have been met by Rolls engined Tristars from British Airways. By contrast, a Tristar buy would have the advantage of reducing the number of Tristars currently

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up for sale and generate spares business for Rolls-Royce, as well as a number of other UK suppliers.

5 Both Lockheed and Rolls-Royce are on record as committed to providing full product support over Tristar's lifetime. There are around 250 such aircraft in service worldwide and I have no doubt that Lockheed's back-up (after production itself stops) will be just as effective as that of McDonnell Douglas, whose DC10 line has attracted few civil orders since the Chicago crash several years ago.

6 The Tristar has, by all accounts, an excellent operational record and, having done a good deal of preparation work, Lockheed (as a major supplier of military transports) should be able to team up with Marshalls to ensure that adaptation of the civil Tristars goes smoothly.

7 I would have thought that there should also be some real benefit to British Airways - although it is for Arthur Cockfield to comment on this. Buying their Tristars should help the airline reduce its excess capacity, improve its financial results, and assist the Government's overall objective of privatising BA as soon as practicable.

8 May I ask you to give this matter your closest personal attention. There seem to be sound reasons for preferring a Tristar purchase from a British airline. I fear that a choice of DC10s for the Royal Airforce would simply not be understood by our customers overseas.

9 I am copying this letter to Geoffrey Howe and to Arthur Cockfield.

Your ever
Patul

8 DEC 1982

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10 DOWNING STREET

From the Private Secretary

6 December, 1982

Dear Nick,

The Prime Minister has seen recent reports about the purchase by the Ministry of Defence of tanker aircraft for the R.A.F.

The Prime Minister has commented that she is not aware of the operational and other detailed circumstances of this case, but it appears to her that the way forward would seem to be for the Ministry of Defence to invite British Airways to match the McDonnell Douglas price and for British Airways to accept that offer unless they can get a better deal somewhere else. I would be grateful if you could let me have a note on this.

I am sending a copy of this letter to John Whitlock (Department of Trade) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

N. Evans, Esq.,
Ministry of Defence

CONFIDENTIAL

R.



CONFIDENTIAL

From the Secretary of State

The Rt Hon John Nott MP
Secretary of State for Defence
Main Building
Whitehall SW1

2 December 1982

John Nott
STRATEGIC TANKERS FOR THE ROYAL AIRFORCE

I understand that the Royal Air Force are actively considering the purchase of several wide-bodied civil aircraft for conversion to aerial tanker and freighter roles. The principle contenders are the DC10 and Tristar-500 aircraft. British Airways could make up to 6 Tristars available. I am writing to urge you to take up the British Airways' offer, in preference to the DC10.

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From the Secretary of State

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Copies of this letter go to the Prime Minister, Patrick Jenkin, Geoffrey Howe and to Sir Robert Armstrong.

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LORD COCKFIELD

DEC 2 1992



JH 400

COPY No. 12



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

7 December 1982

The Rt Hon John Nott MP
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 London SW1

Dear John,

I have seen a copy of Frank McFadzean's letter to you of 24 November expressing concern about the choice of tanker/freighter aircraft which I understand your Department may be on the point of making. *will request is required.*

2 On the basis of information with which my officials have been provided it appears that your officials are likely to recommend the purchase of four DC10 aircraft to meet the recently established Air Staff Requirement. The ultimate choice is for you, but unless there are overriding operational reasons to support the DC10 option, I feel bound to point out that on the evidence to date there would be a clear UK industrial advantage in your purchasing the six BA L1011 Tristars which are I understand available.

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173 DEC 1982





Reference
Our letter of 2/12
to Secs Defence

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9 I am copying this letter to Geoffrey Howe and to Arthur Cockfield.

Your cue
Label

Qa 06168

To: PRIME MINISTER
From: JOHN SPARROW

Prime Minister 1

I believe this arose at your meeting with Sir J King. But I do not know the upshot,

Shd I endorse X
2 December 1982

Yes please
no on your behalf to Mr Nott's office?
mes 3/12

1. I attach a copy of a cutting from Wednesday's Financial Times. If it is at all accurate (and I believe that it is) it raises an important question.

2. On the face of it, it would seem sensible for one arm of Government needing aeroplanes - in this case, the Ministry of Defence - to acquire them from another arm of Government - albeit an indirect arm in this case, British Airways - when that other arm has surplus aircraft. The only circumstances in which it seems to me that this natural transfer should not take place would be if the MoD could buy aircraft suitable for its needs at a price less than BA can sell its surplus aircraft elsewhere, or if the doubts that have been expressed about the relative timing of delivery of the two types of aircraft reflect a real problem which cannot be overcome.

3. If that is right, and in the absence of over-riding operational circumstances of which I am unaware, the way forward would seem to be for the MoD to invite BA to match the McDonnell Douglas price and for BA to accept that offer unless they can get a better deal somewhere else.

X |
B.

Att.

1/12/82

Nott will decide soon on DC-10 or TriStar tankers for the RAF

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

MR JOHN NOTT, Defence Secretary, is expected to decide within the next two weeks on the purchase of about four aerial tankers for the RAF, costing over \$200m (£125m).

He will choose either the second-hand McDonnell Douglas DC-10 convertible freighter or the surplus second-hand British Airways Lockheed TriStar Series 500 passenger aircraft.

Both types would need converting to the RAF's requirements for a tanker/freighter aircraft, for use in the Falkland Islands (taking supplies to Ascension Island for onward transfer by ship or Hercules air freighters), and in the aerial refuelling of Nimrod maritime reconnaissance aircraft and Phantom fighters in the south Atlantic itself.

Either the DC-10 or the TriStar would be suitable, but the DC-10's programme cost would be lower, at about \$200m including conversion costs, while the TriStar would cost about \$240m with extra costs for conversion.

British Airways will be offering up to six TriStars for the programme. These aircraft are considered surplus to BA's needs, under its retrenchment programme.

Work on converting the DC-10 would be done by British Aerospace, supported by British Caledonian Airways (already a DC-10 passenger jet operator).

The TriStar would be converted by Marshall of Cambridge. For each aircraft,

Flight Refuelling of Wimborne, Dorset, would provide the necessary in-flight refuelling equipment.

McDonnell Douglas believes that it could provide the RAF with DC-10s sooner than BA could provide the TriStars. It argues that it has already developed a tanker aircraft (called the KC-10) for the U.S. Air Force, whereas there is no comparable aerial tanker version of the TriStar.

British Caledonian would support the DC-10 programme with its engine overhaul facilities at Prestwick, Scotland.

The Ministry of Defence is anxious to get the aircraft quickly and at the lowest price.

McDonnell Douglas believes it can meet both requirements with the DC-10s. Several are already available on the second-hand market and it could have DC-10s in service with the RAF nearly two years ahead of the TriStars, with all conversion work completed.

The decision would have probably been made in the DC-10's favour before now had British Airways not produced its TriStar offer at a late stage in the negotiations. The RAF feels that the DC-10 deal is the best in the long-term.

Mr Nott is expected to make a decision before Christmas, and will include it in his long-awaited supplementary defence statement, which is expected to take account of the lessons learned in the Falklands operation.

