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806

PREM 19/690

DEFENCE SALES.

DEFENCE

~~Part 1~~

PART 2.

Part 1 Sept 1980  
Part 2 December 1981.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>18.12.81</del>		29.10.82					
<del>6.1.82</del>		-Part Ends-					
<del>22.2.82</del>							
<del>23.2.82</del>							
<del>25.2.82</del>							
<del>1.3.82</del>							
<del>22.3.82</del>							
<del>10.4.82</del>							
<del>27.4.82</del>							
<del>1.6.82</del>							
<del>17.6.82</del>							
<del>6.7.82</del>							
<del>13.7.82</del>							
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<del>24.8.82</del>							
<del>31.8.82</del>							
<del>7.9.82</del>							
<del>10.9.82</del>							
<del>14.9.82</del>							
<del>27.9.82</del>							
<del>4.10.82</del>							
<del>11.10.82</del>							

PREM 19/690



● PART 2 ends:-

FCS to S/S MOD (FCS/82/172) 29/10

PART 3 begins:-

MOD to ATC + alt 15/11/82







RESTRICTED

*From the Secretary of State*

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

5/20

4 November 1982

*John Nott*  
SALE OF TORNADO TO GREECE

47

You wrote to me again about this on 13 October, and subsequently raised the matter in the margins of Cabinet.

First, I confirm that we are prepared to hold the 11% interest rate until the end of this year, as you request.

As to the percentage of the price for which credit should be allowed, 75% is the standard figure for exports of military aircraft. Greece is a relatively wealthy country according to the Consensus classification, and it would be difficult to justify the provision of a greater measure of official support for export credit than we are prepared to extend to developing countries, unless this was clearly necessary to meet a competitive situation. It is true that an interest rate of 11% does not at present involve the payment of subsidy from official funds, but there would be a contingent liability to subsidise should this be necessary at any time according to the movement of market rates during the life of the contract.

A possible compromise, which would not involve even a contingent liability to additional costs for HMG, would be to allow the exporter to increase the amount of credit offered, provided that the additional 10% of the purchase price was funded from commercial sources at market rates without any official support. It is true that this would involve a balance of payments cost, in deferring receipt of an additional 10% of the price, but our balance of payments position is currently fairly

RESTRICTED



*From the Secretary of State*

strong, and I should not myself judge this unacceptable given the importance of this order to which you have pointed. It is possible that the French are pursuing a similar tactic, if reports that they have offered "over 90%" credit for the Mirage are correct, since our information is still that their offer of credit with official support is limited to 60% of the price.

If Geoffrey Howe, to whom I am copying, is agreeable, I should be prepared to authorise ECGD to provide risk cover and official support for the interest rate for credit of 75% of the price, under a contract providing for further credit of 10% of the price without ECGD cover or interest-rate support.

I would hope very much that this would resolve your difficulties.

LORD COCKFIELD





Copy to:

PS/Minister(DP)  
 PS/US of S(DP)  
 PS/PUS  
 PS/CDP  
 PS/CA  
 PS/HDS  
 DG Marketing  
 RMD 4  
 Head of DS13

MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-9387022 218 2111/3

MO 5/20

20th October 1982

*Dear John*

SALE OF TORNADO TO GREECE

My Secretary of State wrote to yours on 13th October asking him to reconsider the level of credit support offered by ECGD on the Tornado offer to Greece.

A key point in our case is the level of support which will be offered by the competition and, in particular, by the French. In his letter Mr Nott explained our doubts about whether the statement ECGD have obtained from Coface - that they are covering only 60% of the French bid - tells the whole story. Panavia are currently in negotiation with the Greek Government and it is clear that obtaining maximum credit cover is a crucial element of the offer. In the course of discussions the National Bank of Greece, who are represented in the Greek team, have informed Panavia that the French offer of credit for Mirage 2000 covers 'over 90%' of the contract value, at a fixed rate of interest of 10%. This, of course, confirms our suspicions that when the French enter their own negotiations with the Greeks they will be tabling a much more favourable offer than the 60% to which they have admitted.

On the German and Italian elements of the package Panavia have now received assurances from Hermes and SACE, that if ECGD will go to 85%, they will also do so for their respective parts of the offer.

I should be grateful if these points and especially the information on the French offer could be taken fully into account in Lord Cockfield's reply to Mr Nott.

*Yours ever,*

*Jane Ridley*  
 (J E RIDLEY) (MISS)

J Rhodes Esq

Robin Butler Esq



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A.S.C. <sup>25</sup>/<sub>6</sub>  
h.a.

*With  
the Compliments of  
Sir Frank Cooper, G.C.B., C.M.G.  
Permanent Under-Secretary of State*

MINISTRY OF DEFENCE  
SW1A 2HB



Courtesy Translation

The Federal Minister of Defence  
- Parliamentary State Secretary -  
Dipl.-Ing. Kurt Jung

Bonn, 19 October 1982

Sir Frank Cooper, GCB CMG  
Permanent Under Secretary of State  
Ministry of Defence  
Main Building  
Whitehall  
London SW1A 2HB

Dear Sir Frank, (m.pr.)

Now that the examination process in connection with the exportation of the Tornado engine RB 199 to Yugoslavia planned by your government has been concluded, I am able to transmit to you the following decision of the Federal Security Council:

1. There will be no direct export from the Federal Republic of Germany to Yugoslavia.
2. No objections will be raised against exports to Yugoslavia from the British final production under the following conditions:
  - a) Supply of engines with the technical standard of 1980, excluding the further developments for the cooperation partner,
  - b) Successive transmission of engine data at the latest possible date in each case,
  - c) Supply of prototype engines with a development standard of 1980 only after 1987 and only in such small numbers

~~CONFIDENTIAL~~

N A T O    C O N F I D E N T I A L

- 2 -

as are absolutely necessary for the flight trials;  
in particular supply of replacement engines only  
against the return of the damaged engine,

- d) Supply of serial engines with a development standard of 1980 only after 1992.
- e) The handing over of information and hardware requires in each case the approval of the trilateral MRCA Security Classification Working Group.
- f) Yugoslavia has to give UK the guarantee that the engines will remain in Yugoslavia.

The approval is granted with the reservation that the circumstances on which this decision is based will not change so fundamentally that, having knowledge of the changed circumstances, the approval would not have been given.

In this connection I may point out that the conditions mentioned under paras. a) to f) correspond with the proposals made by the British side for the procedure of the export project.

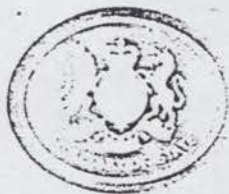
I am pleased that this successfully concludes the procedure which has long occupied our two governments.

Yours sincerely, (m.pr.)  
Kurt Jung

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Intals:

PS/US of S(DP)  
 PS/Minister(DP)  
 PS/PUS  
 PS/CA PS/HDS  
 DG Mktg  
 RMD4  
 Hd of DS13  
 PO/Tornado - Mr Weston

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
 DIRECT DIALLING 01-218 2111/3

MO 5/20

13th October 1982

*Dear Secretary of State,*

SALE OF TORNADO TO GREECE

I have seen your letter of 27th September to Tom Trenchard about credit terms for the sale of Tornado to Greece.

As you know Panavia began their final round of contractual negotiations with the Greeks on 4th October so it is vital that we reach agreement on the credit terms that can be offered as quickly as possible. I note what you say about the lack of evidence from our competitors on credit. It may well be that the French offer at present is set at 60% cover, but in our experience the French position is never as simple as it seems. We must suspect that French terms will in the event give Greece a much better offer than the 60% that they are admitting. We suspect we lost the prospect of an order for Hawk from Egypt to the French in this way. This is certainly the view expressed to us repeatedly by Panavia, who have the experience of having to compete with the French in the market place. Since the French have the advantage of presenting their proposals after Panavia's final discussions we can hardly wait until evidence of French terms becomes available later in the year; by then Panavia will have no opportunity to improve their own offer.

In these circumstances I have to ask for your agreement to go to 85% credit now. It is particularly important for the UK to

The Rt Hon The Lord Cockfield





give a positive lead since an application for 85% credit insurance is still before Hermes in Germany and the Italians have indicated that they will match the terms offered by the other two countries.

I cannot stress strongly enough that a first sale of Tornado, to a NATO ally, would have a tremendous impact. Not only will it assist Tornado's market prospects elsewhere, but it will assist in mitigating the serious effects on industry which will occur when Tornado production for the three partner nations begins to run down in 1986. At present there are no other firm export prospects in view which would help to maintain the advanced military aircraft capacity at BAe. Nor is MOD yet in a position to initiate work on any follow-on project.

As for the interest rate to be applied to this credit offer, Panavia will have to operate on the assumption that 11% will be maintained beyond mid-November. Any increase of rate after that date would represent an impossible constraint on Panavia's activities. I am content to await the decisions on Greece which you refer to in your letter, but against the background of a steady and significant reduction in market interest rates over the past few months I cannot see how any justification could be advanced for increasing ECGD rates in cases of this sort.

Yours sincerely,  
*Janet Ridley*  
Private Secretary

(draft approved by the  
Secretary of State and signed  
John Nott in his absence)





FILE

SW

Defence

10 DOWNING STREET

*From the Private Secretary*

11 October, 1982

The Prime Minister has noted the contents of Mr. Nott's minute of 6 October about his visits to Kuwait, Saudi Arabia, Kenya, India and Zimbabwe.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

A. J. COLES

Richard Mottram, Esq.,  
Ministry of Defence



Prime Minister

6

MO 25/2/23/2

A.F.C. 7/10

MS

PRIME MINISTER

I visited Kuwait, Saudi Arabia, Kenya, India and Zimbabwe from 10th-26th September. You may find helpful a note of the main issues which arose together with some personal impressions.

2. The aims of my visit were to exchange views on international and defence issues, to promote defence sales, and to give support to our training and advisory effort (other than in India where this is not relevant). I was warmly received in all countries. I found admiration everywhere for our resolve and success in the Falklands conflict, and keen interest in the lessons of that experience. Our standing has improved and there could be gains in defence sales terms in the Middle East and India.

Kuwait and Saudi Arabia

3. Both Kuwait and Saudi leaders expressed their satisfaction with the outcome of the Fez Summit and a cautious welcome for the Reagan initiative, qualified by doubts as to whether it would be properly followed through. Our early and positive public statement on Fez had been well received and I made the point that we deserved some credit for our role in encouraging a more constructive approach by the US. (This was, of course, all before the Beirut "massacre".) On the Iran/Iraq war the Kuwait Foreign Minister confirmed that at Fez the Arabs had decided to come out more clearly in support of Iraq, but he also expressed his concern about the dramatic increase recently





in Russian shipments of arms to Iraq which were passing through Kuwait. I made it clear that this Russian involvement would make it more difficult for us to help the Iraqis in the future.

4. Leaders in both countries expressed appreciation for the work of our service personnel who assist and advise their forces and I was myself much impressed by the enthusiasm and commitment of the members of our Liaison Teams in Kuwait whom I met during my visit.

5. There is some Kuwaiti interest in Challenger tanks, Hawk, and Tornado and its possible derivatives and there is the more immediate prospect of orders for air defence equipment. The Kuwaitis are looking towards some local manufacture of defence equipment for the Gulf Co-operation Council countries.

6. I had friendly and positive talks in Saudi Arabia with Crown Prince Abdullah, who was acting as Viceroy in the absence at Fez of King Fahd, and Princes Sultan and Naif. Prior to my visit, the extension to the air defence MOU and a contract for FH70 field howitzers had been signed. The Saudi MOD seem genuinely interested in Nimrod AEW; other possible sales include the Lynx helicopter for their embryonic Army Air Corps, the Hawk, and air defence equipment. Negotiations are proceeding on a hovercraft sale to the Ministry of the Interior; prospects with the National Guard include tanks and air defence equipment. I visited the new National Guard hospital which was about to be opened by the King. While I was able to give our equipment a useful push, competition from the Americans and the French is of course very strong and some of the methods of the French in particular are not easily matched. So often, it is gifts of country estates and pretty girls that win contracts around the world - not determination, quality or price.





### Kenya

7. I was received most warmly by President Moi, who gave an elaborate luncheon in my honour, and was clearly pleased that a British Cabinet Minister should visit so soon after the attempted coup. I was able to thank him for Kenya's stalwart support at the UN during the Falklands crisis. I obtained his agreement to an increase in the number of British Army units allowed to use each year the excellent training facilities in Kenya. I expressed our willingness to help in rebuilding the Kenyan Air Force following its part in the attempted coup, and it is likely that this will be a major military assistance project in the coming year. While in Kenya I took the opportunity to visit HMS AURORA, RFA GREY ROVER and HMNZS WAIKATO which were in Mombasa on a break from the Gulf Patrol.

8. For all the signs that President Moi has moved quickly to assert his authority and restore normality following the attempted coup (which perhaps had more widespread support than I had previously thought) I have to say I was discouraged by what I saw in my short stay in Kenya. The signs are that Kenya's economic (and demographic) problems are growing rapidly while the Government machine is becoming less efficient and able to cope, and that, for all her natural advantages, Kenya will subside to the African norm - I fear rather soon.

### India

9. I have already sent to you from Delhi some impressions of my Indian visit. The Indians seemed keen to make some play of this and there was genuine warmth towards Britain, particularly in the Armed Forces. There are good sales prospects for the Sea King and Sea Harrier aircraft and other British equipments are being short-listed.

10. The Indians are anxious to develop collaboration in defence R&D - in areas of some sensitivity - and to obtain access to the latest technology. My visit to the Hindustan Aeronautics Ltd





factory in Bangalore, where Jaguar is being assembled and will soon be manufactured, suggested that they still have a long way to catch up - the machine tools are new but the management and scientific/technical staff did not impress.

11. There are risks in a closer association, particularly for security. We must guard against technology transfer without a sufficient gain to our own industry. Equally there are potentially large opportunities, particularly in the aircraft field. I am reviewing our policy on defence contacts with India, which must take account also of India's political and strategic importance, and of the large and relatively stable market she represents for future defence sales. I will report further by the end of the month.

#### Zimbabwe

12. I was in Zimbabwe for less than 24 hours. During that time I met Prime Minister Mugabe, Dr Sekeramayi, the Minister of State for Defence and the commanders of the Zimbabwean Army and Air Force. All were fulsome in their praise of the British Military Advisory and Training Team (BMATT), which has played a vital role both in integrating the forces which contested the civil war, and in helping to sustain white confidence in the new order. The Zimbabweans would clearly like BMATT to remain for some time, although the military would like it to concentrate now on training instructors at a single centre, and to withdraw from the advisory role at unit level. If we do this, there will inevitably be a loss of influence with the units themselves but we would avoid the danger of association with the growing Army thuggery in Matabeleland in particular. I am in favour of this move since it will lower BMATT's profile in the country, make it easier to reduce its size next year, and distance us from the nastier side of African behaviour. The CGS is visiting Zimbabwe over the next ten days, and I have asked him to take a hard look at the practicalities. When he has reported, I will submit a proposal to you.





13. I raised with Mr Mugabe the situation of those senior Air Force officers who are being held in connection with the sabotage of aircraft at Thornhill in July. I told him of the concern in Britain about allegations that the Zimbabwe police had tortured these officers to extract "confessions", and I urged that they should be brought to trial as soon as possible. My personal view is that these allegations are accurate. Mr Mugabe denied the allegations, and indicated that the officers would be brought to trial: but he also suggested that the British public should be more concerned about the sabotage than about torture (on which I contradicted him). I do not see how the officers can be brought to public trial without an international outcry and we shall have to withhold assistance to the Air Force which the Zimbabweans have asked for. There is nothing to be gained in our providing skilled technicians to an Air Force that is in danger of rapid decline as a result of the torture allegations.

14. I was left uneasy by my meeting with Mr Mugabe. He may have been distracted by other matters, but I formed the impression that he either did not know what was going on in his army and on the security front, or that he knew things were not right, but was not disposed or able to do anything about it. The drift in Zimbabwe towards increasingly unpleasant and extra-constitutional methods must have consequences both for the confidence of white Zimbabweans and for the prospects for Western investment.

15. I am copying this minute to the Foreign and Commonwealth Secretary, the Secretaries of State for Industry and Trade, and to Sir Robert Armstrong.

SW.

Ministry of Defence  
6th October 1982



DEFENCE

GR 390  
CONFIDENTIAL UK COMMS ONLY  
FM CARACAS 041940Z OCT 82  
TO PRIORITY F C O  
TELEGRAM NUMBER 397 OF 4 OCTOBER  
AND TO MODUK

CONFIDENTIAL

MY TELNO 396: FINANCIAL RELATIONS AND THE HAWK CONTRACT

1. ON 1 OCTOBER BAE REPRESENTATIVES WERE RECEIVED BY MINISTER OF DEFENCE WHO STATED THAT, WHILE THERE WAS NO EXTERNAL POLITICAL PROBLEM CONNECTED WITH THE HAWK CONTRACT, THE PRESIDENT WISHED TO RESCIND IT AMICABLY DUE TO FINANCIAL DIFFICULTIES.
2. BAE ARGUED THAT IT WAS SURELY IN THE VENEZUELAN INTEREST TO KEEP THE NEGOTIATIONS ALIVE WITH A VIEW TO ADJUSTING THE CONTRACT IN A MANNER WHICH WOULD BE MUTUALLY ACCEPTABLE RATHER THAN HAVING TO PAY COMPENSATION FOR NO RETURN. THE MINISTER THEN, PERHAPS RELUCTANTLY, AGREED TO HAVE ANOTHER WORD WITH THE PRESIDENT.
3. LATER ON 1 OCTOBER, BAE REPRESENTATIVES TOLD ME THAT THEY WOULD NOW
  - A. DRAW UP A DRAFT CLAIM FOR COMPENSATION IF THE CONTRACT WAS RECINDED FINALLY. THIS COULD AMOUNT TO SEVERAL MILLION POUNDS:
  - B. WORK OUT A NEW FINANCIAL PACKAGE BASED ON LONGER CREDIT TERMS:
  - C. ONLY CONSIDER REDUCING THE SIZE OF THE ORIGINAL CONTRACT IF THIS PROVED ESSENTIAL.
4. IN ORDER TO SUPPORT BAE TO THE FULL (YOUR TELNO 164), I SENT A SHORT LETTER TO THE PRESIDENT LATE ON 1 OCTOBER REQUESTING HIM TO CONSIDER ALLOWING THE NEGOTIATIONS BETWEEN THE MINISTRY OF DEFENCE AND BAE TO REMAIN OPEN.
5. MY CONCLUSION IS THAT THE VENEZUELAN, WHILE RECOGNISING THAT THEY ARE UNDER A CONTRACTUAL OBLIGATION TO BAE, WISH TO RESCIND THE CONTRACT BOTH FOR DOMESTIC POLITICAL REASONS AND BECAUSE THEY HAVE COMMITTED THE FUNDS WHICH WERE PREVIOUSLY AVAILABLE. THEY MAY WELL BELIEVE THAT THEIR SAFEST COURSE IS TO PAY BAE COMPENSATION. BUT THEY DO NOT WISH NEWS OF ANY SUCH POSSIBILITY TO BECOME PUBLIC DURING THE PRESENT CRISIS OVER VENEZUELA'S INTERNATIONAL CREDIT STANDING. IT WAS PROBABLY FOR THIS REASON THAT THE MINISTER OF DEFENCE ASKED BAE TO KEEP THEIR MEETING WITH HIM SECRET.
6. BAE'S BANKERS, LBI, WILL DOUBTLESS BE HAVING A GO AT THE VENEZUELAN FINANCE MINISTER DURING HIS VISIT TO LONDON THIS WEEK. YOU MAY NOW WISH TO CONSIDER WHETHER MINISTERS SHOULD NOT ALSO MAKE REPRESENTATIONS TO DR UGUETO IF AN OPPORTUNITY OCCURS EITHER THIS WEEK OR IF UGUETO RETURNS TO LONDON AFTER HE HAS BEEN TO GENEVA AND FRANKFURT.

CARLESS

FINANCIAL  
SAMD  
FID  
MAED

CONFIDENTIAL

THIS TELEGRAM  
WAS NOT  
ADVANCED





Defence

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From the Secretary of State

Prime Minister

Lord Trenchard  
Minister of State for Defence Procurement  
Ministry of Defence  
Whitehall  
London SW1

JA

27/9.

M

27 September 1982

Dear Tom,

in PM's Box

I refer to your letter of 17 September and John Nott's letter of 10 September about credit terms for the sale of Tornado to Greece.

While it is true that 80/85% cover has been offered for sales of military aircraft in the past, there were special reasons for this, mainly in order to match true or likely competition. Because these terms have been agreed in the past because they were necessary for the deal concerned, it does not follow that comparable terms should be conceded for any sale. As I pointed out in my letter of 31 August, we have no information that overseas competitors are offering better terms and indeed the last we heard from the French, admittedly some months ago, was that they were only contemplating 60% credit.

While I agree that we must do everything we can to obtain an order, I do not agree that better credit terms should be offered to counteract possible price disadvantages or the fact that competitors may be able to offer other inducements that we cannot match.

ECGD is keeping in close touch with its French and US counterparts and immediately there is any reason to believe that either of these countries is offering credit in excess of 75% we will be prepared to match.



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*From the Secretary of State*

Although there are no international rules directly governing interest rates for arms sales, I think there will be serious difficulty in giving arms business more favourable treatment than we are prepared to provide for comparable civil business. However, it now appears that the date for increasing interest rates for business with Greece under the Consensus may be later than 15 November, and if so this could dispose of any difficulty in agreeing to John Nott's suggestion that the 11% rate should be held until the end of the year. This point will probably be settled by the middle of next month and I will write to you again as soon as we know the position.

I am copying this letter to the Prime Minister, Leon Brittan, Francis Pym, Patrick Jenkin and Sir Robert Armstrong.

LORD COCKFIELD

Defence, Sales, Pt 2

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27 SEP 1982



CONFIDENTIAL



Minister of State  
for Defence Procurement

D/MIN/TT/3/11

MINISTRY OF DEFENCE  
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)  
01-218 9000 (Switchboard)

Prime Minister (2)

MS 17/9

17 September 1982

Dear Arthur

Since John Nott wrote to you on 10th September we have been giving further thought to the credit terms on which Tornado might be offered to Greece in the light of discussions at Farnborough last week between my staff and the principal companies concerned.

The importance of this order cannot be over emphasised. It represents the first overseas sale for Tornado and the only one which at present is likely to prove acceptable to our collaborative partners. As John indicated, some £400m is at stake for United Kingdom industry but in addition to this there are industrial loading implications of critical concern to us all. With production of Tornado now well advanced for the three partner nations, an export order is urgently needed to maintain the capability to manufacture advanced military aircraft in all three countries. Discussions on a successor aircraft have not yet reached the point where there is agreement either on a joint requirement or on funding for development work. We therefore face the very real possibility that we shall surrender this capability to our competitors in France and the United States unless we can

/ obtain ...

The Rt Hon The Lord Cockfield

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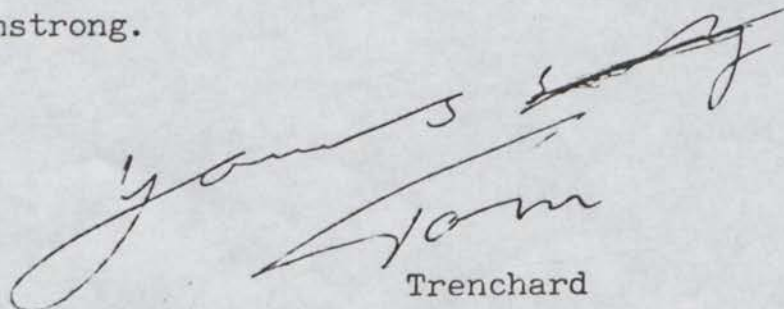
2

obtain early export orders for Tornado.

It is clear that credit will be a key element in the Greek decision and that they are looking for cover of 80-85%. Since our competitors enjoy a considerable price advantage and may be able to offer other inducements that we cannot match, we need to make our credit package as attractive as possible. I note that credit cover of 80% has recently been agreed for the sale of Sea Harriers to India worth some £150m and Hawk for Indonesia worth only £26m. Last year I understand that cover of 80% was proposed for a deal worth £80m to sell Hawk to South Korea, and agreement was reached on 85% cover for the possible sale of Hawk to Malaysia worth £150-250m. There seem therefore to be a number of precedents for improved credit cover for military aircraft deals with countries of similar economic standing to Greece. Moreover, none of these countries is a NATO Ally and sales of Hawk or Sea Harrier, while undeniably important, do not stand comparison with the prospect of a £400m order for Tornado. I must therefore ask you to look once again at the possibility of extending cover on this sale as an exceptional case to 85% as originally advocated by John Nott.

I would be grateful for an early reply since Panavia are now making up their final quotation which must be presented to the Greeks by 4th October.

I am copying this letter, as before, to the Prime Minister, Leon Brittan, Francis Pym, Patrick Jenkin and Sir Robert Armstrong.

  
Trenchard

~~CONFIDENTIAL~~  
CONFIDENTIAL



CONFIDENTIAL - STAFF IN CONFIDENCE

Note for the file

Lord Trenchard called on the Prime Minister this evening.

He said that he wished to explain why he had been unable to make progress in the field of defence sales in Japan. On the face of it, Japan offered obvious opportunities. It was one of the very few sophisticated countries which presented no security problem as regards sales. Defence equipment was an area where our high technology firms far outstripped the Japanese. Despite his efforts, our present Ambassador in Tokyo had opposed the idea of a major defence sales drive being conducted at a Ministerial level. He argued that the subject was very sensitive in Japan, that Japan lacked a Cabinet Minister to handle these matters, and that it would only respond to a Service to Service approach. He had studied what had happened in the case of Rapier, and had been told that details had not been passed to the Japanese at the Ministerial level. It now looked as though we would not sell Sting Ray - Marconi had told him that we are not securing access at the right level in Tokyo. The Prime Minister commented that Marconi had told her that they were not getting enough help from the Ministry of Defence.

Lord Trenchard said that he hoped to visit Japan early next year. The Head of Defence Sales had now managed to interest Thorn EMI, Marconi and British Aerospace in the market. The Japanese Defence Minister had been due to visit Britain, but had now had to cancel the visit.

He hoped that when the Prime Minister visited Japan she would:-

- (a) Persuade Mr. Ito to fix a new date for his visit when he could see all our naval electronic equipment.
- (b) Jog Sir Hugh Cortazzi, if he resisted these ideas.
- (c) Stress, in her conversations with the Japanese, the British capacity to sell:

/ Maritime led

- 2 -

Maritime led equipment for the Navy.

Harriers, A.V.8.B.

Searchwater

Torpedoes

Sea Wolf

Sonar Buoys

Minesweeping equipment

14 September, 1982.



P.M. JAPAN

AIDE MEMOIRE

1. NAVY - MARITIME  
LED EQUIPMENT. ~~LED~~
  2. Can WE RE-INSTATE  
MR ITO'S VISIT?
  3. Our defence/maritime  
led applied Electronic  
skills.
- 

{ Harriers, A.V. 8. B. }

Searchwater

Torpedoes

Sea Wolf

Sea Eagle

Towed array?

Sonar buoys

Minesweeping Equipment



Prime Minister

Defence (2)

A.S.C. 19/2.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 5/20

10th September 1982

Dear Secretary of State,

Thank you for your letter of 31st August about credit terms for the sale of Tornado to Greece.

I am glad to note that you are prepared to increase the percentage credit cover to 75%, although I doubt whether this will be sufficient to secure the order in the face of strong competition from the French and American aircraft which enjoy a considerable price advantage. I must repeat that a £400 million order is at stake - and Greece could be an important signal to the Middle East for future sales.

On the other hand, I was disappointed in your offer to extend the current interest rate of 11% only until 15th November. We know that the Greek evaluation programme, which enters its final phase on 4th October, will not be completed until the end of the year with the result that no contract will be let until later this year or early in 1983. Consequently I must ask you to agree to hold the current interest rate of 11% until the end of the year. With interest rates now falling in the market, it would seem more logical to maintain or even reduce the current rates instead of increasing them at this time.

The Rt Hon The Lord Cockfield





I note that you raise again in your letter the question of credit support for overseas sales from the defence budget. This is not a proposition which I can accept - the defence budget is already committed on the defence of the United Kingdom and I would not wish discussion of these longer term issues to hold up an early decision on the terms to be offered to Greece.

I am copying this letter to the Prime Minister, Leon Brittan, Francis Pym, Patrick Jenkin and Sir Robert Armstrong.

Yours sincerely  
John Nott

[Approved by the PM and signed in his absence]

John Nott

*Defence* ②

PRIME MINISTER

Sale of Tornado to Greece

You will recall Mr. Nott's minute of 23 August (Flag A) proposing special terms for the sale of Tornado to Greece - a contract worth up to £1 billion, of which the UK share is over 40%. The sale is politically as well as commercially important.

I now attach comments by the Foreign Secretary, the Trade Secretary and the Minister of State, H.M. Treasury. Lord Cockfield and Mr. Hayhoe are agreed that the 11% interest rate should be extended until 15 November 1982 - as Mr. Nott wanted - but advocate an increase to 75% in the amount of credit to be offered rather than 85% proposed by Mr. Nott. I do not think you need intervene at this stage - you may wish to await Mr. Nott's further comments.

A.J.C.

*not*

7 September 1982



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

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

7 September 1982

*John Nott*

SALE OF TORNADO TO GREECE

I have seen a copy of your letter of 23 August to Arthur Cockfield about credit terms for the sale of Tornado aircraft to Greece, his reply of 31 August and Francis Pym's letter of 27 August.

I agree with Arthur Cockfield that we should not initiate a credit race in the competition for the sale of these aircraft to Greece. And I agree his suggestion of an increase to 75 per cent in the amount of credit to be offered and the extension until 15 November 1982 of availability of the 11 per cent interest rate.

So far as the suggestion that more could be done by the Ministry of Defence to promote sales, I know that you already adopt a flexible attitude to sales levies to secure particular orders. In this case we have given our blessing to a profit sharing arrangement which, subject to the approval of our German and Italian partners, will enable industry to quote a more competitive price for the aircraft. You may wish to consider whether anything more can be done along these lines.

Copies of this letter go to the recipients of yours.

*John Nott*  
*Barney Hayhoe*

BARNEY HAYHOE

CONFIDENTIAL

7 SEP 1962

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Defence

From the Secretary of State

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

BF with  
Treasury reply  
to MOD letter  
of 23 August  
31 August 1982

Dear John,

Thank you for your letter of 23 August about terms for the sale of Tornados to Greece.

I entirely agree with you about the importance of securing this order but I am not convinced on the evidence at present available that it is necessary to give 85% credit to ensure this order comes our way. To do so would be a wholly exceptional concession, the cost of which would be borne by HMG through additional interest-rate subsidy.

As you know, our normal terms for the sale of military aircraft are 70/75% over five years at current Consensus rates and we would not normally exceed these terms except to match proven competition. So far we have no indication that the French or the Americans are prepared to give better terms than those we have indicated. Indeed, as you say, the French when we last approached them indicated that they were only covering 60% credit.

We are keeping in touch with the French and, as far as we can, the Americans on this subject and if we find that they are considering terms more generous than those we have proposed, we will certainly consider any necessary improvement.

Nevertheless, in view of what you say about the importance of Panavia leading with a strong proposal from the outset, I am prepared to authorise ECGD to improve the percentage on credit to 75% (subject to the agreement of our Italian and German

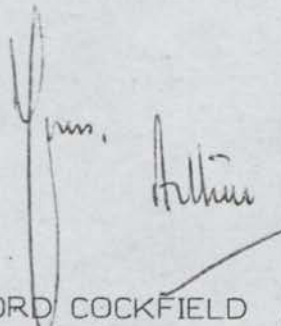


*From the Secretary of State*

partners) and to hold the current interest rate of 11% until 15 November. After that date, however, I see no good reason why the interest rate should not rise to the current Consensus rate of 12.15% (not 12½% as you say in your letter).

Of course, one of the problems we encounter in financing defence sales is that several of our competitors, notably the French, Germans and the United States, have programmes of military aid. I would not suggest for a moment that we re-open this issue with ODA, since funds available are barely sufficient to handle on even a minimum basis the practices of our competitors in other fields. But it does occur to us that there should be scope for the Defence Budget itself to justify some small facility to help secure exports of military equipment: defence sales do provide a return to the Defence Budget through levies, which would not arise if sales are not achieved, both on initial supply and on subsequent spares. Also, your purchasing from companies and factories will often involve facilities where defence requirements are the major, and often the only, customer if sales are not achieved to others: consequently, there must be measurable financial advantage in exporting overheads that would otherwise be borne on your own defence orders. There may well be other examples where defence sales yield a direct return to the defence budget. Seen in this light, some of the apparent subsidies paid by competitors in military aid appear justifiable in terms of the net effect on their defence budgets. If your people could analyse the advantages of such a "marginal cost" approach, it would seem on the face of it that you might be able to justify some financial contribution to soften the terms of finance on defence sales.

I am copying to the other recipients of your letter.

  
LORD COCKFIELD



31 Aug 1982



*[Faint, illegible red text]*



wm  
27/8FCS/82/121SECRETARY OF STATE FOR TRADESale of Tornado to Greece

1. John Nott wrote to you on 23 August (MO5/20) about British credit terms for the sale of the Tornado aircraft to Greece.
2. As you probably know, we are strongly in favour of this sale and our Embassy in Athens has actively supported the efforts of both British Aerospace and PANAIA in their dealings with the Greek government. In addition to the obvious commercial benefits, we see this as providing the Greek government with an opportunity to give positive evidence of its expressed desire to diversify its sources of supply of defence equipment. The purchase would mean that another member of the NATO Alliance was equipped with an aircraft already in service with the RAF and German and Italian Air Forces. It would also help to diversify Greek links with the European members of the Alliance at a time when Greece's commitment to NATO has seemed somewhat uncertain. This would serve to make the Greek attitude to NATO less dependent on the ups and downs of their relationship with the Americans. There could thus be important political as well as commercial benefits in securing this sale for PANAIA.
3. It would be a pity if unattractive credit terms were to prove a decisive factor were the Greeks to opt for a competitive aircraft and I therefore hope that sympathetic consideration can be given to John Nott's proposal.
4. I am copying this to the Prime Minister, Leon Brittan, John Nott and Patrick Jenkin and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth

27 August, 1982

CONFIDENTIAL



27 AUG 1982

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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~8307822~~ 218 2111/3

MO 26/9/1(A)

26th August 1982

*Proc Munster*

*Dear Tom,*

*DL*

*27/8*

DEFENCE SALES - QUARTERLY REPORT: APRIL-JUNE 1982

The Prime Minister will wish to have the latest quarterly report on major defence sales for the period April to June 1982 together with a report on sales prospects which is attached at Annex.

Towards the end of the quarter the British Army Equipment Exhibition (BAEE) was held in Aldershot during the week 20th-25th June on a site substantially larger than the previous exhibition in 1980 with a further 50 companies taking advantage of the extra space. The Falkland Islands conflict inevitably had an effect on the number and nationality of visitors attending, but nevertheless the exhibition played host to more than 650 official foreign visitors representing a total of 71 countries as well as more than 450 foreign industrialists. Despite appalling weather conditions, the Exhibition was generally regarded as a success, which we hope will reflect in future reports.

The overall total value of contracts signed during this quarter shows a slight increase over the previous one, £406M against £395M and compares with £532M in the same quarter in 1981 (which included £150M for a SANGMED management contract for Saudi Arabia). Almost half of this quarter's total sales are accounted for by the single £200M contract with Saudi Arabia for a two year extension of the SANGCOM project. After Saudi Arabia, our next most important customer was Iraq with purchases amounting to a total of some £37M. Indeed the Middle East as a whole continues to be a very important market, with sales to the region accounting for more than 70% of the quarter's total and with a number of encouraging prospects on the horizon.

The protracted negotiations for the supply of 72 FH70 howitzers to the Saudi Army resulted in a contract worth £64M being signed on 11th July just outside the period of this report.

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UK EYES B  
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A J Coles Esq





After protracted negotiations, a further three year extension to the Defence assistance project for the Royal Saudi Air Force (SADAP) worth £370M has been agreed and the Head of Defence Sales has just returned from signing the new Memorandum of Understanding, on behalf of the Secretary of State. The second quarter of 1982 also saw increased contact with the Gulf States and Oman. Latest developments in the Iran/Iraq conflict have heightened the sense of insecurity in these states and have prompted an interest in further equipment and training from UK. Military delegations were received from UAE, Bahrain and Oman to see British equipment. In the case of Oman and Bahrain a substantial re-equipment programme may be funded by their partners in the Gulf Co-operation Council. There are prospects for the supply of UK equipment, such as aircraft, air defence, airborne early warning, and on the land side in the fields of armour, artillery and communications. The Head of Defence Sales made an extensive tour of the Gulf during this quarter.

Another significant success in the area during the period covered by this report was the signature by United Scientific Holdings Ltd of a contract for the construction of an optics factory in Egypt (£30M) to manufacture binoculars, vision aids, Laser Rangefinders Etc. There is further evidence of considerable Egyptian interest in UK products. In May an Armoured Delegation visited UK to evaluate Challenger and a further team visited in June to discuss command, control and communications systems. Representatives of the Ministry of Defence, the Ministry of Military Production and the Ministry of the Interior visited BAEE 82. The ROFs have completed development work on T55 tank upgunning and are preparing proposals for converting existing Soviet towed artillery to tracks. In addition Vosper Thornycroft remain in detailed discussions with the Egyptians on proposals for frigates or fast patrol boats. However, the UK faces strong competition on all these prospects. With the very limited financial resources available, extended credit terms are of crucial importance as is our willingness to offer local assembly and manufacture.

Although still a major customer, fewer contracts have been concluded with Iraq this quarter. This can be accounted for by reverses suffered in the war with Iran and the closure of the pipeline through Syria which has deprived the Iraqis of a large proportion of their revenue. The Iraqi decision not to proceed with the refurbishment of captured Iranian Chieftain tanks was a major disappointment, and the proposal for a new Naval Base has been put on ice until the situation in the Basrah area is clarified. However, despite the budgetary constraints and uncertainties British firms are continuing to provide quotations and to pursue various contracts wherever possible. Good opportunities remain for UK manufacturers to secure large orders. The most immediate on the Air Force side is for the supply of Nimrod AEW and tanker aircraft (£1400M including spares and support) provided we can resolve the question of performance bonds, advance payment guarantees





(which may require a Government to Government agreement), and problems over US sourced components and technology. There are also prospects for the supply of towed artillery which Ministers have agreed may go ahead after the war. The latter, of course, is a serious constraint. The Iraqis will not take us seriously as a major supplier with this type of condition, other than of Nimrod AEW and Hawk aircraft.

The Falkland crisis has affected both short and longer term sales prospects in a number of Latin American countries. Apart from the arms embargo placed on Argentina, temporary restrictions were placed on the supply of certain military equipments and spares to some of the less reliable Latin American countries, where it was considered these might pose a threat to UK forces if they found their way to Argentina. Ministers have agreed that these restrictions should now be eased, but sales to South America, in the immediate future, will continue to be carefully monitored. In particular, prospects in Peru and Venezuela have been set back by the crisis. The Venezuelan Hawk contract signed in March was frozen by the President and the prospects for Rapier there now look bleak. Elsewhere all the indications are that countries are anxious to return to a normal trading relationship as early as possible. This particularly applies to Brazil. Sales prospects in Chile remain unaffected by the conflict and indeed may have been strengthened because of it. The limiting factor here however is the poor state of the Chilean economy - they recently devalued by 18%.

In Africa, Nigeria is going through a difficult financial period and there has been delay in the finalisation of a number of important contracts. The signs are that these problems are easing as oil production increases. Although only one contract worth £4M was signed during the quarter, signature of the Jaguar contract (£580M+) is still awaited and we expect a number of other contracts to be finalised before the end of the year, notably the £65M Swingfire deal.

The first round of discussions with Algeria on the defence co-operation MOU took place in early June and a further round of negotiations is planned for mid-September. Meanwhile, pressure on our air defence resources during the Falklands operation has delayed the preparation of an outline proposal for an air defence network, but this should be ready for presentation to the Algerians by mid-August. An Algerian Air Force team is expected to visit UK immediately after the Farnborough Air Show to follow up proposals for purchase of local assembly of Hawk and for the maintenance of the existing aircraft fleet. However, the Algerian government is unlikely to enter into a major technology transfer and infrastructure project of this nature until after signature of the MOU.





In the Far East progress has been slow. Malaysia's economy has been suffering from the impact of the world recession, and our only hope in that country is that the Malaysian Prime Minister may be forced to adjust his discriminatory policy towards the UK if our equipment and services prove to be demonstrably cheaper. With regard to Thailand, it is now believed that the legal problems over the IMS £65M credit package satisfying Thai law have been overcome and it is hoped that discussions on details of specific procurement requirements will commence soon. Project 051 negotiations in China have reached a difficult stage. Whilst BAE are confident that they can agree a price for Sea Dart, VT(UK)Ltd cannot make any further progress without an increased offer from the Chinese.

An interesting development in the quarter has been the Indian Air Force decision to purchase a further 31 Jaguar aircraft. Consideration is also being given to buying up to 8 of the batch presently leased from the UK. In addition a paper is in preparation by the IAF requesting a further 40-45 aircraft which, if agreed, would take the total to around 165, in excess of the original Staff Target of 150. This extra procurement will no doubt be used to reinforce the IAF's claim to be exclusively responsible for the strike role, an argument they are pursuing to contest the IN's request for further Sea Harriers. Notwithstanding this inter-Service rivalry, however, hopes for extra Sea Harrier sales remain high.

For Australia, all has been overshadowed by the decision to retain HMS INVINCIBLE. The Australian Government are now considering alternative long term carrier solutions including a new build Invincible class carrier and the British Shipbuilders Helicopter Escort Carrier, based on a commercial design. As an interim solution the Government has offered HMS HERMES either for loan or sale in 1984. Australian decisions on future naval aircraft and helicopter requirements are likely to be delayed while the carrier requirement is reassessed.

In the USA a significant sales success has been the award to Brown Bros of a contract worth some £27.7M for Ship Stabilisers despite strong competition from Sperry of America. The future of the Hawk deal is still in doubt but there is strong support for the BAE aircraft in both the Senate and the DOD. Progress has also been achieved against a possible future requirement to update the US 105mm gun capability and the indications are that, as the Light Gun out-performed its American competitors the 82nd Airborne Division are keen to take it.

Other than a £10M contract for BL755 to Yugoslavia, very little has been achieved in the way of sales to European countries during the quarter. The French interest in AEW equipment has been maintained however and Norway is showing strong interest in Rapier. Greece is expected to make a





decision of her choice of aircraft between Tornado, US F16, F18 and French Mirage for the Hellenic Air Force towards the end of the year. Arrangements are in hand for an RAF Tornado to visit Greece on a training exercise, in September.

Finally, we are endeavouring to make the most of the interest in the performance of British equipment in the Falklands. Firms have been provided with separate letters making all the useful points we can at this stage for them to use as they wish. This will be followed up by more detailed information in October when the full analysis is available.

*Yours ever*

*Mich Evans*

(N H R EVANS)



## PART III - MAJOR DEFENCE SALES PROSPECTS

## AFRICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ALGERIA	Air defence scheme	200+	1983	) All four of these projects dependent on ) signature of Defence Sales MOU currently under ) negotiation.	US of S(DP) visited in Aug 81. Has been in correspondence since.	France/Sweden/ Germany  France/Italy/ Czechoslovakia  France  Japan/Belgium/ Spain
	Hawk	200				
	Sea King/Commando helicopters	100+				
	Dry dock at Mers el Kebir Base					
EGYPT	30 metre patrol vessel for Coastguard	17	1983 onwards	Prospects fair. £17M contract under negotiation by Brooks Marine supported by ECGD credit.	M. of S(DP) has discussed with Egyptian Minister of Defence during 1981/2	Spain Italy France  France Spain
	Main Battle Tanks (Up to 500)	up to 1000	late 1980s	Egyptian delegation visited UK in May 1982 to evaluate Challenger. An offer of local manu- facture will almost certainly be necessary to win orders.		
MOROCCO	IMS Package - artillery, vehicles, small arms etc.	165	1982/3 onwards	Package revised in April 1982 and is still under consideration by Moroccans.		France USA (Aid)
NIGERIA	Jaguar	580+	1982	Negotiations on main contract terms + conditions still underway. Signature is reported to be imminent.		France  France USSR  USSR
	Swingfire	65	1982	Signature delayed due to Nigeria's short term financial problems.		
	Main Battle Tanks	50-60	1982 onwards	Negotiations continuing on this follow-on order.		
	Rapid Runway Repair Equipment	10	1982	Contract terms agreed and signature awaited. Short term financial problems causing delay.		
ZIMBABWE	CVR(T) family (Initial purchase of 18 vehicles likely).	up to 50 5	1982 onwards	ZNA impressed by CVR(T) at BAEE. In-country demonstration to be arranged.		France Brazil



## PART III - MAJOR DEFENCE SALES PROSPECTS

## ASIA &amp; FAR EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRALIA	Hunt Class MCMVs	90+	1982/83	Position uncertain. Financial problems made prospects look poor, but UK's change of heart over sale of HMS Invincible has made position more flexible. ( Decision <u>not</u> to go ahead notified to us Aug 1982)	Minister(DP) S of S Prime Minister	USA
	Replacement for HMAS Melbourne	175(?)		An MOU and Sales Agreement in respect of HMS Invincible had been agreed but not signed prior to Falklands operation. HMG has now decided not to sell Invincible but has offered alternatives, including HMS Hermes, in short term until a further Invincible class ship is available.		
	Sea Harrier	200	1983	RAN purchase of VSTOL aircraft will be in association with that of an aircraft carrier. Requirement for up to 20 aircraft.		
	Sea King	75	1982/83	Also related to potential aircraft carrier purchase. Possible 14 helicopters required (in addition to 8 they already have).		
CHINA	Project 051	150	1984 onwards	Vesper Thornycrofts negotiations have reached deadlock. BAeDG to resume talks on their (Sea Dart) element of package in July 82.		
INDIA	Sea King	200	1982	Indian evaluation team at Westlands 12-16 July. Indians interested in obtaining information on Sea King's performance in Falklands.	S of S to visit Sept 1982.  Indian Minister of Defence invited to Farnborough.	France Italy
	Sea Harrier	103	1982	Negotiations continue. Indians want Sea Eagle but no ISD yet known for RN. Also want information on aircraft's performance in Falklands.		
	Light Combat Aircraft	165	N/K	India still considering ICA. FRG approval required to release of the RB199 engine.		FRG France Sweden
	Jaguar	50-60	1983	India appears to be ready to purchase a further 31 aircraft, although no announcement has been made (Now announced)		
	FH70	250	1982 onwards	IMS proposals still under consideration.		



## PART III - MAJOR DEFENCE SALES PROSPECTS

## ASIA &amp; FAR EAST (Cont)

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
JAPAN	FH70	50-100	1982-83	IMS/Rheinmetall of FRG are leading negotiations on Sale and Licensed manufacture of FH70. Prospects good.		
KOREA	Skyvan	270	1983	In final stages of promotion. Skyvan appears to be preferred option.		
MALAYSIA	Panga Armoured Car	22.5	1982-84	Awaiting call forward for trials in Malaysia against competitors.		France, USA, Brazil, Switzerland
	FH70 (Excl ammunition)	12 (UK share about 4)		VSEL responding to tender invitation. MOD training package offered free of charge by flexing CEL and cost sharing with Vickers. Oto Melara also bidding.		Italy Austria Sweden
NEW ZEALAND	HMS Bacchante	11	Handover Oct 82	Letter of Intent signed Nov 81.	Minister (DP) approved original release of ships.	
	HMS Dido	6	Handover July 83	£4M deposit paid.		
	Wasp helicopters Associated ship equipments, ammunition, explosives etc.	2.02 11 (approx)	Oct 82 July 83	Sales agreement/MOU due for completion and signature July/Aug 82. Deferred payment terms agreed over three years.		
PAKISTAN	Frigates (2)	100	1982/83	Vospers have submitted proposals. Credit package essential.	OD in June 82 agreed credit of 50% (Middle Eastern funds said to be available for remainder).	France Italy

## PART III - MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
DENMARK	Sea Skua	5-10	1985-86	Danish Navy understood to have recommended procurement of Sea Skua. Funding constraints remain critical.		
FRANCE	AEW Equipment	300+	1983	Marconi Avionics system fitted into either Transall or Atlantique aircraft is under consideration for French AEW requirement.		USA
GERMANY	105mm Tank Gun Qty (200-215)	5	1983-85	To follow an existing contract.		
GREECE	Tornado	1000+	1982-83	A decision is still awaited on choice of NFA for HAF. Companies are to be given opportunity to discuss their proposals with Greek governments before final decision is announced towards the end of this year, with possible contract signature in January 83. An RAF Tornado will visit Greece in September on a training exercise.	Greek Defence Minister Invited to UK (?Sept) 82.	USA France
ITALY	BL755	Up to 10	6 months	Negotiations continuing.		
	Spey Aero Engines	100	1982	RR Spey Engine has been selected for development programme for Italian/Brazilian AMX fighter. Even though licensed manufacture of the engine will take place in Italy, RR expect business in excess of £100M from the order.		
	Gem Aero Engines	30-100	1983	Gem engine has been selected for development programme for Agusta A219 anti-tank helicopter. RR have signed a collaborative agreement with Piaggio to satisfy Italian wishes for local manufacture. Total engine requirement 750-800.		



## PART III - MAJOR DEFENCE SALES PROSPECTS

## EUROPE (Cont.)

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
NETHERLANDS	Submarine Towed Array Sonar Type 2026	5	1982	MOU covering RN support for introduction of Type 2026 into RNLN submarines has been signed. Firm hopeful of initial order in September.		
NORWAY	Rapier	150	1983-84	MOD/Bae team visited Norway for discussion in Jun. Recommendation expected in September for final decision by Storting.	Min of State (DP) is writing in support. US of S(DP) to lead MOD/BA team 30 Aug 1982.	USA France/FRG
SPAIN	Rapier	100-150	1982	It is understood that the Spanish Army have decided, in principle, in favour of Chapparel but no contract has been signed. Bae is considering increasing offer of amount of local manufacture in an attempt to reverse the decision.		USA France
SWITZERLAND	BL755	Up to 20	1982	Order anticipated Sep/Oct 82. Offer valid until 31 Dec 82.		
YUGOSLAVIA	EM System	5	1983+	Pacal had hoped to sign full contract (worth \$20M) in June but were told that foreign currency problems limit purchase to £5M. Company will submit a fresh tender.		

## PART III - MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
BRAZIL	Sea Skua	10	1982	Early contract signature may be likely following successful use of the system in the Falklands conflict, if satisfactory credit arrangements can be made.		
	ASW Package	50	late 1982	Ferranti and Marconi Radar have prepared separate proposals worth approx £50M for anti-submarine equipment for Embraer developed maritime patrol aircraft. Decision expected later this year.		
CHILE	Rapier	100+	1983-84	Both Chilean Army and Air Force are seriously interested in Rapier, Blindfire and tracked Rapier. Attractive credit terms on offer. Success of system in Falklands will have enhanced sales prospects.		
	Naval Lynx	40-50	1983-84	Chilean Navy has confirmed a requirement for additional helicopters for ASW role.		
ECUADOR	Air Defence System Phase 2	21	1982	First phase signed in 1981. RAF specialist on loan to EAF to advise on set-up. To be funded outside Defence Budget and final decision on purchase expected soon.		



## PART III - MAJOR DEFENCE SALES PROSPECTS

## MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ABU DHABI	Hawk	140	1982-83	Negotiations expected to be complete by end July/early August.	PM secured agreement in principle in 1981.	France
	Engineer Package	80	1983	IMS tender under consideration. New competition introduced but only IMS offer still complete.		Various
	Electronic Warfare	100+	1983	UK Tenders submitted and offer of UK MOD support made.		France, Italy FRG, USA
	Tracked Rapier	100	1983	BAe offering Tracked Rapier to meet Abu Dhabi requirement for further battery of low level Air Defence missiles.		
IRAQ	Hawk (incl local manufacture)	2125	1982-83	Final technical discussions due late July after which Iraqis will probably select preferred aircraft. Contract award expected late 82/early 83. Question of performance bonds and advanced payment guarantees still to be resolved.	Defence and Trade Secretaries have spoken in support of Hawk deal with Iraqi Ministers.	France Italy
	Nimrod AEW and tankers	up to 1400	1982	Agreement reached on technical specification. Iraqi insistence on performance bonds may force Govt-to-Govt deal. Iraqis have asked for early delivery of 2 AEWs from RAF production run.	Sale agreed in principle by Ministers. Ministers will be asked to consider request for diversion of 2 RAF AEWs.	
	Tornado	1000	1983	Iraqis wish to buy 60-80 IDS, but supply ruled out on political/security grounds. BAe are working on proposals for an export version of Tornado which must have ground attack capability if it is to meet Iraqi requirement.	Ministerial working group considering.	France USSR
	Aircraft Repair Facility	350-450	1983	Study contract to be awarded to BAe/RR for construction of factory to repair Soviet-built aircraft. Main contract to be awarded mid 1983.		
	FH70 (incl support) Very large ammunition stocks, and infrastructure	up to 2000+	1983 onwards	IMS submitted budgetary offer at end of June. Supply post war and subject to German and Italian approval.		France
	Challenger MBT	600+	1983 onwards	Offer for 300-500 Challenger being prepared by IMS - post war supply.		France USSR

## PART III - MAJOR DEFENCE SALES PROSPECTS

## MIDDLE EAST (cont)

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
JORDAN	Hawk	100	1983-4	Hawk favoured to replace ageing F5s in trainer role.		France Italy
KUWAIT	MBT	250+	1983	Strong interest in Challenger. Requirement also exists to retrofit Chieftains with computerised fire control systems and to upgrade engines.	PM visited Sept 1981. S of S to visit Sept 1982.	France Brazil
	Armoured Vehicles	30-40	1983	Scorpion has good prospects to replace Saladins are to be phased out.		
	Air Defence Package	400	N/K	3 RAF officers in Kuwait as advisers. Initial report expected shortly.		
OMAN	Communications Network	80+	Mid 1980s	US firm awarded design study for replacement of existing network, but UK firms have good prospects of securing equipment contracts.		USA
QATAR	JOC & AOC	80+	1982	Plenscy currently negotiating for the electronics and IHS are bidding to become overall contractor.		
	Air Defence Radar	40+	1982	Two radars ordered 1981; good prospects for sale of further three to complete coverage.		
	Rapier	150+	1983	Good prospect for 2 further batteries if first battery is successfully installed.		
SAUDI ARABIA	FH70 (Army) Gun Supply Contract	64	1982	Contract signed 11 July 1982. (Will be included in Pt II of next report). Good prospects for large follow-on ammunition order.	S of S has sent 2 personal letters to Prince Sultan on prices.	USA France
	FH70 (Army) Ancillary Support Equipment	35	1982	Contract negotiations expected to commence in Oct/Nov 82.	S of S to visit Sept 1982.	
	Lynx Helicopters	60-80	1982	Ministerial approval for Army Air Wing project given June 82. Decision on choice of aircraft expected after Ramadan.		



## PART III - MAJOR DEFENCE SALES PROSPECTS

## MIDDLE EAST (cont)

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
SAUDI ARABIA (cont)	Artillery and Engineer Equipment	126	1982-83	Follow up supply contracts to those signed with IMS in 1980. Negotiations awaited on IMS proposals.		
	RN Training for Ministry of Interior Coastguard	4	1982	RN proposals for 3½ yr training programme agreed in principle. Initial contract for remainder of programme expected in September.		Germany France Taiwan Pakistan
	Extension of MOU covering Air Defence Project (SADAP)	400 over 3 years	1982	Ratification of MOU extension by Saudi Ministers expected shortly. Final signature late July/early August. ( Signed 2 Aug 1982 )	S of S has written and spoken to Saudi Ministers in support of UK offer.	
	Tornado/P110	500+	1986-87	P110 Presentation offered to Saudi Arabia.	Discussed by PM and S of S with Prince Sultan in London 1981.	France USA
	Air Base Security Systems	80-90	1982	Shorrock Security Systems are favourites to win contract for security systems for RSAF airfields. Non-availability of funds is a holding factor.		USA
SAUDI ARABIA (National Guard)	FH70	20+	1982-83	Presentation given Jan 82		USA
	SANGMED	250+	1983	Current LOA expires May 83. Discussion on 2nd LOA will begin 1982.		USA
	Challenger MBT	approx 50	1982-83	We have responded positively to SANG's request for "commitment to supply" and are awaiting further developments.		USA & FRG
SYRIA	Tank transporters	100	1982	Scammell vehicle fairing well in trials against competitors. BSGD have agreed credit. Arab funding expected this year.		FRG Italy France

## PART III - MAJOR DEFENCE SALES PROSPECTS

## NORTH AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
CANADA	Patrol Frigate Programme	N/K	1983	Contract definition studies placed with Canadian companies. Number of UK companies are hopeful of major subcontracts, notably for propulsion machinery, radar and communications equipment.		International
USA	Medium Girder Bridge and Link Reinforcement Sets	64	1982	US Army/USMC procurements to be single sourced. Contract on Fairey to include 23 MGBs + 11 LRS in FY 1983	Minister of State (DP) / Mr Carlucci correspondence.	
	Hawk	500	1987	Project has strong support in Senate and at top level in IOD	US of S(DP)	USA France
	Integrated Communications Systems (ICS 3)	50-100	1982	System under evaluation by USN		USA
	Improved 81 mm Mortar	200-350	1983	Prospects good, but procurement funding might be restricted for FY 84.		
	Searchwater Radar	100	1983	Flight trials begin Sep 82. Prospects good.	US of S(DP)	USA
	Combat Support Boats	5	1982	Firm have prepared an offer for additional 70 boats. Overall requirement is for 352 Boats with a potential 1,300 for Harbour duties.		



21 AUG 1982

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Prime Minister Reference 02



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000-2111/3  
DIRECT DIALING 01-218

MO 5/20

Mr Nott wants to offer exceptional credit terms to ensure that Panavia win this Greek contract. You may wish to await the responses from Trade and Treasury before deciding whether to comment.

23rd August 1982

Yes mt.

BF with Trade & Treasury responses.

JF 24/8

Dear Secretary of State,

SALE OF TORNADO TO GREECE

Over the last 18 months Panavia have been pursuing the prospect of a sale of 60 Tornado to Greece in the face of strong opposition from the Americans and French. We are providing every support to them including the diversion of RAF Tornados to Greece in the next month for evaluation in-country. The Tornado had previously been evaluated in the UK. We have also invited Mr Zakolikos to the UK at the end of September.

The negotiations are now entering a critical phase and Panavia are the first to present their final proposals next month. The contract is worth up to £1000M, of which the UK share is over 40%. The Greek sale is the only real prospect we have at the moment of selling Tornado and I do not need to underline the importance to BAe of such an order - and its very important defence implications for NATO where Greece should be given every encouragement to commit herself to the UK/FRG/Italian aircraft rather than an American or French alternative.

The purpose of this letter is to discuss the credit terms which should be offered. Under the collaborative arrangements each of the three participating countries finances its own share.

The Rt Hon The Lord Cockfield





The current UK credit offer is for 70% of its share at an interest rate of 11%. The latter is due to rise in October to 12½%. FRG credit, provided from commercial sources, approved by the Government, amounts to 70% at 9¾%-10% and the Italians will follow the UK/FRG offers.

The UK rates follow the normal international consensus conditions and these are, of course, only varied where it is necessary to match the competition. Currently the US and French, according to the best information we have at the moment, intend to offer only 60% credit and therefore we appear to be starting at an advantage. However, it has been our experience in the past (as in the Egyptian sale of Jaguar) that our competitors do have recourse to other sources of finance not open to us that still enable them to put together a more attractive package overall. Moreover, we badly need the order and, being the first into bat, Panavia need to be able to lead with strong proposals and not simply be reactive to the competition initiatives. I suggest, therefore, we ought to make an exception in this case and agree to provide 85% cover from the start, without matching evidence of the competition. If this is done we understand there is a strong possibility the FRG and Italians will follow our lead. I also suggest that we should hold the interest rate at 11%, instead of increasing it to 12½% as planned.

I would be glad to know if you can agree to this suggestion, or have a counter-proposition. I feel that this matter is of such defence importance that it is a candidate for a short mention at OD in September. I am afraid time is very short and it would be extremely helpful if I could have a reply as soon as possible. I am copying this letter to the Prime Minister, Leon Brittan, Francis Pym and Patrick Jenkin, and to Sir Robert Armstrong.

Yours sincerely

John Nott (private secretary)

John Nott [seen and agreed by Mr Nott and signed in his absence]

23 AUG 1982

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5 6 7 8 9



Original filed on Ind. Pol.  
Impact of Government on Industry  
July 1979.

Defence



Minister of State  
for Defence Procurement

MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)  
01-218 9000 (Switchboard)

D/MIN/TT/27/1

19th August 1982

Personal

Dear Prime Minister

RECESS WORRIES

— STATE OF INDUSTRY

For the first three years of office I wrote memoranda to Keith Joseph under the above heading, and I think for the past two years I have sent a copy to you. This year I am simply writing it direct to you.

I hope you had a little rest in Switzerland after all the burdens you have been and are carrying so well and courageously.

Last year I told you in essence that I had moved from being 'wet' to being 'dry' but being very worried as to whether industry would react any quicker to a position in which they were becoming competitive than they had done to a position of hopeless uncompetitiveness brought about by the movements of the exchange rate in 1979. In this connection their speed of reaction can be hastened or slowed to a degree by the statements of leaders of industry and the line taken by the media.

/ I said ...

The Rt Hon Margaret Thatcher MP



I said last year that with the exchange rate returning to a reasonable level for British manufacturing industry large sections of industry whose prices were hopelessly uncompetitive should be competitive again. I fear too many of them are waiting to be absolutely sure and we go on announcing in our bulletins based on the Central Statistical Office, that compared with 1975 we are still 30% non-competitive. This is not true, and the fact that in volume terms we have clearly bottomed out is evidence that it is not true. I believe among the factors which have not been built into this very broad statement are first that we have lost the most non-competitive part of our industry and the rest is well above the old average. Secondly, that our reliability and quality have improved enormously and they now command or can command a higher price relative to other countries than they could three years ago.

I have sufficient of the old Department of Industry data in my mind to know that at current exchange rates and current much improved productivity figures larger sections of industry could and should be growing again than are. Even parts of textiles and newsprint should be growing. I am privately trying to influence industrial leaders on the vital importance to us and to them of changing the message being issued by leaders of industry from one of "we see no evidence of recovery" to one of "we are now competitive and it should be possible to bring about an upturn".

The industrial and economic war is a longer one and a harder one than the Falklands has been. We can win it but we do need to bring about a change in the message from quarters other than Ministers.

/ I hope ...



I hope these thoughts have not wasted your time.

I have sent John Nott a copy of this note.

Yours  
Tom

Trenchard

P.S.

I have asked to see you for 10  
minutes before you go to Tofan to add  
a point or two about Defence sales to Tofan.

T.S.

File

286

21 July 1982

I write to acknowledge receipt of your letter of 20 July conveying the originals of the letters of 1 and 2 July from the Prime Minister of Australia to Mrs. Thatcher.

A. J. COLES

The Hon. Sir Victor Garland, K.B.E.





AUSTRALIAN HIGH COMMISSION · LONDON

THE HIGH COMMISSIONER

The Hon. Sir Victor Garland, KBE

20 July 1982

*Dear Laurie Bushby,*

On 1 July and 2 July I conveyed to you the texts of letters from my Prime Minister concerning Invincible.

.... I now attach the originals of those letters.

*Sincerely,*  
*R.V. Garland*

R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,  
Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

*Defence*

Ref: B06569

PRIME MINISTER

c Sir Robert Armstrong

Defence Sales and Argentina  
OD(82) 58 and OD(82) 63

## BACKGROUND

If OD(FAF) agrees at its meeting on 20th July to lift the remaining sanctions against Argentina, the arms embargo will be the only measure still being kept in force by ourselves and our European, Old Commonwealth and United States partners, some of whom, under pressure from their own industrial and commercial interests, will be seeking to relax it. Although there is no question in present circumstances of our supplying defence equipment directly to Argentina, we have to consider our attitude towards supplying third countries either

- a. with equipment for installation in weapons systems to be supplied by them to Argentina (eg British equipment for German built frigates, which is the subject of OD(82) 63); or
- b. with arms which that country might pass on to Argentina, if hostilities were resumed (eg Hawk trainer aircraft to Venezuela).

There is also the question of how far we should go to persuade our partners to keep the arms embargo against Argentina in force and not to supply arms to countries which might themselves help Argentina in any future conflict over the Falklands.

2. The Secretary of State for Industry and the Attorney General have been invited to the meeting.

## HANDLING

3. You should invite the Foreign and Commonwealth Secretary to introduce the subject. It might be convenient to discuss principles first, and then turn to the specific problems including the German frigates. On the principles, points to establish in discussion are





- a. does the Committee agree that there should be a total embargo on defence sales direct from the United Kingdom to Argentina, whether or not the equipment is relevant to possible hostilities against the Falklands?
- b. On United Kingdom sales to third countries, should we seek explicit end-user assurances from certain Latin American countries, or rely, as officials propose, on our own judgements about the risk of diversion to Argentina? If the former, would Latin pride inhibit the granting of end-user clauses (and thus lose British industry business to its foreign competitors), or would Latin duplicity allow the assurances to be given but later disregarded? The Secretary of State for Trade should be asked to comment on the risks to our general trade interests in Latin America, and the Defence Secretary on the interests of the United Kingdom defence industries. Should we make any general distinction between countries, by being very restrictive towards supporters of Argentina like Venezuela, with her claim to large parts of Guyana, while on the other hand doing our best to promote defence sales to countries such as Brazil and Chile who have been helpful to us? Or is it best to emphasise the distinction between Argentina on the one hand and the rest of Latin America on the other, in the interests of expanding British trade and furthering British interests?
- c. Should we seek to maintain the European Community arms embargo against Argentina? The Foreign and Commonwealth Secretary should be invited to comment on the likelihood that our European partners will seek to end it soon. Since recent telegrams from Washington indicate that the United States embargo, imposed in 1978 for human rights reasons, is likely to stay on, the European countries will see particular opportunities for sales to Argentina. If a Western arms embargo is effective and prolonged, will it drive the Argentines into looking to the Soviet Union, particularly for combat aircraft, as well as to Israel, Libya and South Africa?





d. Are there especially sensitive weapons which we will want to go to all possible lengths to prevent the Argentines from acquiring? Exocet missiles, especially the air-launched version, are an obvious example. But the French have now released Exocet to Peru, with a specific governmental guarantee against transfer elsewhere. The list of sensitive items at the Annex to OD(82) 58 is a wide one: the Defence Secretary might be invited to comment.

4. The Committee might then turn to specific cases.

a. The supply of British equipment for frigates and corvettes being built for Argentina in Germany is discussed in the paper by Ministry of Defence officials (OD(82) 63), which proposes that the remaining equipment should be released to Germany if the Germans undertake not to deliver any of the ships to Argentina without our agreement. The Defence Secretary should be invited to comment, and the Foreign and Commonwealth Secretary to advise on the likelihood of the Germans agreeing to this condition. Since the first frigate is due for delivery in December 1982, the Committee will wish to consider whether we should make it clear to the Germans that we would regard our consent to its delivery then as unlikely to be forthcoming. For us, the overriding considerations must be to prevent the frigates being released to Argentina in present circumstances, and to avoid exposing ourselves to allegations from our other partners that we are seeking to prevent them selling arms to Argentina while apparently acquiescing, at least in principle, in the supply of British military equipment through third countries. If we refuse export licences, this will irritate the German Government and imply that we do not trust them. But if we grant the export licences and rely on a German undertaking not to release the ships without our agreement, this could mean coming under severe German pressure later in the year to agree that the ships should be released. The Germans might retaliate by refusing agreement to supply equipment to us for sale to, say, a Middle East country.





Arms sales to third world countries are a highly sensitive domestic political issue in Germany: might it be better, before deciding whether to grant or withhold the export licences, to probe German intentions further and explore with them, at a political level, how best to achieve our objective of ensuring that the frigates are not released to Argentina? This would gain time, while placing the dilemma squarely on the Germans.

- b. A related problem, on which the Foreign and Commonwealth Secretary is planning to circulate a minute to his OD colleagues later today for consideration at the meeting, is the contract which British Aerospace secured, with Government support, before the Falklands conflict to supply Hawk trainer aircraft to Venezuela. This contract has been placed on ice by the Venezuelans. British Aerospace has been pressing for Government support so that the Venezuelans can be persuaded to proceed with it. In addition to the risk of diversion of the aircraft to Argentina (which is probably low), Ministers will wish to consider
- i. the impact which a decision to allow the sale to proceed could have on our efforts to dissuade our allies from selling sensitive equipment to Latin American countries friendly to Argentina; and
  - ii. the implications for Venezuela's territorial dispute with Guyana.

#### CONCLUSIONS

5. Subject to the discussion, the Committee might be guided to reach the following conclusions.
- i. We should continue to maintain a total national embargo on arms sales to Argentina; nor should we grant export licences for British equipment to be incorporated into weapons systems being manufactured for Argentina in third countries.
  - ii. We should make it clear to the Germans that we cannot contemplate the release to Argentina of the warships currently being built in Germany and would welcome German views on how this can best be prevented, making it clear that we are prepared to continue to refuse export licences for the British equipment involved if this would make it easier for the Federal Government to hold things up.



iii. We should urge our EC partners, the United States and the Old Commonwealth to continue to maintain a full arms embargo against Argentina; but we should recognise that, to the extent that a resumption of hostilities over the Falklands continues to appear remote, our EC partners will be likely to seek to end the embargo, which we shall be unable to prevent; and we should therefore concentrate on persuading them not to supply the most sensitive categories of arms.

iv. We should in principle support the sale by British industry of defence equipment to other Latin American countries, who gave remarkably little material help to Argentina in the Falklands conflict; but we should normally refuse an export licence where there were positive grounds for believing that the items was destined for Argentine.

v. We should indicate to the Venezuelan Government that, with the cessation of hostilities, we would stand by our earlier pre-invasion decision to allow the Hawk sale to go ahead; but we wish to be assured that, in the event of a resumption of hostilities, the aircraft would not be made available to Argentina.

*A D S Goodall*

20th July 1982

A D S GOODALL





*Original copy filed on  
Guyana Oct 49, Internal Situation*

PM/82/62

PRIME MINISTER

Venezuelan Threat to Guyana and the Sale of Hawk Aircraft

1. In my minute of 5 July on the Venezuelan threat to Guyana I mentioned the £200 million contract to sell 24 Hawk aircraft to Venezuela.
2. Both John Nott and I believe that there are strong arguments in favour of this sale which outweigh the possible political disadvantages and that we should not prevent the contract from going ahead. The position on the contract and the arguments for and against its implementation are set out in the attached annex.
3. In essence, the situation is that the sale is important to British Aerospace in terms of employment and for the development of a new version of the Hawk. The two main arguments against the sale are the possibility that the aircraft could be used by Venezuela against Guyana in support of its territorial claim or that Venezuela might make the aircraft available to Argentina if hostilities were resumed over the Falklands. However, the Venezuelans have repeatedly indicated that they intend to seek a peaceful solution to their dispute with Guyana: and for us to block the contract, in the face of these assurances, would be bound to cause strong resentment at a time when the Venezuelans seem anxious to mend fences. Furthermore, the French have offered the Alphajet in place of the Hawk for a much earlier delivery. As regards supply of Hawk to the Argentines, we believe it unlikely that the Venezuelans would be prepared to put their aircraft at risk in this way. Despite being among the most vocal supporters of Argentina during the recent conflict, they gave only very limited practical help.

CONFIDENTIAL



4. I am copying this minute to the members of OD and to the Secretary of State for Industry, the Attorney General and Sir A Armstrong.

A handwritten signature in dark ink, appearing to be 'F. Pym', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth

20 July, 1982

CONFIDENTIAL





Venezuelan Threat to Guyana and the Sale of Hawk Aircraft

British Aerospace have been negotiating this sale of 24 Hawk trainer aircraft for nearly two years. Although the preference of the Venezuelan Air Force for Hawk over its competitors has long been clear, conclusion of the contract was delayed because of Venezuelan political misgivings over the UK's position on the Guyana border dispute. The contract was eventually signed at the end of March 1982. But its implementation has been delayed by the Falklands crisis, in which Venezuela gave overt support to Argentina. In May, the Venezuelan President stated that the contract would be "frozen"; and the initial payment required for the contract to go ahead has so far been withheld.

If it proceeds, this will be the largest export contract with Venezuela which we have secured and the first foothold for Hawk in the South American market. British Aerospace maintain that its loss would have serious repercussions for them. The order is needed to launch a new version of the Hawk in conjunction with the Abu Dhabi order. BAC cannot amend their Abu Dhabi proposal at this stage. If the Venezuelan order does not go ahead they will suffer a substantial loss on the development costs for the Abu Dhabi order. The Venezuelan order will maintain 6,000 jobs and avoid the need for further large-scale redundancies. Furthermore, our record as a reliable military supplier to Latin America is already open to question on past performance.

There are two main concerns on this sale:

- a) that the aircraft could be used by Venezuela against Guyana if it took military action in support of its border claim (or more improbably against Colombia with whom Venezuela also has a boundary dispute);

/b) that





- b) that Venezuela might make the aircraft available to Argentina if hostilities were resumed over the Falklands.

There can be no guarantee that Venezuela would not use the Hawk (which, while trainer aircraft, have a ground-attack capability) against Guyana if their dispute were to lead to hostilities. Were this to happen, it would cause us serious embarrassment and we would be criticised for not having foreseen the eventuality. However, they already have 23 Canberra aircraft plus 16 Mirages and are negotiating for 24 F16 fighter bombers from the US. Moreover, there is no evidence that Venezuela intends to use force against Guyana. It has given repeated assurances that it intends to seek a peaceful solution through the provisions of the Geneva Agreement (most recently in the Venezuelan Foreign Minister's Note on 18 June). The Venezuelans are now seeking Guyanese agreement to procedures for starting negotiations in accordance with the Geneva Agreement. If, therefore, we were to refuse to allow the sale to go through because of the border dispute, it would be a clear expression of disbelief in Venezuelan good faith. Not only would this be hard to justify: it would also inevitably have repercussions both for our political relations with Venezuela and for our important commercial interests there. While our relations have been strained over the Falklands crisis, the Venezuelans have since indicated their wish to mend fences and to resume the friendly relationship which previously existed. Meanwhile, the Guyanese have not themselves pressed us to abandon this sale, though they are seeking other forms of military assistance from us. Deliveries of Hawk would not begin until late 1983 with the bulk of the order only ready for shipment in 1984. If negotiations between Venezuela and Guyana turn sour, the most dangerous period is likely to be in the run-up to the Venezuelan elections at the end of 1983.

/A further





A further factor is that the French have submitted a rival bid to supply their Alphajet aircraft if the Hawk sale does not go ahead. The Alphajet would be ready for delivery within six months whereas the first batch of Hawk aircraft would only be available in late 1983. While we would be prepared to delay or suspend deliveries, should there be a sudden heightening of tension between Venezuela and Guyana, there is no guarantee that the French would be prepared to do the same.

As regards the risk that the Venezuelans might make the aircraft available to the Argentines in any future Falklands confrontation, we can also have no absolute guarantee against that: there is however an end-user clause, which forbids making the aircraft available to a third party without prior consultation. But it would be unlikely that the Venezuelans would be prepared to put these aircraft at risk in this way. Though they were amongst the most vocal supporters of Argentina during the recent crisis, they gave only very limited practical help. They supplied some spare parts and fuel but no significant items of equipment. It is proposed in OD(82)58 to ask our allies to take particular care over the sale of weapon-carrying aircraft to third countries sympathetic to Argentina. If challenged on the Hawk, we would reply that we had weighed up the risk of diversion and assessed this as unlikely.

In the context of the Guyana/Venezuela territorial dispute, there is also the problem over the supply of the balance of an order for 40 bomb-carriers to Venezuela placed well before the Falklands crisis, of which 20 were shipped before the conflict and the remaining 20 are awaiting despatch at the end of this month. This order has already been licenced and it would be necessary to withdraw the export licence to prevent shipment. This would present difficulties. The bomb-carriers could

/theoretically



theoretically be used against Guyana or diverted to Argentina.. However, there is no evidence that the Argentines have an urgent requirement for additional bomb-carriers and the order meets the known Venezuelan requirements for her own aircraft. The risk of diversion to Argentina, therefore, seems small.



Defence

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RM

file



10 DOWNING STREET

*From the Private Secretary*

19 July, 1982

HMS INVINCIBLE

The Prime Minister has noted without comment your Secretary of State's minute of 13 July about the outcome of his discussions with the Australian Defence Minister.

SECRET

D Omand, Esq.,  
Ministry of Defence

Mr Coles  
No 10 Downing St

CONFIDENTIAL

GRS 140

DEDIP

CONFIDENTIAL

FM PARIS 151700Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 729 OF 15 JULY 1982

INFO IMMEDIATE MODUK (FOR DS ARMS SALE), DS.INT, A/CDRE INT, DS 13

YOUR TELNO 422: EXOCET MISSILES FOR PERU

1. ACTION TAKEN WITH QUAI ON 13 JULY WHO COULD NOT SAY IMMEDIATELY HOW THE DELIVERY WAS TAKING PLACE. FOUQUET (QUAI) TOLD HEAD OF CHANCERY ON 15 JULY THAT THE MISSILES WOULD BE GOING BY SEA FROM TOULON ON 17 JULY IN THE PERUVIAN NAVAL TRANSPORT VESSEL INDEPENDENCIA.

2. IN ANSWER TO A QUESTION, FOUQUET SAID HE THOUGHT IT WAS UNLIKELY THAT THE MISSILES WOULD BE OFF LOADED TO GO BY AIR FROM SOMEWHERE OUTSIDE FRANCE. IN ORDER TO COMPENSATE FOR THE DELAYS IN CARRYING OUT THE EXOCET CONTRACT, THE FRENCH HAD OFFERED TO SEND THE MISSILES BY AIR AT FRENCH EXPENSE. BUT THE PERUVIANS HAD REFUSED PREFERRING TO TAKE THEM ON THEIR NAVAL VESSEL.

FRETWELL

LIMITED

HD/S AM D  
HD/FALKLANDS UNIT  
HD/WED  
HD/DEFENCE D  
HD/PUSD  
D/HD/PUSD  
PS  
PS/MR ONSLOW  
PS/PUS  
SIR J BULLARD  
MR GIFFARD  
MR WRIGHT  
MR GOODISON  
MR GILLMORE  
MR URE

COPIES TO:

MR GOODALL, CABINET OFFICE  
MR COLES  
NO 10 DOWNING STREET

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ADVANCE COPIES: FALKLAND ISLANDS GENERAL 44

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PS/MR HURD  
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SIR I SINCLAIR  
MR GIFFARD  
MR WRIGHT  
MR ADAMS  
LORD N G LENNOX  
LORD BRIDGES  
MR URE  
MR GILLMORE

Mr FREEMAN

PS/NO 10 DOWNING ST (2)  
PS/S OF S FOR DEFENCE  
MR J STEWART AUSD STAFF MOD  
PS/CHANCELLOR )  
MR ILETT ) TREASURY  
MR LITTLER )  
MISS DICKSON D/ENERGY  
SIR R ARMSTRONG )  
SIR M PALLISER )  
MR A D S GOODALL ) CABINET OFFICE  
DIO )

HD/PUSD (2)  
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HD/FALKLANDS UNIT (2)  
HD/DEFENCE DEPT  
HD/NEWS DEPT  
HD/ERD  
HD/ECD(E)  
HD/UND  
HD/PLANNING STAFF  
RESIDENT CLERK

ROOM 8 FOR MODUK C IN C FLEET

Mr. COLIN ROTH, LACPD, ODA  
Mr. BORDEN, LACPD, ODA

ADVANCE COPY

CONFIDENTIAL  
FM WASHINGTON 142123Z JUL 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 2425 OF 14 JULY

IMMEDIATE

ARGENTINA: ARMS SUPPLIES

1. BURT (ASSISTANT UNDER SECRETARY FOR EUROPEAN AFFAIRS) RAISED WITH MINISTER THIS MORNING THE PROBLEM OF ARMS SUPPLIES TO ARGENTINA. IT WAS CLEAR FROM RECENT U S INTELLIGENCE REPORTS THAT THE RUSSIANS WERE SHOWING RENEWED INTEREST IN A DEAL WITH THE ARGENTINIANS INVOLVING GRAIN IN EXCHANGE FOR ARMAMENTS. THUS FAR, THE ARGENTINIAN RESPONSE HAD BEEN RESPONSIBLE. BUT THE AMERICANS WERE NONE TOO SURE HOW LONG THIS WOULD CONTINUE IF THE ARGENTINIANS WERE UNABLE TO GET ARMS FROM ANYWHERE ELSE.

2. BURT CONTINUED THAT THE U S ADMINISTRATION WERE WORRIED ABOUT THE POSSIBILITY OF AN ARMAMENTS SUPPLY RELATIONSHIP BECOMING ESTABLISHED BETWEEN THE USSR AND ARGENTINA. HE BELIEVED WE SHARED THIS CONCERN. IN ADDITION, THE U S STRONGLY DISLIKED THE IDEA OF A BARTER DEAL OF THIS KIND, SINCE IT WOULD ENABLE THE SOVIET UNION TO TAKE GRAIN WITHOUT USING UP ITS MEAGRE HARD CURRENCY RESERVES.



WITHOUT USING UP ITS MEAGRE HARD CURRENCY RESERVES.

3. BURT ALSO MADE A GLANCING REFERENCE TO A FURTHER ARGUMENT WHICH SEEMS TO HAVE BEEN USED WITHIN THE ADMINISTRATION THAT IN THE EVENT OF FURTHER TENSION IN THE SOUTH ATLANTIC, IT WOULD BE IMPORTANT TO HAVE GOT BACK INTO A POSITION WHERE THE U S AND THE EC JOINTLY HAD SOME LEVERAGE OVER THE ARGENTINIANS. THE IMPLICATION SEEMED TO BE THAT SUCH LEVERAGE WOULD BE MORE EFFECTIVE IF SOME KIND OF ARMAMENTS SUPPLY RELATIONSHIP WITH THE WESTERN INDUSTRIALISED COUNTRIES HAD BEEN RESTORED.

4. BURT ACKNOWLEDGED THAT FOR THE TIME BEING THE AMERICANS WERE UNLIKELY TO LIFT THEIR ARMS EMBARGO. IT HAD BEEN IMPOSED IN 1978 BECAUSE OF ARGENTINA'S POOR HUMAN RIGHTS PERFORMANCE. THERE WAS NO EARLY LIKELIHOOD THAT CONGRESS WOULD CONSIDER THAT THIS HAD SUFFICIENTLY IMPROVED TO PERMIT THE RESUMPTION OF ARMS SALES, EVEN IF NO OTHER ARGUMENTS WERE INVOLVED. BUT THE SAME CONSIDERATIONS DID NOT NECESSARILY APPLY TO THE EUROPEANS. HE WOULD BE INTERESTED TO KNOW WHAT UK THINKING WAS ABOUT THIS. THOMAS SAID THAT HE WOULD REPORT BURT'S ENQUIRY AND SEEK A REACTION FROM LONDON. BUT HE COULD SAY AT ONCE THAT OUR OVERRIDING CONCERN WAS, AS THE AMERICANS KNEW, FOR THE SECURITY OF THE FALKLAND ISLANDS AND OF OUR FORCES WHICH REMAINED THERE. THERE COULD BE NO QUESTION OF OUR ACQUIESCING IN A RESUMPTION OF WESTERN ARMS SUPPLIES TO THE ARGENTINIANS UNTIL THEY HAD EXPLICITLY AND CONVINCINGLY ACCEPTED THAT HOSTILITIES HAD BEEN CONCLUDED. BURT WOULD UNDERSTAND THAT UNTIL THIS POINT HAD BEEN REACHED, ANY MOVES WHICH ENABLED THE ARGENTINIANS TO RE-BUILD THEIR ARMED FORCES WOULD CAUSE US THE GREATEST CONCERN. HE ASKED BURT WHETHER THE AMERICANS SAW ANY SCOPE FOR USING THEIR INFLUENCE WITH THE ARGENTINIANS TO PERSUADE THEM TO ACCEPT A FORMAL ENDING OF HOSTILITIES. BURT DID NOT SEE MUCH LIKELIHOOD OF THE ARGENTINIANS BEING ABLE TO BRING THEMSELVES POLITICALLY TO DO THIS.

5. THIS APPROACH BY BURT SEEMS TO HAVE BEEN DESIGNED TO TAKE OUR TEMPERATURE. HE WAS SPEAKING FROM A WRITTEN BRIEF, WHICH SUGGESTS SOME DEGREE OF COORDINATION, AT LEAST WITHIN THE STATE DEPARTMENT. BUT IT SEEMS UNLIKELY THAT THE APPROACH HAS ANY HIGH LEVEL POLITICAL AUTHORITY BEHIND IT. WE SHOULD NEVERTHELESS REACT FIRMLY. THE LATIN AMERICAN SIDE OF THE STATE DEPARTMENT WOULD CERTAINLY LIKE TO GET AUTHORITY TO RELEASE THE EQUIPMENT FOR ARGENTINA WHICH WAS IN THE PIPELINE AT THE BEGINNING OF THE FALKLANDS DISPUTE (SUCH AS THE 32 ENGINES FOR SKYHAWKS). UNLESS WE CONTINUE TO MAKE OUR OBJECTIONS TO THIS VERY CLEAR, WE MAY FIND THAT SUCH EQUIPMENT IS ALLOWED TO SLIP THROUGH. BUT IN MAKING OUR POSITION PLAIN TO THE AMERICANS, WE OUGHT TO SHOW UNDERSTANDING FOR THEIR CONCERNS ABOUT A SOVIET/ ARGENTINE ARMS DEAL AND WAYS OF TRYING TO AVOID THIS.



WE OUGHT TO SHOW UNDERSTANDING FOR THEIR CONCERNS ABOUT A SOVIET/  
ARGENTINE ARMS DEAL AND WAYS OF TRYING TO AVOID THIS.

HENDERSON

NNNN



Prime Minister

Better than expected.

MO 14/5

*MS*

A.J.C. 14/7

PRIME MINISTER

HMS INVINCIBLE

I wanted to report to you personally about the outcome of my discussions with Ian Sinclair, the Australian Defence Minister. Following the brief we gave you yesterday, I had heard that the Australians were very depressed about our unwillingness to let INVINCIBLE go. This led me to speak to you about tempering slightly the firmness of our stance about the retention of INVINCIBLE so that Sinclair did not leave London to face severe political embarrassment at home (and hence major loss of sales opportunities for the United Kingdom).

2. As it turned out the position was not as serious as I had expected. Sinclair told Frank Cooper and I that contrary to my expectations the Australians were prepared to consider a lease of HERMES, and even the building of a new INVINCIBLE class carrier based upon the firm message that he had received from you that it was our intention to retain INVINCIBLE.

3. When Sinclair returns to Canberra and faces his Cabinet colleagues it may well be that HERMES as an alternative option will be ruled out and that the costs of building a new INVINCIBLE class carrier in the United Kingdom will seem out of the question but it does seem that he will return to Canberra at least without having ruled out all options except INVINCIBLE.





If we could get Australia locked in to a purchase of Sea Harriers we will almost certainly bring them back into the UK equipment market and the pressures would be on them to go to an INVINCIBLE class carrier to take the Royal Australian Navy into the next century. If the Australians return to us to enquire about a possible new build we will wish to offer them the most favourable terms given the parlous state of Swan Hunter and in this connection I implied that we might even let them off all leasing costs for HERMES to be put aside as our contribution to the building of a new INVINCIBLE class for the RAN.

/ I enclose a copy of the press release which we agreed with Sinclair after lunch today. I am sorry to have put a change of emphasis to you without warning but you will understand, I know, that negotiations do require a fair degree of flexibility. I am most grateful to you for your understanding.

Ministry of Defence  
13th July 1982

SW



PRESS STATEMENT BY AUSTRALIAN MINISTER OF DEFENCE

During my visit to London I have had very full discussions with John Nott, the Secretary of State for Defence, on a range of subjects of mutual interest, and I have also had discussions with the Prime Minister, and the Foreign and Commonwealth Secretary. I have had the opportunity to visit British Aerospace at Kingston on Thames where I have seen the Sea Harrier production line. I had a most useful briefing in the Ministry of Defence on the proposed new frigate - the Type 23 - and the proposed Sea King replacement helicopter. We also received a briefing on the Falklands operation which will clearly produce many valuable lessons for the Australian Defence Forces and I have agreed with John Nott that there should be discussions between our two Ministries of Defence in the autumn on this subject which will include discussions between our defence scientists.

The main purpose of my visit was to discuss the plans for the Royal Australian Navy to acquire HMS INVINCIBLE. John Nott has explained to me that he wishes, following the Falklands experience, to have two carriers available for out of area operations and that he wishes therefore to retain HMS INVINCIBLE so as to have three carriers in the fleet to allow for the time which the ships would have to spend in refit. I shall be reporting back to the Australian Prime Minister in Canberra on my return the full discussions which I have had with John Nott on this subject. I shall then consider, with my Cabinet colleagues what should now be the best way forward for the Royal Australian Navy.



I shall want to examine closely all the possible options which could be open to the Royal Australian Navy, including the possibility of building a new INVINCIBLE class carrier. John Nott expressed his understanding of the difficult position which the Australian Government had been placed and offered to make HMS HERMES available at an early date on favourable financial terms, to fill the immediate capability gap should we decide to build a new carrier; this could involve leasing or outright sale of HERMES. We have arranged that an Australian team visit the United Kingdom to carry out a full appraisal of the Sea Harrier aircraft.

Whilst I have been in London I have also explored with the Ministry of Defence the possibilities of greater Anglo/Australian naval co-operation both in terms of joint exercises and the possibility of Australia acquiring more British made equipment including aircraft.

13 JUL 1982

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09 12 22 46





UPO

Defence

10 DOWNING STREET

From the Private Secretary

13 July 1982

Dear David,

AUSTRALIAN DEFENCE MINISTER

I enclose a record of the conversation between the Prime Minister and the Australian Defence Minister who called at No. 10 Downing Street yesterday afternoon.

I am copying this letter and its enclosure to John Holmes (Foreign and Commonwealth Office) and John Kerr (H.M. Treasury).

Yours ever

John Kerr

David Omand, Esq.,  
Ministry of Defence.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE  
AUSTRALIAN DEFENCE MINISTER AT 1750 ON MONDAY, 12 JULY, 1982  
AT No. 10 DOWNING STREET

PRESENT

Prime Minister  
Mr. John Coles

Mr. Ian Sinclair  
Mr. Pritchett  
His Excellency Sir Victor Garland

\* \* \* \* \*

Mr. Sinclair said that he wished to convey to the Prime Minister Mr. Fraser's warm regards. There was great respect in Australia for our amazing success in the Falkland Islands. The Prime Minister said that Mr. Fraser's support had been of the most forthright kind. Now that hostilities appeared to be over, we should have to spend a good deal on the defence of the Islands. Mr. Sinclair suggested that it would be both expensive and difficult to devise a stable future for the people of the Falklands.

Turning to the question of the Australian requirement for an aircraft carrier, Mr. Sinclair said that he had had good talks with the Secretary of State for Defence. Mr. Fraser had offered to release us from our earlier commitment to sell HMS INVINCIBLE to Australia and the Australian Government did not now wish to withdraw the offer. But they had taken certain decisions on the assumption that the contract regarding HMS INVINCIBLE would be implemented and these now had to be looked at again. Despite the earlier opposition, the need for a carrier was now generally accepted in Australia. The idea that HERMES might be a substitute for INVINCIBLE caused difficulty. It would meet Australian needs for only 10 years. The Government would still have to take a decision about the 1990s. Mr. Nott had explained that the United Kingdom needed two operational carriers. The Prime Minister confirmed this, adding that this meant that we required three carriers in all.

Mr. Sinclair said that he particularly wanted to ask the Prime Minister what our requirement for carriers might be in the more distant future, for example when the Falklands situation had eased. The Prime Minister said that British public opinion would

/not now accept

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not now accept the sale of INVINCIBLE. It would insist that we had a two carrier capability at any time. In view of Mr. Fraser's generous offer, public opinion would also insist that our third carrier was of the same class as ILLUSTRIOUS and ARK ROYAL. In considering the future, we had to bear in mind not just the Falkland Islands but the possibility of instability in the Gulf, possible threats to Gibraltar and Hong Kong and, perhaps also, instability in the Caribbean. The need for out-of-area operations was likely to be present for some time.

Mr. Sinclair said that Australia had made a similar appreciation of its own needs. Situations could arise in its own region where it could not depend on help from others. But he needed to know whether, if Australia now ordered a carrier from the United Kingdom, there was any risk of us saying in two to three years' time that we did not need INVINCIBLE.

The Prime Minister said that it was difficult to foresee all possible circumstances. But for at least 10 years from now there would probably be a danger of localised wars escalating. Maritime nations like the United Kingdom and Australia needed aircraft carriers against that possibility.

Mr. Sinclair asked whether we could not keep HERMES as our third carrier. The Prime Minister replied that this would not make sense in terms of training, equipment and inter-operability. She added that the name "INVINCIBLE" had now been involved in two battles of the Falklands - there was an emotional attachment to it.

Mr. Sinclair said that he would now have to return to Australia and make his recommendations. The need for a carrier was not doubted. One option was to order a carrier of the INVINCIBLE class. He was concerned that Australia should not buy a carrier with too short a life ahead of it. The Prime Minister enquired whether leasing had been considered. Or whether there was any prospect of re-fitting "MELBOURNE". Mr. Sinclair said that the latter option would be expensive and would not measure up to the need to take a decision for the next generation, a decision which should also involve consideration of the purchase of sea harriers, etc. He

CONFIDENTIAL/repeated that



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repeated that Australia did not want to go back on Mr. Fraser's offer but had hoped that there might be "light at the end of the tunnel". The Prime Minister stated that, speaking frankly, she did not think there was any prospect of INVINCIBLE being available. Nor did she believe that in the foreseeable future we should decide to dispense with the third carrier.

The conversation ended at 1820 hours.

A-J.C.

13 July 1982

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*Sinclair inner file  
wh  
14/7*

*MS*

LINE TO TAKE

1. Understand that Mr Sinclair has had useful discussions with Mr Nott and MOD officials; and that he has also visited the British Aerospace factory at Kingston and spoken to British Shipbuilders.
2. Believe Mr Nott has made it clear that, following Mr Frazer's most generous offer to release us from the sale of HMS INVINCIBLE, it is now politically impossible to proceed with it.
3. The Falklands operation has clearly shown that we must be ready to deal with emergencies outside the NATO area which can blow up quite unexpectedly. It is an important part of our defence policy - and it is in the interest of all our friends - that we should maintain an effective capability to uphold the rule of law and help to protect freedom around the world in this way.
4. But the lesson of the Falklands is also that, if we are to be properly prepared to do this, we must be able to deploy two carriers at short notice, and keep them deployed for quite prolonged periods. That means having three.
5. HERMES is at present a very good ship; but she would require replacement after a few years. We cannot afford this, and her retention, rather than that of INVINCIBLE - a brand new ship - would not be sensible, or credible to public opinion, as a means of fulfilling our objective.
6. We fully understand the problems our decision will create for you and the RAN; and we would like to be as helpful as we can.
7. It occurred to us that the offer of HERMES might help you to bridge a gap following the paying off of MELBOURNE, while you develop a longer-term solution. She has just been extensively modernised and, although she would need another refit in about 1985, she should run into the 1990s without further major expenditure.
8. It seemed to us also that, if you wished to re-allocate the funds which you have set aside for INVINCIBLE and three Sea King helicopters, you could substitute a package containing HERMES and

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a substantially larger number of aircraft - including perhaps Sea Harriers - to give you a "total capability" much earlier.

9. We could certainly provide substantial support for such a package, including training and logistic back-up.

10. But, of course, this is entirely up to you. We would be happy to consider the sale of HERMES without the aircraft, or the aircraft without the ship, if you preferred to bring MELBOURNE back into service.

11. So far as HERMES is concerned, we would be prepared to consider either an outright sale, or a lease if that would be easier for you to present. Believe a sale price of £40m has been mentioned; but Mr Nott has indicated to me today however that it might be possible to reduce the purchase price to £30m. And transfer at no cost if this were linked to a new ship order in the UK.

12. As to timing, we would naturally prefer to keep HERMES until ARK ROYAL is delivered (ie until early 1985); but we could look at an earlier date if that were important to you.

[Defensive: If the question of leasing INVINCIBLE is raised, this is subject to the same objections as the sale.]

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## BACKGROUND

1. The alternative package of HERMES plus aircraft which has been presented to the Australian team is at Annex. It has been devised to cost no more than the £195m which the Australian Government had budgetted for INVINCIBLE and three Sea King Helicopters. It is, however, illustrative and could be varied.
2. Mr Sinclair has not so far shown his full hand. It is clear that he still wants INVINCIBLE and, possibly for tactical reasons, is pouring cold water on the alternative. He is unlikely to be able to reach a decision before going back to Australia.
3. The Australians have a genuine dilemma. The future of their Naval Air Arm depends upon a long-term solution to the problem of replacing MELBOURNE. They believed they had one in INVINCIBLE; now they have not. They are unlikely to want to commit substantial sums to the acquisition of aircraft - especially Sea Harriers - until they can see their way ahead clearly on the ship. HERMES will only give them 10-12 years without further major expenditure; and she will mean a new familiarisation programme for the RAN which they may not feel to be worthwhile. They may prefer to reactivate MELBOURNE. In any event, if their Naval Air Arm is to survive, they cannot afford to leave too big a gap; for this reason, if HERMES is attractive to them at all, an earlier rather than later transfer date is likely to be important to them.
4. On the other hand, a package including HERMES virtually at a knock-down price, together with the sale of a substantial number of aircraft, coupled also with an offer to build a replacement (not necessarily an INVINCIBLE Class ship) in this country, might be saleable. £40m for a ship with, say, a 10 year life is comparable to £175m for one with a 30 year life; and we might go lower. Although it would be consistent with our requirement for three ships that we should keep HERMES at least until ARK ROYAL is received from the builders (ie April 1985) we could consider transfer in 1983 - provided that the risk of being unable to deploy two carriers for an out of area operation lasting for any length of time is accepted.

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5. The Australians have a problem of presentation as well. The purchase of a ship which is nearly as old as MELBOURNE may be difficult for them. If so, a leasing arrangement could be considered.

6. Mr Sinclair may also find it difficult, having come here to plead for INVINCIBLE, to go home entirely empty-handed. He is likely to wish to explore:

- a. purchase of INVINCIBLE at the date originally proposed;
- b. purchase of INVINCIBLE at a later date together with Sea Harriers and additional Sea King helicopters (ie 1985/86);
- c. a delay in decision on INVINCIBLE while a longer-term ship solution is explored, covering in particular:
  - (1) lease of INVINCIBLE pending the acquisition of a new ship (probably INVINCIBLE Class) from a UK yard;
  - (2) as above but the lease to be for HERMES.

He may suggest that in both cases the leasing charges should be offset against the potential cost of a new ship (£360m approximately for delivery in 6-7 years).

None of the above solutions involving INVINCIBLE is, however, likely to be politically saleable in this country; and it will be essential to leave <sup>him</sup> in no doubt that he should not count on being able to rest the long term future of Australian naval aviation on INVINCIBLE.

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THE PACKAGE

HERMES	£ 40M	(Fixed price)
Ship stores	£ 8M	
5 Sea Kings	£ 30M	(incl initial support)
12 Sea Harriers	<u>£115M</u>	(incl initial support)
	<u>£193M</u>	(£153M at Jun 82 prices)

Government-to-Government contract assumed throughout, finalised by end 1982.

HERMES

Ship delivery "as lying" April 1985. Support available as for INVINCIBLE (except Power Plant and ship design services). Ammunition to be bought to RAN requirements (as with INVINCIBLE).

SEA KINGS

5 Sea Kings available during 1984.

SEA HARRIERS

8 single seat aircraft to commence delivery 33 months from date of contract (end 1985) at rate of 1 a month  
2 two seat aircraft available end 1986.

Total of 10 aircraft provides for 1 embarked squadron  
1 ashore.

Initial conversion training to be provided, on repayment, to match deliveries.

FUNDING

Possible incidence of expenditure based on:

<u>HERMES</u>	10% deposit, payment of remainder balanced before and after delivery
<u>SEA KING</u>	30% with order 25% after 9 months 45% on delivery
<u>SEA HARRIER</u>	30% down 15% after 12 months 15% after 24 months 40% on delivery

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POSSIBLE PHASING OF EXPENDITURE

	Value £M	<u>Australian FYs</u>				
		82/3	83/4	84/5	85/6	86/7
HERMES (firm price)	40	5.0	10.0	15.0	10.0	
HERMES Support	8			8.0		
5 Sea Kings (inc support)	30	9.0	7.5	13.5		
10 + 2 Sea Harriers (inc support)	115	34.0	17.5	17.5	38.5	7.5
TOTAL (Jun 82 prices - excluding ship)	193	48.0	35.0	54.0	48.5	7.5

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112 JUL 1982

REVIEW OF THE  
DEFENCE SALES ORGANISATION  
SPRING 1982

BRIEFING FOR THE PRIME MINISTER



1. DSO CREATED FOLLOWING RECOMMENDATION OF LORD STOKES TO IMPROVE COOPERATION WITH INDUSTRY AND TO COORDINATE EFFORTS OF 3 SINGLE SERVICE DEPARTMENTS IN SUPPORT OF SALES.
2. SET UP IN 1966 UNDER SIR RAYMOND BROWN, EX CHAIRMAN OF RACAL, TO BRING INDUSTRIAL LOGIC AND COMMERCIAL SALES EXPERTISE TO ROLE.
3. SINCE THEN 2 HEADS OF DEFENCE SALES, BOTH EX B.L. - SIR LESTER SUFFIELD AND SIR RONALD ELLIS.
4. ORGANISATION HAD 150 PEOPLE IN 1966, 390 IN 1978 AND HAS 353 TODAY. IT IS CURRENTLY STAFFED EXCLUSIVELY BY CIVIL SERVANTS AND SERVING OFFICERS.
5. ACTIVITIES WERE PRODUCT BASED UNTIL 1972 - NOW MAINLY GEOGRAPHICALLY BASED.
6. DSO HAS HISTORICALLY BEEN ESSENTIALLY REACTIVE:- RESPONDING TO CUSTOMER COUNTRY REQUIREMENTS AND REQUESTS FOR AID FROM INDUSTRIAL CONCERNS.
7. SUCCESSFUL SALES GROWTH.

	1966	1970	1975	1980	LATEST ESTIMATE 1981
£M	152	235	530	1200	1500

PREVIOUS ORGANISATION

HEAD OF DEFENCE SALES

MILITARY DEPUTY  
TO HDS (MD/HDS)

AUS(SALES)

AUS(SALES ADMIN)

ASSISTANT MILITARY  
DEPUTY TO HDS

DIRECTOR OF  
MARKETING

4 SALES DIRECTORS

DIRECTOR OF  
SALES FINANCE  
& SUPPORT

HEAD OF DEFENCE  
SECRETARIAT 13

Military Advice.  
Liaison with  
Attaches on Sales.  
Inward Visits.  
Military Assistance  
(training in support  
of Sales

Market Research.  
Sales input to MOD  
procurement.  
Exhibitions.  
Publicity

with responsibilities for  
marketing and promotion of  
UK equipment, negotiation  
of Govt to Govt contracts,  
in designated countries

Finance.  
Licensing.  
ROFs Sales.  
Sales of Surplus  
Equipment.  
Liaison with IMS.  
Spares Supply

Political,  
Strategic and  
Security aspects.

COUNSELLORS DEFENCE  
SUPPLY

Washington and Bonn



## STRENGTHS

1. SALES DIRECTORS AND THEIR STAFF HAVE EXCELLENT CONTACTS AT ALL LEVELS IN THEIR TERRITORIES AND WITH FOREIGN EMBASSIES IN LONDON.
2. RELATIONSHIPS WITH INDUSTRY AND TRADE ASSOCIATIONS ARE GOOD. THE DEFENCE SALES ORGANISATION'S EFFORTS ARE GENERALLY HIGHLY REGARDED.
3. OUR ABILITY TO COOPERATE WITH THE MILITARY, AND ESPECIALLY TO ENLIST THEIR HELP IN SALES EFFORTS, IS WELCOMED BY THEMSELVES, BY INDUSTRY AND BY CUSTOMER COUNTRIES.
4. THE DSO'S CHANNEL TO HIGH LEVELS AT HOME AND ABROAD WORK WELL AND ARE MUCH USED. IT IS AN EFFECTIVE FOCAL POINT IN WHITEHALL.
5. OUR ORGANISATION OF EXHIBITIONS, INWARD MISSIONS AND DEMONSTRATIONS IS UNIVERSALLY VIEWED AS EXCELLENT.
6. THERE IS A CONSIDERABLE ESPRIT DE CORPS IN THE DSO - THE WORKRATE IS HIGH.

1. THERE IS A FUNDAMENTAL CONFLICT OF INTEREST IN THE ORGANISATION OVER ITS KEY ROLE - IT SHOULD BE A MARKETING ORGANISATION WITH NO SALES ACTIVITY OTHER THAN THE DISPOSAL OF SURPLUS MOD OWNED EQUIPMENT.

2. THERE IS NO STRATEGIC PLANNING FUNCTION IN THE DSO, THEREFORE NO FORMAL PRIORITIES ARE SET AND THERE IS NO FORMAL CORRELATION OF ACTIVITY (INCLUDING MINISTERIAL ACTIVITY).
3. THE MARKETING ROLE PERFORMED FOR THE ROF'S WAS UNSATISFACTORY TO THEM AND MISUNDERSTOOD AND MISTRUSTED BY INDUSTRY. THE RELATIONSHIP WITH IMS WAS SIMILARLY VIEWED.
4. THE HEAVY WORKLOAD ON THE SALES DESKS WAS UNEVENLY DISTRIBUTED AND THE STRUCTURE NOT VARIED BY TERRITORIAL NEED. THE MARKETING FUNCTION IS STAFFED BY NON-SPECIALISTS AND WAS NOT CENTRAL TO THE ORGANISATION - AS IT SHOULD BE.
5. THE DSO IS DIVIDED BETWEEN 3 SITES - WHITEHALL, SOHO SQUARE AND SOUTHWARK. COMMUNICATIONS ARE THEREFORE DIFFICULT.
6. INSUFFICIENT CONSIDERATION IS GIVEN TO THE SPECIAL CHARACTERISTICS AND EXPERIENCE REQUIRED IN THE APPOINTMENT OF CIVILIAN AND MILITARY PERSONNEL, AND IDEALLY IN THE COMMERCIAL WORLD PEOPLE WOULD BE IN POST LONGER THAN CIVIL SERVICE AND MILITARY CAREER CONSIDERATIONS PERMIT.
7. THE DSO IS NOT SUFFICIENTLY INVOLVED IN THE SELECTION AND TRAINING OF DEFENCE ATTACHES.



1. TO MAXIMISE EXPORT OF DEFENCE EQUIPMENT AND OBTAIN MORE MANAGEMENT CONTRACTS.
2. TO PROVIDE AN AGREED STRATEGIC PLAN WITH ATTENDANT MARKETING OBJECTIVES, RECOGNISING THAT THIS WILL ALWAYS NEED FLEXIBILITY OF RESPONSE.
3. TO ADVISE ON THE ACTIVITIES OF THE MOD, INDUSTRY, OTHER GOVERNMENT DEPARTMENTS AND MINISTERS IN THE PURSUIT OF THE PLAN.
4. TO CONTINUE TO PROVIDE ALL EXISTING SERVICES, BUT:
  - IN LINE WITH THE SECRETARY OF STATE'S PROPOSALS FOR THE ROFS, TO CEASE TO ACT AS THE SALES AND MARKETING ARM OF THE ROFS.
  - TO LIMIT THE SALES EFFORT DEVOTED TO SMALLER COMPANIES - WE MUST HELP THEM TO BECOME SELF-SUFFICIENT.
  - TO CURTAIL ANY ACTIVITY WHICH DOES NOT MEET THE PRE-DETERMINED OBJECTIVES OF THE AGREED PLAN WHEREVER NECESSARY.
5. SPECIFICALLY TO STRENGTHEN OUR APPROACH TO:
  - THE PROVISION OF MARKET RESEARCH AS A BASIS FOR EFFECTIVE PLANNING AND THE PROVISION OF FORMAL MARKETING PLANS BY TERRITORY AND BY PRODUCT CATEGORY.
  - EFFECTIVE USE BY THE REGIONAL DESKS OF THE PLANNING PROCESS INCLUDING IN PARTICULAR IDENTIFICATION OF TERRITORIAL DIFFERENCE.
  - THE PROVISION OF MARKETING INPUT, BASED ON SPECIFIC MARKET RESEARCH, TO MOD PROCUREMENT PROCESS.
  - CORRELATION OF THE EFFORTS OF INDUSTRY AND BRITISH EMBASSIES IN-COUNTRY.
  - THE SELECTION AND TRAINING OF DEFENCE ATTACHES.



## ORGANISATIONAL CHANGES

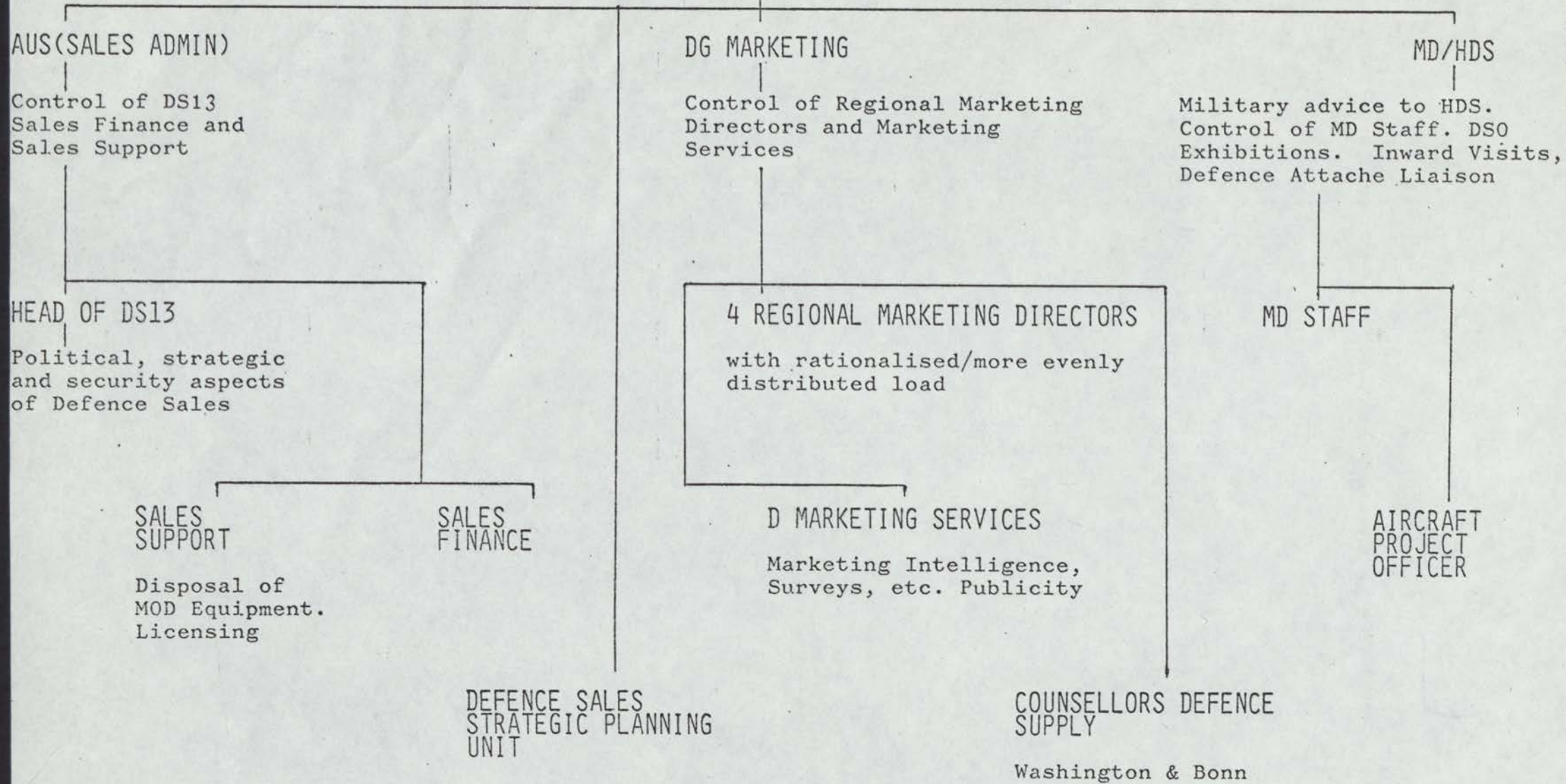
1. TRANSFER THOSE PARTS OF THE DSO WHICH ARE SOLELY CONCERNED WITH SALES AND MARKETING ACTIVITIES ON THE PART OF THE ROFS TO THAT ORGANISATION.
2. CLEARLY ESTABLISH THE ROLE OF MARKETING BY APPOINTING A DIRECTOR GENERAL OF MARKETING HAVING RESPONSIBILITY NOT ONLY FOR THE REGIONAL MARKETING ACTIVITY BUT ALSO FOR MARKET RESEARCH.
3. THE MILITARY DEPUTY TO BE RESPONSIBLE SOLELY FOR MILITARY ACTIVITY.
4. ESTABLISH A PLANNING UNIT WITHIN THE DSO REPORTING DIRECTLY TO HDS TO PROVIDE THE BASIS FOR A DSO STRATEGIC PLAN.
5. SEVERAL KEY POSTS IN THE DSO WILL BE FILLED FROM INDUSTRY - STARTING WITH AN AIRCRAFT MARKETING EXPERT AS THE DSO'S P110/TORNADO PROJECT OFFICER.
6. LOADING OF REGIONAL DESKS IS NOW MORE EVENLY SPREAD - TAKING DUE ACCOUNT OF REGIONAL VARIATION.
7. THE TITLES OF SOME SENIOR OFFICIALS HAVE CAUSED EXTERNAL CONFUSION. THEY HAVE BEEN CHANGED TO OVERCOME THIS.

NB:

IT IS PROPOSED TO UNDERTAKE A MANAGEMENT AUDIT OF THE DSO BY APTITUDE AND PERSONALITY TESTING IN ORDER TO RETAIN AND RECRUIT PERSONNEL WITH THE QUALITIES NECESSARY FOR SUCCESS. STAFF INSPECTIONS WILL BE NECESSARY WITHIN NEW ORGANISATION.



HDS



DG MARKETING

Control of Regional Marketing  
Directors and Marketing  
Services

4 REGIONAL MARKETING DIRECTORS  
with rationalised/more evenly  
distributed load

D MARKETING SERVICES

Marketing Intelligence,  
Surveys, etc. Publicity

MD/HDS

Military advice to HDS.  
Control of MD Staff. DSO  
Exhibitions. Inward Visits,  
Defence Attache Liaison

MD STAFF

AIRCRAFT  
PROJECT  
OFFICER

AUS (SALES ADMIN)

Control of DS13  
Sales Finance and  
Sales Support

HEAD OF DS13

Political, strategic  
and security aspects  
of Defence Sales

SALES  
SUPPORT

SALES  
FINANCE

Disposal of  
MOD Equipment.  
Licensing

DEFENCE SALES  
STRATEGIC PLANNING  
UNIT

COUNSELLORS DEFENCE  
SUPPLY

Washington & Bonn

*Defence  
Sales*

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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 14/5

12th July 1982

*AK 1/7*

*Dear John,*

HMS INVINCIBLE

/ I attach, as promised, an up to date brief for the call on the Prime Minister this afternoon by the Australian Minister of Defence.

I am copying this letter with the brief to John Holmes (FCO) and to David Wright (Cabinet Office).

*John and  
David*  
(D B OMAND)

A J Coles Esq



*Mr Coles  
No 10 Downing St*

D E D I P CONFIDENTIAL

14283 - 1

*Read in full.*

*ms*

GRS147

D E D I P

CONFIDENTIAL

FM FCO 121910Z JUL 82

TO IMMEDIATE PARIS

TELEGRAM NUMBER 422 OF 12 JULY

INFO LIMA, MODUK (FOR DIC ARMS CELL, DIS.INT, A/CDRE INT, DS13.)

YOUR TELNO 717: EXOCET MISSILES FOR PERU

1. CHEYSSON DID NOT MENTION THIS WHEN HE TELEPHONED ME ON 10 JULY: I DID NOT DO SO EITHER.
2. WE AGREE THAT WE HAVE NO REAL PROSPECT OF CHANGING THE FRENCH DECISION. PLEASE MAKE CLEAR TO THE FRENCH GOVERNMENT OUR DISAPPOINTMENT, BUT OUR APPRECIATION FOR THE ADDITIONAL SPECIFIC GOVERNMENTAL GUARANTEE THEY HAVE SECURED AGAINST TRANSFER ELSEWHERE.
3. WE BELIEVE THE PERUVIANS ARE EXPECTING DELIVERY BY AIR. WE WOULD STILL NATURALLY PREFER DELIVERY BY SEA AS REPORTED IN YOUR TUR. PLEASE MAKE THIS CLEAR, AND LET US KNOW WHAT ARRANGEMENTS ARE MADE.
4. WE GREATLY HOPE THE FRENCH WILL CONTINUE TO GIVE US THE INVALUABLE INFORMATION ON AM39 SALES AND DELIVERIES THEY HAVE GIVEN US SO FAR.

PYM

LIMITED

- HD/S AM D
- HD/FAULKLANDS UNIT
- HD/WED
- HD/DEFENCE D
- HD/PUSD
- D/HD/PUSD
- PS
- PS/MR ONSLOW
- PS/PUS
- SIR J BULLARD
- MR GIFFARD
- MR WRIGHT
- MR GOODISON
- MR GILLMORE
- MR URE

COPIES TO:

- MR GOODALL, CABINET OFFICE
- MR COLES, NO 10 DOWNING STREET ✓

D E D I P CONFIDENTIAL



KKKM

IMMEDIATE

ADVANCE COPY

ZNB ALPHA K

Hd Samg,  
Hd PosD  
D/Hd PosD  
Hd Defere

12/17  
Sept

Hd WED

Ps (2)

Ps/af. Onelew

Ps/Pos

Sir. J. Bullard

Ms. Giffard

Mr. Wright, Mr. Use

Ms. Gillmore

Ms. Goodish

Do Cabinet Office (1)

— No Downing St. (1)

RC.

PAFO 003/010

~~OO FCO DESKBY 101700Z~~

RR MODUK

RR LIMA

GRS 500

DEDIP

SECRET

DESKBY 101700Z

FM PARIS 101505Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 717 OF 10 JULY 1982

INFO ROUTINE MODUK, LIMA

(X17)

YOUR TELEGRAMS NOS 419 AND 420: EXOCET MISSILES FOR PERU.

1. I SENT YOUR MESSAGE TO CHEYSSON THIS MORNING AND ASKED TO SEE HIM AS SOON AS POSSIBLE. I HEARD SUBSEQUENTLY THAT HE PREFERS TO SPEAK TO YOU PERSONALLY BY TELEPHONE THIS EVENING. IN THE MEANTIME I HAVE TALKED TO GUTMANN, SECRETARY GENERAL AT THE QUAI, WHOM CHEYSSON DEPUTED TO ACT ON HIS BEHALF.

2. I EXPLAINED THE REASONS FOR YOUR CONCERN AND THE DANGERS WHICH WE FORESAW. GUTMANN REPLIED THAT THE FRENCH GOVERNMENT HAD EXAMINED THE WHOLE QUESTION WITH GREAT CARE. THE PRESIDENT HAD BEEN CONSULTED MORE THAN ONCE. THEY HAD CONCLUDED THAT THEY COULD NO LONGER HOLD UP DELIVERY OF THE MISSILES.



3. GUTMANN SAID THAT AFTER THE RECAPTURE OF PORT STANLEY THE PERUVIANS HAD APPLIED HEAVY PRESSURE FOR IMMEDIATE DELIVERY. THE FRENCH HAD THEN CHALLENGED THEM OVER THE RE-SALE OF THE MIRAGES TO ARGENTINA. THE PERUVIANS HAD ARGUED THAT THERE WAS NOTHING IN THE ORIGINAL MIRAGE CONTRACT TO BIND THE GOVERNMENT TO PREVENT RE-SALE. THE FRENCH HAD THEN INSISTED THAT THE EXOCET CONTRACT BE RE-NEGOTIATED TO INCORPORATE A GOVERNMENT GUARANTEE AGAINST TRANSFER TO ANOTHER COUNTRY AS WELL AS THE EXISTING COMMERCIAL UNDERTAKING. AFTER SOME ARGUMENT THE PERUVIANS HAD ACCEPTED THIS CONDITION AND THE REVISED CONTRACT HAD NOW BEEN SIGNED. GUTMANN CONCLUDED THAT FRANCE HAD BEEN LEGALLY BOUND TO DELIVER THE MISSILES SINCE THE START OF THE FALKLANDS CONFLICT; THEY HAD DELAYED OUT OF FRIENDSHIP FOR BRITAIN; BUT IF THEY DELAYED FURTHER NOW, THEY WOULD VIOLATE FRANCE'S SIGNATURE ON THE CONTRACT.

4. GUTMANN ADDED THAT FRANCE HAD ALSO SHOWN PATIENCE AND FRIENDSHIP BY MAINTAINING DISCRETION IN DISCUSSION OF THE FUTURE OF THE FALKLANDS, BUT HE HOPED THE BRITISH GOVERNMENT WOULD SOON BE ABLE TO EXPLAIN ITS IDEAS TO ITS PARTNERS.

5. GUTMANN SAID HE WAS SURE I WAS NOT SURPRISED AT THE FRENCH RESPONSE ON THE MISSILES. I SAID IT WAS VERY DISAPPOINTING. YOU WOULD WANT TO CONSIDER IT. YOU HAD WARNED OF THE DEEP CONCERN AND REGRET SUCH A DECISION WOULD AROUSE.

6. YOU WILL NO DOUBT WISH TO RE-ITERATE YOUR CONCERN WHEN YOU SPEAK TO CHEYSSON. BUT I THINK THERE IS LITTLE CHANCE OF SECURING A CHANGE OF MIND. THE FRENCH BELIEVE THE MILITARY CONFLICT IS OVER AND INTEND TO GO ALL OUT TO REPAIR THEIR RELATIONS WITH LATIN AMERICA. (CHEYSSON GAVE LUNCH TO ALL THE LATIN AMERICAN AMBASSADORS IN PARIS AT ST CLOUD TODAY.) PRESIDENTIAL EMISSARIES ARE BEING DESPATCHED TO VARIOUS COUNTRIES, INCLUDING ARGENTINA. AGAINST THIS BACKGROUND I DO NOT THINK THE FRENCH WOULD RECONSIDER THE DECISION TO DELIVER THE MISSILES TO PERU EVEN IF THE PRIME MINISTER WERE TO SPEAK TO MITTERRAND.

7. I ASKED GUTMANN WHEN THE MISSILES WOULD REACH PERU IF THE DECISION WERE MAINTAINED. HE SAID IN ABOUT THREE WEEKS; THE PERUVIANS WOULD SEND A SHIP TO COLLECT THEM.

FRETWELL



Ref A08982

1 - open hnd -  
 Why was I not  
 asked?  
 MT.

MR WHITMOREVisit of Australian Defence Minister

The Prime Minister will wish to know that, in response to a request from the Department of Defence in Canberra, intelligence briefing on certain current topics has been arranged for the Australian Defence Minister Mr Sinclair and his party. This will take the form of a meeting between Mr Sinclair and his party, and the Chairman of the JIC and some members of the Assessments Staff. It is to take place in the Cabinet Office on Monday 12th July.

2. This is an unusual procedure, not least because Mr Sinclair will be calling on the Foreign and Commonwealth Secretary shortly afterwards. The proposal does, however, reflect our close intelligence links with the Australians, in which the Australian Department of Defence play an important role; and since they have asked for it it would be awkward to refuse, unless such a meeting would be inconvenient or embarrassing to Ministers. The topics to be covered will include

Soviet Union - economy, leadership, external policies.

The Middle East - especially Iran/Iraq and the Israeli invasion of Lebanon.

The Soviet Union in Asia - Afghanistan, Indian Ocean, Sino-Soviet relations.

The Discussion will of course deal only with assessments, not at all with policy matters. Mr Sinclair would be given no information or intelligence which we have not already made or should not be prepared to make to the Australian intelligence service through normal liaison channels.





3. The Foreign and Commonwealth Secretary has been consulted and sees no objection to the procedure, nor to the meeting taking place shortly before his own. I do not myself see objection to it, nor do I think it need cause difficulty for ~~you and your~~ <sup>the Prime Minister and her</sup> own later meeting with Mr Sinclair.

ROBERT ARMSTRONG

(approved by Sir R Armstrong  
& signed on his behalf)

9 July 1982

CONFIDENTIAL



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-218 2111/3

MO 14/5

9th July 1982

*Dear John,*

VISIT OF AUSTRALIAN DEFENCE MINISTER

Mr Ian Sinclair, the Australian Defence Minister, will be calling on the Prime Minister at 1715 on Monday 12th July.

/ Mr Sinclair and his party (list at Annex A) arrived on Thursday for talks with the Defence Secretary about the future of HMS INVINCIBLE. We have explained to Mr Sinclair the reasons why HMG has decided to retain INVINCIBLE and we have made the offer of HMS HERMES as an interim solution for the Royal Australian Navy (summary of the line taken is at Annex B).

The Australians have so far confined themselves to an explanation of the political difficulties in which they see themselves if INVINCIBLE is not available, and they have been very cautious in their approach to the offer of HMS HERMES, although they have not ruled this out.

Today the Australian Team were given a presentation in the Ministry of Defence on the Falklands operation, and visited British Aerospace at Kingston-upon-Thames where they were given briefings by Sir Frederick Page on the Sea Harrier and the AV8B. There are likely to be further working level discussions over the weekend.

// On Monday morning Mr Sinclair will be given an intelligence briefing in the Cabinet Office, and it is planned that he should call on the Foreign and Commonwealth Secretary. There may well be further discussions with Mr Nott before Mr Sinclair calls on the Prime Minister. I should like, therefore, if this is acceptable to you, to let you have a note on Monday on the position that has been reached over INVINCIBLE/HERMES. Attached to this letter at Annexes C and D are records of conversations so far.

/ Attached also at Annex E is a biographical note on Mr Sinclair.

I am copying this letter and enclosures to John Holmes (FCO) and to David Wright (Cabinet Office).

*Yours ever*  
(D B QMAND)

John Coles Esq



VISITORS AND ADMINISTRATION

The Right Honourable Ian Sinclair MP  
Minister for Defence

Mr William B Pritchett  
Secretary, Department of Defence

Vice Admiral David Leach  
Chief of the Naval Staff

Rear Admiral William Rourke  
Chief of Naval Materiel

Mr John Moten  
First Assistant Secretary, Force Development and Analysis

Dr Graham Starr  
Senior Private Secretary to the Minister for Defence

Ms Corienne Corbiere  
Personal Secretary

In Attendance

Sir Victor Garland  
Australian High Commissioner, London

Major General A Clunies-Ross  
Head of Australian Defence Staff, London

Sir John Mason  
British High Commissioner, Canberra

Wing Commander C T K Cody RAF (Ret'd)  
Government Hospitality

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DUS(Navy)

ANNEX B

Ref: 4/1/6.2(247)

PS/S of S through PUS

Copy to: PS/Minister(AF)  
PS/Minister(DP)  
PSO/CDS  
PS/PUS  
Sec/CNS  
PS/HDS  
DUS(P)  
AUS(NS)  
AUS(Sales)  
RMD3  
DG Marketing  
Head of DS5

HMS INVINCIBLE

Thank you for your MO 14/5 dated 2 July.

I attach a speaking brief and background note for SofS's meeting with Mr Sinclair later this week.

*ay*

6 July 1982

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LINE TO TAKE

1. In the light of Mr Fraser's generous offer HMG has decided to retain INVINCIBLE. This is necessary because experience has shown that to be able to mount effective operations out of area without shore based air cover two carriers are needed.
2. We were lucky to have both INVINCIBLE and HERMES available together when the Argentines attacked. In the long term, however, we cannot guarantee having two carriers available for more than two-thirds of the time without a third ship. Moreover, if the Argentines had held out for much longer we would have had to relieve one of the carriers; as it is we have had to press ILLUSTRIOUS prematurely into service.
3. We are very conscious that our decision will pull the rug out from under the RAN. The Australians have said that they would be prepared to accept a gap following the demise of MELBOURNE, but we assume that it could not be long enough to cover the building period of a new ship.
4. We could certainly offer to build a new carrier for the RAN. There is plenty of shipyard capacity in Britain; but it would take six or seven years to deliver the ship (and it could cost about £400m).
5. We thought therefore that the offer of HERMES as an interim replacement for MELBOURNE might be attractive in the circumstances. It is a genuine attempt to help the RAN. It is not true that HERMES is as clapped out as MELBOURNE. In fact she has up to ten years' life ahead of her and she has fully up-to-date equipment - in some ways better than INVINCIBLE.
6. Of course we looked at the possibility of retaining HERMES for ourselves; but we cannot possibly contemplate building a new carrier - at a time when Trident expenditure will be coming to a peak and when we are going to have to spend considerable sums in replacing ships lost in the South Atlantic.

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# CONFIDENTIAL

7. It would simply not square with our change of policy, or with our budgetary circumstances over the next decade, to continue with the sale of a brand new ship and retain one which would need to be replaced in a few years' time. Nor can we possibly justify this to public opinion over here, especially in view of Mr Fraser's generous offer.

8. The transfer of HERMES to the RAN, however, on very favourable terms, would give them a breathing space. The ship should not need another major refit before the 1990s and we would be prepared to provide support in exactly the same way as for INVINCIBLE. A great deal of the equipment on HERMES will be remaining in service in other ships of the RN.

9. We would be happy to consider a package including some helicopters and fixed wing (VSTOL) aircraft which could be delivered by late 1985, the cost of which could be kept within the sum budgetted by the Australians for INVINCIBLE.

10. We would be prepared to be flexible about the timing of the transfer of HERMES. We would prefer it to be not before 1985, when ARK ROYAL is expected to be received from the builders - and this would coincide with the delivery of the aircraft.

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## BACKGROUND

1. Annex A describes the deal struck over INVINCIBLE before the Falklands crisis; the main features were:

a. Delivery in September 1983 - regarded by the Australians as important both operationally (to allow MELBOURNE to be paid off without another refit) and politically, in view of the Australian Opposition's commitment to cancel the sale (their election is due in late 1983). However, the agreement allowed for deferment to 30 March 1984, subject to liquidated damages, in the event of delay to ILLUSTRIOUS.

b. Price £175m - excluding ammunition and aircraft, and on-board stores and spares (for which a separate sum of £7.2m was payable). To be paid in instalments of:

£58m in July 1982  
£59m in September 1983 (on delivery)  
£58m in July 1984

c. Support -- within the price at b. we were to give the ship a docking and rectify defects before delivery. Thereafter the RN would provide support services, embracing:

training  
supply of stores and spares  
cooperative logistic support  
design changes

in respect of equipment remaining in active use within the RN.

2. The Falklands crisis has, however, created a new situation. It has shown clearly that, if we wish to retain an effective capability for dealing with emergencies beyond the NATO area - an important part of our Cmnd 8288 policy - in which we may encounter even a medium air threat beyond the range of friendly shore-based aircraft, we must be able to:

- a. deploy two carriers at short notice;
- b. maintain two carriers on station for a significant period.

Both these requirements demand a third ship.

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# CONFIDENTIAL

3. Essentially therefore we are retaining a third carrier to give greater effect to our out-of-area capability; recognising at the same time that the measure would also be greatly welcomed by SACLANT.

4. In some ways (eg for command and control) HERMES is better suited for out-of-area operations than INVINCIBLE. For us, however, the problem is that she would require replacement after a few years. We cannot afford this, and her retention rather than that of INVINCIBLE - a new ship with 25-30 years' life ahead of her - would not be sensible, or credible to public opinion, as a means of fulfilling our new objective. INVINCIBLE would, moreover, be somewhat cheaper to operate than HERMES. (NB The intention would not be to keep INVINCIBLE "in mothballs" but to rotate her, with ILLUSTRIOUS and ARK ROYAL, through a cycle of operations/stand-by and refit)

5. It is not, however, true that, as Mr Sinclair is reported to have said, HERMES is no better than MELBOURNE. She has just been extensively modernised at a cost of £70m; and her capability is both greater (eg ski jump) and fully up to date. She has up to ten more years life left in her without another major refit.

6. A comparison between HERMES, INVINCIBLE and MELBOURNE is at Annex B. It will be noted that HERMES' complement is the same as that of MELBOURNE.

7. It is not surprising that the Australians should seek to persuade us to keep HERMES rather than INVINCIBLE. In the latter they had a bargain, both in first costs and in support costs. Since they proposed to rely on us for support, commonality with ILLUSTRIOUS and ARK ROYAL was an advantage for them also.

8. Any arguments they can use about HERMES, however, can be turned back on themselves. We should not pretend that we see the offer of HERMES as a full alternative to that of INVINCIBLE for the RAN; but rather as a positive gesture to overcome what would otherwise be an unbridgable gap in their maritime capability, giving them a breathing space to develop a satisfactory long term solution. A promise of adequate support would be essential.



9. The timing of any transfer may present a difficulty. To be consistent with the reasons for retaining a third carrier (paragraph 2 above), we should keep HERMES at least until ARK ROYAL is received from the builders (ie until April 1985). If, however, an earlier transfer is necessary to clinch the deal, this could be considered, bearing in mind that both INVINCIBLE and ILLUSTRIOUS are new ships. We might consider releasing HERMES in September 1983, when INVINCIBLE was due to be sold, provided the Australians were prepared to agree an understanding whereby HERMES would return to RN service in the event of a major crisis in the period before ARK ROYAL enters service in 1985. This might be covered by an initial period of lease or some understanding between the two Prime Ministers. We would in these circumstances be prepared to consider the release to the Australians of some of the Sea Harriers and Sea Kings, included in the orders which we are just placing in excess of CORPORATE losses, to secure their earliest possible in-service dates with the RAN.

10. Annex C suggests possible package, within a cost of £208m. This is only £13m more than the sum (£195m) which the Australians were prepared to pay for INVINCIBLE plus three Sea Kings. For that sum they could have HERMES plus five Sea Kings and twelve Sea Harriers.



HMS INVINCIBLE/HERMES FOR AUSTRALIA

1. The terms of the INVINCIBLE sales agreement and support MOU are summarised below.
2. During the negotiations with the RAN and the subsequent approvals in Canberra, the three main areas of attention were:
  - a. Delivery date. The September 1983 date was important both operationally (it allowed MELBOURNE to be phased out of service without further refit) and politically in view of the Australian Opposition's commitment to cancel the sale. The Australian General Election is due in late 1983. Following the agreements reached in February, MELBOURNE has been de-equipped and was due to enter the contingency reserve at the end of last month.
  - b. Price. Based on the sale price of £175M, the RAN got approval for project cost (including support, training, etc) of A\$478M. This just got in under the total figure of A\$500M that we were later reliably informed was available for this programme. A new buy could not be accommodated within such a ceiling if it is in fact a real one.
  - c. RN support. After initial major concern at the problems of operating and supporting a UK equipped flag ship with a predominantly US equipped surface fleet, the RAN were reassured by the support they were offered in the MOU, and the fact that they would be operating as one of a fleet of 3 ships which was likely to remain in RN/RAN service for at least the next 20 years, whereas a US Iwo Jima class ship would have been so modified to meet RAN requirements as to make it essentially a 'one off' ship, albeit with a high degree of equipment commonality with their FFGs. The same argument might arise in respect of HMS HERMES.

Terms of the INVINCIBLE sale

3. The terms negotiated with the Australian Government provide for INVINCIBLE to be handed over to the RAN in the UK on 30 September 1983 for a firm fixed price of £175M. The agreed phasing of payments is as follows:

July 1982	£58M
September 1983 (handover)	£59M
July 1984	£58M



Within the price the UK will undertake a DED in 1982 and will rectify any defects affecting the sea-going characteristics or operational capability of the ship at the time of handover. The price excludes war stores (missiles, torpedoes, small arms, ammunition), aviation equipment (VSTOL aircraft, helicopters including their handling equipment and stores) and spares, stores and supplies on-board at the time of handover (for which spares, stores and supplies a separate fixed revisable sum of £7.2M was negotiated).

4. The Sales Agreement provides for the date of delivery to be deferred until 30 March 1984 if there is a delay in the entry into RN operational service of HMS ILLUSTRIOUS. Liquidated damages would be payable after 60 days delay from 30 September 1983 at £5,000 a day up to a maximum of £0.6M. After 30 March 1984 the RAN may terminate for default. In the event of UK termination or default, other than arising from the loss or serious damage to INVINCIBLE, any payments made by the RAN have to be returned with interest together with a sum to be negotiated disruption. The interest and disruption payments would not be made in the event of the loss of INVINCIBLE, while in the case of serious damage, consultations will take place to decide whether the sale should be terminated or the terms amended. If the RAN withdraw, an agreed sum for disruption will be paid to the UK.

#### Memorandum of Understanding

5. In parallel with the Sales Agreement, a wide ranging support MOU was negotiated with the RAN to help them effectively introduce and maintain the ship and its equipment in service. The main areas covered by the MOU are:

- a. training (pre-joining, operational sea training and follow-on training)
  - b. supply of spares and stores (initial supply on-board, initial inventory stock holding, and replenishment during RAN operation)
  - c. cooperative logistic support for specified equipments (to be agreed)
  - d. design and associated services including support services to assist the RAN to make its own changes in configuration
  - e. advice on stock-holdings, maintenance and repair matters, software matters, and details of alteration and additions to equipment in common RN and RAN service.
6. The services were offered subject to:
- a. the availability of RN resources
  - b. the RN having first priority call

c. the services being provided only for so long as they are provided for the RN

d. the services being provided only in respect of equipments in active RN service.



## COMPARISON BETWEEN HMAS MELBOURNE, HMS HERMES AND HMS INVINCIBLE

	MELBOURNE	HERMES	INVINCIBLE
Size	20,000 tons	28,500 tons	20,000 tons
Age now	27	23	2
Life expectancy	1985 (1976 plan)	early 1990s	2005-2010
Annual running cost <sup>(1)</sup>	Not known	£11m	£9m
Next refit due <sup>(2)</sup>	Overdue	1985	1986
Aircraft	20 approx max. Probably Helicopters only	30 max approx	20 max approx
Complement (excluding Air Group)	1070	1070	650
Propulsion	Steam/FFO	Steam/FFO	Gas Turbine/DIESO
Warfare Missiles/Guns	40 mm guns	Seacat (Point Defence)	Seadart (Area defence and surface to surface)
Electronic warfare	Obsolete	Nil	Good
Amphibious Lift	Not known	Commando Group (950 approx)	Company Group (130 approx)
Command and Control	Old radar and action information system. No sonar	Adequate radars, sonars and action information system. Special fit for ASW operations	Good radar and action information systems, adequate sonar
Material State	Decommissioned	Good	Very good

(1) Personnel and POL costs excluding refit, maintenance and stores

(2) Major refit and modernisation costing £70m completed in 1981

THE PACKAGE

BASIS The Australians have provided £175m for HMS INVINCIBLE, £8m for stores, £20m for three Sea Kings: a total of approximately £210m (with escalation for stores and Sea Kings).

The incidence of expenditure will be different but the large part of the costs could probably be covered in 1982/83 and the two subsequent years in which RAN provided for INVINCIBLE payments.

PACKAGE Within this total we can provide:

a.	HERMES	£ 10m	(Scrap/book value £8m)
b.	Ship stores	£ 8m	(assumed same as INVINCIBLE)
c.	5 Sea Kings	£ 30m	(incl initial support)
d.	12 Sea Harriers	£110m	(incl initial support)
		<u>£158m</u>	(Jun 82 prices)
	Escalation for b. c. & d.	£ 50m	(10% over 3 years)
		<u>£208m</u>	

Government-to-Government contract assumed throughout, finalised by end 1982.

HERMES Ship delivery "as lying" April 1985. (But customer may require Sep 83 or early 84).

Support available as for INVINCIBLE (except Power Plant and ship desing services).

Ammunition to be bought to RAN requirements (as with INVINCIBLE).

LEASE OPTION Possible charge £800,000 per annum. Payments to count against eventual cost of ship.

SEA KINGS 5 Sea Kings available during 1984. (Current contract negotiations for 3 Sea Kings limited by budgetary constraints, aircraft maximum additional requirement believed to be 12-14.)



SEA  
HARRIERS

8 single seat aircraft to commence delivery 37 months from date of contract (end 1985) at rate of one a month.

2 - two sea aircraft available end 1986.

Total of 10 aircraft provides for one embarked squadron; one ashore.

Initial conversion training to be provided, on receipt, to match deliveries.

NB

The above is indicative only. The emphasis on ASW may lead the Australians to favour the purchase of more helicopters at this stage at the expense of Sea Harriers.





Copy to:

PS/Minister(AF)  
 PS/Minister(DP)  
 PS/PUS  
 Sec/CNS  
 AUS(Sales)  
 RMD3

MO 14/5

DUS(Navy)

VISIT OF AUSTRALIAN DEFENCE MINISTER

The Secretary of State was grateful for your initial brief for the visit of Mr Sinclair.

2. After inspecting a guard of honour at noon this morning, Mr Sinclair called on the Secretary of State. In a tête a tête the Ministers discussed the political background to the present visit. At 1225 they were joined by PUS, Mr Pritchett, Mr Starr (Senior Private Secretary) and PS/S of S. Discussion centred on the political difficulties which would be experienced by the Australian Government if the sale of INVINCIBLE did not proceed.
3. Mr Sinclair reviewed the history of their carrier decision. They had decided not to refit HMAS MELBOURNE, and to go for a long term one-carrier solution. They had chosen INVINCIBLE, when this option had been made possible by the British Government's defence review last year. The INVINCIBLE concept had been sold to the Australian people, not without controversy. The doubters were at present muted, but the Labour Party were committed to opposing the carrier purchase, and the Defence Sub-Committee of Parliament was currently examining the INVINCIBLE deal. It was necessary to understand that background to explain his own reaction, and that of Mr Frazer, to the suggestion in the Prime Minister's message that Australia should now contemplate the purchase of HMS HERMES.
4. Continuing, Mr Sinclair said that from his earlier discussion with the Secretary of State he could understand why the British Government wished to retain HMS INVINCIBLE, but he had come to London to explore these reasons in more detail, taking into account the programme of all four capital ships to see whether there was any other solution that might be acceptable to both sides, such as the RN retaining HERMES, or the RN releasing INVINCIBLE but at a later date.
5. In reply, the Secretary of State explained that a full presentation on HMS HERMES had been laid on for the afternoon, and he would arrange for a meeting immediately after lunch, which he would chair, with the CNS, VCNS and Controller of the Navy present at which there could be a more detailed discussion of the RN's plans for the future CVS force. S of S also stressed the British willingness to help in any way possible with the sale of HERMES to ease the undoubted political problems that Mr Sinclair would face.





6. Mr Sinclair welcomed these assurances. He emphasised that he was not seeking to withdraw from the undertaking freely given by Mr Frazer in his message to the Prime Minister, which still stood. But he wished to explore all the options first. He would be very reluctant to see Australia give up the carrier capability which for his Government represented a symbol of Australian influence in the region. S of S said that HMS INVINCIBLE had to the RN and to the country become an equally potent symbol. The controversial decision to sell the carrier could have been carried through, in the financial climate prevailing when the decision had been taken. But the Falklands experience had underlined the operational case for the CVS for out of area operations. It would not be understood by the RN or the British public if the sale went ahead and the generous offer in Mr Frazer's message had indeed provided an opportunity - publicly known - to retain the ship.
7. There was then a brief discussion before luncheon of the role of the container ships ATLANTIC CONVEYOR and ATLANTIC CAUSEWAY in the Falklands operations.
8. On return from Admiralty House at 1430, S of S chaired a discussion with CNS, PUS, VCNS, Controller of the Navy and HE Sir John Mason. Mr Sinclair was supported by his High Commissioner, Mr Pritchett, Vice Admiral Leach, Rear Admiral Rourke, Mr Moten, Mr Starr and the Australian Defence Adviser in London. Mr Sinclair reviewed the earlier discussions, and stressed his wish to look at the overall CVS position. Mr Pritchett added that it would be necessary to explain in Australia not only any action taken by the Australian Government either over HERMES or some other option, but exactly why the RN had retained INVINCIBLE - was this predominantly sentiment, or operational requirement? Vice Admiral Leach stressed his concern for the longer term. HERMES could provide only an interim solution, leaving major long term force structure problems.
9. CNS explained the operational reasons for the RN's preferred CVS force, and drew on the experience of the Falklands operation to illustrate the argument, although the operational requirement was not only an out-of-area one. CNS referred to the advantages of having 3 CVS of the same class, whereas the Australian CVS would of course be a single ship. Support for HERMES would not pose insuperable problems, and this would be explained by the experts in the presentation to follow.
10. In further discussion, S of S and CNS stressed the value to the Australians of a package based on HERMES, which would allow the procurement of helicopters and VSTOL earlier than would have been possible under the INVINCIBLE payments schedule.





11. Before leaving for the HERMES presentation, there was a brief discussion of the Type 23, and it was agreed that the Australian team would receive a presentation on the Type 23 before they returned on Tuesday.

A handwritten signature in black ink, appearing to be "D B Omand".

(D B OMAND)  
PS/S of S

8th July 1982



PUS/82/840

61/2/1

NOTE FOR THE RECORDTHE AUSTRALIAN VISIT

When Mr Pritchett called on me on first arrival, he apologised for coming, but said that Mr Fraser had seen the visit as politically essential. The Australians still wanted INVINCIBLE, though he himself still continued to doubt the merits of having a single carrier. The Australian Government saw it as a means of "power projection" in South East Asia.

2. At the end of the day, Mr Sinclair and Mr Pritchett came and had a long talk. Mr Sinclair re-emphasised that they wished to have INVINCIBLE, and their need for a carrier. The centre of his argument was that there had been a long argument in Australia about the need for a carrier; it had gone through Cabinet on a relatively small majority; the need for a carrier and for it to be INVINCIBLE have been explained to the Australians at large and INVINCIBLE satisfied the Australian needs, which were for command, control and ASW. On being pressed about the role, he was a little shaky. He said it would be difficult to come to an early decision about Sea Harriers and he doubted the need for them. Moreover, the Australian Army was against Sea Harriers because they did not pack enough range or punch. They would need to look closely at the issue but it would take some time, though another purchase of Sea Kings was likely.

3. I pressed him on HERMES. He went back to the difficulty of explaining a purchase of such an old carrier and was somewhat critical of the Naval presentation he received that afternoon. He thought the package that had been put forward was a very expensive one indeed and he was not convinced that it was necessary for Australia. I asked what would be done to fill the gap, as they had already laid up HMAS MELBOURNE. He said they would have to re-commission MELBOURNE. I asked the cost and it was thought it would be £30M or more.

4. Mr Sinclair then wondered whether it might not be possible to come to a final view about INVINCIBLE, say, at the beginning of 1984. The Australians could then say that the deal was still on and we could still talk about HERMES in this country. I expressed the strongest doubts. I then put it to him that the heart of his problem was a question of time and cost. He agreed.

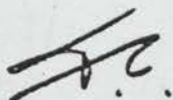
5. He said it was not possible to take any decision here and that he would have to go back and discuss the whole matter with his colleagues.

6. He went on to express great interest in the Type 23 and wondered whether this, together with some separate arrangements for command and control, might not be a possible way forward. The



Type 23 with the SKR sounded very attractive for Australian needs and it would be just the kind of ship that could be built in Australian shipyards.

7. We then returned to the question of HERMES as a possible gap filler and wondered whether one possible solution might be some kind of leasing arrangement, perhaps with some option to buy in certain circumstances at a certain date. It was suggested that this might be politically less difficult for the Australians, though I suspect they would want to present it in such a way as apparently to keep the INVINCIBLE option open at a later date. It was generally clear that the issues were for the most part political, but that time and cost played a major role in all possibilities.



FRANK COOPER  
9 July 1982

Distribution:

Internal:

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External:

Sir Robert Armstrong, Cabinet Office  
Sir Antony Acland, FCO



SINCLAIR, THE RT HON IAN McCANON, MP

Minister for Defence since May 1982.

Born Sydney 1929. Read Law at Sydney University. Barrister since 1952. A grazier and Director of grazing companies and co-operatives.

Country Party Member for New England since 1963. Deputy Leader of the Country Party since 1971. Was junior Minister in several different Ministries (Social Services, Trade and Industry, Shipping and Transport, Primary Industry) 1965-72. In Opposition, 1972-5, he covered Primary Industry matters. Cabinet Minister since 1975 (and Leader of the House until May 1982), except for short period 1979-80. Portfolios Agriculture, Northern Australia, then Primary Industry, then Communications (1980-2). Privy Councillor 1977.

His charm hides firmness and determination. Normally restrained and balanced in his judgement and usually courteous face to face, he tends to court publicity. In August 1977 he blamed Australia's industrial and economic troubles on the "British disease" and "Pommie" shop stewards. Tough and shrewd, if accident-prone.

Resigned 1979 following publication of the Finnane Report, which said he was the ultimate beneficiary of nearly \$600,000 company funds fraudulently misappropriated by his father. The Report (commissioned by the Labor Government of NSW and therefore open to charges of political bias) also said there was evidence of forgery, unauthorised loans and deception attributable directly to Sinclair. Sinclair was acquitted of charges based on the findings of the Report in August 1980 and returned to office.

Married 1970 Rosemary Fenton (a former "Miss Australia"); 1 son; also 1 son and 2 daughters by his first wife, who died in 1967.

Recreations: squash, swimming.

Defence

FILE

RW



10 DOWNING STREET

*From the Private Secretary*

6 July, 1982

Thank you for your letter of 2 July to the Prime Minister conveying a further message from the Prime Minister of Australia. I have shown this to Mrs Thatcher.

A. J. COLES

His Excellency The Honourable Sir Victor Garland.,  
K.B.E.,

BC





MO 14/5

Dear John,

HMS INVINCIBLE

You asked for advice on the further message of 1st July from the Australian Prime Minister, in which he seeks to persuade us to keep HMS HERMES instead of HMS INVINCIBLE.

In his message Mr Fraser offers the possibility of his Minister for Defence, Mr Sinclair, leading an appropriate team to this country to discuss the matter. We heard on Friday that Mr Sinclair was determined to come, and proposes to arrive on Thursday 8th July. He is likely to be accompanied by his Permanent Secretary, the Australian Chief of Naval Staff, and the Chief of Naval Material. Arrangements are being made for discussions in the MOD, with suitable briefings on the Falklands operation in which Mr Sinclair has expressed a particular interest.

Not surprisingly, in his message to the Prime Minister, Mr Fraser has drawn attention to the age of HMS HERMES. The Defence Secretary when he sees Mr Sinclair will seek to persuade him that our offer of HMS HERMES, on favourable terms, is a genuine means of allowing the Royal Australian Navy to extend their aircraft carrier capability for a significant period, thus leaving themselves time to plan for the longer term future. It also opens the prospect of releasing funds, otherwise earmarked for HMS INVINCIBLE, which might enable them to move more quickly into the field of maritime VSTOL aircraft operations. It is also the case that in terms of military capability alone HMS HERMES is superior to HMS INVINCIBLE. We will however have to overcome in the discussions with the Australians their evident hesitation over the uniqueness of HMS HERMES. The commonality of HMS INVINCIBLE with the other new CVSs gave them confidence in the support arrangements for which they were planning to rely heavily on us. The greater economy in running HMS INVINCIBLE is also as much an advantage to them as it is to us.

A J Coles Esq

Prime Minister  
There is now another message from Mr. Fraser (attached) confirming that his Defence Minister will be here this week and would like to see you. Agree to see him, together with Mr. Nott, perhaps on Friday?  
A.J.C. 5/7

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-218 2111/3

5th July 1982

I should be surprised if they do not  
Hermes - not

A.J.C. 6/7  
f.u.

Defence





These and other points will be explored fully with Mr Sinclair when he arrives later this week. In the light of his impending visit we suggest that it is only necessary for the Prime Minister to send a short message, along the lines of the attached draft, to Mr Fraser. I am copying this letter to John Holmes (FCO).

Agreed with NSD that this is not necessary now. We can await Mr. Sinclair's visit and write to Mr. Fraser thereafter. A.J.C.  $\frac{5}{7}$

Yours ever  
David Omand  
(D B OMAND)



DRAFT MESSAGE FROM THE PRIME MINISTER TO MR FRASER

I am grateful to you for your prompt response to my letter of 30th June concerning the future of HMS INVINCIBLE. I agree with you that very early talks at both a policy and technical level would now be appropriate.

I understand that Ian Sinclair has already offered to come to London later this week, accompanied by a number of senior officials. They will be very welcome, and John Nott and his team will be very happy to discuss the position fully with them. You and I can exchange further views in the light of the outcome of their talks.

In the meantime we have, as I indicated in my letter, confined our public statements to simply confirmation that we are discussing the future of HMS INVINCIBLE with you and that we hope to make an announcement in due course.



OD  
 CDL HMT (MOD)  
 DTde FCO  
 LPS LCO  
 LPO HO

JR

10 DOWNING STREET

From the Private Secretary

5 July 1982

*Dear David,*HMS INVINCIBLE

With my letter of 1 July, I enclosed a reply by Mr. Fraser to the Prime Minister's message of 30 June.

I now enclose a copy of a further message which the Prime Minister has received from Mr. Fraser, suggesting that the Australian Minister of Defence should lead a team which would visit London this week. He suggests that Mr. Sinclair might call on the Prime Minister as well as the Defence Secretary. I should be grateful for advice in due course.

I am copying this letter with its enclosure to Private Secretaries to members of OD and to David Wright (Cabinet Office).

*Yours ever**John Cole.*

David Omand, Esq.,  
 Ministry of Defence.

Jup



CONFIDENTIAL



AUSTRALIAN HIGH COMMISSION • LONDON

THE HIGH COMMISSIONER

The Hon. Sir Victor Garland, KBE

2 July 1982

A telegram from my Prime Minister asks me to convey to you the following message:

Begins -

"My dear Margaret,

Since my message yesterday, I have spoken further with Ian Sinclair and we both agree that, rather than your sending a team out here, it would be preferable for him to visit the UK. In London he will be able to see John Nott and, I should hope, yourself, and make a wider range of other contacts.

He will leave here on Wednesday and be able to stay in London for about a week. We shall give the details to your High Commission.

If you have no objection, we shall be making the visit public on Sunday evening here.

Yours sincerely,  
(Malcolm Fraser)."

Ends.

R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,  
Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

CONFIDENTIAL

SUBJECT

a master  
ops



PRIME MINISTER'S  
PERSONAL MESSAGE

PRIME MINISTER

CANBERRA

SERIAL No. T.141<sup>c</sup>/82

Mr. Peter Maynard

- 2 JUL 1982

Since my message yesterday, I have spoken further with Ian Sinclair and we both agree that, rather than your sending a team out here, it would be preferable for him to visit the UK. In London he will be able to see John Nott and, I should hope, yourself, and make a wider range of other contacts.

He will leave here on Wednesday and be able to stay in London for about a week. We shall give the details to your High Commission.

If you have no objection, we shall be making the visit public on Sunday evening here.

You find  
R. G. G. G.

The Rt Hon. Margaret Thatcher, M.P.,  
Prime Minister of Great Britain,  
LONDON. S.W.1  
UNITED KINGDOM



CONFIDENTIAL



AUSTRALIAN HIGH COMMISSION · LONDON

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 141 C/82

2 July 1982

THE HIGH COMMISSIONER

The Hon. Sir Victor Garland, KBE

Master  
ops.

*John Howard*

A telegram from my Prime Minister asks me to convey to you the following message:

Begins -

"My dear Margaret,

Since my message yesterday, I have spoken further with Ian Sinclair and we both agree that, rather than your sending a team out here, it would be preferable for him to visit the UK. In London he will be able to see John Nott and, I should hope, yourself, and make a wider range of other contacts.

He will leave here on Wednesday and be able to stay in London for about a week. We shall give the details to your High Commission.

If you have no objection, we shall be making the visit public on Sunday evening here.

Yours sincerely,  
(Malcolm Fraser)."

Ends.

*Sincerely  
Victor Garland*

R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,  
Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

CONFIDENTIAL



*Defence* *JL*

## 10 DOWNING STREET

*From the Private Secretary*

1 July 1982

*Dear David,*

HMS INVINCIBLE

The Prime Minister has seen your Secretary of State's minute of 29 June as well as the minutes of 30 June by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

As I told you on the telephone yesterday, the Prime Minister is content that Mr. Nott should inform the House during today's Defence Debate that we are discussing the Australians' offer with them and hope to make an announcement in due course.

The Prime Minister also agreed to send a message to the Prime Minister of Australia yesterday on the lines of the draft annexed to Mr. Pym's minute, but somewhat amended. I asked John Holmes to telegraph the amended version yesterday and I enclose a copy with this letter.

Meanwhile, the Prime Minister hopes that the financial aspects of this question will be pursued between the Departments concerned.

I am copying this letter and enclosure to the Private Secretaries of the members of OD and to David Wright (Cabinet Office).

*You are*  
*John Holmes.*

David Omand, Esq.,  
Ministry of Defence.

*B/P/1*  
*for Ed*

*JL*



MESSAGE FROM THE PRIME MINISTER TO MR. FRASER

---

In my message which reached you on 3 June I promised to let you know our reaction to your very generous offer that we should not feel bound to proceed with the sale of HMS INVINCIBLE, if the experience gained in the Falklands operation suggested to us that we should retain her. Your message was in the highest traditions of the friendship between our countries and I am very conscious of your wish to proceed with the purchase if at all possible. This was the background against which we have given the most careful consideration to all the available evidence gathered during the weeks of the Task Group's deployment in the South Atlantic, and what needs to be done in the context of our naval losses there.

These events have demonstrated conclusively that, if we are to retain an effective capability to respond to unexpected threats of this kind, and thus play a proper part in the defence of the free world beyond the confines of the NATO area, we must be able at all times to deploy two fully operational aircraft carriers. Because of the needs of maintenance we cannot be sure of doing this with only two. Moreover a third is needed to ensure the continuity of operations for more than a relatively short period. Therefore, although we intend in future to maintain the direction of our defence policy, geared primarily to the needs of NATO, we believe that we must make some adjustment to give us greater flexibility to mount operations elsewhere. I believe that this is in the interests of all our friends.

We have concluded that we should retain INVINCIBLE rather than HERMES as our third carrier. Although the latter is superior in both carrying capacity and in her command and control arrangements, we are influenced primarily by the fact that INVINCIBLE is of the same class as ILLUSTRIOUS and ARK ROYAL. This will give us significant advantages in training, maintenance and equipment.

/ I should therefore



I should therefore like to take advantage of your offer. This is also, I am sure, what the nation now expects, and I was grateful to see, in your message of 1 June, how conscious you were of the importance of public opinion here on this matter.

At the same time I am aware of the sacrifice that you would be making in your defensive capability - a point endorsed in Ian Sinclair's message to John Nott of 29 June. It occurs to me that you might instead like to consider acquiring HERMES together with a number of Sea Harriers or Sea Kings. We believe we could offer a full package on very good terms. HERMES has been recently refitted with the most modern equipment and has many years useful life ahead. We could provide technical data quickly and send a high-level team to Australia to discuss further details should you so wish.

There is public pressure here for a statement during the Defence Debate on 1 July. I therefore propose to authorise John Nott to say that we are discussing the future of HMS INVINCIBLE with you and that we hope to come to a conclusion soon. He would go no further than this and would decline to be drawn during any supplementary questioning.



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file BIC  
reference

BF

11 July 1982

HMS INVINCIBLE

I wrote to you earlier today about this question and enclosed the text of the Prime Minister's message to Mr. Fraser which was sent yesterday.

B/F/1  
I now enclose a copy of a letter from the Australian High Commissioner which contains the text of Mr. Fraser's reply. I should be grateful if you could provide, as soon as possible, further advice and a further draft letter to Mr. Fraser for signature by the Prime Minister.

JOHN COLES

David Omand, Esq.,  
Ministry of Defence

CONFIDENTIAL

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SUBJECT

cc Master  
Ops



PRIME MINISTER'S

PRIME MINISTER

PERSONAL MESSAGE

CANBERRA

SERIAL No. T141A/82

-1 JUL 1982

*My dear Regent*

Thank you very much for your letter about Invincible. I understand your views, although obviously they involve considerable disappointment for me and my Government.

We were surprised at the alternative offer of Hermes. I understand the sentimental value of Invincible after the Falklands war. However as a result of the Hermes refit, her superior carrying capacity and her command and control arrangements, she would seem better suited to your navy than ours. Would it not be better therefore still to consider one of the Invincible-class ships to be sold to us.

You will remember what I have told you about the political sensitivity in Australia of the question of our acquiring HMS Invincible and my request for an extension of time for our decision. The matter has been controversial in Australia but since our decision to accept your offer the public controversy has died away.

There has been public acceptance here also, I think, of the situation where in the light of your losses in the Falklands campaign you might want to retain HMS Invincible. What would still not be so readily understood, and frankly it takes me somewhat by surprise, is the thought that in retaining HMS Invincible you would be offering HMS Hermes as an alternative.

I would have some difficulty explaining to the Australian public a situation in which HMS Hermes, which is nearly as old as the Melbourne - which we have decommissioned - is either offered or accepted in lieu of HMS Invincible. The Australian public would undoubtedly ask why the British Government is not retaining HMS Hermes while we pursue our original arrangement. That the ship might still have many years of useful service ahead adds to this problem.

...2/



It seems to me that we are now talking about the disposition of four carriers and whether Britain or Australia runs the oldest of those carriers. That obviously becomes a very difficult question for us.

As a result of all this, I would like to accept your suggestion that a mission visit Australia urgently. I would expect that that mission be equipped at a very high level to discuss both policy and technical issues and also that it would be able to discuss a variety of options. I am sure you understand that the problems this situation has posed for our defence people are considerable.

Alternatively, if you prefer, my Minister for Defence could lead an appropriate team to Britain.

After that we should again be in direct contact. All this would obviously take a little time, even taking for granted that we both press ahead urgently.

Meanwhile, it is very important that Mr Nott say no more than you indicated in your letter and of course we will do the same.

You Sir  
The Prime Minister

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister of Great Britain,  
LONDON SW 1  
UNITED KINGDOM



SUBJECT

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AUSTRALIAN HIGH COMMISSION · LONDON

THE HIGH COMMISSIONER

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T141A/82

*cc master  
Ops.*

1 July 1982

*Dear Prime Minister,*

A telegram from my Prime Minister asks me to convey to you the following message:

"My dear Margaret,

Thank you very much for your letter about Invincible. I understand your views, although obviously they involve considerable disappointment for me and my Government.

We were surprised at the alternative offer of Hermes. I understand the sentimental value of Invincible after the Falklands war. However as a result of the Hermes refit, her superior carrying capacity and her command and control arrangements, she would seem better suited to your navy than ours. Would it not be better therefore still to consider one of the Invincible-class ships to be sold to us.

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.....2/

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It seems to me that we are now talking about the disposition of four carriers and whether Britain or Australia runs the oldest of those carriers. That obviously becomes a very difficult question for us.

As a result of all this, I would like to accept your suggestion that a mission visit Australia urgently. I would expect that that mission be equipped at a very high level to discuss both policy and technical issues and also that it would be able to discuss a variety of options. I am sure you understand that the problems this situation has posed for our defence people are considerable.

Alternatively, if you prefer, my Minister for Defence could lead an appropriate team to Britain.

After that we should again be in direct contact. All this would obviously take a little time, even taking for granted that we both press ahead urgently.

Meanwhile, it is very important that Mr Nott say no more than you indicated in your letter and of course we will do the same.

Yours sincerely,  
(Malcolm Fraser)"

*Yours sincerely,*

*R.V. Garland*

R.V. GARLAND

The Rt Hon Margaret Thatcher, MP,  
Prime Minister  
No. 10 Downing Street  
LONDON SW1

*per J. J. Johnson*



SUBJECT

X

Master  
Ops

GPS 620  
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DESKBY 302100Z

CONFIDENTIAL

FM FCO 301836Z JUN 82  
TO IMMEDIATE CANBERRA  
TEL NO 246 OF 30 JUNE 1982  
INFO ROUTINE MODUK FOR DS5

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T140AA/82

HMS INVINCIBLE.

1. PLEASE PASS FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR FRASER.

BEGINS

1. IN MY MESSAGE WHICH REACHED YOU ON 3 JUNE I PROMISED TO LET YOU KNOW OUR REACTIONS TO YOUR VERY GENEROUS OFFER THAT WE SHOULD NOT FEEL BOUND TO PROCEED WITH THE SALE OF HMS INVINCIBLE, IF THE EXPERIENCE GAINED IN THE FALKLANDS OPERATION SUGGESTED TO US THAT WE WOULD RETAIN HER. YOUR MESSAGE WAS IN THE HIGHEST TRADITIONS OF THE FRIENDSHIP BETWEEN OUR COUNTRIES AND I AM VERY CONSCIOUS OF YOUR WISH TO PROCEED WITH THE PURCHASE IF AT ALL POSSIBLE. THIS WAS THE BACKGROUND AGAINST WHICH WE HAVE GIVEN THE MOST CAREFUL CONSIDERATION TO ALL THE AVAILABLE EVIDENCE GATHERED DURING THE WEEKS OF THE TASK GROUPS DEPLOYMENT IN THE SOUTH ATLANTIC, AND WHAT NEEDS TO BE DONE IN THE CONTEXT OF OUR NAVAL LOSSES THERE.

2. THESE EVENTS HAVE DEMONSTRATED CONCLUSIVELY THAT, IF WE ARE TO RETAIN AN EFFECTIVE CAPABILITY TO RESPOND TO UNEXPECTED THREATS OF THIS KIND, AND THUS PLAY A PROPER PART IN THE DEFENCE OF THE FREE WORLD BEYOND THE CONFINES OF THE NATO AREA, WE MUST BE ABLE AT ALL TIMES TO DEPLOY TWO FULLY OPERATIONAL AIRCRAFT CARRIERS. BECAUSE OF THE NEEDS OF MAINTENANCE WE CANNOT BE SURE OF DOING THIS WITH ONLY TWO. MOREOVER A THIRD IS NEEDED TO ENSURE THE CONTINUITY OF OPERATIONS FOR MORE THAN A RELATIVELY SHORT PERIOD. THEREFORE, ALTHOUGH WE INTEND IN FUTURE TO MAINTAIN THE DIRECTION OF OUR DEFENCE POLICY, GEARED PRIMARILY TO THE NEEDS OF NATO, WE BELIEVE THAT WE MUST MAKE SOME ADJUSTMENT TO GIVE US GREATER FLEXIBILITY TO MOUNT OPERATIONS ELSEWHERE. I BELIEVE THAT THIS IS IN THE INTERESTS OF ALL OUR FRIENDS.

3. WE HAVE CONCLUDED THAT WE SHOULD RETAIN INVINCIBLE RATHER THAN HERMES AS OUR THIRD CARRIER. ALTHOUGH THE LATTER IS SUPERIOR IN BOTH CARRYING CAPACITY AND IN HER COMMAND AND CONTROL ARRANGEMENTS, WE ARE INFLUENCED PRIMARILY BY THE FACT THAT INVINCIBLE IS OF THE SAME CLASS AS ILLUSTRIOUS AND ARK ROYAL. THIS WILL GIVE US SIGNIFICANT ADVANTAGES IN TRAINING, MAINTENANCE AND EQUIPMENT.

CONFIDENTIAL

/4.



## CONFIDENTIAL

4. I SHOULD THEREFORE LIKE TO TAKE ADVANTAGE OF YOUR OFFER. THIS IS ALSO, I AM SURE, WHAT THE NATION NOW EXPECTS, AND I WAS GRATEFUL TO SEE, IN YOUR MESSAGE OF 1 JUNE, HOW CONSCIOUS YOU WERE OF THE IMPORTANCE OF PUBLIC OPINION HERE ON THIS MATTER.

5. AT THE SAME TIME I AM AWARE OF THE SACRIFICE THAT YOU WOULD BE MAKING IN YOUR DEFENSIVE CAPABILITY - A POINT ENDORSED IN IAN SINCALIRS MESSAGE TO JOHN NOTT OF 29 JUNE. IT OCCURS TO ME THAT YOU MIGHT INSTEAD LIKE TO CONSIDER ACQUIRING HERMES TOGETHER WITH A NUMBER OF SEA HARRIERS AND SEA KINGS. WE BELIEVE WE COULD OFFER A FULL PACKAGE ON VERY GOOD TERMS. HERMES HAS BEEN RECENTLY REFITTED WITH THE MOST MODERN EQUIPMENT AND HAS MANY YEARS USEFUL LIFE AHEAD. WE COULD PROVIDE TECHNICAL DATA QUICKLY AND SEND A HIGH-LEVEL TEAM TO AUSTRALIA TO DISCUSS FURTHER DETAILS SHOULD YOU SO WISH.

6. THERE IS PUBLIC PRESSURE HERE FOR A STATEMENT DURING THE DEFENCE DEBATE ON 1 JULY. I THEREFORE PROPOSE TO AUTHORISE JOHN NOTT TO SAY THAT WE ARE DISCUSSING THE FUTURE OF HMS INVINCIBLE WITH YOU AND THAT WE HOPE TO COME TO A CONCLUSION SOON. HE WOULD GO NO FURTHER THAN THIS AND WOULD DECLINE TO BE DRAWN DURING ANY SUPPLEMENTARY QUESTIONING.  
ENDS.

2. YOU MAY WISH TO BE AWARE, AND MAY WISH TO PASS ON TO THE AUSTRALIANS IN CONFIDENCE AT AN APPROPRIATE LEVEL, THAT THE GIST OF THE PASSAGE ON INVINCIBLE IN MR NOTTS STATEMENT IS EXPECTED TO BE:  
QUOTE

I COME NEXT TO HMS INVINCIBLE WHICH HAS GIVEN SUCH INVALUABLE SERVICE IN THE FALKLANDS CONFLICT. THE HOUSE IS AWARE OF THE CHARACTERISTICALLY GENEROUS OFFER FROM THE PRIME MINISTER OF AUSTRALIA. WE HAVE TAKEN UP HIS OFFER OF DISCUSSIONS AND I HOPE TO MAKE A FULL STATEMENT IN DUE COURSE.

UNQUOTE.

COPIES SENT TO

No. 10 DOWNING STREET

PYM

LIMITED PS/LORD BELSTEAD  
SP D PS/MR ONSLOW  
DEF.D PS/PUS  
SAHD MR DONALD  
SA D MR GILLMORE  
PS

2

## CONFIDENTIAL



CONFIDENTIAL

Prime Minister

(2)



*As expected. I have said that you hope the departments concerned will pursue the financial question and reach agreement.*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

A.F.C. 1/7

MT

PRIME MINISTER

HMS INVINCIBLE

*with A.F.C.?*

I have noted from John Nott's minute of 29 June that he plans to revise last year's decision to keep in service in the long term only two ASW carriers. The question of naval force structures is primarily one for him. But I cannot agree that the retention of "HMS INVINCIBLE" should be funded by additions to the defence budget.

2. Questions of force mixes - or any other military improvements considered desirable as a result of studies now in train - cannot be charged to the Falklands bill. A decision to retain "HMS INVINCIBLE" would be little different from the earlier decision to run on "INTREPID" and "FEARLESS" and must be funded from the existing defence provision. I would expect the same principle to apply to any other changes in the defence programme that are proposed in coming months.

3. This is quite separate from the question of the treatment of Falklands' costs. We accepted that they could place an additional heavy burden on our public expenditure plans. But that does not mean that other quite specific changes in defence policy should not be paid for out of the defence budget. On the contrary, indeed: since the special treatment to be accorded to genuine Falklands expenditure will aggravate the other public expenditure problems we face in the months ahead.

4. I am copying this minute to the other members of OD and to Sir Robert Armstrong.

G.H.  
30 June 1982



30 JUN 1982

12 1 2 3 4  
5 6 7 8 9

1982 JUN 30 12 1 2 3 4 5 6 7 8 9



PRIME MINISTER

HMS INVINCIBLE

You will see from Mr. Nott's letter attached that:

- (a) he wishes to inform the House during the Defence Debate tomorrow that we are discussing the Australian proposal that we should retain HMS Invincible;
- (b) he proposes to offer them instead a package involving Hermes and some aircraft;
- (c) he advises you to send today to Mr. Fraser the message at Flag F;
- (d) he wishes to charge the retention of Invincible against the cost of the Falkland Islands operation.

The Foreign and Commonwealth Secretary agrees with Mr. Nott's suggestions. The Chancellor does not object to the proposed announcement tomorrow or to the message to Mr. Fraser. But he will be writing to say that it is for the Defence Secretary to propose what our future naval forces should consist of but that the cost of the decision to have three rather than two carriers is not attributable to the Falklands operation and that the extra cost must therefore come from the Defence budget. The MOD are rather expecting this Treasury line though will no doubt contest it.

I do not think you need intervene on the finance question now. May I inform the MOD that you agree to the announcement and to the letter to Mr. Fraser (Flag F) and that meanwhile you hope the financial aspects can be pursued between the Departments concerned?

A.J.C.

30 June 1982





PM/82/52

PRIME MINISTER

HMS Invincible

with asc  
1. Although the Australians will be disappointed if we do not sell them HMS Invincible, I can agree with the overall view and approach in John Nott's minute of 29 June. I understand that the discussions with the Indians and with the Chileans over possible sale of HMS Hermes have not reached an advanced stage and should not stand in the way of our offer to the Australians.

2. I think, however, that it would be right, in putting this to the Australians, to draw more directly on the two points Malcolm Fraser had in mind when he made his generous offer of 1 June: naval losses in the South Atlantic, and public opinion in the UK. / I attach a slightly amended draft (for you and John Nott only) which covers these, and one or two other points, including acknowledging Ian Sinclair's message to John Nott which set out very clearly the Australian wish to retain HMS Invincible if at all possible. My suggestions for changes are underlined. I understand that the MOD are content with these suggestions at official level.

3. I am copying this to other members of OD and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

30 June, 1982

CONFIDENTIAL

2801 NHT 012



1/1





## DRAFT MESSAGE FROM PRIME MINISTER TO MR FRASER

1. In my message which reached you on 3 June I promised to let you know our reaction to your very generous offer that we should not feel bound to proceed with the sale of HMS INVINCIBLE, if the experience gained in the Falklands operation suggested to us that we should retain her. Your message was in the highest traditions of the friendship between our countries and I am very conscious of your ~~keen-~~ <sup>wish</sup> ~~ness~~ to proceed with the purchase if at all possible.

This was the background against which we have given the most careful consideration to all the available evidence gathered during the weeks of the Task Groups' deployment in the South Atlantic, and what needs to be done in the context of our naval losses there.

2. These events have demonstrated conclusively that, if we are to retain an effective capability to respond to unexpected threats of this kind, and thus play a proper part in the defence of the free world beyond the confines of the NATO area, we must be able at all times to deploy two fully operational aircraft carriers. Because of the needs of maintenance we cannot be sure of doing this with only two. Moreover a third is needed to ensure the continuity of operations for more than a relatively short period. Therefore, although we intend in future to maintain the ~~broad thrust~~ <sup>direction</sup> of our defence policy, ~~which is directed~~ <sup>geared</sup> primarily to the needs of NATO, we believe that we must make some adjustment to give us greater flexibility <sup>to</sup> ~~in mounting out of area operations.~~ <sup>elsewhere.</sup> I believe that this is in the interests of all our friends.

/3. We have



3. We have ~~further~~ concluded that we should retain INVINCIBLE rather than HERMES as our third carrier. Although the latter is superior in both carrying capacity and in her command and control arrangements, we are influenced primarily by the fact that INVINCIBLE is ~~one of a class.~~ <sup>of the same as Illustrious & Ardi Royal.</sup> For us, ~~homogeneity will bring significant logistic support and training advantages~~ <sup>That from us significant in terms of maintenance and equipment,</sup> ~~it would make much less sense for us to retain one ship of one class and two of another.~~

4. ~~For all the above reasons,~~ <sup>therefore</sup> I should like to take advantage of your offer. This is also, I am sure, what the nation now expects, and I was very grateful to see, in your message of 1 June, how conscious you were of the importance of public opinion here on this matter.

5. At the same time I am ~~very conscious~~ <sup>aware</sup> of the sacrifice that you would be making in your defensive capability - a point endorsed in Ian Sinclair's message to John Nott of 29 June. It occurs to me that you might instead like to consider acquiring HERMES together with a number of Sea Harriers or Sea Kings. We believe we could offer a full package on very good terms. HERMES has been recently refitted with the most modern equipment and ~~in our judgment~~ has many years useful life ahead ~~of her.~~ <sup>and</sup> ~~As a first step~~ we could provide technical data ~~very~~ quickly. ~~Thereafter I~~ <sup>W</sup> ~~should be very glad to send a high-level team to Australia to discuss further details~~ <sup>should you so wish</sup> ~~including the timing of any purchase and your aircraft requirements.~~

6. There is public pressure here for a statement during the Defence Debate on 1 July. I therefore propose to authorise John Nott to say that we are discussing the future of HMS INVINCIBLE with you and that we hope to come to a conclusion soon. He would go no further than this and would decline to be drawn during any supplementary questioning.





MO 5/21

PRIME MINISTERHMS INVINCIBLE

I am now in a position to give you my advice about the future of HMS INVINCIBLE in the light of Malcolm Fraser's message on 1st June. As you will remember, he told us that while he is keen to proceed with the purchase, we should not feel ourselves bound by any moral obligation if on reflection following the Falklands crisis, we concluded that we wished to retain her.

2. As you know, I take the view that the Falklands crisis must not be allowed to deflect the main thrust of our defence policy and I remain convinced that for maritime operations in the NATO area we should continue to place greater emphasis on submarines and aircraft rather than on surface ships. It is, however, part of our declared policy to maintain an effective out of area capability; and our experience in the Falklands has demonstrated a need to retain the ability to deploy two carriers at any one time to deal with an unexpected crisis. Without both HERMES and INVINCIBLE on station in the South Atlantic our air cover would have been inadequate and there is no doubt in my mind that we should have had considerable difficulty in carrying out a successful landing. Nor would we have been able to conduct operations for much longer without relieving one of these ships; indeed we have had to bring forward ILLUSTRIOUS (a third carrier) to take HERMES' place in August. Three were therefore needed to ensure continuity on station and the ready availability of two. Against this, I should add that I can think of few places in the world where this argument would apply with as much force as





in the Falkland Islands. But this apart, opinion in Parliament and the country clearly expects us to take advantage of the Australian offer.

3. I therefore propose that we should reply immediately to the Australians saying that we have concluded that we wish to retain INVINCIBLE. The reasons will need to be carefully explained to them. At the same time I think that we ought to continue to try to keep the idea of a carrier sale alive - thereby keeping our toehold in their defence equipment market - by offering them a package involving HERMES and a number of Sea Harriers or Sea Kings. I cannot predict what their reaction might be - although I have received the attached letter from Ian Sinclair - but I think they would understand our need to retain INVINCIBLE in order to ensure "commonality" in our carrier force and because of the political importance attached to her. HERMES on the other hand might be an attractive option for them. She would be cheap. She has been refitted recently and is equipped with the most up to date electronics. She is also larger than INVINCIBLE and, given proper maintenance, should last well into the 1990s. The deal could involve a sale or a lease; and HERMES could be made available immediately ARK ROYAL enters service in the mid-1980s (or conceivably earlier). We also need to know the Australians' requirements for aircraft. All this suggests to me that if they showed any interest there would be advantage in an explanatory visit by a high level team to Australia in the near future to discuss their possible needs.

4. We would not have considered stopping the sale of INVINCIBLE were it not for the Falklands "experience". Unless keeping her is not to damage our more important NATO commitment, we should need to charge her retention against the cost of the Falkland Islands operation. A preliminary assessment suggests that the expenditure might fall as follows:





<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>etc</u>	
50	70	65	25		£m

5. If you agree, I propose to inform the House during the Defence Debate on Thursday that we are discussing the Australians' offer with them and hope to make an announcement in due course. This will entail your sending a message to Malcolm Fraser beforehand; and I attach a draft for your consideration.
6. I am sending copies of this minute to OD colleagues and to Sir Robert Armstrong.

J.N.

(approved by the Secretary of State  
and initialed in his absence)

Ministry of Defence  
29th June 1982

CONFIDENTIAL



AUSTRALIAN HIGH COMMISSION · LONDON

THE HIGH COMMISSIONER

The Hon. Sir Victor Garland, KBE

14/5 JW

29 June 1982

*Joint Secretary of State*

I have been asked by the Australian Minister for Defence, the Rt Hon. Ian Sinclair, MP, to convey to you the following message:

Begins -

"As your review of our arrangement for purchase of HMS Invincible proceeds, I am anxious that you and your colleagues be under no misapprehension about our continuing keen interest in acquisition of this ship for the Royal Australian Navy.

In reminding you of this, I am sure that you will understand that I do not seek to go back on Malcolm Fraser's message to Mrs Thatcher of 1 June. I am not urging a contractual or moral obligation. However, I can well appreciate the weight of the national defence and political considerations before you and I want to be quite sure that our own Australian interests are also taken fully into account in your deliberations.

In anticipation of delivery of HMS Invincible later this year, we had before the Falklands conflict already taken HMAS Melbourne out of commission. We shall not re-commission her: she is too old, is expensive to run and has many unsatisfactory features. It was her impending retirement, together with our continuing requirement for an ASW-helicopter platform, that led us to decide to accept your offer of the Invincible. We are now, therefore, without capacity to operate our Sea King ASW helicopters at sea.

We still believe that that ship at the price proposed represents an important investment for the RAN. A decision by you not to proceed with the sale, therefore, would cause us major problems in recovering our ASW capability and would give rise to difficult decisions in restructuring our Navy. The failure to acquire the Invincible would deprive us of a capability that we should strongly prefer to retain against the uncertainties of the future.

...2/

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CONFIDENTIAL

- 2 -

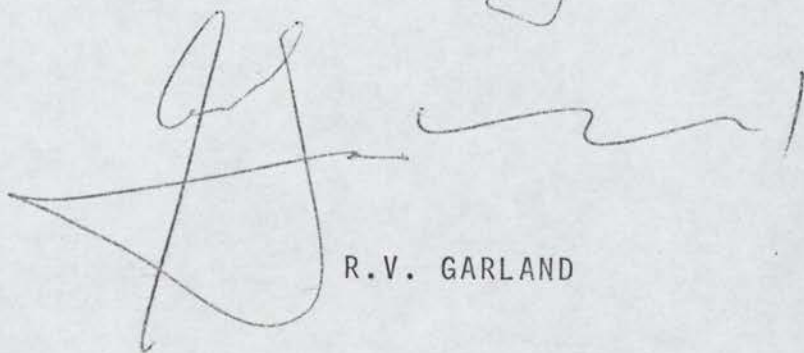
I know that many problems will be pressing upon you at present and I respect your right to reach your own decision. I ask, however, that our Australian requirements and interests be given full weight in all consideration by you and your colleagues of the future of Invincible.

With best wishes,

Ian Sinclair,  
Minister for Defence."

Ends.

*Sincerely,*

A large, stylized handwritten signature in dark ink, appearing to read 'R.V. Garland'. The signature is written over a light-colored background and is positioned above the printed name.

R.V. GARLAND

The Rt Hon. John Nott, MP,  
Secretary of State for Defence,  
Ministry of Defence,  
Whitehall,  
LONDON SW1.

CONFIDENTIAL

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D R A F T message from Prime Minister

1. When I wrote to you on [ ] I promised to let you know our reaction to your very generous offer that we should not feel bound to proceed with the sale of HMS INVINCIBLE, if the experience gained in the Falklands operation suggested to us that we should retain her. Your message was in the highest traditions of the friendship between our countries and I am very conscious that you are keen to proceed with the purchase if at all possible. This was the background against which we have given the most careful consideration to all the available evidence gathered during the weeks of the Task Groups deployment in the South Atlantic.
2. These events have demonstrated conclusively that, if we are to retain an effective capability to respond to unexpected threats of this kind, and thus play a proper part in the defence of the free world beyond the confines of the NATO area, we must be able at all times to deploy two fully operational aircraft carriers. Because of the needs of maintenance we cannot be sure of doing this with only two. Moreover a third is needed to ensure the continuity of operations for more than a relatively short period. Therefore, although we intend in future to maintain the broad thrust of our defence policy, which is directed primarily to the needs of NATO, we believe that we must make some adjustment to give us greater flexibility in mounting out of area operations. I believe that this is in the interests of all our friends.
3. We have further concluded that we should retain INVINCIBLE rather than HERMES as our third carrier. Although the latter is superior in both carrying capacity and in her command and control arrangements, we are influenced primarily by the fact that INVINCIBLE

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is one of a class. For us, homogeneity will bring significant logistic support and training advantages; it would make much less sense for us to retain a unique ship.

4. For all the above reasons, I would like to take advantage of your offer.

5. At the same time I am very conscious of the sacrifice that you are making in your defensive capability; and it occurs to me that you might instead like to consider acquiring HERMES together with a number of Sea Harriers or Sea Kings. We believe we could offer a full package on very good terms. HERMES has been recently refitted with the most modern equipment and in our judgement has many years useful life ahead of her. As a first step we could provide technical data very quickly. Thereafter I should be very glad to send a high-level team to Australia to discuss further details including the timing of any purchase and your aircraft requirements.

6. There is public pressure here for a statement during the Defence Debate on 1 July. I therefore propose to authorise John Nott to say that we are discussing the future of HMS INVINCIBLE with you and that we hope to come to a conclusion soon. He would go no further than this and would decline to be drawn during any supplementary questioning.

CONFIDENTIAL<sup>2</sup>



12 9 JUN 1982





file

day

10 DOWNING STREET

*From the Private Secretary*

28 June 1982

*Dear Madam,*

The Prime Minister has noted the contents of your letter of 22 June enclosing a copy of the latest quarterly report on major defence sales.

*J. S. W.*

*P. L. W.*

Miss Jane Ridley,  
Ministry of Defence.

*JIC*



MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-~~330 7000~~ 218 2111/3

MO 26/9/1A

22nd June 1982

Prime Minister

To note

A. &amp; C. 25/6.

ms

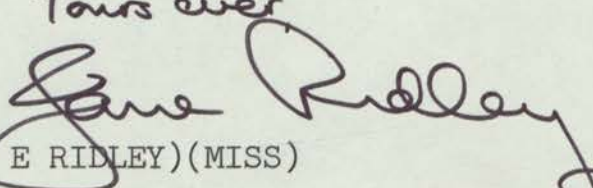
Dear John,

I enclose a copy of the latest quarterly report on major defence sales covering the three months from January to March 1982, together with details of major defence sales prospects. The total value of sales during the quarter amounts to some £394M, compared with £358M in the previous quarter and £232M during the same quarter last year. This total excludes the Venezuelan Hawk contract (£127M) which was signed but not ratified by the Venezuelan Government because of the Falklands crisis. The largest single contract included in this report is the £140M USAF Rapier deal.

The report clearly demonstrates the continuing importance of the Middle East as a customer. Some 30% of all sales for the period were to that area and there are excellent prospects for future sales. Extensions to the Saudi Air Defence Assistance Programme and National Guard Communications projects should be signed in the Summer. These management services and supply contracts will be worth some £700M over the next 3 years. There are also very good prospects for sales to Nigeria where signature of a contract worth £500M for Jaguar is imminent and another £65M contract for Swingfire almost a formality.

Following her discussions with Mrs Gandhi earlier this year, the Prime Minister may wish to know that Indian interest in Sea King helicopters and Sea Harrier Jets continues to be strong. RB 199 is being examined as the possible engine for the new Indian Light Combat Aircraft and the possibility of co-operation with BAe on the aircraft itself is under consideration.

Latin America has over recent years become one of the UK's most consistent customers. The contracts have not tended to be of very high value but usually represent a steady flow of smaller purchases. All sales activities in this area are now being reviewed in the light of the outcome of the Falkland crisis.

Yours ever  
  
 (J E RIDLEY)(MISS)

A J Coles Esq



D/S13/405/3/2

PART I - STATISTICAL SUMMARY OF CONTRACTS SIGNED DURING THE QUARTER ENDING 31 MAR 82

The value of new orders received (ie contracts signed) during the quarter amounted to £394.112M compared with £358.318M in the previous quarter and £322.927M in the July-September quarter. The largest individual orders were USA's purchase of Rapier (£140M) followed by the £46M contract for Corvette fire control systems for Brazil and Iraq's £27M purchase of Simfire.

<u>NAVY</u>	<u>£M</u>	<u>ARMY</u>	<u>£M</u>	<u>AIR</u>	<u>£M</u>
Abu Dhabi	6.500	Australia	0.230	Chile	1.420
Bangladesh	1.700	Brunei	0.785	FRG	1.500
Brazil	46.000	China	3.150	Indonesia	0.416
Chile	1.460	Egypt	0.170	Iraq	6.400
Iraq	0.200	India	5.200	Romania	1.400
Malaysia	3.800	Iraq	29.000	Saudi Arabia	19.000
Oman	25.000	Jordan	0.133	Sweden	20.000
Pakistan	2.000	Kuwait	0.608	USA	149.800
Thailand	1.300	Lebanon	0.200	Yugoslavia	1.800
	<u>87.960</u>	Malawi	0.675	Zimbabwe	0.351
		Nigeria	28.562		
		Oman	27.382		<u>202.087</u>
		Saudi Arabia	3.400		
		Syria	2.100		
		Trinidad	0.520		
		USA	0.950		
		Zimbabwe	1.000		
			<u>104.065</u>		

Note: The figures are substantially correct but not completely comprehensive as not all private orders, particularly those of a minor nature, are known to the Defence Sales Organisation. Orders worth less than £100,000 are not included in the Report. The figures shown are basic costs and do not include escalation or interest on credit.

## PART II - CONTRACTS SIGNED DURING THE QUARTER ENDING 31.3.82 A - NAVY SYSTEMS

COUNTRY	EQUIPMENT	VALUE (£M)	DELIVERY
ABU DHABI	Action speed tactical trainer	6.000	1983
	9x45' Fast patrol boats (Coastguard)	0.500	1982-3
BANGLADESH	HMS Lynx plus ammunition	1.700	Mar 1982
BRAZIL	Fire control systems for 4 Corvettes	46.000	NK
CHILE	Ex-RN surplus ships equipment (ammunition, practice missiles and pallets)	0.940	Feb 1982
	4.5 Ammunition and associated fuzes for HMS Norfolk	0.520	Mar 1982
IRAQ	8m Fast assault boats	0.200	1982
MALAYSIA	Solartron ASTT	3.800	1982-3
OMAN	Landing ship logistic	20.000	1983
	Al Sajid conversion	5.000	1982-3
PAKISTAN	HMS London	2.000	Mar 1982
THAILAND	Command information centre: tactical trainer	1.300	1982-3



CONFIDENTIAL UK EYES B  
COMMERCIAL-IN-CONFIDENCE

PART II - CONTRACTS SIGNED DURING THE QUARTER ENDING 31.3.82 B - ARMY SYSTEMS

COUNTRY	EQUIPMENT	VALUE (£M)	DELIVERY
AUSTRALIA	Anti-riot grenades (types L11, L13, L14, L16)	0.230	Mar-Sept 1982
BRUNEI	76mm AFV practice ammunition	0.509	Jul 1982- Jul 1983
	76mm AFV HESH ammunition	0.276	Jun 1983
CHINA	6 sets Cymbeline mortar locating radars plus spares	3.150	
EGYPT	Personal survival radios	0.170	1982-3
INDIA	Medium girder bridge	5.200	NK
IRAQ	SIMFIRE (900 sets)	27.000	1982-3
	Land-Rovers	2.000	1982
JORDAN	Centurion/ferret	0.133	1984
KUWAIT	Spares for A vehicles	0.608	By Oct 83
LEBONON	20 Engines for saladins	0.200	1982
MALAWI	105mm Ammunition	0.675	Dec 1982
NIGERIA	105mm Tank guns L7A1 (36) )	0.979	1983-4
	105mm Tank gun barrels L7 (8) )		
	GPMG: 36xL8A2 )	0.483	1983-4
	47xL37A2 )		
	36xL6A1 )		
	Small arms ammunition	2.500	Jan 1982
	Laser Rangefinders + spares	19.000	Jan 1982
	Batteries + spares	0.600	
	Snipe (140 plus ground support)	1.500	
	Engineer equipment package	3.500	

## PART II - CONTRACTS SIGNED DURING THE QUARTER ENDING

## B - ARMY SYSTEMS

COUNTRY	EQUIPMENT	VALUE (£M)	DELIVERY
OMAN	Scorpion tanks	11.000	1983
	105mm Ammunition	3.134	Dec 1982
	Initial spares support for 15 MBT's and 1 ARV	10.400	ARV Spares Mar 1982 Remainder Jan 1984 - Mar 85
	120mm Tank ammunition	2.848	Dec 1982
SAUDI ARABIA	Explosive equipment for Special Security Force	0.400	1982-3
	Carl Gustav ammunition for SANG	3.000	1982
SYRIA	Body armour	2.100	1982
TRINIDAD	Communications equipment	0.520	early 1982
USA	NBC Development/Army vehicles	0.950	
ZIMBABWE	400 x HF VHF Manpack + vehicle transceivers	0.800	
	Land-rover Ambulances	0.200	



PART II - CONTRACTS SIGNED DURING THE QUARTER ENDING 31-3-82

C - AIR SYSTEMS

COUNTRY	EQUIPMENT	VALUE (£M)	DELIVERY
CHILE	Ex-RAF Hunters (6)	1.300	Mid 1982
	Aircraft Gun/Bomb sights	0.120	NK
FRG	CBS 200 practice bomb carriers	1.500	1982
INDONESIA	Spares for airfield radars	0.416	Feb 1982
IRAQ	Hunter Spares	3.100	1982
	Jet Provost spares	1.600	1982
	Engineering training for IAF Officer cadets	1.700	1982
ROMANIA	Ejection seats	1.400	1983-4
SAUDI ARABIA	Rapid runway repair kit	19.000	1982-3
SWEDEN	Skyflash (follow on order)	20.000	
USA	Aircraft fuel systems spares	1.680	
	C130 assemblies and spares	0.260	
	AV8B spares	0.310	
	AV8B development	1.250	
	Repair fuel control accessories	0.350	
	GP4B Computer/flight simulator	0.410	
	HUD/WASS	1.380	
	Air data system	1.000	
	Air data computer	0.280	
	Simulator valves AV8B	0.140	
	Projector map assemblies	2.740	
	Rapier	140.000	
YUGOSLAVIA	Linescan 401	1.800	1982-3
ZIMBABWE	BL 755	0.351	Jun 1982

MAJOR DEFENCE SALES PROSPECTSAFRICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ALGERIA	HAWK	200+	1982+	B&E's detailed proposals are under consideration by the Algerians.	US of S(DP) visited Algiers in August 1981 & actively concerned in subsequent correspondence	FRANCE, ITALY CZECHOSLOVAKIA USA/FRANCE
	TACTICAL COMMUNICATIONS EQUIPMENT	20	1982	Plessey/Marconi/Racal actively negotiating		
MOROCCO	IMS PACKAGE - ARTILLERY, VEHICLES, SMALL ARMS ETC	125	1982+	No change from previous report.		FRANCE US (aid)
NIGERIA	JAGUAR	500+	1982	Contractual and financing terms still under discussion. A large package of RAF training is being put together in support of the sale. Nigerians have requested no publicity.	None since last report	FRANCE
	SWINGFIRE	65	1982	Signature likely in near future. The size of the package will be about 50% of the original planned buy worth £135M.		FRANCE USSR
	MAIN BATTLE TANKS	50-60	1982+	Vickers visited in January with proposals for follow-on quantity. May be delayed in view of present serious financial position in Nigeria.		USSR
	TANK AMMUNITION (76 MM + 105 MM)	24.5	1982-4			
	RAPID RUNWAY REPAIR EQUIPMENT	10	1982	Contract awaiting signature.		
	PARACHUTES	15-20	1982	Contract for initial quantity (£5M) still awaiting signature.		USA
ZIMBABWE	CVR(T) ARMoured VEHICLES	up to 50	1982+	ZNA delegation visited UK in February 1982. Quotations for some vehicles already under consideration. Financing is likely to be a problem. Partial military aid thought to be on offer from the French.		FRANCE BRAZIL SWITZERLAND



## CONFIDENTIAL UK EYES B

MAJOR DEFENCE SALES PROSPECTSASIA AND FAR EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRALIA	HUNT CLASS MCMVs	90+	1982/3	Negotiations in progress for purchase of 2 MCMVs from Vosper Thornycroft with an in-service date of 1984/85. RN have agreed diversion of 2 hulls and associated equipment. It now seems unlikely that this will proceed, due to lack of funds, but no decision has yet been taken.	Minister (DP) Secretary of State	Single Tender
	SEA HARRIER	105	1983+	Decision on possible acquisition of STOVL aircraft expected in 1983.		AV8B (USA)
	HMS INVINCIBLE Associated Spares and Stores	175 7.2	Handover between Sep 83 & Mar 84	Terms of Sales Agreement for the ship and MOU for MOD support have been agreed.		
CHINA	PROJECT 051	155	1983+	COCOM agreement obtained. Technical specifications and contractual terms agreed with China but negotiations temporarily suspended following UK firm's final price submission and inadequate Chinese counter-offer.		
INDIA	SEA KING HELICOPTERS	200	1982	HMG has assured Govt of India that it supports Westlands offer. Mrs Gandhi advised the PM during their recent discussions that a decision unlikely before August.	Included in PM's brief for visit of Mrs Gandhi 21-25 March 1982	FRANCE
	SEA HARRIER	103	1982	BAe visited in January, progress was made in negotiations. Request for approval of the purchase is at present with Indian Cabinet.	Included in PM's brief for visit of Mrs Gandhi	
	LIGHT COMBAT AIRCRAFT	165	Not known	Govt of India pursuing interest in development of LCA. HMG confirmed full support for IAF plans, in particular use of RB 199 as powerpack. On receiving firm indication of Indian intentions will seek approval to supply RB 199 from collaborative partners - FRG and Italy.	Included in PM's brief for visit of Mrs Gandhi	FRG FRANCE SWEDEN



## MAJOR DEFENCE SALES PROSPECTS

## EUROPE

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
BELGIUM	VEHICLE RADIOS	7	Mid 1980s	Negotiations progressing, Plessey hopeful of an order within next few weeks.		ISRAEL
DENMARK	SEA SKUA	5-10	1985-6	Much depends on outcome of requirements report now under study by Danish Navy, expected to be complete end April 1982.		
FRANCE	AEW EQUIPMENT	300	1983	Marconi Avionics (MSA) is under consideration for French requirement for an AEW system. French team visited March 1982.		USA
GERMANY	SEA KING UPDATE PROGRAMME (SEA SPRAY/ SEA SKUA)	50	1986-7	Phase I is for radar to provide over-horizon targetting capability. The choice of radar other than Sea Spray or Sea Searcher would destroy BAe's chances of selling Sea Skua to meet Phase II of programme.		FRANCE, ITALY
	STING RAY TORPEDOES	20	Late 1980s	Success may be influenced by FGN choice of heavyweight torpedo. MSDS arranged trials for FGN this Summer.	Minister of State (DP) discussion with the company	USA
GREECE	TORNADO	200-300	1982-3	Deputy Defence Minister Petsos expected to visit UK this Summer, visit to include Tornado briefing. French very active in promotion of Mirage 2000; Petsos visited France Jan 82.		USA FRANCE
ITALY	BL 755	up to 10	6 mths	Negotiations proceeding.		
	SPEY AERO ENGINES	100	1982	Prototype engines to be supplied May 1982. Contract anticipated Autumn 1982.		
	GEM AERO ENGINES	30-100	1983	Programme slipped slightly. Flight development programme now scheduled for Sep 83.		



MAJOR DEFENCE SALES PROSPECTSLATIN AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
BRAZIL	SEA SKUA	10	1982	The BN are waiting for the missile to be accepted into RN service before signing contract.		
	ASW PACKAGE	50	Late 1982	Embraer developing aircraft for maritime patrol, Ferranti and Marconi Radar have proposals worth approx £50M for anti-submarine equipment for these aircraft. Decision on project expected later this year.		
CHILE	SURPLUS SHIPS	20+	1983	HMS Norfolk and RFA Tidepool sold late 1981. Interest in two further destroyers and in longer term broad beamed Leander frigates and an aircraft carrier. Sales prospects need to be reassessed in light of Falklands crisis.		
ECUADOR	AIR DEFENCE SYSTEM PHASE 2	up to 85	1982	First phase signed in 1981. RAF specialist on loan to EAF to advise on set-up. To be funded outside Defence Budget.		USA FRANCE
PERU	NAVAL BASE PHASE 1	90	1982	Project definition complete and successful presentation given to PN. Alternative proposals being submitted by French.		FRANCE
URUGUAY	TYPE 21 FRIGATES	60	Mid/Late 1982	Vospers expect to have decisive discussions with Uruguayan Navy, but these have been postponed due to the Falklands crisis.		USA
VENEZUELA	RAPIER (8-12 fire units)	up to 90	1982-3	Venezuelan team visited UK in 1981. Part of an overall air defence programme, value £1.5B, over next five years.	US of S (DP) visit planned for April/May 1982 now cancelled.	FRANCE
	HAWK (24)	127+		Contract signed but progress payment due in April has not been paid. President Herrera Campins announced that deal has been frozen because of Falklands conflict.		



## MAJOR DEFENCE SALES PROSPECTS

## MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ABU DHABI	HAWK	60	Mid 1982	Detailed specifications being completed contract negotiations imminent. Shaikh Khalifa assured of MOU in support.	PM secured agreement in principle to purchase. Visits by PM and S of S and Mr Hurd in 1981.	FRANCE
	ENGINEER PACKAGE	80	Mid 1982	IMS tender under consideration. New competition introduced but IMS still offer only complete package.		VARIOUS COUNTRIES
	ELECTRONIC WARFARE PACKAGE	100+	Mid 1982	UK tenders submitted and offer of UK MOD support made.		FRANCE, ITALY, FRG and USA
EGYPT	MBTs	525-1000	Late 1980s	Presentation on Challenger given in Egypt in Jan 81. Vickers Valiant could be offered as lighter replacement.	Lord Trenchard discussed during visit.	POSSIBLY FRANCE
	SP 122 MM HOWITZER	120	Not known	MDROFs and Egyptian Minister of Military Production signed letter of intent March 1982 for joint funding of ROF development of carrier vehicle for Egyptian 122 mm gun (soviet designed.) Some local production.	Lord Trenchard discussed during visit.	
	FPVs/FRIGATES	165+	1983	Egyptians still to decide on type of vessel. Options are 6 FPVs, 2 large frigates or 4 small frigates. Special credit agreed.	Ministers have agreed special credit package.	SPAIN ITALY/FRANCE
	SEA SKUA	70	1983	Under consideration. Credit needed.		
IRAQ	BARMINE, RANGER, CENTAUR	57	1982	Initial restriction on supply during hostilities with Iran now lifted. Contract signature imminent. Have requirement for further engineer stores.	FCS agreed to wartime supply.	FRANCE
	FH 70 GUN, AMMUNITION	150	Mid 1980s	Offer for 100-500 guns to be made in May. Supply subject to German approval.	Ministers have decided that supply must await end of Iran-Iraq war.	FRANCE
	LIGHT GUN, AMMUNITION	25.3	6-18 mths	Offer made.		
	CHALLENGER MBT	600	Mid 1980s	Offer for 300-500 MBTs to be made shortly.	Ministers have decided that supply must await end of Iran-Iraq war.	FRANCE
	NIMROD	750+	Mid 1982	Iraqis wish to conclude negotiations by July 1982. Have asked for early delivery of 2 AEWs diverted from RAF production run.	Agreed to sale. S of S to consider diversion.	ITALY



## MAJOR DEFENCE SALES PROSPECTS

## MIDDLE EAST

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION		
SAUDI ARABIA NATIONAL GUARD	SANGCOM Phase 1 Part 2 including elements of WAVELL	200	1982	Detailed negotiations on draft LOA going well. Signature expected shortly.	S of S agreed in principle to attend official opening timed for mid June. Now delayed.	USA		
	SANGMED	Up to 250	1982	Anticipated that Jeddah hospital will be open to receive patients end June 1982.				
	FH 70	20+	1982-3	Presentation Jan 82 followed by request for costed proposals which are being prepared.				
SAUDI ARABIA	FH 70 AMMUNITION	14.5	9-24 mths	Offer made.	S of S sent two personal letters to Prince Sultan on prices issue.	FRG, ITALY		
	FH 70 (MODA) GUN AND ANCILLARY EQUIPMENT	144	1982	IMS say gun supply contract negotiations complete, signature awaited. Negotiations continuing for ancillary equipment.				
	LYNX HELICOPTER (MODA)	60-80	1982	Initial requirement 12-15 helicopters. WHL gave presentation Feb 82 included costed proposals.		USA, FRANCE		
	ARTILLERY AND ENGINEER EQUIPMENT PLUS SUPPORT PACKAGE	Up to 130	1982-3	Contract negotiations continue.				
	HOVERCRAFT FOR COAST GUARD/FRONTIER FORCE	85	1982	Draft contract submitted March 1982.				
	EXTENSION OF MOU COVERING AIR DEFENCE PROJECT (SADAP)	500 over 3 yrs	1982	Visit by HDS to Prince Sultan in March has broken deadlock in negotiations. MOU extension should be signed shortly.		S of S has written spoken to Saudi Ministers in support of UK offer.		
	TORNADO/P110	500+	1986-7	P110 presentation planned for later this year in Saudi Arabia.			Discussed by PM and S of S with Prince Sultan in London 1981.	FRANCE USA
	AIR BASE SECURITY SYSTEMS	80-90	1982	RSAF reassessing requirements. Shorrocks expect to be asked to submit new quotation.				
		AIR DEFENCE RADAR SYSTEM	200	1982		RSAF indicated British firms will be able to bid for up to 22 equipments. Request for proposals unlikely in immediate future.		USA
SYRIA	TANK TRANSPORTERS	100	1982	Following successful demonstration, Scammell have good prospect of being awarded contract for up to 700 vehicles.		FRG/FRANCE		



## CONFIDENTIAL UK EYES B

## MAJOR DEFENCE SALES PROSPECTS

## NORTH AMERICA

COUNTRY	EQUIPMENT/PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
CANADA	PATROL FRIGATE PROGRAMME	Not known	1983	Number of UK companies hopeful of major sub-contracts. Contract definition studies have been placed, the implementation contract is expected to be awarded in 1983.		
USA	RAPIER (for RDF)	Not known	Not known	Investigative team visited UK during Nov and seemed impressed by system. BAe continuing to promote in anticipation of funds becoming available in FY 83.	S of S, M of S (DP) and US of S(DP) all been actively involved in UK/US discussions of both sales.	FRANCE
	HAWK	500	1987	Contract for preliminary engineering development awarded Nov 81. Funding problems still to be resolved by USN and Congressional approval obtained. System under evaluation by US Navy.		USA
	INTEGRATED COMMUNICATIONS SYSTEM (ICS3)	50-100	1982			USA
	SEARCHWATER RADAR	100	1983	Lockheed have been asked to install radar into P3B aircraft prior to evaluation/trials late 1982. Unlikely that funding will be programmed until completion of evaluation/trials.	US of S (DP)	USA
	LAW	Not known	Not known	Recent General Office Review recommended US Army and USMC should conduct joint evaluation of both light and heavier LAW systems. US Army remain committed to Viper but USMC see a need for alternative such as UK LAW.		
	SCORPION - LAV REQUIREMENT	\$278.8	FY 1982-3	Decision on which contractor to be awarded LAV production contract expected Jul 83.		USA CANADA
	COMBAT SUPPORT BOAT	16	FY 1982-4	Army plans to buy further 101 boats during FY 82 and USMC 27. Further procurement planned for FY 83 and 84, and is likely to be competitive as US have option of licensed manufacture.		
	81 MM MORTAR	200-350	1983	Contract moving towards type classification and procurement early 1983. After initial buy of 4000 mortars and 2M bombs US will wish to manufacture under licence.	Raised at Minister(DP)'s meeting with Dr DeLaver during his recent visit to UK.	



CONFIDENTIAL

file

289

3 June 1982

HMS INVINCIBLE

With my earlier letter of today's date I enclosed the text of a message from the Prime Minister to Mr. Fraser. The final sentence of the fourth paragraph contains an error. The words "by mid July" should be deleted and replaced by "by late summer". The message in its correct form was telegraphed to Canberra last night.

I am copying this letter to John Holmes (FCO).

A. J. COLES

S

David Omand, Esq.,  
Ministry of Defence.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

3 June 1982

HMS INVINCIBLE

Thank you for your letter of 2 June. As I told you last night, the Prime Minister agreed that the Ministry of Defence should issue the press statement which you enclosed. I also asked John Holmes last night to arrange for a revised version of the reply to Mr. Fraser to be telegraphed to our High Commission in Canberra. I enclose the text of the revised message.

I am sending a copy of this letter and its enclosure to John Holmes (FCO).

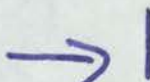
A J. COLES

David Omand, Esq.,  
Ministry of Defence.

Could I have  
the enclosure

pl.

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cc Ops

T 119/82

Argentina Relations Pt 22

10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S**

2 June 1982

**PERSONAL MESSAGE**

**SERIAL No. T 119/82**

Thank you very much for your message of 1 June which was passed to me by your High Commission.

It was most considerate of you to tell us that we should not feel held to any moral obligation over the proposed sale of HMS INVINCIBLE. We are also grateful for Ian Sinclair's agreement not to press John Nott to conclude the contract arrangements whilst military operations involving HMS INVINCIBLE are still in progress in the South Atlantic.

As you may have heard, the fitting out of her sister ship HMS ILLUSTRIOUS has been accelerated and we now expect her to enter service rather earlier than had been expected, in late summer this year. I am hoping that we can make a rapid assessment of where we stand as soon as the situation in the Falkland Islands permits. I believe that we should be able to give you a clear indication of our view concerning HMS INVINCIBLE by mid-July.

May I also take this opportunity to say again how greatly heartened I have been throughout the last few difficult weeks by the consistent support which you have given us over the Falklands crisis and which underlines yet again the common objective we have in ensuring that aggression does not pay.

The Rt. Hon. J.M. Fraser, CH, MP.



LD  
Defence

10 DOWNING STREET

From the Private Secretary

1 June, 1982

HMS INVINCIBLE

I enclose a copy of a letter which the Prime Minister has received from the Acting High Commissioner of Australia. This contains the text of a letter to the Prime Minister from Mr Fraser who states that if, following the end of the current hostilities in the South Atlantic, we wish to take another view about the sale of Invincible, we should not feel ourselves held to any moral obligation. Mr Fraser further states that the Australian Minister for Defence will not press Mr Nott to conclude contract arrangements until we indicate that we are ready to proceed.

I should be grateful if you could let me have an early draft reply to Mr Fraser for signature by the Prime Minister.

I am copying this letter to Brian Fall (FCO), John Halliday (Home Office), Keith Long (Paymaster General's Office), Jim Nursaw (Attorney General's Office), John Kerr (HM Treasury) and David Wright (Cabinet Office).

A. L. COLES

D Omand, Esq  
Ministry of Defence

CONFIDENTIAL

LD



1 June, 1982

The Prime Minister has asked me to thank you for your letter of 1 June conveying the text of a letter from the Prime Minister of Australia.

A. J. COLES

Mr R H Robertson

Subject

T117/82  
PIA



**PRIME MINISTER'S  
PERSONAL MESSAGE**  
SERIAL No. T117/82

PRIME MINISTER  
CANBERRA

1 June 1982

*My dear Margaret,*

We continue to watch the progress of events in the Falklands - with concern for the losses you have suffered and with admiration for the strength with which you are sticking to the task. I have tried to underline in discussions I have had overseas the fact that anyone resisting aggression, Britain particularly in the Falklands, does so not so much for themselves but on behalf of us all. You should continue to feel that you have the strong support of your friends.

It occurs to me that the time will come at the end of hostilities when you will wish to consider the naval losses you have taken and the state of public opinion in Britain, and that then you might well come to another view about the sale of Invincible. While we continue to be keen to make the purchase, I want you to know that if after such re-assessment the British Government concludes that it should not sell Invincible, then you should tell me and not feel yourself held to any moral obligation.

With this in mind also, the Australian Minister for Defence will not press Mr Nott to conclude contract arrangements until such time as you indicate that you are ready to proceed, although of course for our own financial arrangements if the matter is to proceed, we would want to finalise the contract documents as soon as this can reasonably be done.

*You sincerely*  
*Margaret Thatcher*

The Rt Hon. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
LONDON



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SUBJECT

T 117/82 CONFIDENTIAL



Acting  
THE HIGH COMMISSIONER

AUSTRALIAN HIGH COMMISSION • LONDON

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 117/82

1 June 1982

*My dear Prime Minister,*

In the High Commissioner's absence at a Conference in Geneva, I have been asked by my Prime Minister to convey to you urgently his following letter dated 1 June 1982:

"We continue to watch the progress of events in the Falklands - with concern for the losses you have suffered and with admiration for the strength with which you are sticking to the task. I have tried to underline in discussions I have had overseas the fact that anyone resisting aggression, Britain particularly in the Falklands, does so not so much for themselves but on behalf of us all. You should continue to feel that you have the strong support of your friends.

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Yours sincerely,

*R. H. Robertson*

R.H. Robertson

The Rt Hon Margaret Thatcher, MP,  
Prime Minister  
10 Downing Street  
LONDON SW1.

CONFIDENTIAL





Defense



MINISTRY OF DEFENCE  
WHITEHALL LONDON SW1A 2HB  
Telephone 01-218 6621 (Direct Dialling)  
01-218 9000 (Switchboard)

Minister of State  
for Defence Procurement

D/MIN/TT/3/13

27 April 1982

N. S. P. R.

1002 27/4

Dear Arnold *will repeat  
if required*

In my letter of 23rd April I indicated that I was having an urgent look at South Korea to see whether we could agree to the further release of Confidential information in order to promote Stingray there.

I am glad to say that I can now confirm that we have no objection to you releasing the latest issue of your Confidential technical brochure and I shall arrange for my officials to provide your staff with the usual form of formal clearance specifying exactly what can be handed over to the South Koreans.

As I said, I shall be responding to the other points in your letter as soon as possible.

I am sending a copy of this letter to the Prime Minister.

*Yours sincerely  
John*

P.S. I spent  
last Thursday AM. at Hirst

Trenchard

Lord Weinstock

*with Arthur Walsh and  
asked for all problems. He  
didn't raise torpedo sales, but I am looking urgently at those  
problems.*

2 APR 1982

0 11 12 1 2  
9 8 7 6 5 4 3



John Cotes

(2)

Defence.

WR  
2/4

With  
Lord Weinstock's  
Compliments

Prime Minister

You may wish to  
see.

AN 21.  
4



I STANHOPE GATE LONDON W1A 1EH

Private

THE GENERAL ELECTRIC COMPANY LIMITED

1 STANHOPE GATE · LONDON W1A 1BH

01-493 8484

16 April, 1982

Dear John,

I am truly sorry to have to add the slightest jot to your burdens at such a trying time, but the world is still going round and needs attention. Hence the enclosed letter.

As to the subject which must presently be uppermost in your mind, we will do everything you ask within even the remote bounds of possibility, and add our fervent hopes and prayers that your efforts will be attended by success.

Yours sincerely,  
Arnold

Re: Hon. John Nash, M.P.



16th April, 1982

Dear John,

During your visit to Neston, you specifically asked that we should keep you informed about progress in achieving a substantial volume of exports of torpedoes. This is how things stand.

(1) In our endeavours to obtain export orders for Mk24 torpedoes, clearance for release of confidential information on Mk24 has been officially refused in respect of the following countries:

- (a) India;
- (b) Peru; =
- (c) Ecuador; =
- (d) China;
- (e) Egypt;
- (f) Japan.

(2) Similarly, clearance for release of confidential information on Sting Ray has been officially refused in respect of the following countries:

- (g) Indonesia;
- (h) Colombia;
- (i) South Korea;
- (j) Pakistan;
- (k) India.

/.....

(It would be indelicate in this catalogue to make reference to the Argentinians, who finally bought Italian torpedoes, which is perhaps just as well in the circumstances.)

(3) Let us look at India as a particular example. We have been trying to sell Mk24, but have been frustrated by official refusal to release classified information; we were told that this refusal was based on the proposition that the Indians would not have a suitable submarine, and would therefore not buy torpedoes. In the event, the Indians have bought torpedoes from Germany, and we did not even get a crack at the business.

Clearance has also been refused to provide confidential information for Sting Ray.

All our efforts to sell torpedoes in India have thus been frustrated.

(4) The technique adopted by MOD in considering whether or not to clear the release of confidential information appears to aim to establish the degree of interest of prospective purchasers. Initially, only virtually



useless information is released; if that does not end our chances, a further limited release is authorised; and if we were ever to reach such a stage with a live customer, no doubt there would be further relaxation of the restrictions.

This approach has effectively put an end to every prospect on which we have worked where orders have actually been placed. The recipients of such orders have been those supplier countries whose response to the opportunity has been forceful and enthusiastic.

(5) Apart from the United States, and the possibility of collaboration with Germany, there are currently two active buyers to whom we could sell Mk24 and Sting Ray:-           

(1) China

There is a stated requirement for eight hundred lightweight torpedoes. With the support of MOD, an invitation was extended to the Chinese to visit the UK in January, 1982, to witness Sting Ray firings. At the direction of MOD, this invitation was at the last moment withdrawn. In these circumstances, we have been unable to pursue the question with the Chinese, and we cannot do so unless and until we have a satisfactory assurance from MOD that we will not again be made to renege.

/.....

We want to ask the Chinese to send representatives to witness Sting Ray firings, and we need permission, and co-operation, from MOD to pursue that prospect to its conclusion.

This also applies to the Chinese requirement for sixteen hundred heavyweight torpedoes, to satisfy which we propose to offer Mk24;

(11) Egypt

There are substantial requirements for lightweight and heavyweight torpedoes. On Sting Ray, we are confined to "restricted" information, but we are not to be permitted to supply before 1990! Egypt requires delivery in 1984, and we could in fact deliver in 1983.

On Mk24, clearance of information has been refused by MOD. The Egyptians have extended the tender date to enable us to compete with the Americans and the Germans.

We urgently need approval to give information up to a confidential level for both Sting Ray and Mk24, and to be free to offer delivery to the customers' reasonable requirements.

(6) We understand, of course, that operational security must be preserved. But we do not believe that those responsible for deciding on the extent to which it



is appropriate to release "confidential" information in relation to torpedoes realise the nature and degree of the dependence of the Sting Ray on its computer software. Without the computer programme, the torpedo will not even run straight. And it should be clearly understood that we can alter the performance of the weapon offered to export customers in any way the Royal Navy wants.

(7) Sting Ray, originally programmed in 1978 for an in-service date at the end of 1982, is effectively in service now, many months ahead of the planned time-scale. Our side of the bargain is being honoured. So far as the encouragement of exports is concerned, HMG's is not.

(8) Export prospects were defined in a market survey we gave at the outset to Defence Sales, and this was accepted by MOD before we submitted our offer for the Sting Ray/Spearfish development. In our opinion, in view of the inter-relationships between the terms of contract, the volume of exports and the financial outcome of the whole torpedo venture, MOD must either enable us to sell for export, or accept an appropriate increase in the prices of the two development contracts.

/.....

(9) If we are to succeed in the export effort, we need special arrangements at a senior level in MOD to obtain rapid and well-informed decisions on security clearance. Can they please be set up?

Lord Weinstock

P.S. Since the Prime Minister has on more than one occasion categorically expressed her interest in this subject, I am sending her a copy of this letter.

The Rt. Hon. John Nott, MP.,  
Secretary of State,  
Ministry of Defence,  
Main Building,  
Whitehall,  
LONDON, S.W.1.



Defence



10 DOWNING STREET

for the file

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- ① Frank Cooper is in USA. but recommends we go ahead with meeting.
- ② Chris Piretley will be present.

es.

22/3.

Caroline

Have you confirmed  
the arrangements for  
this meeting in  
writing? And has  
Sir Frank Cooper been  
invited?

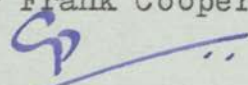
MR RICKETT

PRESENTATION ON THE DEFENCE SALES  
ORGANISATION, 20 APRIL

I am afraid that Sir Derek Rayner will be unable to attend this presentation, arranged for 5.30pm on Tuesday 20 April, as he will be addressing a conference of DHSS officers at Bath, at the request of Mr N R Warner (one of the first and of the best of the "Rayner project" examining officers and now a regional controller in DHSS).

2. However, I will prepare briefing for the presentation which, if the Prime Minister agrees, I will attend in place of Sir Derek Rayner.

3. As I think you already know, the intended presentation to the Prime Minister follows one to Sir Derek, held here recently. Were he able to be present, I am sure that he would endorse the line being taken by Sir Frank Cooper and Mr Blyth.

  
C PRIESTLEY

19 March 1982

LH  
22/3



PRIME MINISTER

Mr. Rickett

↓.

17.30  
20/4

At your pt at 15:30 in the  
small dining room,

table

15' in'

When you saw Sir Derek Rayner last week, he suggested that you might receive a presentation from Sir Frank Cooper and Mr. Blyth, the new Head of Defence Sales, on the recent scrutiny of the Defence Sales Organisation, and you responded favourably to this idea.

I understand that the presentation, which has already been given to Sir Derek Rayner, is fairly simple, and does not require elaborate arrangements. Mr. Blyth would do it (and I am told that he does it very well). The total time required is about an hour, allowing for the presentation itself and subsequent questions and answers.

Are you content for us to go ahead and arrange the presentation?

If so, would you like it in your study, or in the small dining room? I am inclined to the latter so that <sup>the</sup> minimal preparations for the presentation can be made without disturbing you.

Yes - but not in  
the small dining room

FRW.


12 March, 1982.



120  
Mr WHITMORE

MINISTRY OF DEFENCE

1. I understand that when Sir Derek Rayner saw the Prime Minister last Thursday evening, she agreed to his suggestion that she should receive a presentation from Mr Blyth and Sir Frank Cooper on the recent examination of the Defence Sales Organisation (included at her request in last year's scrutiny programme) and a note from Sir DR himself on some recent good scrutiny-type work by the Ministry (on procedures for operational requirements, supporting services for R&D and financial accountability).
2. The purpose of this minute is, first, to let you know that we shall produce the note in collaboration with MOD as soon as possible and, secondly, to ask that the presentation should be set up from your office for an early date. Sir Frank Cooper's office stand ready at their end to deal with this.
3. An "early date" is requested because that will enable the MOD people to take account of any points the PM wanted to make before finalising their decisions after the scrutiny. The presentation is not at all elaborate and could be laid on in the PM's study. The format - already tried out by MOD on Sir DR - is a "table-top" presentation in loose leaf form. In effect, it is an aide-memoire which is used by both the presenter and the audience as an outline. Mr Blyth would take the PM through the presentation. He does it very well, with great enthusiasm and animation and I think that she would enjoy it. The total time required is about an hour, allowing for presentation and questions and answers.

  
C PRIESTLEY  
8 March 1982





17 MAR 1982

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B/K



10 DOWNING STREET

Caroline

See last para. when could  
Mr. Nolt come?

A.F.C.

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CH

awaged for 1730  
on 20 April  
+ Mr James Byrne:  
Ad of Joyce  
Sales



Prime Minister  
wh  
2/3MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~910 7022~~ 218 2111/3

MO 26/9/1a

1st March 1982

Dear John,

I enclose a copy of the latest quarterly report on major defence sales prospects.

At my Secretary of State's request, I am also sending you a summary of major defence sales contracts signed in the last quarters of 1981. These were worth some £358M in all, £35M more than the value of contracts secured during the previous three months, bringing the total for 1981 as a whole up to £1,446M.

As the summary makes clear, Iraq continues to be a particularly important customer and was responsible for almost 28% of our sales during those three months. Future sales prospects are also good, with considerable interest being displayed in UK aircraft such as the Hawk, Nimrod AEW and the P110/Tornado. Our second largest customer during the quarter proved to be the USA which signed contracts, mainly in the aerospace area, worth just over £35M. Another good customer over the past year has been Nigeria which signed contracts worth £150M during 1981. A number of additional major contracts are currently being negotiated and a Nigerian letter of intent to purchase 36 Jaguar aircraft has recently been signed. The overall value of this contract will eventually be about £500M and an initial down payment of £50M has already been made to British Aerospace.

The Prime Minister may be interested to learn of the campaign to increase UK penetration of the West German market. Studies showed that the greatest opportunities lie in the field of components and sub-systems. Following on from visits to West Germany earlier in the year and a display of British NBC defence equipment at Rheindahlen, the Defence Sales Organisation arranged an inward mission of senior German industrialists and officials from the Federal Procurement Agency. As well as visiting British industry, the German party met my Secretary of State and other Ministers. Both the German and British industrialists found the visit worthwhile and almost all the UK companies involved,

A J Coles Esq





some 25, have arranged further discussions with West German industry on specific sales prospects. One of the most significant developments since the last report has been the American decision to choose Hawk to meet the US Navy's advanced trainer aircraft requirement. Although there has been some Congressional opposition to offshore defence purchases, we are hopeful that the Hawk programme will go ahead and its potential value to UK industry is £500M.

Agree that  
we should  
fix this  
meeting?  
WR  
2/3  
Yes  
not

I understand that my Secretary of State has mentioned to your office that he would like to brief the Prime Minister on his proposals for changes to the Defence Sales Organisation. Perhaps we could fix a suitable time for this discussion.

I am copying this letter to Francis Richards, John Rhodes and David Wright.

Yours sincerely  
Nick Evans

(N H R EVANS)



PART I - STATISTICAL SUMMARY OF CONTRACTS SIGNED DURING THE QUARTER ENDING  
31 DECEMBER 1981

The value of new orders received (ie, contracts signed) during the quarter amounted to £358.318M compared with £322.927M in the previous quarter and £532.08M in the April-June quarter. The principal orders were the £30M contract for Landing Ships placed by Algeria, the purchase of 5 Hawk aircraft by Indonesia for £25.7M and the Omani order for £28M worth of Chieftain tanks.

<u>NAVY</u>	<u>£M</u>	<u>ARMY</u>	<u>£M</u>	<u>AIR</u>	<u>£M</u>
Algeria	30.000	Abu Dhabi (UAE)	0.897	Argentina	0.500
Cameroon	2.500	Australia	8.500	Cameroon	0.300
New Zealand	19.000	Austria	25.346	Chile	0.500
Trinidad & Tobago	3.000	Botswana	0.180	Egypt	5.250
USA	1.900	Canada	1.062	Finland	0.950
		Chile	0.300	Indonesia	27.200
		Ecuador	5.000	Iraq	8.000
	<u>56.400</u>	Egypt	5.750	Japan	0.450
		Iraq	91.050	Nigeria	13.310
		Jordan	1.775	USA	33.513
		Kuwait	1.024	Zimbabwe	0.400
		Lesotho	0.280		
		Malaysia	10.000		<u>90.373</u>
		Mozambique	2.300		
		Netherlands	1.009		
		New Zealand	6.000		
		Nigeria	18.620		
		Oman	28.612		
		Portugal	1.940		
		Somalia	0.350		
		Sudan	0.400		
		Yugoslavia	0.750		
		Zimbabwe	0.400		
			<u>211.545</u>		

Note: The figures are substantially correct but not completely comprehensive as not all private orders, particularly those of a minor nature, are known to the Defence Sales Organisation. Orders worth less than £100,000 are not included in the Report. The figures shown are basic costs and do not include escalation or interest on credit.



CONFIDENTIAL UK EYES B  
 MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ALGERIA	HAWK	100+	1982+	Evaluated by the Algerians in November. Detailed proposals are now being drawn up.	US of S(DP) visited Algiers in August	France Italy Czechoslovakia
	SEA KING/COMMANDO HELICOPTERS	100+	Not known	Demonstrated in November. Proposals are now with the Algerians.		France Italy
	FOX	25	1983-84	Awaiting invitation to tender.		
MOROCCO	IMS PACKAGE - ARTILLERY, VEHICLES ETC	125	1982+	Outcome of negotiations still awaited. IMS still consider it a reasonable prospect for the near future.		France USA(aid)
	FOX	35	1983-84	Vehicle of this type is expected to be included in the final phase of current Moroccan programme.		
NIGERIA	JAGUAR	500	early 1982	Initial down-payment of £50M received. Final contractual and financing terms under continuing discussion. Nigerians have requested no publicity.	S of S discussed credit with Nigerian Minister of Defence in September 1981.	France
	SWINGFIRE	135+	1982	BAe negotiating team visited Lagos in January to continue talks.		France USSR
	PARACHUTES	15-20	early 1982	£5M contract for an initial qty expected shortly.		USA
	TANK AMMUNITION (76 MM & 105 MM)	18	1982	IMS have followed up last year's sales of tanks with quotations for ammunition.		Israel Belgium USA
	RAPID RUNWAY REPAIR EQUIPMENT	10	early 1982	Contract terms agreed - awaits Presidential approval.		
TUNISIA	HAWK	65-135	1982+	Quotations made and good credit offered. Demonstration last November. Intense competition with partial aid offered by France and USA.		France USA
ZIMBABWE	RADIO COMMUNICATIONS	20	1981-82	Second of two contracts for direct supply due in March. Local production of remainder likely to start later this year.	M of S(AF) plans to visit in the Summer.	France



CONFIDENTIAL UK EYES B  
 MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRALIA	HUNT CLASS MCMVs	90	1982	Negotiations in progress for purchase of 2 MCMVs from Vosper Thornycroft with an in-service date of 83/4. RN have agreed diversion of 2 hulls and associated equipment. MOD and IMS offering support to the deal and possibility of further orders for 2 vessels.		
	HMS INVINCIBLE	182	1982	Draft Sales Agreement and MOU negotiated in November. Australian decision expected end of Feb. Prospect is good.	PM, S of S, M of S(DP) in correspondence with Australian counterparts	US, ITALY, SPAIN
BANGLADESH	HMS LYNX	1.5	1982	Offer of sale open until 28 Feb on condition that Bangladesh agrees terms for settlement of outstanding debt of £1.5M on previous purchase.		
CHINA	O51 PROJECT	170	1983+	Negotiations continuing. Contract signature now forecast for end of March. US has agreed to sale and full COCOM clearance expected shortly.		
INDIA	SEA KING HELICOPTERS	200	1982	Revised proposals submitted in January. Further negotiations and MOU discussions to take place.	M of S, FCO visited in January	FRANCE
	SEA HARRIER	75	1982	BAe have been asked to visit India for contractual negotiations. Quotation made for 10 Sea Harriers and two trainers.		
	FH70 ARTILLERY	80	1982	IMS are preparing a revised offer for 200 guns, including some local manufacture of 100 guns, 200 tractors, ammunition and a credit package for the whole deal.		USSR, USA, SWEDEN AUSTRIA AND FRANCE
JAPAN	FH70 ARTILLERY	50-100	1982	Decision expected first quarter of 1982. Japanese army prefers FH70 and has told US and Sweden.		US SWEDEN
MALAYSIA	PANGA ARMoured CAR	22.5		Evaluation in Malaysia in January. Up to 75 army and 30 police vehicles required.	FCS visited early Feb to mend trade fences	FRANCE USA
SOUTH KOREA	HAWK	500	1983+	BAe proposal for purchase of 18 and licence build submitted in Sep. Response is awaited.		
	SKY VAN	270-300	1983	Initial requirement for 30 aircraft. Understand Sky Van to be favourite.		SPAIN



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 MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
AUSTRIA	BL755 CLUSTER BOMBS	5	1982	Order awaited following apparently successful aircraft compatibility trials.		None
BELGIUM	VEHICLE RADIOS	15+	1982	Plessey are sole UK contender. Strong competition from Israel. Decision expected end of March.		Israel
DENMARK	SEA SKUA	5-10	1985-86	For Lynx helicopters already on order. BAe will visit in February for further discussions.		
GERMANY	SEA SKUA AND RADAR	50	1986-87	Well placed for selection as a mid-life improvement to Sea King helicopters.		France Italy
	STINGRAY/TORPEDOES	20+	1984	Marconi, with MOD support, trying to counter FRG decision to buy Selenia homing head for AEG heavyweight torpedo. Lightweight torpedo reqt slipped to end of 80's.		USA Italy
GREECE	TORNADO	200-300	1982	Intensive discussions with Panavia are expected before a final decision is taken in the spring.	M of S has invited Greek Deputy Defence Minister to UK.	USA France
ITALY	SPEY AERO-ENGINES	100	1982	Text of main contract substantially agreed. Parts to be manufactured in Italy identified. Final signature now anticipated in Autumn 1982.		None known
	GEM AERO-ENGINES	30-100	1982	MOD(PE) and Rolls-Royce are currently doing type approval certification of prototype engine for the Italians.		None known
SPAIN	RAPIER	100-150	1982	Letter of Intent issued by Spanish authorities. Contract should be signed by end of March if arrangements for local production can be agreed.		USA France
	SEA HARRIER/AV8B	75-85	Not known	Spanish interest in AV8B confirmed by US. Spanish Navy have taken 2 places offered for Harrier pilot training this year.		
SWITZERLAND	BL755 CLUSTER BOMBS	Up to 18.4	late 1982	Offer for 2,000 weapons submitted as follow-on buy to earlier sale.		
YUGOSLAVIA	EW SYSTEM	16	1982	Racal have made proposals in accordance with detailed Yugoslav specification. Contract imminent.		USA
	BL755 CLUSTER BOMBS	Up to 23	early 1982	Huntings have been asked to quote for a further 1,000 and 2,000 bombs. Excellent prospects of a further sale.		



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 MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
BRAZIL	FIRE CONTROL SYSTEMS FOR 4 CORVETTES	45	1982	The Ferranti package has been chosen by the BN and final contractual and financial details are being negotiated. Prospects for 8 further systems.	US of S (DP) plans to visit in April/May 1982	Italy and Holland
	SEA SKUA	10	1982	The BN are waiting for the missile to be accepted into RN service before making their final decision.		
ECUADOR	AIR DEFENCE SYSTEM	up to 85	1982+	First phase contract (£15M) signed in 1981 RAF specialist on loan to EAF to advise on set-up. Plessey seem well placed for second phase of programme (£25M) in 1982.		USA and France
	LYNX HELICOPTERS	up to 40	1982	MOD have offered RN training. Strong competition.		France and Italy
PERU	NAVAL BASE (Phase 1)	90	1982	Project definition complete and successful presentation given to the PN. Credit cover could be a problem		
URUGUAY	Ex RN TRIBAL CLASS FRIGATES	up to 60	1982	Defence Sales and Vosper Thornycroft visited Uruguay in Dec 81 to present proposals to UN. Possibility of reciprocal trade agreement under consideration.		USA
VENEZUELA	HAWK (24)	100+	1982	Decision delayed due to political implications of border dispute with Guyana. Final contract negotiations are expected in early 1982. Venezuelan team visited UK in late 81.	US of S(DP) plans to visit in May 82	France, FRG USA and Switzerland
	SCORPION (100+)	42	1982	Decision expected early 82		
	RAPIER (8-12 fire units)	up to 90	1982	Venezuelan team visited UK in June 81 for a presentation and live firing. Part of an overall air defence programme (value £1.5B) over next five years.		



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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
ABU DHABI	HAWK	60	early 1982	Detailed specifications being completed and contract negotiations imminent. Shaikh Khalifa assured of MOU in support.	PM secured agreement in principle to purchase. Visits by PM and S of S in 1981.	France
	ENGINEERING PACKAGE	80	early 1982	IMS tender under consideration. New competition introduced but IMS still offer only complete package.		Various countries
	ELECTRONIC WARFARE PACKAGE	100+	mid 1982	UK tenders submitted and offer of UK MOD support made.		France, Italy, FRG and USA
EGYPT	MBTs	300+	mid 1980s	Interest in 300 tanks. Presentation given in Egypt, end January 1982.	S of S discussed with Egyptian Minister of Defence.	USA, France, FRG
	FAST PATROL VESSELS (or CORVETTES/FRIGATES)	240	1983+	Egyptian Navy to decide whether 6 FPVs or 2 larger ships would best meet their requirements. Provision of credit essential to secure order.	Special allocation of credit agreed by Ministers.	France, Italy, Spain and USA
IRAQ	HAWK (licensed manufacture) and industrial infrastructure package	2000+	1982	BaE proposals for local production presented during December 1981, and now being evaluated by Iraqis.	Ministers have agreed to supply.	France and Italy
	NAVAL BASE	500	1982	IMS secured design contract for Integrated Weapons Complex and have tendered for Naval Base Complex.	S of S has written letter of support to Iraqi Minister of Defence.	France and Italy
	REFURBISHMENT OF CAPTURED CHIEFTAINS	50	1982	IMS have now submitted costed proposals to Iraqi government.	Ministers have agreed to this work being carried out in Iraq.	None
	NEW MBTs AND FH70	up to 1000	1982+	Iraqi delegation saw Challenger in UK in November 1981. Proposals for 300-560 MBTs and up to 500 FH70 requested.	Ministers have decided that supply must await end of Iran-Iraq war.	France
	TORNADO/P110	500	1985+	Iraqi Air Force delegation visited UK end January 1982 to test-fly Tornado and continue discussions on joint Arab participation in P110 project.	Under consideration by Ministerial Working Group on Defence Sales.	France
	AEW AND TANKER AIRCRAFT	about 750	1982+	At the request of the Iraqi Air Force, proposals are being prepared for Nimrod AEW export-version and HS146 AEW. Proposals to meet Iraqi tanker aircraft requirement also discussed during January 1982 visit of Iraqi Air Force delegation.	Agreement to supply	Italy
	BARMINE, RANGER & MINELAYERS	up to 100	1983	Draft proposals under discussion.	Foreign Secretary has agreed to supply.	



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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (Continued)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
JORDAN	TORNADO/P110	NOT KNOWN	mid-1980s	Jordan taking lead with Iraq in discussing joint Arab requirement. Considerable Middle East interest but much depends on there being a UK requirement for this aircraft and the security/political problems of supplying Tornado.	S of S discussed with General bin Shaker in September and November 1981.	France USA
KUWAIT	MBTs	250	NOT KNOWN	Current interest focussed on Challenger with requirement believed to be for up to 80 vehicles. Challenger demonstration taking place February 1982.	Discussed during PM's visit September 1981.	France and USA
	AIR DEFENCE PROJECT	400	NOT KNOWN	To include C <sup>3</sup> , radars and Rapier. 3 RAF officers being made available to Kuwait as air defence advisers.		
LIBYA	OUTDOOR MARKSMAN TRAINING RANGES	240	1982+	Nation-wide system of ranges required, including one small indoor range. Reasonable prospect.		
OMAN	SCORPION	40	1982	Omani Chief of Staff known to favour Alvis proposal. Decision imminent.	S of S wrote to HH Sayyed Faher and HM Sultan Qaboos in support.	France
	LANDING SHIP LOGISTIC (LSL)	15	1982+	Brooke Marine contract now ratified.		
	JAGUAR	NOT KNOWN	1982	Omani MOD has accepted offer of a replacement Jaguar presently on loan to Indian Air Force. Contract to be concluded on completion of current conversion work by BAe in Oman.		
	COMMUNICATIONS NETWORK	80	mid 1980s	US firm awarded design study contract for replacement of existing in-service network but UK firms have good prospects of securing equipment contracts.		
QATAR	RAPIER	150	1983	Good prospect for two further batteries if Rapier battery already on order is successfully installed.		Various countries
	AIR DEFENCE RADARS	40	1982	Two radars ordered during 1981 and good prospect of sale of further three to complete coverage.		
	JOINT OPERATIONS CENTRE	40	1982	QAF intend to place order in UK and have sought UK MOD assistance in evaluating proposals.		



CONFIDENTIAL UK EYES B  
 MAJOR DEFENCE SALES PROSPECTS  
 MIDDLE EAST (Continued)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
SAUDI ARABIA	EXTENSION OF MOU COVERING AIR DEFENCE PROJECT (SADAP)	500 over 3 years	1982	Saudis seeking greater involvement in control of project and revised proposals accordingly submitted December 1981. Good prospect that provision of fire services organisation to Saudi Air Force, will be added to SADAP MOU.	S of S has written and spoken to Saudi Ministers in support of UK offer.	
	RAPID RUNWAY REPAIR EQUIPMENT	40	1982	Sales to be effected through SADAP MOU. Formal IMS proposal submitted through Defence Sales Organisation in January 1982. Early response expected.		USA
	TORNADO/P110	500+	1986/7	Tornado production lines visited by Commander RSAF October 1981 P110 presentation planned to be given in Saudi Arabia later this year.	Discussed by PM and S of S with Prince Sultan in London 1981.	France and USA
	HAWK	120	1985	Saudis impressed by Hawk's success in USN trials. Possibility of part-exchange deal for existing Saudi Strikemasters under investigation. No immediate requirement.	PM and S of S have discussed with Prince Sultan in both Riyadh and London.	France
	SANGCOM	250	1982	LOA signature now expected by mid-1982.		
	WAVELL AND ASSOCIATED C <sup>3</sup> EQUIPMENT	up to 200	NOT KNOWN	UK proposals under consideration and offer for first phase included in SANGCOM proposal above.		USA
	SANGMED	up to 625	1982	Further LOAs on operation of Jeddah hospital and implementation of Plan are to be negotiated in 1982.		USA
	FH70	130	1982	IMS now hope to obtain contract signature in February 1982. Additional prospect of sale to National Guard, as well as to Army.	S of S has sent two personal letters to Prince Sultan on prices issue.	
	ARTILLERY AND ENGINEER SUPPORT PACKAGES	up to 100	1982	IMS expect to renew existing support and training packages.		
	AIR DEFENCE RADAR SYSTEM	200	1982+	Marconi, supplier of majority of existing equipment, is proposing an extension and up-date of system. Plessey is submitting proposals based on mobile AR3D system.		USA
AIR BASE SECURITY SYSTEMS	80-90	1982	Shorrocks have submitted final quotation to RSAF. Decision imminent.		USA	
IMS ASSISTANCE TO COAST GUARD/ FRONTIER FORCE.	up to 350	NOT KNOWN	Saudi response to IMS's September 1981 presentation on security of offshore resources and equipment package expected shortly. IMS hopeful of favourable outcome.			
YEMEN	TANK TRANSPORTERS	72	1982	Following successful demonstration, Scammell have good prospect of being awarded contract for up to 700 vehicles.		



CONFIDENTIAL UK EYES B  
 MAJOR DEFENCE SALES PROSPECTS  
NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
USA	RAPIER (for the RDF)	NOT KNOWN	NOT KNOWN	Investigative team visited UK during Nov and seemed impressed by system. BAe continuing to promote in anticipation of funds becoming available in FY 83.	S of S, M of S(DP) and US of S(DP) have all been actively involved in UK/US discussions of both sales.	France
	(for USAF bases)	170	1982	MOU and LOA signed for 32 fire units.		
	81MM MORTAR	200	1983	Joint development programme is under way to modify the equipment to meet US requirements. Excellent prospect.	M of S(DP) visited US in October 1981.	
	COMBAT SUPPORT BOAT	16	FY 1982	Army plans to buy further 67 boats during FY 82 and a similar number in 83 and 84. Procurement likely to be competitive and US given the option of a licence to manufacture.		USA
	SEARCHWATER RADAR	100	1983+	US Navy wishes to evaluate Searchwater as quickly as possible. It is to be tested in a US Navy aircraft.	US of S(DP) discussed during visit.	USA
	HAWK	500	1987	Development contract signed for preliminary engineering developments for US Navy. Congress asking the Navy to re-open competition and there are still some funding problems.	US of S(DP) discussed during visit.	
	SCORPION (for Mobile Protected Weapon System)	NOT KNOWN	1986+	Alvis have submitted Scorpion-based designs for USMC longer-term mobile protected weapon system programme. Alvis and eight competitors have been awarded development contracts.	US of S(DP) discussed during visit.	USA
	(for Light Armoured Vehicle)	up to 50	1982	Alvis are one of three finalists in competition. Vehicles undergoing final evaluation in the US.		
	INTEGRATED COMMUNICATIONS SYSTEM (ICS 3)	50-100	1982+	System is under evaluation by the US Navy.		USA
LIGHT ANTI-ARMOUR WEAPON (LAW)	NOT KNOWN	NOT KNOWN	Although limited production funding given for indigenous Viper anti-tank system, US Army instructed to carry out a foreign weapon evaluation to take account of all Services needs. UK LAW offers improved capability against armour and should be evaluated.		USA	

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Mr Gillmore  
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RC (Actioned) [Typists]

HMS INVINCIBLE

1. IN REPLY TO MR KILLEN'S STATEMENT OPPOSITION SPOKESMAN ON DEFENCE, GORDON SCHOLLES, SAID THAT THE CARRIER WAS VULNERABLE TO ATTACK, LACKED ELECTRONIC EQUIPMENT, AND NEEDED SUPPORT FROM OTHER AIR AND SEA CRAFT. THE EXTRA COST OF THIS HAD NOT BEEN INCLUDED IN THE MINISTER'S STATEMENT. HARRIER, IF ACQUIRED, HAD INADEQUATE RANGE AND MILITARY CAPACITIES.. THE GOVERNMENT HAD GONE FOR A PRESTIGE VESSEL AT THE EXPENSE OF MUCH NEEDED EQUIPMENT ELSEWHERE ON THE DEFENCE BUDGET. IT WAS A WHITE ELEPHANT.

2. MICHAEL BAUME MP REPLIED JUSTIFYING GOVERNMENT DECISION AND CHALLENGED LABOR PARTY TO REPEAT, NOW DECISION HAS BEEN TAKEN, ITS EARLIER STATEMENT THAT IT WOULD SELL INVINCIBLE IF IT CAME TO POWER.

3. MR HAYDEN, LEADER OF OPPOSITION, THEN MADE SIMILAR POINTS TO MR SCHOLLES (WITHOUT TAKING UP BAUME'S CHALLENGE). INVINCIBLE TOGETHER WITH HELICOPTERS AIRCRAFT, SUPPORT VESSELS WOULD COST OVER DOLLARS 2 BILLION . LABOUR WOULD PREFER MIXTURE OF MORE ORIONS AND MORE SUBMARINES, WITH 1500 TON CORVETTES CARRYING ASW HELICOPTERS.

4. THROUGHOUT MR KILLEN WAS THE ONLY CABINET MINISTER PRESENT AND THE HOUSE WAS NO MORE THAN ONE SIXTH FULL.



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4. THROUGHOUT MR KILLEN WAS THE ONLY CABINET MINISTER PRESENT AND THE HOUSE WAS NO MORE THAN ONE SIXTH FULL.

5. FULL TEXT BY BAG WHEN AVAILABLE.

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UNCLASSIFIED  
FM CANBERRA 250300Z FEB 82  
TO FLASH MODUK  
TELNO SIC A2F OF 25 FEBRUARY  
INFO IMMEDIATE NUMBER 10, FCO

FOR : RESIDENT CLERK

FROM : DEFENCE ADVISER, CANBERRA

MODUK PLEASE PASS TO DEFENCE SALES 3.

THE FOLLOWING STATEMENT WAS MADE BY MR KILLEN IN PARLIAMENT AT  
1500 LOCAL 25 FEBRUARY:

QUOTE

SUBJECT TO NEGOTIATIONS OF DETAILS THE GOVERNMENT HAS DECIDED THAT AUSTRALIA IS TO PURCHASE THE AIRCRAFT CARRIER HMS INVINCIBLE FROM THE UNITED KINGDOM TO REPLACE HMAS MELBOURNE. THE PLAN IS TO TAKE DELIVERY OF THE SHIP IN LATE 1983. ON COMMISSIONING INTO THE RAN, THE SHIP WILL BE RENAMED.

THE PURCHASE PRICE OF THE INVINCIBLE IS 175 MILLION POUNDS STERLING, WHICH AT THE AUGUST 1981 EXCHANGE RATE WAS 285 MILLION DOLLARS AUSTRALIAN. THIS WAS QUOTED AS A FIRM PRICE NOT SUBJECT TO ESCALATION. THE TOTAL PROJECT COSTS, INCLUDING PROVISION FOR SPARES, TEST AND TRAINING EQUIPMENT, NECESSARY MODIFICATIONS AND OTHER SUPPORT, BUT EXCLUDING MISSILES, IS ESTIMATED AT 478 MILLION DOLLARS AUSTRALIAN IN AUGUST 1981 PRICES AND EXCHANGE RATE.

THE ACQUISITION OF THIS SHIP WILL ENHANCE OUR MANIFEST CAPABILITY TO DETER AGGRESSION IN OUR NEIGHBOURING REGIONS IN THE DECADES AHEAD.

AIR POWER IS FUNDAMENTAL TO MARITIME OPERATIONS. THIS CAN BE PROVIDED BY EITHER, OR BOTH, SHORE-BASED AND SEA-BORNE AIRCRAFT. THE VALUE OF SHORE-BASED AIRCRAFT TO AUSTRALIA'S MARITIME DEFENCE WILL REMAIN OF PARTICULAR IMPORTANCE FOR AS FAR AHEAD AS ONE CAN SEE. THE CARRIER WILL PROVIDE THE GOVERNMENT OF THE DAY WITH ADDITIONAL OPTIONS, PARTICULARLY IN AREAS FURTHER FROM OUR SHORES AND REMOTE FROM OUR MILITARY AIRFIELDS. THE IMPORTANCE OF THIS CANNOT BE OVER EMPHASIZED FOR A COUNTRY LIKE AUSTRALIA SURROUNDED ON THREE SIDES BY VAST OCEANS, AND DEPENDENT FOR ITS VERY LIVELIHOOD UPON TRADE CARRIED IN SHIPS.

THERE IS NO SINGLE SCENARIO OR CONTINGENCY FOR WHICH THIS SHIP IS BEING ACQUIRED. IN FACT OUR DEFENCE FORCE AS A WHOLE IS NOT STRUCTURED TO MEET ONE PARTICULAR THREAT. THERE IS A WIDE VARIETY OF CIRCUMSTANCES WHICH COULD OCCUR DURING THE LIFE-TIME OF THIS SHIP. OUR MANIFEST ABILITY TO DETER THREATS FROM DEVELOPING INTO A CONFLICT, AND, IF NECESSARY, OUR ABILITY TO WIN OUT IN A CONFLICT IF IT WERE TO RESULT MUST REMAIN OF PRIME IMPORTANCE TO GOVERNMENT.

THE



THE IMPORTANCE OF AUSTRALIA BEING ABLE TO STAND ON ITS OWN FEET AND FEND FOR ITSELF IN REGIONAL DEFENCE MATTERS HAS BEEN EMPHASIZED AND GENERALLY ACCEPTED FOR SOME YEARS NOW. THERE IS NOTHING SINGULAR ABOUT THIS. IT DOES HOWEVER INVOLVE A HEAVIER BURDEN THAN EARLIER POLICIES SUCH AS FORWARD DEFENCE. THE GOVERNMENT FREELY ACKNOWLEDGES THIS AND BELIEVES IT IS A BURDEN WHICH WE MUST BE PREPARED TO PAY FOR IN THIS UNSETTLED WORLD.

THE DECISION CONCERNING THIS SHIP FOLLOWS THE DECISION TAKEN IN 1980, AND ANNOUNCED BY ME IN THIS HOUSE AT THE TIME, TO ACQUIRE A PURPOSE-BUILT SHIP TO REPLACE HMAS MELBOURNE. I ALSO ANNOUNCED THAT CONTRACTS WOULD BE LET FOR FUNDED STUDIES OF THREE DESIGNS - THE SEA CONTROL SHIP, THE ITALIAN GARIBALDI CLASS HELICOPTER CARRIER AND A VARIANT OF THE US IWO JIMA CLASS.

THE INVINCIBLE CLASS DESIGN WAS NOT SELECTED FOR FURTHER STUDY BECAUSE OF ITS RELATIVELY HIGH COST. HOWEVER, FOLLOWING A BRITISH DECISION LAST YEAR TO RETAIN ONLY TWO OF THREE INVINCIBLE CLASS SHIPS FOR THE ROYAL NAVY, THE BRITISH GOVERNMENT OFFERED HMS INVINCIBLE TO AUSTRALIA AT A LOWER, AND MORE THAN COMPETITIVE, PRICE.

THE EARLY AVAILABILITY OF HMS INVINCIBLE WILL ALSO ALLOW THE REFIT OF HMAS MELBOURNE, SCHEDULED FOR 1982-83, TO BE CANCELLED. THE MELBOURNE WILL BE PAID OFF AS SOON AS PRACTICABLE TO SAVE REFIT AND RUNNING COSTS. THIS WILL ALSO ENABLE RETRAINING FOR THE NEW SHIP'S COMPANY.

THE ACQUISITION OF A PURPOSE-DESIGNED SHIP PROVIDES A BASIS UPON WHICH TO RETAIN AND FURTHER DEVELOP A CORE OF SKILLS WHICH COULD BE USED IN RESPONSE TO AN EMERGENCY OR A CONTINGENCY: IT PROVIDES BOTH FLEXIBILITY FOR RESPONSE AND A BASIS FOR EXPANSION.

LATER OPTIONS FOR EXPANSION WOULD NOT BE CONFINED TO THE ACQUISITION OF PURPOSE-DESIGNED CARRIERS, BUT COULD INCLUDE THE CONVERSION OF MERCHANT SHIPS FOR LIMITED ROLES. THIS WAS DONE WITH GOOD RESULTS IN WORLD WAR II.

THE ACQUISITION OF THE INVINCIBLE SHOULD NOT BE SEEN AS MERELY A REPLACEMENT FOR MELBOURNE. THE INVINCIBLE IS A VERY MODERN SHIP WITH A WIDE RANGE OF CAPABILITIES BEYOND THOSE NOW AVAILABLE TO US.

FIRSTLY, THE SHIP IS PARTICULARLY SUITED TO OPERATING AND MAINTAINING LARGE ANTI-SUBMARINE HELICOPTERS. INVESTIGATIONS HAVE SHOWN THAT TO COUNTER A SUBMARINE THREAT A COMBINATION OF WEAPON PLATFORMS IS NECESSARY. THIS COMBINATION INCLUDES LAND-BASED MARITIME AIRCRAFT, ASW HELICOPTERS AND WARSHIPS. THERE IS NO SIMPLE SOLUTION.

WHILE ONE OR TWO ANTI-SUBMARINE HELICOPTERS CAN OPERATE FROM A SPECIALISED DESTROYER, EXAMINATIONS HAVE SHOWN IT IS MORE COST-EFFECTIVE TO GROUP A NUMBER OF HELICOPTERS TOGETHER IN A LARGER SHIP WITH CENTRALISED COMMAND AND CONTROL, MAINTENANCE AND SUPPORT FACILITIES.



SECONDLY, THERE IS A NEED FOR A SHIP CAPABLE OF PLANNING, COMMANDING AND CO-ORDINATING OPERATIONS BY A GROUP OF SHIPS AND AIRCRAFT. MELBOURNE IS NO LONGER ADEQUATE FOR THIS TASK AND OTHER SHIPS LACK THE MEANS. ABOUT 25 PERSONNEL WILL REQUIRE LIVING AND WORKING SPACE FOR PLANNING AND CONTROL WITH EXTRA COMMUNICATIONS AND DEDICATED COMMAND DISPLAYS.

THIRDLY THE SHIP HAS THE CAPACITY TO CARRY FOR SHORT PERIOD A ROYAL MARINE COMMANDO - THE EQUIVALENT OF AN AUSTRALIAN BATTALION GROUP. THIS COULD BE A VERY USEFUL ADJUNCT TO OUR AMPHIBIOUS SHIP: HMAS TOBRUK.

FURTHER THE SHIP IS CAPABLE OF OPERATING SHORT TAKE-OFF AND VERTICAL LANDING AIRCRAFT OF THE HARRIER TYPE, ALTHOUGH AT PRESENT IT IS INTENDED ONLY TO EMBARK ASW HELICOPTERS. THE SHIP IS FITTED WITH A QUOTE SKI JUMP UNQUOTE TO IMPROVE THE PERFORMANCE OF SEA HARRIER TYPES, BUT COULD NOT OPERATE CONVENTIONAL CARRIER AIRCRAFT. THE QUESTION OF WHETHER TO ACQUIRE THIS TYPE OF AIRCRAFT WILL BE MADE AT A LATER DATE.

I NOW TURN TO SOME DETAILS OF THE SHIP. THE COMPLEMENT INCLUDING THE AIR GROUP, OF ABOUT 950 MEN SHOULD BE AT LEAST 300 FEWER THAN THE MELBOURNE. THE PRECISE NUMBER DEPENDS ON THE COMPOSITION OF THE AIR GROUPS.

THE SHIP IS DRIVEN BY OLYMPUS GAS-TURBINE ENGINES. THESE ARE NOT USED ELSEWHERE IN THE DEFENCE FORCE BUT WILL BE SERVICED IN AN EXISTING FACILITY FOR MAINTAINING OLYMPUS INDUSTRIAL ENGINES IN VICTORIA. UNLIKE STEAM PROPULSION SYSTEMS, A DEFECTIVE GAS-TURBINE ENGINE CAN BE CHANGED BY SHIP'S STAFF IN ABOUT 48 HOURS.

THE INVINCIBLE IS FITTED WITH THE LINK 11 COMMAND DATA-EXCHANGE SYSTEM. IT IS FULLY COMPATIBLE WITH THAT FITTED TO OUR GUIDED-MISSILE DESTROYERS, OUR P3C ORION AIRCRAFT AND PLANNED FOR OUR GUIDED-MISSILE FRIGATES. THE SHIP IS SUITABLE FOR COMMANDING AN AUSTRALIAN TASK GROUP AND HAS ALREADY BEEN PROVED IN THIS ROLE WITH US AND OTHER NATO FORCES IN THE ATLANTIC.

A LIMIT OF COST OF 5 MILLION DOLLARS IS TO BE ALLOWED FOR RAN MODIFICATIONS. THESE WILL INCLUDE ADDING 450 TONNES OF FUEL TO INCREASE THE SHIP'S OPERATING RANGE TO MEET OUR BASIC REQUIREMENT.

WHILST THE LIVING ACCOMMODATION IS OF A VERY HIGH STANDARD AND AIR-CONDITIONED FOR TROPICAL SERVICE, SPACE, WEIGHT AND POWER PROVISION EXISTS TO UP-RATE THIS WITHIN THE MODIFICATIONS LIMIT IF TROPICAL TRIALS LATER THIS YEAR SHOULD SHOW THIS TO BE NECESSARY.

THERE WILL ALSO BE OTHER MINOR CHANGES: FOR EXAMPLE TO COMMUNICATIONS EQUIPMENT: TO TRANSFER SOME ITEMS FROM HMAS MELBOURNE, AND THE REMOVAL OF UNWANTED ITEMS.



THE QUESTION OF WHETHER OR NOT TO RETAIN THE SEA DART AREA AIR-DEFENCE MISSILE SYSTEM WILL BE THE SUBJECT OF A SPECIAL STUDY.

I WOULD NOW LIKE TO LAY AT REST SOME POPULAR MISCONCEPTIONS ABOUT THE SHIP AND AIRCRAFT CARRIERS IN GENERAL.

THE ALTERNATIVE OF GETTING A SHIP FOR OPERATING CONVENTIONAL CARRIER AIRCRAFT, SUCH AS THE F/A-18, NOW ON ORDER TO REPLACE THE MIRAGE, IS NOT AN OPTION FOR US. MODERN AIRCRAFT OF THE WEIGHT OF THE F/A-18 REQUIRE A LARGE DECK WITH CATAPULTS AND ARRESTING GEAR. THERE IS NO SHIP AVAILABLE AND EVEN THE SMALLEST PRACTICABLE WOULD BE FAR BEYOND OUR MEANS BOTH TO ACQUIRE AND MAN.

VULNERABILITY IS AN OFT QUOTED CONCERN OF MANY. I REJECT THIS. A SHIP OF THIS NATURE NORMALLY OPERATES AS PART OF A GROUP EXPLOITING THE PRINCIPLE OF CONCENTRATION OF FORCE. SUCH A GROUP HAS AN INTEGRATED AND MUTUALLY SUPPORTIVE RANGE OF OFFENSIVE AND DEFENSIVE SYSTEMS. THE PRECISE COMPOSITION WOULD DEPEND ON THE PERCEIVED THREAT, BUT IN ANY CASE WOULD BE VERY FORMIDABLE.

THE SHIP ITSELF, BEING PURPOSE-BUILT, HAS A GOOD DEGREE OF SYSTEM REDUNDANCY AND WATER-TIGHT INTEGRITY. THE DESIGN HAS SPECIFICALLY ADDRESSED MINIMISING THE EFFECTS OF BATTLE DAMAGE.

IS ONE CARRIER ENOUGH? IN PRESENT CIRCUMSTANCES THE ANSWER IS YES. OUR DEFENCE FORCE MUST BE PROPERLY BALANCED. ONE CARRIER IS ADEQUATE FOR LOWER-LEVEL CONTINGENCIES AND, LIKE THE REST OF OUR CAPABILITIES, WOULD PROVIDE A SOUND BASIS FOR EXPANSION. IN A DIVERSE MARITIME THREAT, FOR INSTANCE, SHORE-BASED AIR WOULD BE USED WHERE THEY COULD BE MOST EFFECTIVE AND OUR ONE CARRIER USED FURTHER AFIELD WHERE ITS SPECIAL CAPABILITIES WERE NEEDED.

OUR DEFENCE FORCE MUST BE ONE COHERENT WHOLE. I ENTIRELY REJECT THE CONCEPTS SOMETIMES ESPOUSED OF ALL SUBMARINES OR ALL PATROL BOATS. EACH WEAPON SYSTEM HAS ADVANTAGES AND EACH ITS LIMITATIONS.

THIS STATEMENT WOULD BE INCOMPLETE WITHOUT MENTION OF AUSTRALIAN INDUSTRY PARTICIPATION. AS THE SHIP IS ALREADY BUILT OPPORTUNITIES ARE NATURALLY RESTRICTED. HOWEVER THE UK GOVERNMENT HAS GIVEN AN OFFSET UNDERTAKING AMOUNTING TO 17.5 MILLION POUNDS STERLING. AUSTRALIAN INDUSTRY WILL ALSO BE GIVEN OPPORTUNITIES TO PARTICIPATE IN SHIP SUPPORT WORK TO THE VALUE OF 25 PER CENT OF ORDERS PLACED.

I WISH TO ASSURE THE HOUSE THAT THE COSTS OF THE CARRIER WILL NOT BE AT THE EXPENSE OF OUR PROGRAMME FOR THE DEVELOPMENT OF THE DEFENCE FORCE, ALTHOUGH IT MAY BE NECESSARY TO DO SOME RESCHEDULING.



TAKING ALL FACTORS INTO ACCOUNT, MR SPEAKER, THIS ALMOST  
NEW SHIP - ONE OF A CLASS OF THREE - IS A VERY COST-  
EFFECTIVE METHOD OF MEETING AUSTRALIA'S DEFENCE NEEDS.

IT REMAINS FOR ME TO EXPRESS THE AUSTRALIAN GOVERNMENT'S  
APPRECIATION OF THE ASSISTANCE AND PATIENCE SHOWN BY HER MAJESTY'S  
BRITISH GOVERNMENT IN THE CONSIDERATION OF THIS MAJOR PROJECT.  
FOR MYSELF I AM DEEPLY GRATEFUL TO MY COLLEAGUE, THE RIGHT  
HONOURABLE JOHN NOTT, THE BRITISH MINISTER FOR DEFENCE.

FINALLY, MAY I EXPRESS MY PERSONAL THANKS TO THE MANY  
OFFICERS WITHIN THE DEPARTMENT OF DEFENCE WHO HAVE WORKED LONG  
HOURS OVER A LONG PERIOD OF TIME IN ADVISING ON THE PROJECT.

MASON

BT

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*Defence*

TO IMMEDIATE FCO

TELNO 86 OF 25 FEBRUARY

INFO IMMEDIATE MODUK (FOR RESIDENT CLERK) AND NUMBER 10, DOWNING STREET

*ms*

MY TELEGRAM NO. 25: INVINCIBLE

1. THE AUSTRALIAN MINISTER OF DEFENCE WILL NOT NOW ANNOUNCE IN PARLIAMENT THE DECISION TO ACQUIRE INVINCIBLE UNTIL 14.00 HOURS THIS AFTERNOON, 25 FEBRUARY (0300 HOURS, 25 FEBRUARY YOUR TIME).

2. BEFORE AND AFTER QUESTION TIME IN PARLIAMENT THIS MORNING I SPOKE TO THE AUSTRALIAN PRIME MINISTER AND MINISTER OF DEFENCE. MR FRASER TOLD ME OF HIS TELEPHONE CONVERSATION WITH THE PRIME MINISTER. HE SAID THAT, BECAUSE OF THE POLITICAL DIVISIVENESS OF THE ISSUE IN AUSTRALIA, HE HOPED THAT OUR STATEMENTS ABOUT THE PURCHASE WOULD BE AS POSITIVE AS POSSIBLE.

I SAID THAT I WAS SURE THIS WOULD BE SO: OUR ONLY POSSIBLE CONCERN WAS ABOUT THE FINANCIAL TERMS.

3. MR KILLEN TOLD ME THAT HE HAD INSTRUCTED ADMIRAL ROURKE, CHIEF OF NAVAL MATERIAL, TO GO TO LONDON AS SOON AS POSSIBLE TO FINALISE THE DETAILS OF THE SALE. MR KILLEN WAS UNABLE TO SHOW ME THE STATEMENT WHICH HE WILL MAKE, BECAUSE IT IS STILL BEING DRAFTED BY HIS OFFICIALS AND THE CHIEF OF THE DEFENCE FORCES STAFF. HE TOLD ME, HOWEVER, THAT IT WOULD CONFIRM DELIVERY IN SEPTEMBER 1983, AND ENLARGE UPON THE ADVANTAGES OF INVINCIBLE FOR THE ROYAL AUSTRALIAN NAVY.

4. I ASKED MR KILLEN WHETHER HE WOULD SAY ANYTHING ABOUT FINANCIAL TERMS, AND WHETHER, AS I HOPED WOULD NOT BE THE CASE, THE AUSTRALIAN GOVERNMENT WOULD SEEK TO RENEGOTIATE THE FINANCIAL INDICATIONS IN THE SALES AGREEMENT. MR KILLEN SAID THAT HE HAD ASKED HIS PERMANENT SECRETARY TO DISCUSS THIS QUESTION WITH SIR FRANK COOPER, AND I UNDERSTAND THAT FINANCIAL ASPECTS WILL BE THE PRINCIPAL ITEM ON ADMIRAL ROURKE'S AGENDA.

5. IN REPLY TO MY QUESTION, MR KILLEN SAID THAT UP TO THE LAST MOMENT THERE HAD BEEN MUCH DISAGREEMENT IN THE CABINET ABOUT THE PURCHASE.

MASON

LIMITED

DEF.D

SPD

NEWS.D

PS

PS/LPS

PS/MR HURD

PS/PUS

MR WRIGHT

MR GILLMORE

MR DONALD

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CONFIDENTIAL



Invincible  
cc master  
Ops  
h-a.  
MR 25.  
2

SUBJECT

Telephone conversation between Prime Minister and Mr. Fraser:  
24 February, 1982: 2040 hours

PM Hello Malcolm.

MF Well, we've come to a decision on the - you might have heard from Defence - that, providing the finance is right in terms of phasing indicated, we would like to purchase.

PM Well, that's marvellous. In 1983?

Good, well that's terrific.

MF There was one area of doubt still in the negotiation. We've been given some indicative figures, and Jim Killin (?) will be taking this up direct with his counter-part, of I think 90 m for the first year and whatever it was later. Then there was a footnote to it saying that figure could vary by 20 - 60 m. I think we were hoping that the indicative figures we were given could be stuck to.

PM The 95 and the 28?

MF I haven't got the papers in front of me at the moment, but Jim will be taking that directly with ...

PM I'm not quite sure - were you hoping for a reduction in the first year, or were you hoping that they could be stuck to?

MF We were hoping that the indicative figures we had been given could be stuck to, rather than trying to budget further at the beginning of the purchase period.

PM I'm not quite sure. I think you mean that you hope that the... if the figures you were given want to be stuck to, that's fine, because I think that's about 95 and 28 and then 24 and then 26. Something like that.

MF The first figure was 95 anyway.

/ PM



PM Yes, and that's alright is it?

MF I think that's alright, but there was some suggestion that you might want that increased substantially.

PM 95. That's fine.

MF Anyway, it was a very long debate, and it was a very narrow one - narrower than I thought it would be.

PM Was it?

MF Oh. very narrow, yes.

PM What was it Malcolm? Of course, you're in Cabinet - not in the House. Well, I'm very very pleased, but certainly we can stick to 95 ....

MF ... I think we've done the right thing.

PM I think in 1983 it's very good value, particularly because it's 2 years newer in 1983 than it would be in 1985.

MF We'll pay off ~~Redbo.wine~~ straight away now.

PM Well that's very good news, and I know you're 100% behind it.

MF Thank you very much Margaret for giving us the extra time.

PM That's alright. These things take time, and we're all in politics. Alright Malcolm. And you're going to announce it, do I understand?

MF We would hope to be able to announce it today. We don't sit again for about 10 days. It would be much better if we could announce it today.

PM Alright, we'll look forward to hearing that announcement. Thank you.



SUBJECT

CONFIDENTIAL

Defence

cc. Master set.



10 DOWNING STREET

From the Private Secretary

24 February 1982

Dear David,

HMS INVINCIBLE

The Australian Prime Minister telephoned the Prime Minister at 2045 hours this evening.

Mr. Fraser said that the Australian Cabinet had decided to purchase HMS Invincible in 1983 provided satisfactory arrangements could be worked out for the phasing of payments. This was the one remaining area of doubt and the Australian Minister of Defence would be discussing it with Mr. Nott.

Mr. Fraser said that he hoped we could stick to the indicative figures that had been provided to the Australians at an earlier stage. There had since been a suggestion that these might be varied. The Prime Minister enquired whether he was looking for a reduction in the early payments. Mr. Fraser said that he did not have the figures in front of him but he believed that they wished to maintain the earlier indicative figures rather than bunch the expenditure at the beginning of the payment period. At one point, taking up the Prime Minister's reference to a payment of £95 million in 1982/83, Mr. Fraser said that he thought this was all right (but my impression was that he did not recollect the figures at all clearly).

Mr. Fraser went on to say that there had been a very long debate in the Cabinet and the decision had been taken by a very narrow majority. He felt that the decision was right but he would have difficulty in presenting it. The intention was to pay off Melbourne almost straightaway.

In conclusion, Mr. Fraser said that he hoped that an announcement would be made in the Australian Parliament today.

I am sending a copy of this letter to John Holmes (Foreign and Commonwealth Office) and John Kerr (HM Treasury).

Yours ever  
John Holmes.

CS

D.B. Omand, Esq.,  
Ministry of Defence.

CONFIDENTIAL

HMS INVINCIBLE

Line to Take

1. We had already decided to retain only two Invincible Class Carriers in service in the longer term. It is far better that INVINCIBLE should remain operational with a close friend and ally than that she should be put in mothballs, which would have been the only alternative when the other two carriers had come into service.



## HMS INVINCIBLE

### Supplementaries

#### 1. NAVY SUFFERING AGAIN!

As my rt hon Friend the Secretary of State<sup>for Defence</sup> said earlier this week, he has placed orders for warships with British Shipbuilders this financial year to a total value of £450 million. If we had not taken some of the very necessary decisions we have, orders of this magnitude would just not have been possible.

#### 2. PROTESTS FROM LABOUR OPPOSITION

HMS ILLUSTRIOUS and HMS ARK ROYAL were ordered by the Labour Party when they were in power. But they presided over a decreasing defence budget, and increasingly demoralised Armed Forces. Now the Labour Party advocate massive reductions in defence spending. One is entitled to ask how on earth they would ever have paid for them. Once again it has fallen to a Conservative Government to sort out the previous Labour Government's mess.

#### 3. PRICE OF INVINCIBLE TOO LOW?

£175M, which represents the construction cost, is a fair price, bearing in mind that the ship will have been in service for over two years when she joins the Australian Fleet. The proceeds of the sale will go to the Naval Programme. (With the ship in mothballs the Naval programme would have got no such benefit.)

4. ERROR OF JUDGEMENT?

I agree that INVINCIBLE is a fine ship, and of course the Navy would have liked to keep her. But the Government has to take a wider defence view. [But we could not afford to maintain more than two ships in service.]

The sale will also bring us back into the Australian Naval market and should lead to further work for British Industry. I should have thought that hon Members would welcome this.

5. CARRIER GAP?

HMS HERMES will now be run on until ARK ROYAL becomes operational in 1985.

6. BAD FOR FLEET MORALE?

I can understand that the Navy will be sorry to lose such a fine ship. But her sister ships will be more modern and equally impressive. The fact is that we cannot conjure money out of the air and that we simply cannot afford to do everything we would like in the Defence field. The receipts from the sale will go to the Naval Programme.

7. AUSTRALIAN OPPOSITION TO SALE?

No Government is ever without its critics. The fact is that the Australian Government has concluded that HMS INVINCIBLE suits its defence needs.



BACKGROUND NOTE

1. Cmnd 8288 (The Way Ahead) indicated the Government's intention to keep in service in the long term only two or the three Invincible Class Carriers. Following sales negotiations last year, the Australian Government announced early this morning, 25 February, the decision to purchase HMS INVINCIBLE, as a replacement for their Carrier HMAS MELBOURNE, for £175M; she was to be handed over in September 1983. The Australian Defence Minister is to visit London immediately to finalise the negotiations.

2. The second ship of the Invincible Class, ILLUSTRIOUS, is expected to become operational by September 1983, but the Sales Agreement allows for some slippage in the handover date should ILLUSTRIOUS' acceptance be delayed. HMS HERMES, which was planned to be paid off in 1983, will now be run on until 1985, when the third of the Class, ARK ROYAL, becomes operational.

Parliamentary Interest

3. An early day motion opposing the sale of INVINCIBLE has attracted 30 signatures, headed by Mr Winston Churchill and  
and others  
Mr Keith Speed. Mr Churchill/attacked the idea during Question  
... Time on 23 February. Relevant Hansard extracts are attached.
4. There is also some opposition in Australia to the decision. The Opposition Labor Party maintains that the ship will be an unnecessary white elephant and also that it will be highly vulnerable.



## Fleet Carriers

Mr. Brotherton asked the Secretary of State for Defence if he will make a statement on the role of carriers in the fleet.

Mr. Nott: The primary wartime role of our carriers would be to conduct anti-submarine operations in the eastern Atlantic. In the next few years we intend to make particular use of our carriers in deployment outside the NATO area.

Mr. Brotherton: Given that reply, does not my right hon. Friend agree that the commissioning of HMS "Illustrious" and HMS "Ark Royal" will make a significant contribution to the fleet? More importantly, in view of the role played by HMS "Invincible" in NATO's autumnal exercises, does my right hon. Friend agree that it would be an act of folly, detrimental to the national interest, to dispose of HMS "Invincible" now?

Mr. Nott: To bring my hon. Friend up to date, our discussions with the Australians have envisaged a

handover of "Invincible" towards the end of 1983, when "Illustrious" will be operational. We also intend to run on "Hermes" until "Ark Royal" joins the fleet in 1985. We expect a decision from the Australians by the end of the month. If they prefer the later date of 1985, when "Ark Royal" is in service, we shall consider the matter. I would wish to debate with my hon. Friend the role of the carrier, but it would be more than you would allow, Mr. Speaker, in answer to a question.

Mr. Duffy: Given SACLANT's critical shortage of carriers and the interdependence of anti-submarine warfare operations, on the surface as well as below with hunter-killer submarines, and in the air with maritime patrol aircraft, is the Secretary of State confident that, with the present complement of carriers—which he did not specify but which cannot be more than three and perhaps is only two—Britain can discharge its NATO maritime obligations in the east Atlantic, or is it yet another price that Britain is paying for Trident?

Mr. Nott: It cannot be anything to do with Trident.

Mr. Duffy: How many? Two or three?

Mr. Nott: We made it clear in the White Paper in June that we envisaged two carriers being in service. If we had retained a third carrier, she would have gone into reserve. It is better to try to obtain £175 million, which is the sum that will go into the naval programme if we sell "Invincible" to the Australians, rather than have a carrier in reserve. Carriers make heavy demands on supporting anti-submarine and air defence escorts. We wish to cover as wide an area as possible in the east Atlantic with frigates with embarked organic air that can carry Stingray.

Mr. Churchill: Will my right hon. Friend confirm that the original conception of the Invincible class anti-submarine warfare carriers was that there would be three—

Mr. Duffy: Six.

Mr. Churchill:—and that two of those would be on station at any given time with one in the dockyard? Will he further confirm that, if he goes ahead with the proposed sale of "Invincible" to the Royal Australian Navy, that will effectively halve the number of those valuable anti-submarine warfare vessels on station at any given time? Is he aware that many hon. Members are strongly opposed to his proposed action?

Mr. Nott: No, I cannot confirm that I envisaged three carriers being in service. It was clearly stated in the White Paper that two carriers would be in service. It is a question of how best we can dispose of our naval resources in the east Atlantic. The Royal Navy will be the third most powerful in the world after the two great Powers. We cannot afford to deploy the air defence and anti-submarine escorts that would be necessary to protect the carriers. Therefore, it is better to keep two in service rather than three and spend the rest of the money on the frigate force.

Mr. John Silkin: Will the Secretary of State come clean? Is it not the fact, and was it not the point of his saying that he would wish to debate the matter with his hon. Friend the Member for Louth (Mr. Brotherton), that he no longer has any confidence in an ASW carrier role in the east Atlantic? That is the only way in which his policy now makes sense.

Mr. Nott: Opinions differ on this matter, but I have made it clear that I do not believe that any Government of either party would order ASW carriers today.

Mr. Hal Miller: In view of the widespread concern about how Britain is to sustain its NATO role in anti-submarine operations in the east Atlantic, will my right hon. Friend take an early opportunity, outside the House if necessary, to explain his concept of anti-submarine warfare and how we are to meet our responsibilities in the light of the planned disposal of "Invincible" and the reduction in the frigate fleet and the hunter-killer submarine fleet?

Mr. Nott: My hon. Friend and many Opposition Members will be interested to know that today I am placing an order with Yarrow (Shipbuilders) Ltd. for the eighth Broadsword class frigate at a total estimated cost of about £120 million. That will enable us to take advantage of a reduced price offer expiring at the end of this month—

Mr. Foulkes: Sale of the century.

Mr. Nott:—which will secure a saving, both for the seventh frigate that we ordered the other day and this one today, of about £6 million.

May I say to my hon. Friend the Member for Stretford (Mr. Churchill), who often makes comments on this matter, that, if we include this order, I shall have placed orders for warships with British Shipbuilders in the current financial year to a total value, including weapons, of £450 million. Perhaps we could hear a little less from some of my hon. Friends about the shortage of warship building orders that we are placing.



Col 737.

Mr. Churchill: Is my hon. Friend aware that the British public are profoundly puzzled and surprised by the proposed sale of HMS "Invincible", which is the most modern and valuable of the Royal navy's defence assets. According to experts on both sides of the Atlantic, since that class of carrier was first ordered, the threat to our energy supplies, to the Cape sea route and to transatlantic communications in a period of tension—let alone in a period of war—has grown. Therefore, will my hon. Friend confirm that the Government will reconsider the proposed sale?

Mr. Wiggin: Again, such points are outside the purview of the question. However, if my hon. Friend studies the White Paper, he will find that whatever the Government are planning can be found in it.

COL 325

HMS "Invincible"

17. Mr. Brotherton asked the Secretary of State for Defence when he now expects to be able to make a statement about the future of HMS "Invincible".

Mr. Nott: As my hon. Friend the Under-Secretary of State for the Armed Forces said to my hon. Friend the Member for Ruislip—Northwood (Mr. Wilkinson) on 29 October 1981 we announced our intention in Cmnd. 8288 to keep in service in the long term only two of the three ships of this class. We are discussing with the Australian Government their possible acquisition of one of these ships but no decision has yet been taken.

7 December 1981

HMS "Invincible"

Sir Patrick Wall asked the Secretary of State for Defence if he will ensure the HMS 'Invincible' will not be sold until at least one of her sister ships is in commission.

Mr. Blaker: I have nothing to add to the answer given to my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) on 29 October 1981.—[Vol. 10, c. 464.]

8 December 1981

"Ark Royal"

5. Mr. Brotherton asked the Secretary of State for Defence when he now expects Her Majesty's ship "Ark Royal" to enter service.

The Under-Secretary of State for the Armed Forces (Mr. Jerry Wiggin): In the mid-1980s.

Mr. Brotherton: In the light of my hon. Friend's reply to a supplementary question by my hon. Friend the Member for Haltemprice (Sir P. Wall) to question No. 1, that carriers are available to reinforce the northern front, is he aware that "Illustrious" is behind schedule and that we need at least two carriers? Will he therefore take this opportunity categorically to deny reports in the press that discussions have taken place between the British Government and the Government of Australia about the sale of "Invincible" to that country?

Mr. Wiggin: No, I cannot deny that. The problem is well understood and will certainly be taken into account in any timings.

Mr. Hal Miller: What aircraft will be available to fly on "Ark Royal" when she comes into service? Has permission been given for the Royal Navy to order Sea Harriers and helicopters?

Mr. Wiggin: There will be Sea Harriers and Sea Kings, but there is as yet no clearance for additional aircraft.

18 December 1981

HMS "Invincible"

Mr. Trippier asked the Secretary of State for Defence whether he is yet able to make a statement about the future of HMS "Invincible".

Mr. Nott: I am unable to add to what my hon. Friend the Under-Secretary of State for the Armed Forces said in answer to my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) on 29 October—[Vol. 10, c. 464.]



29 October 1981

#### "Invincible" Class Through-deck Cruisers

Mr. Wilkinson asked the Secretary of State for Defence whether he will make a further statement on the future of "Invincible" class through-deck cruisers in Royal Navy service; and say what negotiations and with which foreign Governments have taken place for the acquisition from the United Kingdom of any of these vessels.

Mr. Wiggin: As stated in Cmnd. 8288, the new carrier "Ark Royal" will be completed as planned, but we intend to keep in service in the long term only two of the three ships of this class. We are discussing with the Australian Government their possible acquisition of one of these ships but no decision has yet been taken.

13 November 1981

#### HMS "Invincible"

Mr. Speed asked the Secretary of State for Defence if any discussions have taken place between his Department and the Government of any other country regarding the possible disposal of HMS "Invincible".

Mr. Pattie: I refer my hon. Friend to the answer given to my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) on 29 October 1981.—[Vol. 10, c. 464.] Other countries are, of course, aware of our plans for the "Invincible" class, but no detailed discussions have taken place.

30 November 1981

#### Anti-submarine Carriers

Mr. Speed asked the Secretary of State for Defence if it is now his intention to have two anti-submarine warfare carriers in commission at all times during the next five years.

Mr. Blaker: I refer my hon. Friend to paragraph 27 of Cmnd. 8288 and to the answer given to my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) on 29 October 1981.—[Vol. 10, c. 464.]



PRIME MINISTER

Seelby  
PM

HMS Invincible

The Australian Prime Minister will ring you at 8.45 p.m. this evening. You will be in the House.

We have been told in confidence that the Australian Cabinet have decided by a narrow majority to buy Invincible in 1983. The Australians are apparently planning a press announcement at 1130 p.m. today (our time). The MOD are arranging press briefing here.

Mr. Fraser may simply wish to inform you of the above decision. If so, you could welcome it and say that you assume that the question of the phasing of payments is being worked out by our officials and theirs.

On the other hand, he may wish to discuss the phasing of payments. Our objective is to maximise receipts in financial years 1982/83 and 1984/85.

The Australian Defence Ministry has previously accepted the following phasing of payments for a 1983 sale:

	82/83	83/84	84/85	85/86	fm cash
Payments	95.7	28.3	24.7	26.3	

The impact on the UK Defence Budget of this would be (taking account of keeping HERMES):

Additional cost of running on HERMES	-	(20)	(13)	-	
Net Benefit to Defence Budget	95.7	8.3	11.7	26.3	

/ Australian



Australian Financial Years <sup>run</sup> from 1 July to 30 June, and  
we are ready to be flexible about when payments are made  
within our Financial Years.

Recommended compromise (if Mr. Fraser wants to argue about  
price) in following range:

82/83	83/84	84/85	85/86
50-60	75-100	50	- to equal £175m

A. J. C.

24 February 1982





Copy to:

PS/Minister(AF)  
 PS/Minister(DP)  
 Sec CNS  
 PSO/CDS  
 PS/PUS  
 HDS  
 DUS(Navy)  
 DUS(P)  
 DUS(FB)  
 AUS(Sales)  
 AUS(GF)  
 AUS(NS)

MO 14/5

D Sales 3SALE OF HMS INVINCIBLE

When the Secretary of State called on the Foreign Secretary yesterday, accompanied by PUS and DUS(P), to discuss NATO affairs there was a brief discussion of the sale of HMS INVINCIBLE to the Australians. S of S explained that he was due to answer oral questions in the House of Commons today, Tuesday, and that he was likely to come under pressure to comment on the sale - particularly what would happen if the Australians wanted the ship in 1985 rather than 1983. At the Foreign Secretary's suggestion a telegram was sent to the British High Commissioner in Canberra asking him to forewarn the Australians of the line we would be taking (copy attached) *4/2/7*

2. I should also record that I received a telephone call this morning from Air Vice Marshal Frost, Australian Defence Adviser London on the same subject. He told me that he had been telephoned by Admiral Rourke in Canberra at 3.00am this morning. Rourke had been insistent that the Secretary of State should be reminded of the Australian view of the status of a 1985 purchase date.
3. In Admiral Rourke's view there were two options open to the Australians. He had told the Defence Adviser "We were offered INVINCIBLE when ARK ROYAL entered service at the end of 1985 or when ILLUSTRIOUS entered service in 1983. In our view these offers remain open to us, have been put to Government, and are currently under consideration. We appreciate that the draft sales agreement would need amendment for the 1985 delivery date and that such amendment would require the endorsement of Ministers. When the Australian Government does decide I would expect communications at the highest level to determine the way ahead." Rourke had asked the Defence Adviser to make sure this message was understood by the Secretary of State, and to seek an answer to a straight question "Has the 1985 option been explicitly withdrawn by the British?"
4. Having consulted PUS and the Secretary of State I passed the following message back to the Defence Adviser for him to give to Admiral Rourke. "If the Australian Government decides that they wish to purchase HMS INVINCIBLE in 1985 then this creates a new political situation here, and Ministers will need to consider the matter afresh. An offer of a sale in 1985 is not ruled out but substantial new discussions would be needed on the sales agreement, and much would depend on the phasing of payments in early years."





5. In amplification of this message I explained to the Defence Adviser that it would be wrong for the Australians to regard the two dates 1983 and 1985 as lying symmetrically on the table. The former was a firm offer of sale, which had the backing of the British Government, and this offer could be taken up by the Australians without further reference to UK Ministers. The latter date had a different status, and as the Secretary of State's message above made clear would require fresh Ministerial decision. The outcome of this reconsideration could not be prejudged and clearly to obtain a favourable outcome then substantial forward payments would have to be agreed. This was the consideration uppermost in Ministers minds.

6. The Defence Adviser was grateful for this information which he said he would telephone to Admiral Rourke at once (we ended our telephone conversation at 9.30am). The Defence Adviser commented that there was nothing I had told him which came as a surprise, and he had already passed a similar message to Canberra following a telephone conversation he had had with me on 5th February (recorded in my MO 14/5 of the same date).

7. As before I suggest that Sales 3a telegraphs this information to our Defence Adviser in Canberra so that he is up with the lunt. The signal should refer to the FCO telegram sent last night (copy attached).

23rd February 1982

(D B OMAND)  
PS/S of S

4  
N. S. P. R.

MR 25/2

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

23 February 1982

A J Coles Esq.  
10 Downing Street  
LONDON  
SW1

*Dear Sir,*

HMS INVINCIBLE

Thank you for copying to me your letter of 22 February to David Omand about HMS Invincible. I gather that the present offer to the Australians expires on 28 February, so that we may expect a decision from them before then.

The 1982-83 Defence Estimates take credit for receipts of £96m for the sale of HMS Invincible. During the scrutiny of the Estimates, Treasury officials were assured that this provision was realistic. If the receipts do not arise, the Ministry of Defence will have £96m less with which to pay for their programme. That would be in addition to the gap between programme and budget to which the Defence Secretary referred in OD in January. And the Ministry of Defence would face extra running costs and lower receipts in later years.

In these circumstances, the Ministry of Defence would need to take additional measures to fit their programme into the agreed cash provision. The Defence Secretary will no doubt mention these when he reports back to OD on how the total programme gap is to be accommodated.

Copies of this letter go to the other recipients of yours.

*Yours ever,*  
*J. O. Kerr*

J.O. KERR  
Principal Private Secretary



CONFIDENTIAL

14 FEB 1962



PRIME MINISTER

②

h-a.  
ML 26/2.

HMS INVINCIBLE

As I told you, the Secretary of State for Defence said in answer to a Parliamentary Question this afternoon that if the Australians sought delivery of INVINCIBLE in 1985, rather than 1983, the Government would naturally wish to consider the matter.

The reason for this line was that, following an approach made to the Australian Government yesterday, we were told by the Australians that in their view they had been offered INVINCIBLE either when ARK ROYAL entered service at the end of 1985 or when ILLUSTRIOUS entered service in 1983. A more detailed account is contained in the attached minute. Mr. Nott judged that in view of this Australian attitude it would have been too bruising to say in the House that, if the Australians decided not to purchase for 1983, we would withdraw INVINCIBLE from the market and reconsider the position.

A.J.C.

ms

23 February 1982



U.S. [ ]

C O N F I D E N T I A L

CAB004 23/0045 05400127

FOR CAB

ROUTINE 222115Z FEB 82

FROM COMMCEN FCO LONDON  
TO MODUK

C O N F I D E N T I A L

SIC Z99 (Z99 INSERTED BY DCC-NOT TO BE USED IN REPLY)

CONFIDENTIAL

FROM FCO 221311Z FEB 82

TO IMMEDIATE CANBERRA

TELEGRAM NUMBER 051 OF 22 FEB

INFO ROUTINE MOD DUS(P)

INVINCIBLE

1. - IT IS POSSIBLE THAT THE DEFENCE SECRETARY WILL BE FORCED DURING QUESTION TIME TOMORROW TO MAKE SOME COMMENT IN RESPONSE TO POSSIBLE SUPPLEMENTARIES ABOUT THE POSITION ON THE SALE OF INVINCIBLE TO AUSTRALIA. IF THIS HAPPENS IT WILL BE IMPORTANT TO KNOW WITHOUT DELAY THE FORM OF ANY AUSTRALIAN REACTIONS ONCE THEY BECOME AWARE OF WHAT HAS BEEN SAID, AND IN PARTICULAR WHETHER IT MIGHT

PAGE 2 RBDWC A4616 C O N F I D E N T I A L  
AFFECT THEIR CABINET DISCUSSIONS: WE UNDERSTAND THAT THESE ARE STILL AIMED AT ALLOWING A DECISION BY THE END OF THIS WEEK.

2. IF PRESSED, MR NOTT WILL HAVE TO CONFIRM 1983 DELIVERY AS THE BASIS ON WHICH NEGOTIATIONS HAVE BEEN CONDUCTED AND WILL ALSO CONFIRM THAT THE OFFER OF SALE IS OPEN UNTIL THE END OF FEBRUARY. MR NOTT WILL INDICATE THAT IF THE AUSTRALIANS WERE TO SEEK TO DEFER PURCHASE UNTIL 1985 THIS WOULD CREATE A NEW SITUATION THE IMPLICATIONS OF WHICH MINISTERS WOULD NATURALLY HAVE TO CONSIDER. MR NOTT WOULD NOT WISH TO BE DRAWN ABOUT THE OUTCOME.

3. MINISTERS DO NOT WISH THE AUSTRALIANS TO BE UNDER ANY MISUNDERSTANDING ABOUT OUR POSITION WHICH REMAINS THAT SET OUT IN DEFENCE SALES TELEGRAM 051645Z TO YOUR DEFENCE ADVISER. PLEASE ENSURE THAT THE AUSTRALIAN GOVERNMENT ARE FOREWARNED OF THE LIKELY HOUSE OF COMMONS EXCHANGES AND THE BASIS ON WHICH MR NOTT WOULD SPEAK.

4. IF THE DEFENCE SECRETARY DOES SAY SOMETHING ABOUT INVINCIBLE TOMORROW WE WILL OF COURSE LET YOU KNOW BY IMMEDIATE TELEGRAM.

PAGE 3 RBDWC A4616 C O N F I D E N T I A L

GARRINGTON

RESTRICTED

File

Defence OS

22 February 1982

HMS INVINCIBLE

Thank you for your letter of  
19 February which the Prime Minister has  
seen and noted.

W. F. S. RICKETT

David Omand, Esq.,  
Ministry of Defence.

RESTRICTED



SUBJECT

in master



FILE Reference  
Wade Geny  
CO  
Treasury  
FCO  
3

10 DOWNING STREET

From the Private Secretary

22 February 1982

Mr. David,

HMS INVINCIBLE

Your Secretary of State had a brief discussion with the Prime Minister this morning about the problem which could arise if in the next day or so the Australians should decide that they did not wish to purchase HMS Invincible in accordance with the present Memorandum of Understanding which provided for an advance payment now and delivery in 1983. The Government was already under considerable pressure from Conservative backbenchers who wished Invincible to be retained. It was desirable that, if a negative Australian decision became known, perhaps through briefing of the press by the Australian Government, we should demonstrate that we were firmly in control of the situation. Mr. Nott explained that he was due to answer a question about Invincible in the House of Commons tomorrow.

It was agreed that, in reply to Parliamentary questioning, your Secretary of State might say that it was wholly up to the Australian Government to decide whether to purchase Invincible under the terms which had been offered, namely delivery in 1983. If they decided that they did not wish to do so on these terms, we intended to withdraw Invincible from the market for the time being while we reconsidered the position.

This would give us the opportunity to say to the Americans, during the next round of negotiations on Trident, that in the light of their known views about the importance of the United Kingdom conventional forces, it would be our intention not to put Invincible back on the market for the time being, provided that decision could be shown to have won us more favourable terms for Trident than would otherwise have been the case.

Mr. Nott also raised the question of whether we should pass a message to the Australian Government, in advance of their decision, to the effect that if they did not accept the terms of sale which we had offered, we should not be able to envisage a later date of purchase. The Prime Minister was somewhat concerned that a message in these terms might give offence. She also wanted to avoid any danger of a communication with the Australian

/Government

SN



Government on this matter leaking. It might be better to couch our message to the Australians more in terms of an enquiry. We could in effect say that if they were in difficulties and did not wish to proceed, it would be helpful if they would let us know now. Another possibility would be to explain that your Secretary of State had to answer questions on this matter tomorrow and proposed to take the line referred to above. Mr. Nott said he would reflect further before deciding how to make the point to the Australian Government.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury), David Wright (Cabinet Office) and Robert Wade-Gery (Cabinet Office).

*John Kerr*  
*John Kerr*

David Omand Esq  
Ministry of Defence.



CONFIDENTIAL



MO 25/3/4

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~9387022~~ 218 2111/3

19th February 1982

*Dear John,*

HMS INVINCIBLE

In your letter to me of 17th December you recorded the telephone conversation between the Prime Minister and Mr Frazer about the possible sale of HMS INVINCIBLE. Since then the subject has been discussed at least once in the Australian Cabinet, but no decision has yet been made on whether they wish to purchase the ship. We know that the Australians are conscious that the two Prime Ministers had agreed on a deadline of end-February, and we are now told that it is very likely that there will be a decision next Wednesday or Thursday. It is quite possible that Mr Frazer may wish to talk to the Prime Minister, possibly in advance of a final Australian Cabinet meeting, and the purpose of this letter is to forewarn you of that possibility.

Despite the fact that the decision was taken in 1980 to replace the Australian carrier (HMAS MELBOURNE) this requirement has now been re-opened in Canberra. Mr Killen is still in favour of a new carrier and has put his proposal to buy HMS INVINCIBLE to his Cabinet. There is by no means unanimity on this issue within Government ranks however, and we understand for example that Mr Killen is to give a "factual briefing" to his backbenchers on Monday to try to win them over. The Opposition remains antagonistic.

Apart from the questioning of the requirement itself, there are doubts within the Australian Cabinet about whether they could afford to buy HMS INVINCIBLE in 1983 particularly given our requirement for a sizeable early payment. You are aware of the strong budgetary reasons for the early payment which led the Defence Secretary to decide finally to offer the ship for sale in 1983, having obtained the backing of OD. We understand that the Australian Treasury is now looking for public expenditure cuts, and that decisions on their defence budget will be taken at the same time as a decision on HMS INVINCIBLE.

Mr Frazer clearly faces an internal row whatever he decides about HMS INVINCIBLE. The most likely outcome that we can predict is that he will decline, on budgetary grounds to buy the ship in 1983 on the basis of our preferred schedule of

A J Coles Esq

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of payments. He may well however not take a clean decision to get out of the carrier business; instead he may seek the Prime Minister's agreement to a new round of negotiations leading for example to the handover of HMS INVINCIBLE in 1985 with payments spread out between now and then.

The Memorandum of Understanding drawn up with the Australians (which includes the payments schedule) relates solely to a 1983 handover. We have made it clear to the Australians that if they wanted to wait until 1985 that would require a separate Ministerial decision. We have told them that we cannot predict what the outcome of such reconsideration would be, given the importance which had been attached by Ministers to a substantial early payment in the next financial year and the political difficulties there would be in dragging out the arguments both in Parliament and in the Royal Navy. It is not clear, however, that they accept this position and they may well regard it as a negotiating point by us.

Should Mr Frazer telephone the Prime Minister and seek an extension of time, or look towards a 1985 date, then Mr Nott believes he should be told that for both budgetary and political reasons a decision cannot be delayed any further. He should be warned that Ministers here would want to consider their position very carefully in the light of anything he said, but it would be best to be totally realistic about the lack of prospects for either extending the deadline or switching to a later date of purchase.

I am copying this letter to Brian Fall (FCO) and David Wright and Robert Wade-Gery (Cabinet Office) with the request that they ensure that it is given appropriate protection.

Yours ever,  
David Omand

(D B OMAND)





The National Archives

LETTERCODE/SERIES ..... <i>PREM 19</i> .....	Date and sign
PIECE/ITEM ..... <i>690</i> ..... (one piece/item number)	
Extract/Item details:  <i>Letter from Omand to Rickett dated 19 February 1982</i>	
CLOSED FOR ..... <i>40</i> ..... YEARS UNDER FOI EXEMPTION	<i>18 September 2012 Wayland</i>
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e.g.

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PIECE/ITEM	.....49.....
(ONE PIECE/ITEM NUMBER ONLY)	

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backbench approval for the retention of HMS INVINCIBLE.

What I have set out above is a further reason which leads Mr Nott to believe that any approach to the Prime Minister from Mr Frazer seeking agreement to a later date of sale or an extension of the deadline, should be handled with the greatest circumspection. Mr Nott will be at home in Cornwall over the weekend and he would welcome the opportunity to have a word with the Prime Minister first should you receive warning that Mr Frazer wishes to speak to her.

I am copying this letter to Brian Fall (FCO) and Robert Wade-Gery and David Wright (Cabinet Office).

*Yours ever,*  
*David Omand*

(D B OMAND)





ds

reference

10 DOWNING STREET

*From the Private Secretary*

6 January 1982.

I write to acknowledge your letter of 5 January to Michael Alexander (whom I succeeded last month) enclosing the original text of the letter of 18 December from the Australian Prime Minister to the Prime Minister.

A. J. COLES

R.H. Robertson, Esq.

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AUSTRALIAN HIGH COMMISSION · LONDON

CONFIDENTIAL

Acting  
THE/HIGH COMMISSIONER

5 January 1982

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Dear Mr Alexander,

On 18 December 1981 the High Commissioner wrote to the Prime Minister enclosing the text of a letter from the Australian Prime Minister, the Rt Hon. Malcolm Fraser, concerning agreement that a decision on the INVINCIBLE be deferred to the end of February.

.... I enclose the original of Mr Fraser's letter.

Yours sincerely,

R. H. Robertson.

(R.H. Robertson)

Mr Michael Alexander, CMG,  
Private Secretary (Overseas Affairs)  
to the Prime Minister,  
Prime Minister's Office,  
10 Downing Street,  
LONDON SW1.

CONFIDENTIAL



CONFIDENTIAL

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THE HIGH COMMISSIONER



AUSTRALIAN HIGH COMMISSION LONDON



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 177/81.

PRIME MINISTER

CANBERRA

*Start at alt*  
18 DEC 1981

*My Dear Margaret*

I appreciated the chance to talk with you.

Your agreement that a decision on the INVINCIBLE can be deferred to the end of February is very helpful. Would you also thank Mr Nott for his co-operation. Our Parliament is dispersed for its long Christmas vacation, which makes very difficult any wider discussion with backbench members on issues of some public interest - which this is. Our Foreign Affairs and Defence Committee has taken a close interest in the Defence re-equipment programme which is currently under way and of which this is part.

I am myself about to start on a short break through the Christmas period. We look forward, as I am sure you do, to 1982 being a year of progress.

Warm personal regards,

*Yours truly*  
*Margaret Thatcher*

The Rt Hon. Margaret Thatcher, M.P.,  
Prime Minister of Great Britain,  
LONDON S.W.1  
UNITED KINGDOM



CONFIDENTIAL

FRP  
Defence  
C

18 December 1981

HMS INVINSIBLE

Following the Prime Minister's conversation with the Australian Prime Minister yesterday (my letter of 17 December refers) I enclose the text of a message which Mr. Fraser has now sent to the Prime Minister. This does not appear to call for a reply.

I am sending a copy of this letter and enclosure to Brian Fall (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

A. J. COLES

D.B. Omand, Esq.,  
Ministry of Defence.

CONFIDENTIAL

Defence



AUSTRALIAN HIGH COMMISSION · LONDON

THE HIGH COMMISSIONER

18 December 1981

A telegram from my Prime Minister asks me to convey to you the following text of a letter, the original of which is en route by diplomatic bag:

Begins -

"Dear Margaret,

I appreciated the chance to talk with you.

Your agreement that a decision on the Invincible can be deferred to end February is very helpful. Would you also thank Mr Nott for his co-operation. Our Parliament is dispersed for its long Christmas vacation, which makes very difficult any wider discussion with Backbench Members on issues of some public interest - which this is. Our Foreign Affairs and Defence Committee has taken a close interest in the Defence Re-equipment Program which is currently underway and of which this is part.

I am myself about to start on a short break through the Christmas period. We look forward, as I am sure you do, to 1982 being a year of progress.

Warm personal regards,

Yours sincerely,  
(Malcolm Fraser)"

Ends.

R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,  
Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.



CONFIDENTIAL (2)



AUSTRALIAN HIGH COMMISSION · LONDON

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 177/81

18 December 1981

cc. Fraser set  
opp.

Prime Minister

To note.

M 4/12

h.a.  
M 21/12

My dear Prime Minister,

A telegram from my Prime Minister asks me to convey to you the following text of a letter, the original of which is en route by diplomatic bag:

Begins -

"Dear Margaret,

I appreciated the chance to talk with you.

Your agreement that a decision on the Invincible can be deferred to end February is very helpful. Would you also thank Mr Nott for his co-operation. Our Parliament is dispersed for its long Christmas vacation, which makes very difficult any wider discussion with Backbench Members on issues of some public interest - which this is. Our Foreign Affairs and Defence Committee has taken a close interest in the Defence Re-equipment Program which is currently underway and of which this is part.

h

I am myself about to start on a short break through the Christmas period. We look forward, as I am sure you do, to 1982 being a year of progress.

Warm personal regards,

Yours sincerely,  
(Malcolm Fraser)"

Ends.

Sincerely,  
R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,  
Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

CONFIDENTIAL

18 DEC 1961

1 2 3  
4 5 6  
7 8 9

THE HIGH COMMISSIONER



AUSTRALIAN HIGH COMMISSION

LONDON





10 DOWNING STREET

From the Private Secretary

17 December 1981

HMS INVINCIBLE

Waters L

The Australian Prime Minister spoke to the Prime Minister on the telephone about this subject. Mr. Fraser said that the Australian Government faced a problem in connection with timing. They had taken no decision on purchase yet. It was probable (he also said very likely) that a decision would be taken to buy. But there was some public opposition to a carrier being purchased. And Parliament wanted an opportunity to debate the matter, though it would then almost certainly accept the Government's decision. He hoped that we could extend the period for a decision until the end of February. The Prime Minister said that it was in the interests of both countries to arrive at an agreement. If the decision were delayed, how did Mr. Fraser rate the prospects for a positive decision? Mr. Fraser replied that the prospects were high. The Government had decided two years ago to buy a carrier. Public critics were alleging that INVINCIBLE was a secondhand ship. This was not true but he feared that if the Government appeared to be rushing things the reaction could be unfavourable. He would like to be able to say now that he had asked for more information, though from Australian Government Departments rather than from HMG. He believed that a decision could be taken shortly after 16 February and that it would be a decision to buy.

The Prime Minister asked whether the matter of timing was the only problem. Mr. Fraser confirmed that it was. Having consulted the Secretary of State for Defence, the Prime Minister then said that a decision by the end of February would be satisfactory to HMG.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

D.B. Omand Esq  
Ministry of Defence.



3 weeks in progress

PRIME MINISTER

HMS INVINCIBLE

When you speak to Mr. Fraser, the Secretary of State for Defence would be content for you to say:

- a) The price must be £175 m.
- b) We are looking for a substantial payment in 1982/3.
- c) We had originally talked about £95 m. Not rigid. We could envisage around £80 m. but not less.
- d) (If he talks about putting off a decision):  
Please try to reach a decision by mid-January at latest.
- e) Our constraint is that we have to take decisions on defence estimates in February.

16<sup>th</sup> February

In house on timing - not make decision.

A. S. C. 17/12

End of February.

Opp to Carter.

17 December 1981



TELEGRAM NUMBER 170700Z OF 17 DECEMBER  
INFO FLASH FCO (FOR DEFENCE DEPARTMENT)  
INFO FLASH MODUK (FOR SALES 3 - MR PAREN)  
SIC AAA/A2P

*No. Whitehouse to me.*

*17/12*

HMS INVINCIBLE

1. MR FRASER HAS ARRANGED TO TELEPHONE THE PRIME MINISTER AT 10 AM LONDON TIME TODAY 17 DECEMBER.
2. STRESSING THAT HE WAS SPEAKING IN STRICT CONFIDENCE (PLEASE PROTECT) AND THAT HE WAS NOT PRESUMING TO FORECAST WHAT MR FRASER MIGHT SAY, YEEND, PERMANENT HEAD OF THE DEPARTMENT OF PRIME MINISTER AND CABINET, TOLD HEAD OF CHANCERY THAT THE AUSTRALIAN CABINET, MEETING EARLIER THIS WEEK, HAD REACHED NO DECISION ON THE POSSIBLE PURCHASE OF HMS INVINCIBLE. MINISTERS HAD HAD THE FOLLOWING PREOCCUPATIONS:

(A) IF WE INSISTED ON AN AUSTRALIAN DECISION BEFORE THE END OF THE MONTH THIS WOULD LEAVE THE AUSTRALIAN GOVERNMENT NO TIME AT ALL TO PREPARE PUBLIC AND PARLIAMENTARY OPINION, A TASK ON WHICH THEY HAD NOT YET BEGUN. CHRISTMAS WAS THE WORST POSSIBLE TIME TO MOUNT SUCH AN EXERCISE. ( PARLIAMENT DOES NOT MEET UNTIL 16 FEBRUARY.) CRITICS NEEDED TO BE CONVINCED NOT ONLY THAT INVINCIBLE WAS A SENSIBLE PURCHASE BUT THAT A CARRIER OF ANY KIND WAS NECESSARY FOR AUSTRALIA. IF THE PRESS WERE TO COME TO THE CONCLUSION THAT THE GOVERNMENT HAD BEEN 'CONNED' INTO PURCHASE WITHOUT DUE PREPARATION THIS WOULD DO NEITHER SIDE ANY GOOD. AND THE GOVERNMENT MIGHT BE FURTHER CRITICISED FOR RUSHING IN TO 'SNAFFLE SOMETHING FROM UNDER THE ROYAL NAVY'S NOSE'. YEEND PUT AS HIS OWN VIEW 'A NEED FOR A DECISION TO BE TAKEN WITHOUT THE OPPORTUNITY FOR PUBLIC PREPARATION WOULD WEIGH ON THE SIDE OF THAT DECISION BEING NO (REPEAT NO)'. HE ADDED THAT THE GOVERNMENT PERHAPS THOUGHT IT HAD ENOUGH IMMEDIATE HARD DECISIONS TO TAKE (ON FOR EXAMPLE THE DOMESTIC MOTOR VEHICLE INDUSTRY AND ON SATELLITES) WITHOUT HAVING TO ADD INVINCIBLE TO THE LIST.

(B) MINISTERS RECOILED FROM THE PROSPECT OF ANNOUNCING AGREEMENT TO PURCHASE IF THERE WERE ANY CHANCE AT ALL THAT WHEN THEY HAD DONE SO WE MIGHT CHANGE OUR MINDS FOR WHATEVER REASON. IN THIS REGARD THEY HAD NOT BEEN COMFORTED BY THE MESSAGE IN SIC/AAA/A2P O 142100Z DEC 81 WHICH WE PASSED TO KILLEN JUST BEFORE CABINET MET.

(C) MINISTERS REQUIRE



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2. STRESSING THAT HE WAS SPEAKING IN STRICT CONFIDENCE (PLEASE PROTECT) AND THAT HE WAS NOT PRESUMING TO FORECAST WHAT MR FRASER MIGHT SAY, YEEND, PERMANENT HEAD OF THE DEPARTMENT OF PRIME MINISTER AND CABINET, TOLD HEAD OF CHANCERY THAT THE AUSTRALIAN CABINET, MEETING EARLIER THIS WEEK, HAD REACHED NO DECISION ON THE POSSIBLE PURCHASE OF HMS INVINCIBLE. MINISTERS HAD HAD THE FOLLOWING PREOCCUPATIONS:

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(C) MINISTERS REQUIRE CLARIFICATION ON AN AGREED RATE OF PAYMENT.

(D) RE-ASSURANCE WAS NECESSARY ON THE DATE WHEN INVINCIBLE WOULD BE AVAILABLE TO THE ROYAL AUSTRALIAN NAVY.





MO 14/5

Prime Minister.

MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-2307822 218 2111/3

16th December 1981

I have told the MOD  
that I do not think that  
the time they suggest you take at X/  
below is good enough to deal with  
the points at X/ since they think the  
Frazz may raise with you tomorrow.

I have therefore suggested that when MNSH  
see you this evening, he offers you some more  
specific advice than is contained  
in this letter.

Dear Clive,

AKJ

16xii

SALE OF HMS INVINCIBLE

You told us that the Australian Prime Minister has indicated that he would like to speak to the Prime Minister tomorrow morning, between 9.15 and 9.45 am, on the subject of the proposed sale of HMS INVINCIBLE to the Royal Australian Navy. We have no sure evidence as to what Mr Frazer will say, but it might be of help if I draw together here the events of the last few days:

- a. OD agreed on 2nd December that the Defence Secretary could, at his discretion, confirm arrangements for the sale of HMS INVINCIBLE to Australia on the basis set out in his minute of 13th November (copy at Annex A).
- b. Subsequently my Secretary of State discussed the proposed sale on a number of occasions with the First Sea Lord who urged strongly that the sale should not be proceeded with, in view of the loss of ASW capability that this would represent. The Defence Secretary explored exhaustively with the First Sea Lord the alternative savings which would have to be made to compensate for the loss of sales receipts should INVINCIBLE not be sold, and at a





meeting in Cornwall on the evening of Friday 11th December he instructed the First Sea Lord that the ship had to be offered for sale.

c. On 12th December, the Defence Secretary confirmed to Mr Killen, the Australian Defence Minister, that HMG was prepared to sell HMS INVINCIBLE on the basis of the agreement initialled by negotiators in Canberra on 20th November (copy of telegram at Annex B), but only on the condition that about £95 million of the sale price of £175 million would be paid to us in 1982/83 in view of the serious problems facing the defence budget in that year. The Australians had earlier given us to understand that they were themselves considering such a schedule of payments. In negotiations we have said the offer of sale is open until the end of the year.

d. The Australian Cabinet considered the possible purchase of INVINCIBLE at their meeting on Tuesday (Monday/Tuesday night in the UK). They did not reach a decision and information reaching us via our High Commission indicated that there was a conflict of view between Australian Departments over the proposed early large payment which would require them to seek a supplementary estimate on a programme which was likely to be contentious. Mr Frazer was also reported to be very worried about Parliamentary opposition to the purchase, not only from the Labor party and democrats but from his own back bench. Our suspicion was that the Australians might seek to defer a decision until January or even February. Such a delay would pose Ministers here with difficult problems in reaching final agreement on our Defence Estimates, and the measures which might be necessary to bring the programme down to





/ the target set in the absence of certainty about the  
sales receipts. The Defence Secretary therefore sent  
/ a personal message to the High Commissioner (copy at  
Annex C) giving discretion to transmit this to  
Mr Killen which produced an encouraging response  
(Annex D).

e. The Australian Cabinet met again on Wednesday morning (Tuesday/Wednesday night here) following which Mr Frazer rang you.

It is still possible, although now less likely that Mr Frazer wishes to confirm an Australian purchase of HMS INVINCIBLE. More likely he is either seeking:

- X
- a. to keep the offer open until early next year (the next Australian Cabinet is on 20th January) and/or
  - b. seek some flexibility in the size of the initial payment.

Y.

We would recommend that the Prime Minister stresses that we believe HMS INVINCIBLE is the right choice for the Royal Australian Navy and represents excellent value for money; and emphasises the need for an early decision, and the need for an early payment. Our remarks on this have not been made lightly. But we would not recommend that this be pressed to the point at which Mr Frazer would be forced to take a decision now if this was against purchase.

The negotiations on the Australian side have been handled by Admiral Rourke, who initialled the draft sales agreement on behalf of his Government. Admiral Rourke is the Chief of Australian Naval Materiel (CNM) and has been a firm but fair



negotiator. If appropriate, the Prime Minister may wish to pay tribute to his efforts.

I am copying this letter to Brian Fall (FCO) and to David Wright (Cabinet Office).

*Yours ever,*

*David Omand*

(D B OMAND)





Annex A

MO 14/5

PRIME MINISTERSALE OF HMS INVINCIBLE

In the Defence White Paper "The Way Forward" (Cmd 8288), which I published in June, I announced that we intended to keep in service only two of the three Invincible Class carriers ordered by the Royal Navy.

2. In spite of the excellent performance of HMS INVINCIBLE in NATO exercises in the East Atlantic during the summer - and the undoubted shortages of ASW assets - my Department has, with my authority, been negotiating with the Australian Government for her sale as a replacement for HMAS MELBOURNE. Prior to this the Australians had been considering a new carrier to be built in the United States - British Shipbuilders having been excluded at an early stage.
3. Terms of the sale of HMS INVINCIBLE have now been agreed with the Australian Department of Defence, and the Australian Defence Minister, Mr Killen, wishes to submit proposals for the approval of the Australian Cabinet during the first two weeks in December. A formal announcement could then come before Christmas.
4. Officials from my Department have visited Australia and the price agreed for the ship, ad referendum to Ministers, is £175M (excluding stores and any aircraft or helicopters), and a date of September 1983 has been proposed for her handover to the Royal Australian Navy. This date is related to the entry of HMS ILLUSTRIOUS - the second carrier - into operational service which is planned for July 1983.





To cover possible slippages in ILLUSTRIOUS's entry into service, there is provision for the handover to be deferred by up to six months and for the handover dates to be reviewed if delays arise from events outside the UK Government's control.

5. In order to keep two carriers in service the sale of HMS INVINCIBLE to Australia in 1983 will mean that HMS HERMES must be kept until 1985 when HMS ARK ROYAL enters service. While the retention of HMS HERMES will lead to additional costs of some £30 million to the Defence Budget, it is clear that Australia attaches very great importance to the early acquisition of a new carrier. Although INVINCIBLE would cost nearly £350 million to build today the net revenue of £145 million obtained from the sale will make a large contribution to the Defence Budget in the mid-1980s at a time when it will be under very great strain. It could also lead to substantial orders of ammunition, missiles, spares, etc for many years to come, and there is a good prospect for sales of the helicopters and aircraft to be embarked on the ship.

6. I greatly regret having to propose the sale of a fine ship of proven capability, like HMS INVINCIBLE, particularly before 1985 when HMS ILLUSTRIOUS and HMS ARK ROYAL will both be operational. Such a sale will distress the United States, our NATO allies, our political supporters in the country, and, of course, the Naval lobby. Unlike the older frigates which we are selling as part of the Defence Review decisions, INVINCIBLE has only been in service with the Royal Navy since March 1980. The Chief of the Naval Staff strongly believes that we can and must afford to keep her - if necessary in a reserve status as back up for the other two. But I have to recognise that pressures on the defence budget in 1983 and onwards are almost





certainly greater than even those identified in the summer at the time of the defence programme review, when we decided we could afford to retain in service in the long term only two of the new class of Carriers. The recent figures agreed for the Defence Estimates will place the forward programme in deep jeopardy and therefore it is hard to reject the opportunity now offered to sell HMS INVINCIBLE to the Australian Government on the terms set out above.

7. The sale of HMS INVINCIBLE and the prospective sale of two Hunt class Mine Counter Measure ships, on which negotiations are well advanced, would do much to re-establish the UK's position as supplier to the Royal Australian Navy and to strengthen the traditional links between the two Commonwealth navies.

8. In view of the high political sensitivity of this unique sale I should be grateful to discuss this with you and OD colleagues before I confirm the sale to the Australians. I am, therefore, copying this minute to members of OD and to Sir Robert Armstrong.

*Jaw*

Ministry of Defence

30th November 1981



FROM MODUK  
TO BHC CANBERRA  
INFO 10 DOWNING ST  
FCO

FROM: MOD Resident Clerk for High Commissioner. Desk by 122100Z Dec

1. Sale of HMS INVINCIBLE. Grateful if you would pass following message to Mr Killen from Secretary of State.

"1. I am sorry that I have not been able to write to you earlier but I am now in a position to confirm, with the concurrence of my Cabinet colleagues, the United Kingdom Government's agreement, subject to satisfactory terms of payment, to the sale of HMS INVINCIBLE to the RAN on the basis of the draft sales agreement initialled by Adm Rourke and Mr Paren at the conclusion of their negotiations in Canberra 20th November, based on 30th September 1983 as the due date for handover of HMS INVINCIBLE to the RAN.

2. The draft sales agreement left open for further discussions the payment schedule for the ship. Adm Rourke has since proposed a payment schedule under which approximately £95M (\$255M) would be paid between April and June next year. There are a few minor points of detail which we would wish to discuss on the payment schedule but for our own budgetary reasons we would need to receive a substantial early payment next year along the lines of the proposals of Adm Rourke as a condition of the sale.

3. When the ship is handed over to the RAN we will wish to retain the name HMS INVINCIBLE for the Royal Navy. You will understand that we wish to preserve the long historical continuity of the Royal Navy's use of the name. I believe, however, that it was always your intention to rename the ship on entry into RAN service.

4. We have received from our High Commission a draft of your proposed press announcement on HMS INVINCIBLE. The High Commission will be giving you any comments we have on the proposed text of your announcement, together with the parallel statement which we shall be making in London.

5. As you will know the Royal Navy is parting with HMS INVINCIBLE with extreme reluctance. She is a fine ship of proven capability and will I am sure serve the Royal Australian Navy well. I hope that the sale of INVINCIBLE and the current discussions between our Departments on the possible acquisition of two Hunt class MCMV ships will do much to strengthen the traditional links between our two Navies and to re-establish old ties between the RAN and the British Defence industries."

2. Signal follows for BDLs Canberra on Australian Ministerial announcement.



IMMEDIATE

Annex C

VV

SECRET

ZPA002 15/0007 349E0025 SPECIAL HANDLING

FOR ZPA

IMMEDIATE/IMMEDIATE 142100Z DEC 81

FROM MODUK  
TO BHC CANBERRA  
INFO FCO LONDON

SECRET

PARAPHRASE NOT REQUIRED

UNCLASSIFIED COPY OF MESSAGE

EXCLUSIVE

SECRET EXCLUSIVE  
SIC AAA/A2P  
FCO LONDON FOR RESIDENT CLERK  
DESK BY 0800 LT

EXCLUSIVE FOR HIGH COMMISSIONER FROM SECRETARY OF STATE  
FOR DEFENCE (IN ABSENCE OF HIGH COMMISSIONER DEPUTY HIGH  
COMMISSIONER TO ACTION).

HMS INVINCIBLE

1. AS YOU KNOW THE ROYAL NAVY IS DEEPLY CONCERNED ABOUT MY DECISION TO SELL INVINCIBLE TO THE RAN. MY TALKS WITH THE FIRST SEA LORD HAVE BEEN PROTRACTED BUT I HAVE INSISTED, PRIMARILY BECAUSE THE NAVAL PROGRAMME IS GRAVELY OVER-STRETCHED AND THE SALE PROCEEDS ARE REQUIRED TO OVERCOME OUR BROADER FINANCIAL DIFFICULTIES. ANY DELAY BY THE AUSTRALIAN CABINET IN AGREEING TO THE PURCHASE AND A CONSECUTIVE ANNOUNCEMENT THIS WEEK WILL STRENGTHEN THE PRESSURES ON ME HERE TO WITHDRAW THE OFFER.

2. IT FOLLOWS FROM WHAT I HAVE SAID THAT A PRIME JUSTIFICATION OF THE SALE REQUIRES A LARGE EARLY PAYMENT TO SOLVE NEXT YEARS BUDGETARY DIFFICULTIES AND ALTHOUGH I WOULD NOT INSIST IN STICKING RIGIDLY TO POUNDS 95M THE FORWARD PAYMENT MUST BE CLOSE TO THIS. I CAN APPRECIATE THAT MALCOLM FRAZER IS CONCERNED ABOUT THE PARLIAMENTARY AND OTHER OPPOSITION TO THE PURCHASE BUT LOOKED AT FROM THIS END THE SHIP IS VIRTUALLY NEW AND A VERY CONSIDERABLE BARGAIN. IF THERE ARE NOW DELAYS IN COMING TO AN AUSTRALIAN DECISION I BELIEVE IT MAKE IT VERY DIFFICULT FOR US AT BOTH ENDS.

3. IF YOU FEEL IT APPROPRIATE TO TRANSMIT THIS MESSAGE TO MR KILLEN PRIOR TO THE CABINET MEETING IN A FEW HOURS TIME I WOULD BE HAPPY FOR YOU TO DO SO BUT I LEAVE IT TO YOUR JUDGEMENT. WE NEED TO SELL AND WE NEED THE FORWARD PAYMENT BUT IT WILL BE INCREASINGLY DIFFICULT TO HOLD THE POSITION FOR VERY LONG HERE

ORIGINATOR LOWE RES CLERK 6002

BT

Resident Clerk



FLASH

SECRET

Annex D

SECRET UK EYES ALPHA  
FM CANBERRA 150342Z DEC 81

PARAPHRASE NOT REQUIRED

MOD

XXX

TO FLASH MODUK

UK EYES A

TELNO SIC AAA/A2P OF 15 DECEMBER  
INFO FLASH FCO (FOR RESIDENT CLERK)

157007

EXCLUSIVE

EXCLUSIVE FOR SECRETARY OF STATE  
FROM HIGH COMMISSIONER  
HMS INVINCIBLE

202

YOUR SIC AAA/A2P 142100Z DEC 81 TRANSMITTED TO MR KILLEN AT 1330  
LOCAL JUST PRIOR TO CABINET MEETING, WHICH MAY EXTEND UNTIL TOMORROW  
16 DECEMBER. HE SAID QUOTE THIS DOES IT FOR ME, I WILL INFORM PM  
UNQUOTE. YOUR TELEX MAY WELL HAVE SAVED THE DAY.

2. NOW UNDERSTAND THAT PM DID NOT SIGNAL AUSTRALIA HOUSE LONDON  
OR MAKE A TELEPHONE CALL TO NO 10. IN VIEW OF YOUR MESSAGE HE MAY  
NOT NOW DO SO. WILL KEEP YOU INFORMED.

MASON

NNNN

S U S

RES CLERK @ 15/0455Z

EXCLUSIVE  
UK EYES A  
SECRET

PARAPHRASE NOT REQUIRED

UNCLASSIFIED REPLY OR REFERENCE



SECRET



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-330 7622 218 6169

MO 14/5

15th December 1981

*N&P  
f.a.  
15  
12.*

*Alan John,*

Last night our Resident Clerk provided you, against the possibility of an early morning telephone call to the Prime Minister from the Prime Minister of Australia, with a short note on the present state of the negotiations with the Australian Government on the sale of HMS INVINCIBLE. This note is intended to amplify and, so far as possible, update the earlier one.

I enclose a copy of the signal which my Secretary of State sent to the Australian Defence Minister, Mr Killen, on 12th December which confirmed the sale of HMS INVINCIBLE to the Australians on the basis of the agreement initialled by negotiators in Canberra on 20th November, but only on the condition that about £95 million of the sale price of £175 million would be paid to us in 1982/83.

As our earlier note forecast, the Australian Cabinet considered their purchase of INVINCIBLE at their meeting on Tuesday (Monday/Tuesday night in the UK). The matter is, we understand, to be considered again on Wednesday (Tuesday/Wednesday night here). In the meantime my Secretary of State sent a message to Mr Killen via our High Commissioner in Canberra in advance of the Australian Cabinet's first meeting on this. The main purpose of the message was to point up the fact that any delay in a decision by Australia (because of a need to consider further our insistence on a substantial early payment) would strengthen the pressures on Mr Nott to withdraw the offer. I enclose a copy of Mr Nott's message and of our High Commissioner's reply after he had transmitted the message to Mr Killen. As you can see, there is now some doubt whether Mr Frazer will telephone the Prime Minister on this. If, however, he decides to do so it would presumably be some time after 7.00am tomorrow following his Cabinet meeting (about 3.00am our time).

We have arranged for our Resident Clerk and Press Office to be informed as soon as any decision is announced by the Australian Government and our Press Office (and yours) are already armed with a reciprocal statement and a full set of defensive material in Question and Answer form.

*Yours sincerely*

*D T PIPER*  
(D T PIPER)

J Coles Esq

SECRET



C O N F I D E N T I A L

CAF020 12/1253 346A0371

14/5.

FOR CAF

IMMEDIATE/IMMEDIATE 121135Z DEC 8

FROM / MODUK  
TO- BHC CANBERRA  
INFO 10 DOWNING STREET  
FCO

14/5.

C O N F I D E N T I A L

SIC ACA/A2P

(FCO FOR DEFENCE DEPT)

FROM MOD RESIDENT CLERK FOR HIGH COMMISSIONER . DESK BY  
122100Z DEC.

1. SALE OF HMS INVINCIBLE. GRATEFUL IF YOU WOULD PASS FOLLOWING  
MESSAGE TO MR KILLEN FROM SECRETARY OF STATE.

QUOTE 1. I AM SORRY THAT I HAVE NOT BEEN ABLE TO WRITE TO  
YOU EARLIER BUT I AM NOW IN A POSITION TO CONFIRM, WITH THE  
CONCURRENCE OF MY CABINET COLLEAGUES, THE UNITED KINGDOM GOVERN-  
MENT'S AGREEMENT, SUBJECT TO SATISFACTORY TERMS OF PAYMENT,  
TO THE SALE OF HMS INVINCIBLE TO THE RAN ON THE BASIS OF THE  
DRAFT SALES AGREEMENT INITIALLED BY ADM ROURNE AND MR PAREN  
AT THE CONCLUSION OF THEIR NEGOTIATIONS IN CANBERRA 20TH  
NOVEMBER, BASED ON 30TH SEPTEMBER 1983 AS THE DUE DATE FOR  
HANDOVER OF HMS INVINCIBLE TO THE RAN.

2. THE DRAFT SALES AGREEMENT LEFT OPEN FOR FURTHER DISCUSS-  
IONS THE PAYMENT SCHEDULE FOR THE SHIP. ADM ROURKE HAS SINCE  
PROPOSED A PAYMENT SCHEDULE UNDER WHICH APPROXIMATELY POUNDS  
95M (DOLLARS 255M) WOULD BE PAID BETWEEN APRIL AND JUNE  
NEXT YEAR. THERE ARE A FEW MINOR POINTS OF DETAIL WHICH  
WE WOULD WISH TO DISCUSS ON THE PAYMENT SCHEDULE BUT FOR  
OUR OWN BUDGETARY REASONS WE WOULD NEED TO RECEIVE A SUBSTAN-  
TIAL EARLY PAYMENT NEXT YEAR ALONG THE LINES OF THE PROPOSALS  
OF ADM ROURKE AS A CONDITION OF THE SALE.

3. WHEN THE SHIP IS HANDED OVER TO THE RAN WE WILL WISH TO RETAIN  
THE NAME HMS INVINCIBLE FOR THE ROYAL NAVY. YOU WILL UNDER-  
STAND THAT WE WISH TO PRESERVE THE LONG HISTORICAL CONTIN-  
UITY OF THE ROYAL NAVY'S USE OF THE NAME. I BELIEVE, HOWEVER,  
THAT IT WAS ALWAYS YOUR INTENTION TO REName THE SHIP ON ENTRY  
INTO RAN SERVICE.

4. WE HAVE RECEIVED FROM OUR HIGH COMMISSION A DRAFT OF  
YOUR PROPOSED PRESS ANNOUNCEMENT ON HMS INVINCIBLE. THE HIGH COM-  
MISSION WILL BE GIVING YOU ANY COMMENTS WE HAVE ON THE PROPOSED  
TEXT OF YOUR ANNOUNCEMENT, TOGETHER WITH THE PARALLEL STATEMENT  
WHICH WE SHALL BE MAKING IN LONDON.

5. AS YOU WILL KNOW THE ROYAL NAVY IS PARTING WITH HMS INVINCIBLE  
WITH EXTREME RELUCTANCE. SHE IS A FINE SHIP OF PROVEN CAPA-  
BILITY AND WILL I AM SURE SERVE THE ROYAL AUSTRALIAN NAVY  
WELL. I HOPE THAT THE SALE OF INVINCIBLE AND THE CURRENT  
DISCUSSIONS BETWEEN OUR DEPARTMENTS ON THE POSSIBLE ACQUIS-



ITION OF TWO HUNT CLASS MCMV SHIPS WILL DO MUCH TO STRENGTHEN  
THE TRADITIONAL LINKS BETWEEN OUR TWO NAVIES AND TO REESTAB-  
LISH OLD TIES BETWEEN THE IRAN AND THE BRITISH DEFENCE INDUS-  
TRIES. -UNQUOTE

MESSAGE ENDS. -

2. SIGNAL FOLLOWS FOR BDLs CANBERRA ON AUSTRALIAN MINISTERIAL  
ANNOUNCEMENT

BT

DISTRIBUTION A2P.

C

CAF 1 S of S ACTION (CYR 1 Res Clerk)

1712

17/2

IMMEDIATE

VV

SECRET

ZPA002 15/0007 349E0025 SPECIAL HANDLING

FOR ZPA

IMMEDIATE/IMMEDIATE 142100Z DEC 81

SECRET

PARAPHRASE NOT REQUIRED

TO BE DECLASSIFIED BY 250000Z

FROM MODUK  
TO BHC CANBERRA  
INFO FCO LONDON

EXCLUSIVE

SECRET EXCLUSIVE  
SIC AAA/A2P  
FCO LONDON FOR RESIDENT CLERK  
DESK BY 0800 LT

EXCLUSIVE - FOR HIGH COMMISSIONER FROM SECRETARY OF STATE  
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ORIGINATOR LOWE RES CLERK 6002

BT

*Resident Clerk*

SECRET



FLASH

SECRET

PARAPHRASE NOT REQUIRED

SECRET UK EYES ALPHA

MOD

FM CANBERRA 150342Z DEC 81

XXX

TO FLASH MODUK

UK EYES A

TELNO SIC AAA/A2P OF 15 DECEMBER

157007

INFO FLASH FCO (FOR RESIDENT CLERK)

EXCLUSIVE

EXCLUSIVE FOR SECRETARY OF STATE

FROM HIGH COMMISSIONER

HMS INVINCIBLE

202

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2. NOW UNDERSTAND THAT PM DID NOT SIGNAL AUSTRALIA HOUSE LONDON OR MAKE A TELEPHONE CALL TO NO 10. IN VIEW OF YOUR MESSAGE HE MAY NOT NOW DO SO. WILL KEEP YOU INFORMED.

MASON

NNNN

S of S

RLS CLERK @ 15/0455Z

EXCLUSIVE  
UK EYES A  
SECRET

PARAPHRASE NOT REQUIRED

TO UNCLASSIFIED REPLY ON REQUEST

5 DEC 1981



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PART 1 ends:-

Resident Clerk MOD to Duty Officer No 10 15/12/81

PART 2 begins:-

MOD to AJC 15/12/81

