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PREM 19/1187



Confidential File

The Defence Budget.

Military Assistance Scheme
(UKTMAS)

DEFENCE

Part 1: May 1983

Part 10: May 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.5.83		9.4.84					
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PREM 19/1187

PART 10 ends:-

CC(84)15 12.4.84 Item 5

PART 11 begins:-

FCS TO PM (PM/84/67) 16.4.84

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. Cmnd. 8951-I: Statement on the Defence Estimates 1983
HMSO (ISBN 0 10 189510 0)
2. Cmnd. 8951-II: Statement on the Defence Estimates;
Defence Statistics
HMSO 6 July 1983
3. House of Commons Hansard, 17 November 1983,
Columns 1019 - 1079

Signed Olwayland Date 20 August 2013

PREM Records Team



Ref. A084/1140

PRIME MINISTER

Statement on the Defence Estimates

(C(84) 14)

BACKGROUND

The Secretary of State for Defence has amended the text of his draft White Paper to take account of the comments made in OD on 5 April, and previous correspondence. There are two glosses: in the fifth sentence of paragraph 203, the revised language is not exactly in the terms agreed: the words "in the Public Expenditure Survey" are omitted after the phrase "The cash provision for 1986/87". But the precise language agreed by the Committee will be included in the version sent to the printers. The last two sentences of paragraph 7 of the Essay on "The European Contribution to NATO" appear in square brackets (pages 5 and 6). These sentences reflect Mr Luce's suggestion at OD that there should be an indirect reference to the consideration currently being given to strengthening the role of the Western European Union. Mr Heseltine will no doubt explain whether or not he proposes to retain this language in the finally published text.

2. The Secretary of State for Defence proposes to publish his Statement on 23 May.

HANDLING

3. You will wish to invite the Secretary of State for Defence to introduce the Statement. Points to be established are:

(a) Is the Cabinet content with the text?

(b) Is it likely that the Secretary of State for Defence will shortly be announcing the choice of Harpoon to satisfy the Royal Navy's requirement for the next generation of surface-to-surface guided weapons. Should this decision be mentioned in the White Paper?

(c) Is any objection seen to the proposed date of publication?

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CONCLUSION

4. The Cabinet might be guided to -
- (a) Approve the Statement on the Defence Estimates 1984.
 - (b) Agree that it should be published on 23 May.

RA

ROBERT ARMSTRONG

11 April 1984

CONQUEROR

CONFIDENTIAL

PRIME MINISTER

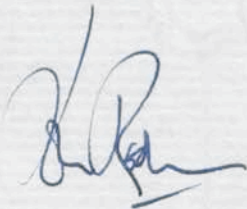
DEFENCE ESTIMATES 1984

The proposed Defence Estimates represent a clear statement of current defence policy, and show Michael's determination to come to grips with the management problems.

David Pascall and I have read through them, and would like to raise just a few points.

1. Paragraph 203 says that the provision for 1986/87 "should allow for some real growth". The agreed policy is to set a cash limit for future years which may or may not allow real growth, depending on the level of inflation. It would be better to stick to the agreed policy and point out that there is a cash limit for 1986/87 4 per cent higher than for the previous year. The halving in the USSR's real rate of growth in defence spending could also be pointed out here as well as later on in the paper.
2. In paragraph 207, reference is made to continuous increases in the sophistication of weapons, and therefore in their cost. There is no compensating reference to the possibility that technological progress can reduce cost by, eg, reducing the number of weapons systems required to deliver a particular strike. Nor does it point out that the main reason for increasing defence expenditure is the growth in the threat.
3. In paragraph 223, it is rightly argued that there should be some transfer of army manpower from support to front-line troops. One of the ways of achieving this, by contracting-out functions to civilian firms, does not permit an equal number of jobs in the front line to replace those farmed out. Only the cash savings from contracting-out can be reapplied on front-line troops. The overall genuine manpower reduction targets are modest, bearing in mind privatisation of ROFs. (Para. 233)
4. Paragraphs 231-232. It is important to stress the need to maintain momentum on better purchasing and more effective means of carrying out support services. There is still enormous scope for improved purchasing and competitive tendering for a range of activities within the defence area. Contractor margins remain very generous and companies carry little risk.

5. Paragraphs 236-237. Only 20 per cent of the contracts awarded in 1982/83 followed competitive tender. It is imperative that this percentage be increased, as paragraph 237 suggests. Paragraph 236 is too pessimistic in its tone about the scope for competition, even within the United Kingdom. There are several leading suppliers, and new ones can enter the market given half a chance.
6. The passage on warship design and procurement skates over the cost escalation and difficulties in the design for the Type-23 frigate. The paper on naval ship purchasing should address the question of alternative designs (as paragraph 436 does indecisively) and stress the need to control costs of the Type-23. If the additional support vessels to take helicopters which the Type-23 cannot carry, and the cost/design escalation, are taken into account, savings are already disappearing fast compared with Type-22s. Has the Navy thought through the precise requirement and reached the correct design answer? It is not clear from this paper.



JOHN REDWOOD



CONFIDENTIAL

B.06713

PRIME MINISTER

c Sir Robert Armstrong

Statement on the Defence Estimates 1984
(OD(84)10 and OD(84)11)

BACKGROUND

1. The draft White Paper which the Defence Secretary has circulated begins in the customary way by reviewing the main issues facing British defence policy. Chapter One therefore describes the challenge facing NATO, and includes a substantial section on the Alliance's approach to the INF and other arms control negotiations. It goes on to summarise developments in NATO's defence posture, highlighting in particular the Alliance's decision to withdraw 1,400 nuclear warheads on shorter-range systems, thereby bringing the nuclear stockpile in Europe to its lowest level for 20 years. After a passage dealing with the United Kingdom's contribution to NATO, there is a fuller treatment than usual of the role of the armed services in Northern Ireland, since it is several years since this aspect has been given detailed attention. Chapter Two of the draft, "The Management of Defence", sets out the Defence Secretary's proposals for improving management and accountability within the Ministry of Defence, and generally to ensure that maximum value is obtained for the tax-payer's money. The remaining Chapters of the draft cover equipment procurement, force capabilities and the services and the community. The volume of statistics has been circulated separately as OD(84)10.

2. The Defence Secretary intends to publish his statement in mid-May. The intention is that the statement, amended as necessary in the light of the Committee's discussion, should be circulated for consideration by Cabinet on 12 April.

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3. The Secretary of State for Trade and Industry will be unable to attend because of a regional visit to Swindon and will be represented by the Minister of State, Department of Trade and Industry (Mr Lamont). The Chief Secretary, Treasury, has been invited to attend.

HANDLING

4. You should invite the Defence Secretary to introduce the draft White Paper, and then invite general comments, particularly from the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

5. This is the first Defence White Paper by the present Government which does not include a commitment to roll forward real increases in the defence budget of 3 per cent a year to the end of the public expenditure planning period. The Committee will wish to take a view on whether the language dealing with this issue (paragraph 203: "Provision for 1986/87 should allow for some real growth, enabling the improvements in capability and increased investment in equipment to be maintained"), taken together with the preceding passage describing the real increase in the size of the defence budget since 1978/79, strikes a sufficiently positive note.

6. The Committee may wish to focus particularly on the passage dealing with the Alliance's approach to arms control (paragraphs 106-116) and nuclear weapons (paragraphs 119-123), and the paragraphs on British nuclear forces (402-406), including a progress report on Trident. As to the position of the British strategic nuclear deterrent relative to arms control, the draft repeats (paragraph 403) the formula used in your Time Magazine interview last year (and subsequently by the Foreign and Commonwealth Secretary at the United Nations) that if substantial reductions were negotiated in the strategic



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arsenals of the two super powers and no significant changes had occurred in Soviet defensive capabilities, "we would want to review our position and to consider how best the United Kingdom could contribute to arms control".

7. In line with previous practice, the draft contains a number of "essays", dealing with the misleading nature of attempts to compare NATO and the Warsaw Pact; the European contribution to NATO; warship design and procurement, and the importance of volunteer reserves. None of these seems particularly controversial, and the Committee will probably not wish to discuss them in any detail.

CONCLUSION

8. Subject to the discussion, the Committee might be guided to agree that the White Paper, taking account of any points made in discussion, should be circulated to the Cabinet for discussion on 12 April and thereafter, subject to Cabinet agreement, published in mid-May.

David Goodall

A D S Goodall

4 April 1984



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

3 April 1984

Stan Michael

STATEMENT ON THE DEFENCE ESTIMATES 1984

Attached

In your memorandum OD(84)10 you invited comments on the draft text of this year's statement on the Defence Estimates.

If I may say so, I thought the draft a very positive document. We have an admirable story to tell on defence, and it received full justice. My only detailed comments concern chapter 2, parts of which could be open to interpretations which we should strive to avoid.

At the end of para 203 there is a suggestion that provision for 1986-87 should allow for some further real growth. As you know, the 1986-87 PES figure was settled in cash; what the provision will allow in "real" terms will depend on progress in reducing inflation. My preference therefore would be to avoid reference to possible expenditure input growth, and to concentrate on defence output instead: "Provision for 1986-87 should enable the improvements in capability and the increased investment on equipment to be maintained."

At the start of para 207 there is a suggestion that an autonomous increase in technical sophistication leads to "real" cost increases for defence equipment. But the very interesting paper which your private secretary circulated on 22 September last year demonstrated clearly that technological improvement enables us progressively to reduce the real cost of equipment with any given level of performance. We have been driven to increase the sophistication and cost of equipment only because of the perceived increase in Warsaw Pact commitment and capability. This linkage should be made clear in the SDE; otherwise it may give the impression that MOD are seeking sophistication and gold plating for their own sakes.

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My last point concerns paragraph 236, which detracts from your otherwise very positive commitment to competition.

The reference to defence industrial base questions could cause us difficulties. Last year's report by officials on essential defence technology - commissioned during the Cabinet's HARM/ALARM discussions and eventually circulated by your private secretary on 14 February - demonstrated that it is militarily essential to maintain an indigenous capability in only five areas of defence technology. I hope that we shall have an early opportunity for full discussion of the report and of your minute of 6 January to the Prime Minister; the latter indicates some misunderstanding of Treasury views. But until we have considered collectively the officials' paper, the references to defence industrial base issues cannot be said to reflect our policy; a request to identify publicly the "vital areas" that paragraph 236 refers to could prove awkward. Meanwhile, it could be counter-productive to imply, as the draft does, that in some fields the limited number of domestic contractors restricts competitive possibilities. The less emphasis on potential obstacles to competition, the easier it will be to improve the 20% ratio for contracts awarded after competitive tendering and widen the scope for achieving the impressive savings mentioned in paragraph 238.

It seems to me that paragraph 236 raises more questions than it answers and I think it would be better deleted.

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

Peter Rees

PETER REES

CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

MR. GOODALL
CABINET OFFICE

Equipment Collaboration with France
and the FRG

The Prime Minister was grateful for your minute of 27 January which she had an opportunity to read this weekend.

A. J. COLES

20 February 1984

K

CONFIDENTIAL
UK EYES A

Prime Minister. (2)
You asked for a note of this when we
were expecting President Rittland to
raise "strategic cooperation" with you.
He did not - but it is still worth
reading.

A. & C. 20.
2

B.06955

MR COLMS

c Sir Robert Armstrong

MT

Equipment Collaboration with France and the FRG

1. You asked Mr Hatfield for a Cabinet Office note on conventional
defence equipment collaboration between the United Kingdom, France
and the FRG. I understand that the note was to cover:

(a) the track record in such collaboration and the
organisation which we have developed for co-ordinating
it; and

(b) the prospects for such co-operation in the future,
and the balance of advantage and disadvantage in procuring
equipment in this way.

2. I attach a note covering this ground which has been prepared
in consultation with Ministry of Defence, Foreign and Commonwealth
Office and Treasury officials.

David Goodall

A D S Goodall

27 January 1984

CONFIDENTIAL
UK EYES A

Bilateral and Trilateral Defence Equipment
Collaboration with France and the FRG

The Track Record

The UK started defence equipment collaboration with France in earnest in the mid-60s with the Martel missile, a helicopter package involving the Puma, Gazelle and Lynx and the Jaguar ground attack aircraft. There were disillusionments on both sides; costs rose, the French reduced their requirements for certain of the collaboratively produced systems, and rival national products competed for export markets. By the end of the decade, with the abrupt French withdrawal from the proposed Anglo-French Variable Geometry Aircraft, Britain and France were tending to see each other as much in an adversarial as a co-operative role. In the first half of the Seventies both countries were vying for the support of the Federal Republic and both enjoying some success in doing so, the French with the Alpha Jet and the Roland and Milan missiles, and ourselves with the Tornado and the FH70 and SP70 artillery systems, in all three of which the Italians were also significant partners. The British decision to adopt Milan in 1975, however, paved the way for promising Trilateral collaboration with France and the FRG on successor 3rd generation Anti-Tank missile systems (Trigat).

2. This move towards trilateralism was given additional impetus when in 1977 the French Defence Minister proposed periodic meetings of the three Defence Ministers at which their respective National Arms Directors would report on the prospects for equipment collaboration.

3. Three such meetings were held. There followed a three-year lapse in meetings at Ministerial level before their revival last September but six-monthly meetings of National Armament Directors continued throughout. The revival of Trilateral Ministerial contacts was prompted in part by British anxieties over an apparent strengthening of Franco-German bilateral ties and in part by the need to give political direction to efforts to concert a collaborative programme

for a Future European Fighter Aircraft (FEFA) which will be of major importance to the maintenance of an effective European aerospace industry and in which the Italian and Spanish are now also involved. The revival of Trilateralism at the political level which we are anxious to encourage has, however, led to protests from Italy at her apparent exclusion from the European top table. In procurement matters there is a strong British interest in not alienating Italy, given her significance in industrial terms and the important role she has played in such major projects as Tornado, EH101 and the FH70 and SP70 artillery systems.

4. Extensive mechanisms exist for the fostering and co-ordination of equipment collaboration among the European members of the Alliance and with both France and the FRG. These are described in Annex A.

Current Prospects for Collaboration

5. We are at present engaged in a wide range of co-operative procurement activities with France and the FRG, many of which hold out promising prospects for future developments. A number of these involve other partners as well, notably the United States and Italy. A summary list of these major projects is set out at Annex B. Altogether, collaborative projects amount to about 20% by value of the United Kingdom's defence procurement programme.

6. As Annex B indicates, the collaborative projects already in train form a solid platform for developing collaboration around a predominantly Anglo/French/FRG/Italian axis. There is also a developing fund of hard won experience in industry and in government of how to overcome, or at least live with, the very real differences in national procurement processes and the practical problems of management, work-sharing, bidding procedures and finance which make co-operation so difficult. Success in developing the FEFA in collaboration will be of major importance. It may well also prove the acid test of whether British and French industrial interests can be reconciled.

7. The size of the United States industrial base and their lead in a number of important defence related technologies is such that it is only through collaboration that Europe is likely to be able to maintain a competitive and technologically advanced defence industry. The activities listed in Annex B offer a promising basis for this. However, it would not be in our interest both for operational and economic reasons to cut ourselves off from access to United States high technology and the United States market.

Balance of Advantages and Disadvantages in Defence Equipment Collaboration with France and the FRG

8. It is difficult to draw up an overall balance of the advantages and disadvantages of collaboration in this field with our European partners because circumstances vary from project to project. But the main advantages of widening such collaboration with France and the FRG are:-

- (a) in principle, collaboration is the best way of ensuring that high development costs can be shared, and a more economical research and development to production ratio achieved;
- (b) collaborative arrangements should also help to avoid wasteful duplication, promote standardisation and establish closer industrial and political links, thereby contributing to European cohesion;
- (c) collaboration with France and the FRG, together with Italy, offers the best hope of maintaining a viable European defence industry in the face of United States dominance.

9. The disadvantages are:-

- (a) as in all collaborative work, compromises have to be made which increase in volume and complexity with the number of major participants in a project;
- (b) there has to be some sacrifice of particular national industrial interests in sharing out the work of particular projects. It is often the case that the same elements of a programme are especially attractive to all partners;

(c) the management of collaborative projects is inherently more complicated and therefore, together with the other factors set out above, can produce penalties in cost, time and commercial attractiveness;

(d) in undertaking such collaborative ventures with European partners we may risk forgoing benefits in operational, technological and cost terms of procurement from the United States.

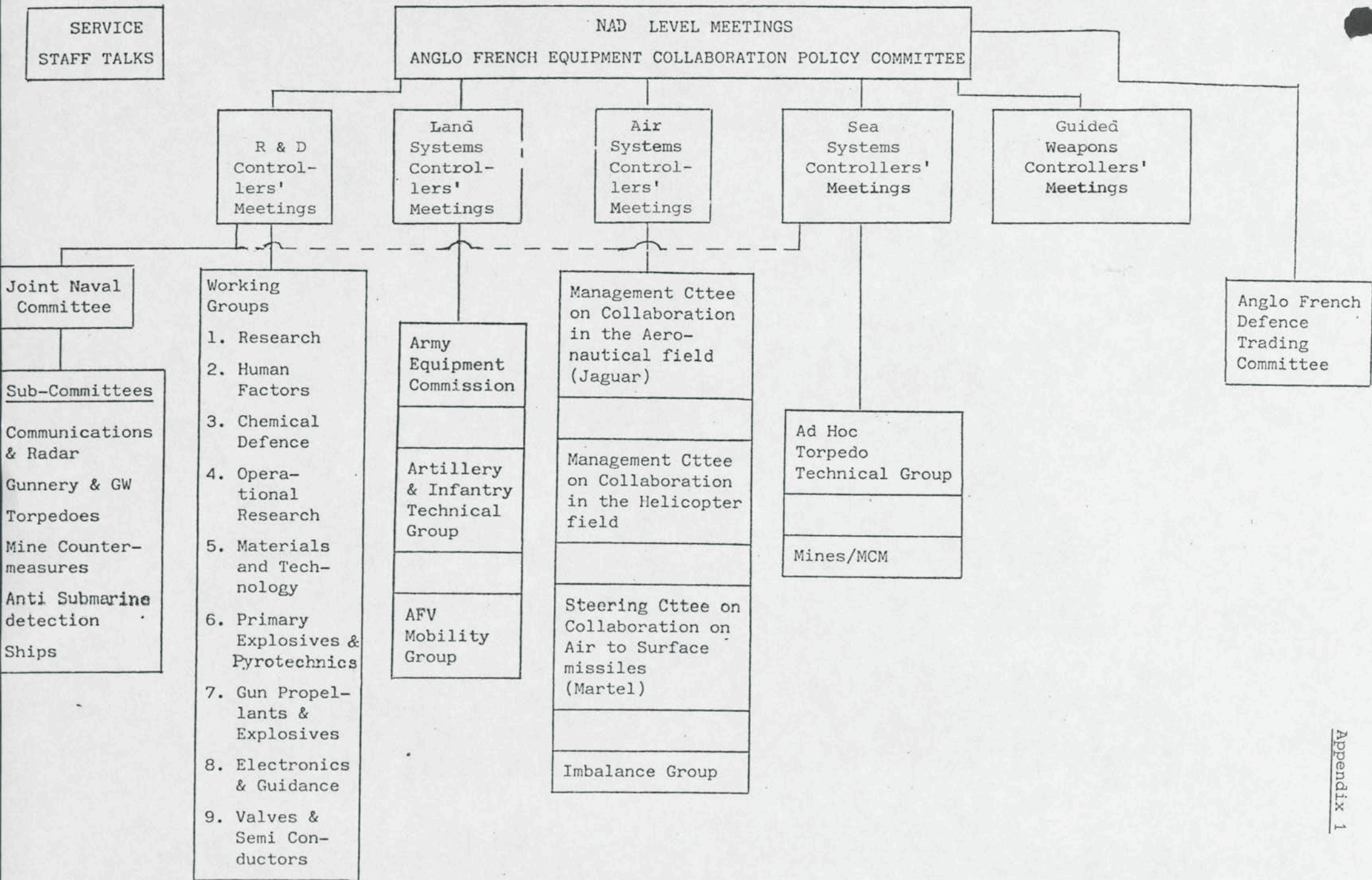
10. There is no absolute balance to be struck in assessing all the military, industrial, technological and financial factors at stake in major equipment decisions. The importance which the UK sets on achieving value for money requires a continuing degree of pragmatism in our approach to collaboration and a continuing openness to co-operation with the US either alone or in association with our European partners, as well as on a purely European basis. Nevertheless, longer-term considerations argue in favour of putting the greatest possible emphasis on consolidating the European industrial base, and of doing this by means of collaborative projects, especially with France and the FRG, wherever this is economically attractive.

Collaborative Mechanisms

The shifting pattern of collaborative partnerships among the major European powers has been played out against periodic efforts to develop a broader collaboration in equipment procurement within the European membership of the Alliance. This process, begun with the formation of the Eurogroup in the late 60s, was weakened by the refusal of France to join and her consequent absence from the meetings of the European National Armament Directors (EURONADS). In 1976 an attempt was made to resolve this by removing the work of the EURONADS to a new organisation the Independent European Programme Group (IEPG) in which France participates fully. The IEPG has met with only limited success in fostering European collaboration partly attributable to its extensive membership (11 nations) and their very divergent requirements and capacities, but it acts as a useful vehicle for co-ordinating European views on equipment issues of general interest on both sides of the Atlantic.

2. More important to efficient collaboration (in terms of the pursuit of collaborative opportunities and the efficient supervision of individual collaborative projects by the countries prepared to invest resources in them) past events have led to the formation of effective bilateral links with the procurement authorities of both France and the FRG at both Ministerial and senior official levels. In the case of France these arrangements are formalised in an MOU signed in 1982 and the chart at Appendix 1 gives a good indication of their range and depth. Arrangements with the FRG are less formalised (there is a less good match of specific areas of responsibility) but equally extensive, with National Armaments Directors and senior officials meeting regularly. The NADs prepare joint reports on equipment collaboration for consideration by Defence Ministers in the margins of the Anglo-FRG Summits. Arrangements for Trilateral consultation are touched on in paragraph 3 of the main brief while to complete the picture it should be noted that the UK and Italian NADs also hold periodic meetings to review matters of common interest.

ANGLO/FRENCH BILATERAL STRUCTURE



COLLABORATIVE PROJECTS WITH FRANCE, GERMANY AND ITALY

<u>PROJECT</u>	<u>PARTICIPANTS</u>	<u>STATUS</u>
1. <u>Tornado</u>	UK/GE/IT	Two versions of Tornado are being produced. Over 200 of the interdictor strike version have so far been delivered to the 3 partners. The air defence variant is being developed for the UK alone - it is due to enter service in late 1985.
2. <u>Future European Fighter Aircraft (FEFA)</u>	UK/FR/GE/IT/SP	The Outline European Staff Target for this aircraft was endorsed by the 5 Chiefs of Air Staff in Dec 83. Procurement staff are currently discussing the way ahead with industry.
3. <u>Multi-Launch Rocket System (MLRS)</u>	UK/FR/GE/US/IT	This is an artillery system developed by the US; proposals to set up a European production line under licence are currently being considered by the 4 European powers.
4. <u>TRIGAT</u>	UK/FR/GE	This is an advanced (third generation) anti tank guided weapon. The project definition stage has just been completed.
5. <u>MILAN</u>	UK/FR/GE	This is an anti tank missile, developed by France and FRG; the UK is now collaborating in the development of the night sight and warhead.

<u>PROJECT</u>	<u>PARTICIPANTS</u>	<u>STATUS</u>
6. <u>Advanced Short Range Air-to-Air Missile (ASRAAM)</u>	UK/FR/GE	Under the provisions of a 1980 MOU, UK, France, and Germany undertook to develop this short range missile at the same time as US is developing a medium range one. At present France has decided to maintain only observer status.
7. <u>FH70/SP70</u>	UK/GE/IT	FH70 is a 155mm towed howitzer developed jointly by UK and GE under a 1968 MOU. IT joined the programme in 1970; the gun is in service. FH70 was the fore-runner of the SP70 self-propelled 155mm howitzer now being developed by the same 3 partners: preparations for SP70's production phase are now taking place.
8. <u>EH101</u>	UK/IT	This is a helicopter intended to perform both military and civilian roles. A main function of the military version will be Anti-Submarine warfare; an MOU covering development of the military version was signed on 13 Jan 84; development of the commercial variant will be under an MOU signed on 25 Jan.
9. <u>Long Range Stand Off Missile (LRSOM)</u>	UK/GE/US	LRSOM will be a ground and air launched missile with a conventional warhead designed to attack fixed targets. Negotiation of an MOU covering the initial, feasibility study phase are nearing completion.

PREVIOUS ANGLO-FRENCH PROGRAMMES

Jaguar aircraft	UK/FR
MARTEL aircraft	UK/FR
Lynx, Puma and Gazelle helicopters	UK/FR

27 JAN 1994

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5 6 7 8 9 0

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CCNO



NBM AS
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Treasury Chambers, Parliament Street, SW1P 3AG

C McCarthy Esq
PS/Secretary of State
Department of Trade and Industry
1 Victoria Street
London SW1E 6RB

25 January 1984

Dear Sir

EH 101 HELICOPTER PROJECT

The Chief Secretary was grateful for your Secretary of State's letter of 19 January. He is pleased that agreement in principle on the launch aid offer has now been reached with the company and that the programme will be going ahead.

I am copying to Andrew Turnbull, Roger Bone, Richard Mottram, Alex Galloway and Richard Hatfield.

Yours sincerely

J. Gieve

JOHN GIEVE

CONFIDENTIAL

Defence : Defence Budget pt. 10.

26 JAN 1984



RESTRICTED

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19 January 1984

Economy and value in the MOD

The Prime Minister has seen your Secretary of State's minute of 12 January and the attached copy of a letter from the Chief of the General Staff to H.M. The Queen.

JOHN COLES

Richard Mottram, Esq.,
Ministry of Defence.

RESTRICTED



JF5351

Secretary of State for Trade and Industry

CONFIDENTIAL

ce NO
NDPM AT 204
DEPARTMENT OF TRADE AND INDUSTRY

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19 January 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D. Peter,

EH101 HELICOPTER PROJECT

There was correspondence last year between Patrick Jenkin and Leon Brittan about the level and terms of launch aid to be negotiated with Westland Helicopters Limited to assist that company to meet its share of the costs of the Anglo-Italian EH101 helicopter project, culminating in your agreement to an offer of no more than £60m coupled with a 2% real rate of return.

2 After protracted discussion (with which your officials have been kept in touch) Westland have accepted this offer of launch aid. The £60m (in cash) will be payable over six years beginning in the 1984/85 financial year. Repayment will be by levy on sales of aircraft and spares which is calculated to produce a 2% real return to HMG by about 2010 when aircraft sales (but not of course spares) are expected to finish. In cash terms we have calculated that this will produce a total repayment of £152.76m. The calculation is based on Westland's best sales estimates and on the basis of an annual rate of inflation of 4½%. We have moreover secured an agreement that the levy should continue on any aircraft sales after the recovery of the cash sum mentioned. This would of course serve to enhance the return to HMG.

3 A statement about launch aid for the project will be made in the House of Commons by means of an arranged PQ during the week of 23 January.

4 My officials and those of the MOD who will act for the Department in drawing up and administering the launch-aid contract have begun detailed contract negotiations with Westland and we hope that this will be signed towards the end of February in time to permit the Department to begin funding the project in 1984/85 financial year.



5 Launch aid in the first three years of the programme will, as agreed, be met from the Department's existing PES provision.

6 You should also know that Norman Lamont expects on 25 January to sign a confidential Memorandum of Understanding with the Italian Minister for Industry regarding the development of the civil version of the EH101 helicopter. This provides inter alia, the framework for support of the two industrial partners in the project - in our case Westland Helicopters Limited.

7 I am copying this letter to the Prime Minister, Geoffrey Howe, Michael Heseltine, Arthur Cockfield and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Lamont', with a stylized flourish above the name.

NORMAN TEBBIT

Defence : Budget A10 .

20 JAN 1984





The National Archives

LETTERCODE/SERIES <i>PREM 19</i>	Date and sign
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Prime Minister.

A. S. C. 12/1.

MO 16

PRIME MINISTER

ECONOMY AND VALUE IN THE MOD

I am now beginning to increase the pressure on the need for economy and value here.

2. Controversy will undoubtedly follow and I will ensure that you are fully aware of any proposals before decisions of consequence are made.

3. But we need to conduct wide ranging enquiries and one is described by the CGS in the enclosed copy-letter to HM The Queen. I wanted you to have a copy.

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

WJH

Ministry of Defence
12th January 1984

Prime Minister.

Ref. A083/3511

MR COLES

A.S.C. 207/12.

ms

The Italian Ambassador rang this morning with a message from Signor Cossiga, to the effect that he expected to be able to approve the loan for the helicopter project next month. Signor Cossiga was anxious that the Prime Minister should know this.

Al

Approved by
ROBERT ARMSTRONG
and signed in his absence

19 December 1983



Your Ref

with compliments

I P Wilson

Treasury Chambers

Parliament Street

London SW1P 3AG

Tel: Direct Line 01-233 *5354*

Switchboard 01-233-3000

Message for Turnbull

It is clear from the newspapers that efforts are being made to obscure the decisions on defence by implying that 1986-87 is not yet firmly settled. This must be stopped. No.10 and Treasury Press Officers must say.

" Firm decisions have been taken by Cabinet on cash provision for defence in all three Survey years, including 1986-87. The figure for the first year 1984-85 will be announced by the Chancellor in his Statement next week. Later years figures will be given as normal in the public expenditure White Paper."

SECRET

cc CO

J



10 DOWNING STREET

From the Private Secretary

20 October 1983

PUBLIC EXPENDITURE SURVEY: DEFENCE

The Chancellor of the Duchy will shortly be starting work as one of the Lord President's group of Ministers which will be considering the outstanding public expenditure issues. The largest item on their agenda will be the defence budget. Material on this will be circulated by the Treasury in due course. Meanwhile, the Chancellor of the Duchy might like to have, for his personal use, a note produced by the Policy Unit setting out the figures and arguments on the defence budget.

I am sending a copy of this letter and its enclosure to Peter Gregson (Cabinet Office).

(ANDREW TURNBULL)

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

NR

PUBLIC EXPENDITURE: DEFENCE

THE FIGURES

In summary the differences between the MoD and the Treasury are:

	84/85 £m	85/86 £m	86/87 £m
MoD	+150	+340	+1620
Chief Secretary	-270	-280	+ 160
Total	420	630	1460

The MoD's and Chief Secretary's bids for 86/87 include... an agreed settlement of £450m for the Falklands.

MOD'S BIDS

The MoD's bids consist of:

	84/85 £m	85/86 £m	86/87 £m
Service Pay Awards	93	97	100
Inflation Compensation	59	240	510
Falklands			450 (agreed bid)
3% real growth			560
Total	150	340	1620

Taking these in turn.

Service Pay Awards

This bid is intended to compensate the MoD for the 1983 Armed Forces Pay Review Board proposals of about 7% which were above the Government's planning assumption of 3½%. The Treasury argue that the excess costs should be absorbed by improved efficiency.

I agree with the Treasury, particularly as there is no commitment to increase provision on account of service pay awards.

Inflation Compensation

MoD claims that inflation factors of 5½%, 5% and 4½% should be used for 84/85, 85/86, 86/87 respectively. Treasury consider that the cash factors agreed by Cabinet of 5%, 4% and 3% should be used. If these cash factors for future years prove unreasonable they can be looked at again in future surveys. However, to allow the principle of compensating cash factors by actual inflation rates would be incompatible with cash planning and cash limit discipline. The MoD bid should be resisted and no commitment to adjust future cash factors in line with inflation should be given.

Falklands

Falklands expenditure in 84/85 and 85/86 is planned at £684m and £552m respectively. Public and Parliamentary expectation is that Falklands costs will decline after 1986/87. Treasury and MoD have agreed a bid of £450m for 1986/87.

3% Real Growth

MoD wish to extend the 3% real growth commitment after 1985/86. £560 m is included in MoD's bids for this purpose in 1986/87. This bid is unacceptable and is discussed in detail below.

TREASURY PROPOSALS

The Chief Secretary's proposals are based on:

	84/85 £m	85/86 £m	86/87 £m
Reduction to limit annual growth to 3% on 83/84 provision	-270	-280	-290
Falklands			450 (agreed bid)
Total	-270	-280	+160

* This figure is incorrectly given in the Chief Secretary's minute.

Taking these in turn.

Limiting Annual Growth to 3%

MoD base the 3% commitment on the original baseline figures applying from 1979/80 onwards. They wish, therefore, to reinstate the £240 m July reduction as the baseline on which 3% real growth for 1984/85 is calculated. This results in a bid for 1984/85 of 5.2% real growth which MoD claim is compatible with the NATO commitment. It should also be appreciated that even after the July cut the 1983/84 figure was still more than 3% above the actual figures in 1982/83. This was because the MoD underspent by about £400 m in 1982/83.

The Treasury do not accept this catching up and are only prepared to accept real growth of 3% in 1984/85 and 1985/86. It would be completely unacceptable to concede the MoD real growth in excess of 3% and the Treasury proposal should be supported. The presentational aspect of this conclusion is discussed later in the comments on the 3% commitment in the longer term.

THE 3% COMMITMENT

Logic and the pressures on public expenditure generally argue for the Chief Secretary's interpretation of the 3% commitment up to 1985/86 and for no renewal of the commitment after 1985/86. However, political and presentational considerations are likely to be equally influential in the final decision. The following points are relevant.

Up to 1985/86

- A real rise of 5.2% in 84/85 could not be presented easily to the public nor to Ministerial colleagues.
- The MoD claim that the 3% commitment also implies a cumulative growth commitment of 21% to 1985/86. If there is any relevance in the 21% figure (which I doubt as the 3% gets all the emphasis) it will be exceeded if Falklands is included. Even without Falklands, real growth can be presented in cost terms as over 21% if GDP cash deflators are used rather than MoD's own indices. Why present the UK achievement in the worst light?
- The June 1981 White Paper referred to the intention of achieving 21% cumulative growth. Intentions are not commitments. The NATO commitment is for annual growth.

After 1985/86

- Continued growth in defence spending is incompatible with the Government's wider public expenditure and economic objectives. Since 1978/79 defence growth has far outstripped economic growth - 21% against 1%. Nor is the economy likely to achieve 3% annual growth in the next two years.
- The effect on NATO of UK plans should be seen in proper context. Other European countries do not follow the UK example. If they did, each would devote more than 5% GDP to defence whereas the European NATO average is less than 4% GDP.

- There was no Manifesto commitment after 1985/86.
- The Europeans are poorly placed to criticise us. The UK's performance on defence has been and will continue to be impressive. Between 1979 and 1982 annual average real expenditure increases compared with GDP growth were:

	<u>Defence</u>	<u>GDP</u>
UK inc Falklands	2.9	-0.4
exc Falklands	1.9	
Germany	1.7	1.6
Italy	2.4	2.4
Netherlands	1.9	0.2
Belgium	-0.4	0.7

UK figures are based on MoD's deflators which relate to defence-specific items. Expenditure based on GDP deflators would be higher at 4.0 (inc Falklands) and 2.7 (exc Falklands) respectively. There is no standard approach to deflators in NATO which has recognised that "various uncontrolled and unchecked deflators is a major weakness in defence planning and makes comparisons of real increases in defence expenditure uncertain and questionable".

- Of the major Allies, the UK contribution to NATO is already second only to the US in absolute terms, per capita and as a proportion of GDP. MoD ought to be striving to reduce the unfairness of the UK defence burden, not to increase it.

	<u>Expenditure</u>	<u>per capita</u>	<u>%GDP</u>
		\$ million	
US	198500	856	6.6
UK	24200	432	5.1
Germany	22500	364	3.4
France	22000	407	4.1
Italy	8900	155	2.6
Netherlands	4500	313	3.2
Belgium	2800	283	3.3

- The US does have concerns about burden sharing between the US and Europe. Nevertheless any decision on 3% does not alter our commitment to NATO. Our aim will be to increase resources in the future when economic conditions allow. However, future economic prosperity depends upon the UK Government controlling expenditure. Reductions in the growth of defence expenditure are necessary at a time when most programmes are being cut.
- Increasing growth in defence could swing public opinion against defence in general and Trident and Cruise in particular.
- MoD will argue that 3% to 1990 is the NATO aim and that this was confirmed in June. However, at the time Michael Heseltine accepted that a firm commitment to the end of the NATO planning period would cause us and most of our Allies difficulties and explicitly emphasised that the 3% formula is a target and not a binding commitment.
- Defence capability will increase from 1986/87 as the benefits of earlier expenditure are realised.
- The 3% principle does not necessarily link with operational capability. It concerns only inputs and covers non-operational and support expenditure. It does not allow for increased efficiency nor for a shift of resources from non-operational to operational objectives.
- There are potential savings in the equipment budget through greater specialisation and standardisation in NATO and through a more open and competitive procurement process (our recent work on procurement and cost growth inflation is relevant here). Profit rates on non-competitive contracts will certainly be revised downwards in November when the Review Body reports. A 5% reduction, the minimum likely figure, could save perhaps £75 m per year.

- Substantial scope exists for economies that do not damage the front line - civilian manpower, training, social and welfare expenditure, stocks, R & D establishments etc, not to mention the expected savings from MINIS.

CONCLUSION

Defence is not a special case and economic necessity must prevail over military aspirations. Such an objective is not incompatible with defence policy. There is no case for conceding any of the MoD's bids and every case for supporting the Chief Secretary's proposals. It is important that some of the smaller bids are not conceded in pursuit of a favourable decision on the 3%. The net result would be savings over the three years up to 1986/87 of £2.8 billion. This outcome could be presented both to the public and to NATO with little problem.

DLP.

DAVID PASCALL

CONFIDENTIAL

FU



10 DOWNING STREET

CC DTI LPO
HO LPS
LCO CDL
FCO CO
MULT

From the Private Secretary

17 October 1983

Foreign and Commonwealth training charges

In his minute of 29 July your Secretary of State informed the Prime Minister of the conclusions of his review of the level of our charges for military training. The Prime Minister asked for a more detailed definition of the terms "extra costs" and "full costs" which was provided in your Secretary of State's minute of 22 September.

The Prime Minister has also seen the Chief Secretary's minute of 13 October on this matter.

In the light of these papers, Mrs. Thatcher agrees with Mr. Heseltine that, except where courses and training are provided specifically for overseas students, our charges for foreign and commonwealth students should generally be at the level produced by our present extra cost formula. She further agrees that when we wish to single out particular countries for favourable treatment, either for sales purposes or for broad policy reasons, the defence policy and defence sales funds should be used to reduce the charges actually paid.

I am copying this letter to the Private Secretaries to other members of OD and to Sir Robert Armstrong.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL

FU

PRIME MINISTER

TRAINING CHARGES FOR MILITARY COURSES FOR FOREIGN AND
COMMONWEALTH PERSONNEL

You saw these papers earlier but asked to see them again after our visit to North America.

In a minute of 29 July the Defence Secretary reported to you the results of a review of these charges. He has concluded (paragraph 5) that except where training is provided specifically for overseas students (when full costs would be charged), the "extra cost formula" should be applied. But where we want to single out particular countries for favourable treatment, either for sales purposes or for broad policy reasons, he will use special funds to reduce the charges actually payable. He seeks OD's agreement to this decision.

You asked for a definition of the terms "full costs" and "extra costs" and for information as to how our charges compared with those of our competitors who sell equipment.

The Defence Secretary's minute of 22 September answers these points.

When we charge "full costs" we recover all costs involved so that HMG makes no long-term loss (or profit). Essentially, this means that indirect costs such as overheads are added to the direct costs.

On the other hand, when we charge "extra costs" we merely charge for items directly related to the instruction of students such as the costs of the instructors and the costs of stores used for the course.

/Comparisons

Comparisons with other countries are not easy to make. Mr. Heseltine's minute states that, out of 11 comparable courses run by the United States in 1981/82, six were more expensive than ours and five were cheaper. The Americans have a system of three price levels ranging from something like our full costs, (for Western countries) to much lower costs for developing countries. France tends to bear the basic training costs of students from developing countries but may in some circumstances ask richer developing countries to meet some of the cost.

You will wish to be aware of the Chief Secretary's views in his letter of 13 October (attached) Flag A. He argues that "extra costs" should be redefined so as to be closer to "full costs" (he calls these "long run marginal costs") and that if we do not do that we shall be subsidising these courses to the tune of £45 million. But he does not seem to be pressing the point very hard, presumably because the cost will have to be met from within the defence budget.

Do you agree with the Defence Secretary's conclusions in paragraph 5 of his minute of 29 July (Flag B)?

A.J.C.

Yes
no

14 October 1983



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
 The Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 LONDON
 SW1A 2HB

13 October 1983

Dear Secretary of State

FOREIGN AND COMMONWEALTH TRAINING CHARGES

Thank you for your minute of 22 September. *in PM's box*

My letter of 5 August was written on the understanding that you were reviewing your "extra costs" formula in order to achieve a level of recovery more in line with long run marginal costs (LRMC) so as to avoid future subsidy. I now understand that your present purpose is to establish the approximate extent to which your present "extra costs" charges fall short of LRMC ie. what level of subsidy is implied by your proposal to continue to charge only "extra costs".

My preference would be to avoid charging below the level justified by LRMC but failing that to keep the charge as close as possible to that level. I note your view that this would not be practicable in terms of the policy and commercial objectives which training of overseas students is designed to achieve. But the cost of a general concession based on "extra costs" charges could be very large. If full costs are taken as a proxy for LRMC - which is a recognised accounting practice in most cases where a service is provided on a continuing basis - you should be seeking to recover (on the 1982/83 figures quoted in the France Report) £79 million instead of the £34 million (43%) generated by "extra cost" charges. This indicates an annual level of subsidy of £45 million - a very substantial price to pay in order to meet the policy and commercial objectives to which you refer. Can this really be justified given present public expenditure priorities and our problems in meeting your current defence budget bids? Ought we not to be considering instead how far we can reduce this subsidy as a contribution to financing more urgent needs?

I assume of course that any continuing subsidy will be found from within agreed future defence budget provision. It will of course be too large to be charged to the Defence Policy and Sales Fund along with the selective further subsidisation referred to in paragraph 5 of your minute of 29 July.

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

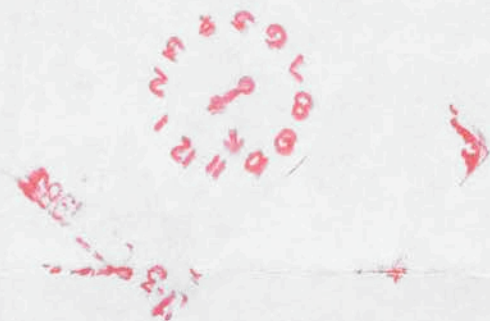
Yours sincerely

J. G. G. G.

for PETER REES

[Approved by the Chief Secretary]

Defence
Budget, pt 10



Mr Turnbull



10 DOWNING STREET

Andrew

Just a minor point.
On my revised Defence
paper (20 Oct) I
failed to remove

" * This figure is incorrectly
given in the Chief Secretary's
minute "

on P 3 even though the
attending figure has been
corrected.

David Russell
told P Gregson
& CDK's office.

Prime Minister



MO 24/4

Here is the extra information you asked for as background to Mr Heseltine's proposal that our charges for the military training of foreign and commonwealth students should generally be at the level provided by the present "extra cost" formula (see para 5 of his original minute at A for a summary of his proposals).

PRIME MINISTER

The Treasury are broadly content with Mr Heseltine's proposals. So too are DTI. We have had no other comments.

Agree Mr Heseltine's proposals? WJ
23/4

In his letter of 10th August your Private Secretary asked for a definition of the terms "extra costs" and "full costs" used in my minute of 29th July and also for a comparison of our charges with those of other countries which provide similar training.

Costs

2. The Ministry of Defence's extra cost formula embraces all items directly related to the instruction of students, including the personnel costs of the instructors and their direct support staff and the costs of consumption items such as stores and certain utilities. It does not include any costs which cannot be directly attributed, such as the running of the training establishment or the capital investment in it.

3. The assessment of full cost is intended, in accordance with the rules of Government Accounting, to recover all costs involved so that the activity will result in no long term profit and no long term loss to HMG as a whole. In the context of training charges, all indirect costs are added to the direct costs reflected in the extra cost formula. These indirect costs include unit overheads - staff (cleaners, porters, groundsmen etc) engaged in support of the unit in which the training takes place; office support; rent and contribution in lieu of rates; maintenance stores; equipment support - as well as costs incurred beyond the unit such as, for example, the cost of staff



engaged in costing courses, setting prices, and preparing invoices. Finally, notional charges are included, such as depreciation and interest on capital.

Other Countries

4. It is difficult to obtain hard information about individual training courses even in the USA where the greatest amount of information is published. Reliable comparison of prices is also difficult. Apparently similar courses vary in syllabus, length and quality. As an example the only detailed information we have relates to US courses. It derives from the EURO/NATO Training Financial Sub Group. We have examined some 30 apparently similar US/UK courses. Of these 19 were found to be too different in length or content to admit worthwhile comparison. Details of the remaining 11 are at Annex A. Even here differences in course length are marked, the UK course length being greater in 4 cases, the US in 7. At price per week in 1981/82 (UK concessionary prices: US NATO prices) 5 UK courses were more expensive than their apparent US counterparts and 6 were cheaper. But the differences, in either direction, are in almost every case so large as to raise doubts as to whether like is really being compared with like. Because of these difficulties comparisons between countries have to be made in general terms and the following is a summary of information available about training and charging practices in other countries which are known to train significant numbers of foreign students.

The USA

5. The United States trains about 14,000 foreign students a year (about one foreigner for every 140 US Servicemen). They operate a system of three price levels, from Foreign Military Sales (FMS) charges, effectively full cost as defined in paragraph 3 above,



through the lower FMS/NATO charge, applied to NATO, Japan, Australia and New Zealand, to the lowest FMS/International Military Education and training charge, which is applied to some sixty Grant Aid countries. A fourth level, which is an internal accounting figure rather than a proper charge, is applied to training provided under the Foreign Assistance Act. All these costs and the designated nations are approved by Congress.

6. By comparison, in 1982 the UK trained 4,600 foreign students (about one foreigner for every 70 UK Servicemen). In the five years from 1977 - 1982 students from 59 countries benefited from free or subsidised training under the UKMTAS or, recently, from the Defence Policy Fund.

France

7. France trains annually some 3,500 foreign students from about 70 countries. Just over half of these come from Francophone Africa; the remainder from North Africa; Middle East; Europe, and the Americas. The price charged depends on the country of origin of the students. The basic training costs of students from developing countries are generally borne entirely by the French Government, even when these costs are very high (eg pilot training). Some of the richer (Arab) developing countries may, in some circumstances, be asked to meet some of the cost. With developed countries the French try to make reciprocal arrangements. Costs carried by the French Government are borne by the Foreign Ministry or the Ministry of Co-operation and Development.

USSR

8. The USSR provides military training to about 8,000 foreign students annually (about 1 for each 450 Russian Servicemen) and the non-Soviet Warsaw Pact to about another 2,000. It is believed that the USSR generally seeks payment in hard currency but we do not know



how much. India and probably also Afghanistan pay in soft currency, Communist client states - Cuba and Vietnam - probably make no financial payment.

9. The information we have thus suggests that the countries who are major providers of training seek to achieve a number of objectives in their arrangements, for example to gain influence as well as to secure revenue. All appear to give different levels of concession to certain favoured customers but also to provide training on repayment.

A handwritten signature in blue ink, appearing to be "M. J. H.", located below the main text.

Ministry of Defence
22nd September 1983

COMPARISON OF US/UK "NATO" PRICES

FOR GROUND TRAINING

COURSE	LENGTH-WEEKS		£ PRICE PER WEEK		£ PRICE PER COURSE	
	USA	UK	USA	UK	USA	UK
a. UK more expensive than US						
INITIAL SUPPLY OFFICER	9	15.9	87	290	783	4611
F&C OFFICERS BASIC SUPPLY	4.6	12	183	85	842	1020
INTERNATIONAL PRINCIPAL WARFARE OFFICER	30.4	25.4	184	786	5594	19964
SEAMAN DIVER	17.2	15	322	455	5538	6825
b. US more expensive than UK						
INTERNATIONAL SUB-LT	30.4	14	215	56	6536	784
INTERNATIONAL GENERAL SIGNALS	6	15	231	58	1386	870
SENIOR ENGINEERING MANAGEMENT	68	46	217	315	14756	14490
BASIC COMMS - ELECTRONICS	26	20	263	315	6838	6300
O/SEAS AIRCRAFT TECHNICIAN	11	25	232	100	2552	2500
ADV PRACTICAL FIRE FIGHTING	0.8	0.4	283	48	226	96
LEADING SEAMAN DIVER	25.2	16	404	363	10181	5808

NOTE 1. Prices are those ruling in 1981/2

NOTE 2. US prices converted from dollars at exchange rate of 1.8 US\$/£.

de Jence
Budget R. 10



27 SEP 1983



NBPM

MO 24/4

CHIEF SECRETARYFOREIGN AND COMMONWEALTH TRAINING CHARGES

Thank you for your minute of 5th August. I am grateful for your sympathetic reception of the proposals in my minute of 1st August to the Prime Minister, and I note your provisos.

I think this means 29 July

2. It is not my intention to generate a hidden subsidy. As I believe the Treasury accept, to define and calculate long run marginal costs (LRMC) is difficult. But we have been working on the problem to see whether an acceptable rule of thumb can be devised for producing a broad assessment of LRMC. If such a measure is practicable and shows LRMC to exceed the price we charge, I would certainly expect Parliament to be informed in the appropriate fashion.

3. With regard to your first proviso, my view is as stated in my minute to the Prime Minister. I do not regard it as practicable, in terms of the policy and commercial objectives which our training of overseas students is designed to achieve, to seek to increase charges above the level produced by our present extra cost formula.

4. I am sending copies of this minute to the recipients of yours.

WJH

Ministry of Defence

22nd September 1983

Defense
Budget
Pt 10.

24 SEP 1983





✓ JCR
 NR 3/16
 h.a.

MO 32/6

NOTE FOR THE RECORD

RECORD OF THE TRILATERAL MEETING OF DEFENCE MINISTERS
HELD AT THE HOTEL DE BRIENNE, PARIS
AT 3.00 PM ON 21ST SEPTEMBER 1983

Those present: See Annex A

1. M. Hernu said that he had informed the President and Prime Minister of the meeting and they had asked him to welcome Mr Heseltine and Dr Woerner in their names. After a further exchange of pleasantries, he invited IGA Cauchie to introduce the report by the National Armament Directors (NADs).
2. IGA Cauchie referred to progress since the last meeting in Hamburg, drawing heavily upon the introduction to the NADs report. The Ministers took note without comment.

FUTURE COMBAT AIRCRAFT

3. IGA Cauchie said that the studies carried out following the 1979 meeting had failed to identify an aircraft which could be developed economically. The NADs had considered the matter in 1982 and agreed to industrial studies nationally, to maintain discussions between Air Staffs and to an exchange of information on the outcome of national work until the end of 1983 when possible conditions for co-operation could be reconsidered. The British and the French had now established experimental aircraft programmes, the ACA and the ACX. Agreement was emerging on a common in-service date of 1995. Work was proceeding on the operational requirement, especially concerning an air-to-air capability, which should be completed by the end of the year. The NADs proposed that they should then study the conditions under which a European aircraft could be developed and produced jointly for a 1995 in-service date and present a report to Ministers by May 1984.
4. Dr Woerner said that his personal conviction was that the German Air Force needed an interceptor air-to-air aircraft. The cost must not be exorbitant. But this was not a matter for him personally. His predecessor had made no provision for such an aircraft in the long term defence programme or in the assumed financial requirements for the defence budget for future years. The German Ministry of Defence had to review the prospect of funding such a project over the next 12 years, taking account of the diminished financial resources available for defence and of the claims of other



major programmes such as that for an anti-tank helicopter. They were doing everything to accelerate work but it would not be possible to reach a decision before the first half of 1984. As to how the requirement might be met, his personal preference was for a European solution. An off-the-shelf purchase from the United States would need to be considered but he had left the Americans in no doubt that his own preference would lie with a European solution. It was important to maintain competence in areas of high technology and a European Aerospace industry of some magnitude able to compete internationally. This was a matter of more importance for his British and French partners but he was in no doubt that the German Aerospace industry must have an opportunity to develop in a European framework. The aim must be to harmonise the operational requirement as quickly as possible. He hoped that Germany could share in pre-prototype activities although he realised that his timetable for a decision might present problems in this respect. He envisaged a financial contribution proportionate to the activities in which German industry was involved.

5. The Secretary of State said that he saw an operational requirement for an aircraft of this type. From the point of view of his own Aerospace industry there were arguments for bringing forward the in-service date rather than putting it back. He supported the approach proposed with a report to Ministers next Spring. He understood the German budget problem which applied to all of the Ministers present, but this problem would not go away and could not be a reason for having one study after another of the issue. In response to a question from Dr Woerner about the deadline for British decision, the Secretary of State said there were never any deadlines in politics but there were always pressures. The project had a very high priority. But, equally, possible German participation was in itself of very real importance. M. Hernu said that it was premature to assess precise technical solutions. They should take a decision to continue to study the critical technical areas, to clarify views of Air Staffs and to ask the NADs to report as proposed. This was agreed.

HELICOPTER PROGRAMME

6. IGA Cauchie referred to the Franco-German programme to produce 3 types of helicopter with a common air frame and dynamic system. He said that the in-service date for the PAH2 version was now 1993 rather than 1992 as quoted in the report. The NADs proposed to study the possibility of UK participation in this programme on the basis that it would not be detrimental to the French and German programmes. The Secretary of State supported this proposal and said that he recognised the importance of not affecting a Franco-German programme. Dr Woerner commented that he was open-minded about any form of co-operation. The programme had, however, been subject to scrutiny by the German Parliament and he was anxious to avoid any delay which might complicate his position there.



MULTIPLE LAUNCH ROCKET SYSTEM (MLRS)

7. IGA Cauchie referred to the preparation of the MOUs covering the first two phases of the MLRS programme and to the establishment of a single assembly line with Germany as the pilot nation. There was some uncertainty over order patterns for the European production line because of the British requirement for a system in-service by 1986. A co-operative programme between the three countries and the United States was envisaged for Phase 3 which should enable balanced co-operation between the United States and Europe and the acquisition of new technological know-how by the Europeans. M. Hernu said that he saw no problems with these proposals. Dr Woerner stressed the importance of the MLRS programme for strengthening conventional defences and its relevance to engaging the forward element of the Soviet second echelon and to discussions about emerging technology. Germany had a strong interest in the weapon system and its manufacture in Europe covering both the basic system and Phase 3. He had no doubt of his Parliament's support for the programme. The Secretary of State said that he agreed with the importance of this programme and would want to look personally at the reconciliation of our operational requirement for an early in-service date with our interest in a strong European industrial base. He would ensure that timely decisions were reached.

FUTURE TANK AND COMPONENTS

8. IGA Cauchie said that following the decision of the French and German Governments not to pursue the co-operative effort on a future tank, work was proceeding in France on a national programme with an in-service date of 1991, while the FRG were conducting a definition phase until 1986. Both countries were open to any proposals for co-operation. There were problems over full collaboration but possibilities in the area of components which would contribute towards interoperability. The NADs were therefore proposing further consultation between experts. M. Hernu commented that he supported studying possibilities in the components area without seeking to disturb the ground which had been gone over previously on possible collaboration on a future tank. The Secretary of State said that he favoured taking a hard look at what might be possible on a wider basis than just components while recognising the difficulties involved. Dr Woerner said that he supported the proposal to look within the framework of existing mechanisms at the possibility of co-operation in two or three areas of components since we could not end up worse off with such an approach. There was of course already rationalisation in the field of ammunition. The NAD recommendation was agreed.



CO-OPERATION ON COMPONENTS

9. IGA Cauchie said that the NADs proposed to arrange a trilateral exchange of information about their national programmes in certain areas of high technology, as a preliminary to addressing the possibility of increased collaboration. They were not asking for any decisions at this stage, but increased European co-operation could help in relations with the United States. Dr Woerner said that the importance of the technologies which had been identified by the NADs could hardly be overstated. They were of crucial interest for the development of future missiles and munitions and for the maintenance of a European high technology capability. He agreed that the information exchange in these areas should be stepped up. The Secretary of State said that he supported the proposal but they should not underestimate the difficulties involved in overcoming industrial and other national interests. It was difficult to rationalise effort within individual countries let alone between them. These would be overcome only if Ministers themselves injected a political commitment. He proposed that at their next meeting they should discuss a report on what had been achieved by exchanges of information and what more might be done. M. Hernu agreed with the difficulties involved in achieving progress in these areas. Within the individual countries the effort tended to be fragmented between defence and other sectors. IGA Cauchie commented that these technologies were crucial to future weapon systems and to discussions about the future role of emerging technologies. It was clear that the Americans were most reluctant to share knowledge in these areas and if European countries wanted to do something other than buy advanced systems off the shelf, they would have to come together.

TRANSATLANTIC CO-OPERATION IN ARMAMENTS

10. IGA Cauchie referred to the continuing imbalance in trade in defence equipment between Europe and the United States. While the United States Administration was sympathetic and progress had been made in certain areas such as specialty metals, American protectionism remained a problem. The Congress specified equipment requirements in such detail that only United States-made equipment met them and the Administration had imposed further restrictions on technology transfer. Discussions were taking place within the IEPG on strengthening European co-operation and it was important for European countries to come together on projects such as Third Generation Anti-Tank missiles and MLRS. Dr Woerner said that the attitude of the US Congress in particular caused other countries difficulty. Given the pressure on Congress from various American lobbies it was necessary continually to make clear to the Americans both in public and in private that they must establish a genuine two-way street in defence equipment and not simply remove obstacles to such trade. This message was getting home because the Americans could see the clear result of their present policies in a coming together of European countries. They had, for example, expected to sell helicopters to Germany, but now saw instead the Franco-German collaborative programme. He was willing to co-operate with the United States but only on a two-way basis. The trilateral meeting itself would provide a tacit message to the Americans. The Secretary of State said that he wished



to thank Dr Woerner for all of the effort he had put in to reverse the position on specialty metals. He agreed absolutely with the approach which he had proposed. He had discussed these matters during his visit to Washington the previous week. There was no way in which he would be a party to undermining the close relationship with the United States in defence but the Americans, like any other country, would not co-operate and share information and technology unless they had to. In the past European countries had tended to do bilateral deals under which in return for buying American they were given some low technology production. He did not believe that this was a viable approach. A partnership was needed in which the Europeans could maintain a high technology base with which it would be in the American interest to co-operate and collaborate. M. Hernu said that he agreed with the remarks of his colleagues.

DECISION SHEET

11. The decision sheet was agreed subject to including the requirement for the NADs to report to Ministers at their next meeting on progress in co-operation on components. The Secretary of State pointed out that the draft decision sheet referred to a further meeting of Ministers only in respect of the future combat aircraft. Ministers needed to look at the range of issues and to settle a date for their next meeting. He suggested this should be as early as possible in May. After further discussion in which Dr Schnell pointed out that there were a number of procurement-related meetings in late April and early May, it was agreed that the next meeting would be held in the United Kingdom in the second half of May.

INF

12. Dr Woerner said that he had asked for the INF item to be included on the agenda not to talk about progress at Geneva, on which there were regular exchanges of view, but to discuss the public presentation of the Western position. The question of third country systems in relation to arms control was repeatedly raised in Germany. The FRG's position on the inclusion of these systems in the INF talks was clear and would never change. But it would be helpful in presenting it within Germany if his French and British colleagues could take every opportunity to make clear publicly their national positions on this issue. He would be particularly grateful if M. Hernu would make clear to the German Social Democrats why the inclusion of French systems was out of the question. M. Hernu referred to the efforts which members of the French Government were making to explain their position in Parliament, to defence experts and in the Press. His Government's position was clear. France's deterrent force was at the minimum credible level. Her systems could not be taken into account directly or indirectly in the Geneva discussions. There was at present an imbalance in INF systems in Europe and the French Government therefore supported the deployment of cruise and Pershing missiles while also supporting negotiations over this problem. If the Soviet Union were to succeed in balancing SS20s against British and French systems, they would have achieved a major strategic advance at the expense of Western countries



since they would have added over a period of years a new threat to which there would be no Western response. We needed also to recognise the dangers involved in counting French systems in a balance at the strategic level since, if a single Western ceiling were established, French capabilities could be increased only if the Americans were to agree to reductions on their part. The Secretary of State said that he was ready to help in any way which Dr Woerner wanted. The problem was how to address a foreign audience in a way which was not misinterpreted in the country concerned. The British Government had made clear its position on the relationship between its strategic deterrent and arms control: our present force was at the irreducible minimum necessary for a last resort deterrent; it represented a very small proportion of Soviet forces at the same level; but if there were reductions in the strategic arsenals of both super powers such as to produce a totally different environment, we would not stand aside from such a process. Dr Woerner emphasised that he well understood the positions of the British and French Governments. He was anxious that they should go on re-iterating them particularly at the United Nations and in Parliament since statements there would be picked up by the German Press. Interviews given directly to the German media would not be regarded as interference in German affairs since the statements would concern British and French weapons and not those of Germany. They had to convince a German public which was basically well-disposed towards defence.

WEHRKUNDE

13. Dr Woerner said that it would be extremely helpful in showing the extent of European co-operation in defence if his colleagues could both attend the next Wehrkunde meeting in Munich in 1984. The Secretary of State said that he would look again at the matter.

PRESENTATION OF THE OUTCOME OF THE MEETING

14. The Secretary of State suggested that the Ministers should give some consideration to what was to be said to the Press and to other European countries, who might be suspicious of a trilateral meeting, about what they had discussed. It was agreed that a short line to take with the Press should be settled by representatives of each delegation (copy of the agreed text is at Annex B) and that the other European countries should be informed of the outcome of the meeting at the IEPG meeting in Italy the following day.

Ministry of Defence

26th September 1983



ANNEX A: THOSE PRESENT

French Delegation

M. Charles Hernu. Minister of Defence
IGA Cauchie
IGA Arnaud
M. Heisbourg
Contre Amiral Hugues
M. Bureau
M. Trebesh
IGA Bousquet
M. Gambiez
Capitain de Frigate Lafargue
M. Schreiber

German Delegation

Dr Manfred Woerner, Minister of Defence
Dr Schnell
Dr Ruhle
Herr Ruhl
General Windisch

United Kingdom Delegation

The Rt Hon Michael Heseltine, Secretary of State for Defence
Geoffrey Pattie MP, Minister of State for Defence Procurement
Sir John Fretwell, HM Ambassador Paris
Sir Clive Whitmore, PUS
Air Marshal Sir John Rogers, CA
Mr K C MacDonald, DUS(Pol) (PE)
Air Cdre J Parker, British Embassy, Paris
Mr Jeffrey Ling, British Embassy, Paris
Mr R C Mottram, PS/S of S



ANNEX B: PRESS STATEMENT

1. The three Defence Ministers of France, The Federal Republic of Germany and The United Kingdom met in Paris today.
2. This tripartite meeting was the first of its kind between M. Hernu, Mr Heseltine and Dr Woerner. The last meeting was held in 1979.
3. At the meeting matters of common concern were discussed and in particular questions of equipment collaboration.
4. The next Ministerial meeting will take place in the United Kingdom in May 1984.



DISTRIBUTION

Internal:

(as minute of 26th
September)

External:

PS/Prime Minister
PS/Foreign and Commonwealth Secretary
PS/Secretary of State for Trade and
Industry
PS/Secretary of the Cabinet

PS/Sir J Fretwell, Paris
PS/Sir J Taylor, Bonn
PS/Sir O Wright, Washington
PS/Sir J Graham, UKDEL, NATO



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5147
SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

KENNETH BAKER MP

Rt Hon Michael Heseltine MP
Ministry of Defence
Whitehall
LONDON
SW1

Handwritten initials and date:
CMB
22/8

18 August 1983

Handwritten signature:
Sir Michael,

Thank you for copying to Cecil Parkinson your minute of 29 July to the Prime Minister on Foreign and Commonwealth Training charges. I am responding in Cecil's absence overseas.

For my part, I am content that you should proceed as you propose. The approach put forward in your minute would seem to give the desired flexibility to allow us to make a particularly favourable response in individual cases where wider political or equipment sales considerations merited it, whilst more generally maintaining a reasonable level of charges. Like you, I am convinced of the potential value of training courses in orienting overseas students to British equipment and I know that this is a subject upon which industry itself feels quite strongly. It has, I believe, been raised at the last two meetings of the National Defence Industries Council. At the same time, I wonder whether the opportunity might sensibly be taken when acquainting UK defence contractors with our final decision, to encourage a greater contribution from them either in terms of the training schemes which they offer overseas customers or even, in appropriate circumstances, to the cost of MoD courses themselves?

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

Handwritten signature:
Kenneth Baker

KENNETH BAKER

MA7/MA7ABK

Depence Budget



22 NOV 1988



10 DOWNING STREET

From the Private Secretary

10 August, 1983

BT/

The Prime Minister has now seen your Secretary of State's minute of 29 July about Foreign and Commonwealth training charges. Before agreeing to the proposal set out in paragraph 5 of that minute, she would like to know the definitions of "full" and "extra" costs to which the minute refers, together with a comparison of our own charges with those of other countries which provide similar training.

I am sending copies of this to Private Secretaries of members of OD and to Richard Hatfield (Cabinet Office).

TIMOTHY FLESHER

N. H. R. Evans, Esq.,
Ministry of Defence

CONFIDENTIAL

file

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

5 August 1983

Dear Secretary of State,

FOREIGN AND COMMONWEALTH TRAINING CHARGES *in the box*

The proposal in your minute of 1 August to the Prime Minister will not cause difficulty for the Treasury provided it is clear that it does not conflict with the Government's fees and charges policy and that it does not generate hidden subsidy.

You are not, I believe, questioning the normal principle which applies in these cases that we should maximise net revenue. If you were, I should be obliged to put forward a vigorous defence of that principle. However, I understand your view to be that in the generality of these training situations it is simply not practicable to maximise revenue above the level of the additional cost incurred by the Ministry of Defence. That of course is a matter for your judgement and your conclusion is in no way inconsistent with existing fees and charges policy. At the same time, it need not preclude charges being maximised above the level of additional cost in circumstances which you would not find inconsistent with your policy and commercial objectives.

However, you will want to ensure that your approach does not give rise to hidden subsidy. This could happen by using the "extra costs" formula your department has used in the past instead of the more usual long run marginal costs (LRMC) formula since in most cases charges based on the former will fall significantly below the direct cost to the Defence Budget. I am told that when our officials discussed this last April it was agreed that your department would review the "extra costs" formula with the aim of achieving a level of recovery more in line with LRMC. We have not yet been informed of the progress of the review. But on the understanding that the "extra costs" calculation which you now have in mind will not produce charges significantly different from the application of the LRMC formula and will not create hidden subsidy, I would raise no objection to what you propose.

CONFIDENTIAL
1.

CONFIDENTIAL

I agree of course that full costs should be charged where courses and training are provided specifically for overseas students.

I am sending copies of this minute to the Prime Minister, to members of OD and to Sir Robert Armstrong.

yours sincerely



for PETER REES

(approved by the Chief Secretary
& signed in his absence).

CONFIDENTIAL

Balance: Budgeter Pt 10

5 AUG 1983
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10 DOWNING STREET

From the Private Secretary

1 August 1983

EH101

The Prime Minister has now seen your Secretary of State's minute of 22 July about the EH101 programme. This is just to record that she has noted the position set out in the minute.

TIMOTHY FLESHER

Richard Mottram, Esq.,
Ministry of Defence.

A handwritten signature in the bottom right corner of the page.



Tom B

Would you let me know the def: of "full" and "extra" costs and how they compare with those of our competitors who sell equipment.

PRIME MINISTER

Pine Martin:

Agree, subject to colleagues views, to retaining about the same level of fees as at present? (Training commitments attracted)

FOREIGN AND COMMONWEALTH TRAINING CHARGES

Defence (Budget) with FERB?

JF 1/8

In his minute of 1st March 1982 about military assistance and training charges my predecessor set out proposals for making military assistance a more effective instrument of defence policy. Most of those proposals have been put in to effect. A Defence Policy Fund and a Defence Sales Fund have been set up and are operating. The removal of Amortised Training Charges will make British Servicemen less expensive to foreign governments who use our people on loan service or secondment. The machinery for handling all aspects of military assistance has also been improved. The remaining problem is the level of our charges for military training. As you know, a further review of this area was commissioned towards the end of last year.

2. This internal review presented a choice between setting charges normally at the extra cost level or below that level. It recommended that, whatever the chosen level, the use of the Defence Policy and Defence Sales Funds to reduce charges further in specific cases should be considered when policy considerations demanded it. The review also emphasised the need to stabilise our charges, and to explain them consistently to our customers.

3. A parallel study was also made by consultants from the Economist Intelligence Unit (EIU) of the pricing mechanism for overseas training. This study reached broadly similar conclusions, but argued in favour of a two tier pricing system based on full costs and extra costs, whereas our internal study recommended full



costs as a basis for charges only where courses were provided specifically for overseas students. I am sure that our broader interests in fostering the use of our training facilities by overseas students should lead us to favour the latter approach.

4. The factual material assembled by the internal review showed that, despite difficulties, we have had considerable success with the training of foreign and Commonwealth Servicemen. Nevertheless, high inflation in the UK has in the past led to very considerable price increases which produced many complaints particularly when the pound was strong. A greater stability of prices as a consequence of lower inflation should make most of our customers less sensitive to our charges than they have been of late. Nevertheless, there is no room for complacency, and we need a policy that will be both fair and easily comprehensible to our customers.

5. I have therefore concluded that, except where courses and training are provided specifically for overseas students (e.g. flying training), our charges for foreign and Commonwealth students should generally be at the level produced by our present extra cost formula which is well understood by our customers. This will mean in practice that those of our charges that are at present above the extra cost level will be held where they are until movements in costs have brought them in to line; and those below that level will be brought up to it as soon as is consistent with the avoidance of excessive increases. When we want to single out particular countries for favourable treatment, whether for sales purposes or for broad policy reasons, we will use the Defence Policy and Defence Sales Funds to reduce the charges actually payable. I intend to develop these Funds and to apply them vigorously.

6. Any other approach seems to me likely to be counter-productive. In my judgement the level of charges produced by our present extra cost formula is the maximum consistent with the policy and commercial



objectives which our training of overseas students is designed to achieve. To move to any other formula which might tend to push charges up would be self-defeating in political terms.

7. I should be glad to know whether you and our other colleagues in OD agree that I should proceed as I propose in paragraph 5 above.

8. I am sending copies of this minute to members of OD and to Sir Robert Armstrong.

WJH

Ministry of Defence

29th July 1983

Prime Minister ²

D. Pascall. *LM*
29/7

MO 26/16/1

PRIME MINISTEREH101

Signor Fanfani's reply to your message of 17th May is carefully non-committal on the important question of the future of the naval element of the EH101 programme, but you will wish to know that your intervention has produced valuable practical results in that the Italians have now found enough money from within their current defence budget to finance the programme at development levels until the end of the year.

2. This should enable programme timescales to be preserved while allowing time for the new Italian government, when formed, to decide on its policy towards EH101. I am sure that this positive result is a direct consequence of your readiness to write to Signor Fanfani, without which we would probably have secured no more than 3 months' trickle funding from Italy. I and my officials are most grateful for your readiness to intervene.

3. In the confused aftermath of the Italian elections we expect an interval of 3 or 4 weeks before a new administration is formed. When it is, I have it in mind to write to the new Defence Minister urging an early decision to support EH101. We really need such a decision by mid-October.

4. I do not think that you need pursue your correspondence with Signor Fanfani further. I suggest, however, that when a new Prime Minister



Minister is installed we should instruct Lord Bridges to ensure at an early opportunity that he is aware of the importance of EH101.

5. I am copying this minute to Geoffrey Howe, Cecil Parkinson, Peter Rees and to Sir Robert Armstrong.

[Handwritten signature]

Ministry of Defence
22nd July 1983



29 JUL 1988

1 2 3 4 5 6 7 8 9 10 11 12

010

PRIME MINISTER

cc Mr Coles

✓
ALP
7/2

BRITISH ATLANTIC COMMITTEE

The BAC are re-issuing their brochure and have requested a message from you. You contributed (copy attached) to their existing brochure.

Agree the attached?

IK

IAN KYDD

7 July 1983



10 DOWNING STREET

THE PRIME MINISTER

I am delighted to let you know of my continuing support for the work of the British Atlantic Committee.

NATO remains the cornerstone of British defence policy. The British Atlantic Committee has a vital role to play in furthering public understanding of the work of NATO, of the substantial British contribution to the Alliance and of the Government's support for fair and balanced measures of arms control and disarmament.

From: Mr J K Ledlie, Head of Defence Secretariat 19



MINISTRY OF DEFENCE

Main Building, Whitehall, London SW1A 2HB

Telephone (Direct Dialling) 01-218 x 7144

(Switchboard) 01-218 9000

D/DS19/1/57

Ian Kydd Esq
Press Office
10 Downing Street
London SW1

6 July 1983

Dear Kydd,

BRITISH ATLANTIC COMMITTEE

1. Your letter of 21 June to Neville Taylor has been passed to me for reply. I suggest that the Prime Minister might send the BAC a message of the following kind (the text has been agreed with the FCO)

"I am delighted to let you know of my continuing support for the work of the British Atlantic Committee. NATO remains the cornerstone of British defence policy; and the British Atlantic Committee has a vital role to play in furthering public understanding of the work of NATO, of the substantial British contribution to the Alliance and of the Government's support for fair and balanced measures of arms control and disarmament".

2. I am sending a copy of this letter to Colin Imrie, Defence Dept, FCO.

Yours sincerely,

John Ledlie

BAC exists to promote knowledge and understanding of the North Atlantic Alliance and the central role that the Alliance plays in ensuring the security and the democratic freedom of the United Kingdom.

BAC is an advocate of increasing interdependence within the Alliance, of the twin goals of defence and détente, and of the maintenance of peace between East and West.

BAC was formed in 1952, when similar organisations were set up in each of the member countries of the Alliance, together constituting the Atlantic Treaty Association.

Associated with BAC and with representatives on its Council or Sub-Committees are such organisations as:

The Association of Headmasters
The Headmasters' Conference
The Directorates of Education of the Armed Services
The English-Speaking Union
The Confederation of British Industry
The Institute of Directors
The Trades Union Congress
The European-Atlantic Group
The Royal United Services Institute for Defence Studies

BAC is a non-governmental body and a Registered Charity, on the Central Register of Charities.

BAC provides speakers and information and arranges seminars and conferences on security, arms control and disarmament issues, for Schools, Colleges, Clubs, Constituency Associations, Round Tables and similar bodies.

BAC's youth wing, British Atlantic Youth (BAY) maintains links with Universities and other educational institutions and with Youth Groups, organising talks, seminars and conferences both in the United Kingdom and in other Alliance countries.

BAC and BAY each produce publications. A BAC News Letter is sent to members and others; information on security matters and on NATO is circulated; essay competitions are arranged and visits of specialised groups to NATO political and military headquarters and installations are organised. Information and assistance is regularly provided to the media.

Contacts are kept with other groups working to support and enhance Atlantic links, with many national societies whose purpose is to promote relations between the United Kingdom and Alliance countries, and with sister Committees in the Atlantic Treaty Association.

BAC has received the following messages:

From the Rt Hon Margaret Thatcher MP

The Prime Minister — *"I welcome this opportunity of sending my support and encouragement to the British Atlantic Committee. The North Atlantic Alliance is one of the great success stories of the last 30 years. It remains essential to the liberty and prosperity of the free world. But the Alliance's effectiveness depends on the will of its members to pursue their twin goals of defence and détente. The work of the British Atlantic Committee is of crucial importance in ensuring that the men and women in our democratic societies understand and support these goals."*

From the Rt Hon Denis Healey CH MBE MP

Opposition Spokesman for Foreign & Commonwealth Affairs — *"I am glad to send my support for the work of the British Atlantic Committee. The North Atlantic Alliance is the cornerstone of British defence and foreign policy; and it is important that there should be the widest possible understanding of the contribution which NATO makes to peace in the world. It guarantees Western security and it is through its strength that we can join in negotiations to relax tension between East and West."*

From the Rt Hon David Steel MP

Leader of the Liberal Party — *"I am glad to commend the continuing work of the British Atlantic Committee. It is perhaps even more important at a time of economic restraints on our own defence budget that full encouragement be given to those who wish to develop and debate the value of the NATO alliance."*

From the Rt Hon Dr David Owen MP

Former Secretary of State for Foreign & Commonwealth Affairs and one of the founding members of the S.D.P. — *"As Europe develops through the European Community its own political personality, there are siren voices calling for a purely European defence identity and questioning the Atlantic link. Isolationist arguments in the United States are also present. It is vital now to reassert the undoubted strength of NATO and the absolute necessity of linking the US, Canada and Europe structurally and politically into a common defence strategy."*

Covering CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~9307022~~ 218 6169

MO 21/2/28

4th July 1983

A.S.C. 11/7

p.a.

Dear Willie

/ I enclose a personal advance copy of The Statement
on the Defence Estimates 1983, which as you are aware is
/ to be published at 14.30 hours, Wednesday 6th July, plus
a detailed Question and Answer brief.

Copies of this letter are also being sent to the
Private Secretaries to the Lord President of the Council,
the Secretary of State for Foreign and Commonwealth Affairs
and the Leader of the House.

Yours Sincerely.

Harry Kentish

(H KENTISH)
Parliamentary Clerk

W F S Rickett Esq

Covering CONFIDENTIAL

Hansard 4 July 1983

Written Answers.

White Paper

Mr. Wilkinson asked the Secretary of State for Defence when he expects to publish the current year's defence White Paper.

Mr. Heseltine: On Wednesday 6 July.

In box for ...

FM - please PA

SECRET

29 June 1983

Policy Unit

PRIME MINISTER

MCS 30/6

*Top copy on Econ Pol Public Expend Pt 22 Defence Budget file
Prime Minister*

DEFENCE AND PUBLIC EXPENDITURE

*in the folder for tomorrow's meeting with the Chancellor
MCS 29/6*
The Chancellor's paper on The 1983 Survey and The Longer Term leads, I think, to one overwhelming conclusion: that the prime candidate for reduction in expenditure, this year and for the foreseeable future, must be Defence. The overruns are bigger; the commitment up to 1985/86 is larger; the control of expenditure feeble; and the lack of collective discussion the most painfully felt.

All these defects are obvious in the way Michael Heseltine has presented the Harm/Alarm decision. You will not need the arguments rehearsed yet again. But there is no other area of Government expenditure where £150 million could be so easily saved and performance of the function actually improved. I know of your concern to keep high technology teams together and keep Britain in the forefront of that technology, but so long as defence is the most obvious "soft touch" in the public sector:

- (i) Our research effort will continue to be over-concentrated on Defence, to the detriment of our ability to compete in all other industries.
- (ii) The commercial aspects will continue to predominate over military priorities. I understand that not only the military but also the officials in the MOD are united, almost to a man, in preferring Harm.
- (iii) The MOD will continue to keep these issues in-house and try to avoid thorough collective discussion as far as possible, because they know how weak their case is.

There are other reasons for preferring Harm to Alarm, eg the difficulty of persuading the Americans to buy our advanced military hardware if we refuse to buy theirs, when it is evidently cheaper and superior. But I think the most crucial one for the future of this Government is that, at the outset of the second term, with all the public expenditure difficulties which we now face, we should show that we mean business in controlling expenditure in the Department where the need is greatest.

FERDINAND MOUNT *fm*

SECRET

CONFIDENTIAL



CC FCO
DOT 1
C80
CO

HL

10 DOWNING STREET

From the Private Secretary

29 June 1983

EH 101 Helicopter

The Prime Minister sent a message to Signor Fanfani about the above project on 17 May. I now enclose a copy of Mr. Fanfani's reply, together with a translation.

I am copying this letter and enclosure to Roger Bone (Foreign and Commonwealth Office), Jonathan Spencer (Department of Trade and Industry), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL

29 June 1983

I write to thank you for your letter of 28 June enclosing a letter to the Prime Minister from the President of the Italian Council of Ministers, Signor Amintore Fanfani.

JOHN COLES

His Excellency Signor Andrea Cagiati, G.C.V.O.

*The Italian Ambassador
to the United Kingdom*

London, 28th June 1983

- 6001

Dear Mr. Coles,

I take pleasure in enclosing herewith a letter addressed to the Prime Minister, Mrs. Margaret Thatcher, by the President of the Italian Council of Ministers, Signor Amintore Fanfani.

A rough translation is also provided.

Sincerely yours


Andrea Cagiati

Mr. A. J. Coles,
Private Secretary to the Prime Minister,
10 Downing Street,
London S.W.1

encl.



EX RJ

(2)

Prime Minister

MO 21/2/28

Mus 22/6

PRIME MINISTER

STATEMENT ON THE DEFENCE ESTIMATES 1983

You will recall that, at the Cabinet meeting on 5th May, I was invited to proceed with the publication on 25th May of my Statement on Defence Estimates 1983, the draft of which had been discussed and approved by Cabinet colleagues, and earlier by the Defence and Overseas Policy Committee at their meeting on 18th April. Our plans for publication were, in the event, overtaken by the General Election and the Dissolution of Parliament.

2. You and my colleagues will wish to note that I have decided to proceed with publication of the Statement on Defence Estimates 1983 on Wednesday 6th July; and I will take the opportunity of announcing this intention by means of a Written Answer on Monday 4th July. The text is very largely unchanged from that approved by OD and Cabinet, although I have taken the opportunity of updating the wording on the equipment procurement programme. Also, the paragraph on the control of cruise missiles has been altered slightly to bring it into line with the Answer you gave in response to Sir Antony Buck's Parliamentary Question on 12th May.

3. I am copying this to our colleagues in OD; and to Sir Robert Armstrong.

Ministry of Defence
21st June 1983

12 JUN 1983



CC MARGARET
OPS



*Al Presidente
del Consiglio dei Ministri*

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 91A / 83

Roma, 20 giugno 1983

Signora Primo Ministro,

ho letto il Suo messaggio in merito alle iniziative di cooperazione industriale fra i nostri due Paesi con particolare riguardo al progetto dell'elicottero EH 101.

Posso confermarLe l'impegno del Governo italiano alla realizzazione del progetto. Per quanto concerne la versione civile sono stati già reperiti i necessari fondi finanziari e si è quindi pronti a finalizzare lo schema di memorandum di intesa. Permangono problemi invece per la versione militare dato che lo scioglimento anticipato delle Camere ha impedito il completamento dell'iter del pertinente provvedimento di legge.

Voglia gradire, Signora Primo Ministro, i miei più cordiali saluti

Signora Margareth Thatcher
Primo Ministro del Regno Unito
L O N D R A

ROUGH TRANSLATION

FROM: Senator Amintore Fanfani
TO: The Rt. Hon. Margaret Thatcher
Date: 20th June, 1983

"Dear Prime Minister,

I have read your message concerning the initiatives of industrial co-operation between our two countries with particular regard to the EH 101 helicopter project.

I hereby confirm the commitment of the Italian Government to the realization of the project. The necessary funds for the civil version have already been made available and we are therefore ready to finalize the agreement. Problems still exist however for the military version, since the earlier dissolution of Parliament has prevented the completion of the legislative iter of the decree.

Please accept, my dear Prime Minister, my most cordial regards.

Amintore Fanfani."



Caxton House Tothill Street London SW1H 9NA
 Telephone Direct Line 01-213.....6400
 Switchboard 01-213 3000

Prime Minister ²

MCS 13/6

The Rt Hon Leon Brittan QC
 Chief Secretary
 Treasury
 Great George Street
 LONDON SW1

10 June 1983

D. Leon.

mr

EH101: LAUNCH AID

I have seen the exchange of correspondence between you and Patrick Jenkin on the question of launch aid for this project.

No-one could be more convinced than I of the need to maintain the grip on public expenditure which you have achieved. But I hope you will reconsider your position in this particular case.

It seems clear that Westland will not be able to go ahead without Government support of the order for which Patrick is asking. By all accounts the project is viable but bi-national civil/military projects carry high political risks and the Westland Board is right to look for a deal that would not threaten the company's existence if things went wrong for reasons outside their control.

If EH101 does not go ahead Westland is unlikely to be a major manufacturer of helicopters in the long run. Its shareholders may not do badly but we will lose employment, skills and technology. It seems wrong to me to spend large sums with little discussion on financing, say, coal stocks and then wreck EH101 over about £30m.

I am copying this letter to the recipients of the previous correspondence.

J. Norton

Defence
Budget, Pt 10



13 JUN 1954

13 JUN 1954

CONFIDENTIAL



NBPM

MCS 10/6

CF 25

Prime Minister

MCS 9/6

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

8 June 1983

Dear Secretary of State

EH 101

Thank you for your letter of May 27.

In the light of what you say I am very reluctantly prepared to agree to launch aid of up to £65 million (cash). I must emphasise that this is the absolute maximum that I could accept and that if a settlement is not achievable at this level I would not be prepared to offer any more.

My agreement to this sum is on two conditions. First, the aid must be repaid with a 5% real return. Second, I must insist that the whole of the money must be found from within your existing provision. I note that you are now willing to find all the money for 1984-85, £4 million in 1985-86 and £6 million in 1986-87. I am asking you to find a further £4 million in 1985-86 and £6 million in 1986-87 and I hope that you will be willing to meet me on this given my concession on the overall amount.

Finally, your letter served notice that in your next PES bid you would seek firm provision for launch aid. You would not expect me to respond to this now but we shall clearly have to discuss it during the next Survey.

I am copying to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and also to Sir Robert Armstrong and John Sparrow.

Yours sincerely

J.S. Gieve

for LEON BRITTAN

CONFIDENTIAL

[Approved by the Chief Secretary]

Defense
Budget H-10



8 JUN 1983



8 JUN 1983

SRJ



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Secretary of State for Industry

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

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

JU791

27 May 1983

The Rt Hon Leon Brittan QC
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Prime Minister (4)

MUS 2/6

Dear Chief Secretary

EH101: LAUNCH AID

Thank you for your letter of 16 May. I confess to being very disappointed that you are not prepared to agree the negotiating flexibility which I regard as essential if a satisfactory agreement is to be reached with Westland. I am well aware of the high total cost of the project and procurement programme to HMG. However, the cost would be higher still if Westland were to decide that, on the basis of our offer, they could not pursue the civil version of the aircraft and MOD did not then have the prospect of the savings through the joint programme as now envisaged.

2 So far as the question of the contingency reserve is concerned, my understanding, as I mentioned to you recently, is that it was agreed between us in September last year that no provision for launch aid should be put into my Departmental estimates; but it was accepted that the funding of cases which arose should be considered on an ad hoc basis. With the best will in the world I do not see how I can accommodate, in full, from my Departmental budget the launch aid sum which I believe may be required if this project is to be successful.

3 Your continued objection to the use of the contingency reserve in the context of this launch aid proposal (and any others which may be expected to emerge over the PES period) obliges me to reconsider my position. In view of the interpretation of our understanding of last September on which you are insisting, I shall feel obliged to make firm provisions in my next PES bid to cover launch aid cases.

4 Returning now to EH101, I should record the events of the last few days. First, Toby Aldington called to see me on 18 May. I told him that I hoped we might now have the basis for an agreement with the company over the funding of the civil version of the EH101 whereupon he readily agreed to the re-opening of negotiations. Secondly, these negotiations resumed with my officials on Friday 20 May. In the absence of any movement by

Defence
Budget, A10



the company from their requested figure of £105m an offer was made to the company of launch aid in the range of £40m - £45m (depending on the company's attitude towards phasing and rate of return). The company's negotiator refused even to discuss phasing and rate of return because our revised offer was not sufficiently meaningful to initiate such a discussion. My officials saw no point in going to your limit of £53m but pressed the Westland negotiator to indicate how far the company could come to meet us. In subsequent discussion a figure of £65m at June 1982 prices was mentioned (this would be £84m in outturn prices). Since this figure still left my Department and the company poles apart and your authorisation of £53m left us no means of bridging the gap, the best my negotiations could do was to press the company to go away and consider our last offer of £45m. The indications are that they will not find this figure (or £53m for that matter) acceptable.

5 So far, therefore, events have totally vindicated my view that a range of £53m - £79m is required for the successful completion of this negotiation. Your insistence first on an opening figure of £36m and then on a negotiating range of £26m - £53m have, as I feared at the outset, not proved realistic. We have succeeded only in wasting valuable time and effort since MISC 35 reached conclusions on 24 February 1983; and we have thereby put ourselves in an untenable position so far as natural supporters are concerned. We should not discount the possibility that the EH101 project as presently envisaged may collapse because of the absence of a UK financial commitment to the civil version of EH101. This is a situation which both you and I would wish to avoid. I hope, therefore, that you will now feel able to reconsider your position and authorise me immediately to negotiate in the £53m - £79m range. Failing this I believe there will be no alternative to a collective Ministerial discussion as soon as this is practicable.

6 I am copying this letter to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and also to Sir Robert Armstrong and to John Sparrow.

Yours sincerely
Stephen Weather

3 MAY 1983

PP
PATRICK JENKIN
(approved by the Secretary of State
and signed in his absence)





HOUSE OF COMMONS
LONDON SW1A 0AA

19 May 1983

The Rt. Hon. Michael Heseltine MP
Ministry of Defence
Main Building
Whitehall
SW1

mf

Michael Heseltine

It may be helpful if, following our discussion with the Prime Minister and other colleagues at Central Office yesterday morning, I set out briefly the principal points we need to watch in handling the issue of defence cuts during the election campaign.

The central problem came up very clearly in 1978; and the line I agreed with Ian Gilmour at that time is still right. It boils down to this:

- (1) Switching spending between one activity or line of business and another does not of itself affect total employment; transitional problems apart, the jobs lost in some areas where demand is cut can be expected to be balanced by jobs created in others to which the marginal spending is switched.
- (2) We must therefore be very careful not to say or imply that cuts in defence spending would of themselves lead to higher unemployment.
- (3) Even more important, perhaps, we must not imply that unemployment is kept at bay by high defence expenditure. If defence, it will be argued, then why not, for example, local government?
- (4) What is clear is that defence spending, to the extent we can afford it, is virtuous, and so are the jobs that go with that. Defence cuts will certainly reduce business for supplying firms as well, perhaps, as leading to loss of jobs in the MoD, and the Forces. It is therefore entirely legitimate to warn that particular areas, firms, businesses and people will be put at risk by Labour's proposals.

I do hope we will all stick very firmly to this approach, and make sure that others do so too.

I am copying this letter to the Prime Minister and Cecil Parkinson.

Geoffrey Howe

GEOFFREY HOWE



FILE

VC

cc MOD CJO
FRO CO
D/ind
DOT

10 DOWNING STREET
PRIME MINISTER'S

THE PRIME MINISTER

17 May 1983

PERSONAL MESSAGE

SERIAL No. T66/83

cc MASTER
OPS

Dear Prime Minister,

When we met in London in February we had a very useful talk about the opportunities for expanding industrial collaboration between our two countries, especially in advanced technology projects. I have been looking forward to building on this, and hope that our two general elections will not complicate matters too greatly.

We agreed on that occasion that the EH101 helicopter project offered the most immediate prospects for collaboration between our industries with government support. The earliest possible start on development work is now necessary if the substantial potential market is to be captured and the operational needs of our two Navies satisfied. The project has been running at a relatively low level of effort on interim funding for almost a year now. I fear that further extension of this arrangement would have increasingly damaging effects on its commercial appeal and in consequence on the viability of the naval version of the aircraft. The two aspects are of course closely inter-related.

I realise that you must have much on your mind at the moment. But I hope nevertheless that you will be able to use your personal influence to do everything possible to ensure that sufficient funds are made available, whether from government or private sources, to allow the relevant programme in Italian industry to be built up to the level required for development with effect from July. If this could be done in Italy we on the UK side would be prepared

/ to do

dg

to do the same, subject of course to the conclusion of satisfactory contractual arrangements with the firms. It should still then be possible to bring the helicopter into service when it is required. This would be of very considerable benefit to the industries and Navies of our two countries.

Yours sincerely
Raymond Delton

His Excellency Senator Amintore Fanfani



10 DOWNING STREET

From the Private Secretary

17 May 1983

Events in Italy: Impact upon EH101 Helicopter

The Prime Minister has seen your Secretary of State's minute of 12 May. She is somewhat doubtful whether in present circumstances the Italian caretaker government will have the authority to take the necessary action. But she has nevertheless signed the proposed letter to Senator Fanfani. I enclose the signed version of this letter and should be grateful if its contents could be telegraphed to HM Ambassador in Rome.

I am copying this letter and enclosure to Roger Bone (FCO), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.



10 DOWNING STREET

1. "Dear Prime Minister"

(he is still Prime Minister).

2. You spend over the weekend to
write to Sr. Fanfani about
the EH101 Helicopter.

A.S.C. $\frac{16}{5}$

cc RJ ✓



Prime Minister

Mes 16/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1E 6RB

16 May 1983

P. Patrick,

[Handwritten signature]

EH 101: LAUNCH AID

Thank you for your letter of 12 May. I have reconsidered the position but remain unconvinced that I should go beyond the offer that I made to you at our meeting on 4 May.

On the amount of launch aid I continue to believe that £53 million represents a very fair offer to Westlands and am unwilling to offer any more. I said at our meeting that this programme (which will cost the Defence Budget £1.1 billion) is already a very expensive one for the Government and there comes a point at which we must draw the line. The effect of giving flexibility to pay a further £17 million would be to pump Government money into Westlands in the latter half of the decade when their profits are expected to be recovering from depressed levels in the 1983-85 period. I cannot accept that limiting our support to £53 million will jeopardise the prospective 1983 rights issue or put Westlands financial ratios under intolerable pressure. My view remains that £53 million is the maximum amount of launch aid that we should offer.

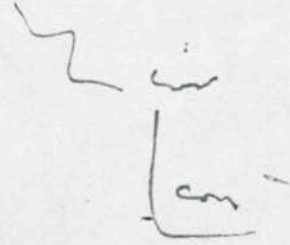
As for the phasing of launch aid I am content for you to reach any arrangement you wish with the company on condition that the whole of the sum is financed within existing PES provision. I understand that the offer in paragraph 6 of your letter relates to the years 1984-85, 1985-86, and 1986-87 and that you are not now seeking any money for 1983-84. I am grateful for your offer to find some money for this project from within your existing provision but I must also require you to find the rest. The sums at issue represent less than 0.5 per cent of your PES provision in the years in question.

At our meeting we discussed the Italian situation and noted that it was unlikely that the Italians would be in a position to start full development before at least September. While I am not seeking to delay resolution of the issues discussed in this letter they are not urgent and there is surely time to explore the possibilities of a settlement with Westlands within the terms

set out in this letter. So far this has not been attempted.

Finally you argue that further delay will expose us to criticism in Yeovil and the South West. The major cause of the delay is the Italian political situation and I think we can convincingly rebut any criticism that may be levelled at us. Geoffrey Howe has now replied to John Peyton's letter along the lines of the draft that you were shown and I believe that his response will do much to banish the misconceptions in John's letter.

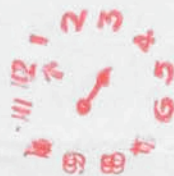
I am copying to the recipients of your letter.

A handwritten signature in dark ink, appearing to read 'Leon Brittan'. The signature is written in a cursive style with a large 'L' and 'B'.

LEON BRITTAN

DEFENCE : Budget
Pt 10.

10033



DRAFT LETTER FROM THE PRIME MINISTER TO SIGNOR FANFANI

THE EH101 HELICOPTER PROJECT

1. When we met in London in February we had a very useful talk about the opportunities for expanding industrial collaboration between our two countries, especially in advanced technology projects. I have been looking forward to building on this, and hope that our two general elections will not complicate matters too greatly.

2. We agreed on that occasion that the EH101 helicopter project offered the most immediate prospects for collaboration between our industries with government support. The earliest possible start on development work is now necessary if the substantial potential market is to be captured and the operational needs of our two Navies satisfied. The project has been running at a relatively low level of effort on interim funding for almost a year now. I fear that further extension of this arrangement would have increasingly damaging effects on its commercial appeal and in consequence on the viability of the naval version of the aircraft. The two aspects are of course closely inter-related.

3. I realise that you must have much on your mind at the moment. But I hope nevertheless that you will be able to use your personal influence to do everything possible to ensure that sufficient funds are made available, whether from government or private sources, to

allow the relevant programme in Italian industry to be built up to the level
~~allow effort in Italian industry to be built up to development~~
~~required for development with effect from July.~~
~~levels from July.~~ If this could be done in Italy we on the UK side
would be prepared to do the same, subject of course to the conclusion
of satisfactory contractual arrangements with the firms. It should
still then be possible to bring the helicopter into service when it
is required. This would be of very considerable benefit to the
industries and Navies of our two countries.



Prime Minister

MO 26/16/1

*I will write - but
do not whether
correlation
the minister
must to help.*

*If you agree, you may care to
sign the attached letter to
Senator Fanfani.*

*A.C. 13.
5*

PRIME MINISTER

EVENTS IN ITALY: IMPACT UPON EH101 HELICOPTER

I am concerned, and so is Patrick Jenkin, about the potentially serious impact of the fall of Signor Fanfani's government upon the EH101 helicopter project. Besides being an important new programme in its own right, this was recognised at your bilateral discussion with Signor Fanfani in February as being one of the brightest prospects for Anglo-Italian collaboration.

2. You may recall that we and the Italians plan to develop EH101 as an integrated naval/commercial programme with government and industrial funding. If successful EH101 should secure very substantial sales, preserve or create up to some 10,000 jobs in British industry, and provide a much needed enhancement to the Royal Navy's anti-submarine warfare capability in the 1990s. But time is vital to its success and you rightly emphasised the need for an early start on this project at your press conference with Signor Fanfani.

3. At the time of your bilateral we were expecting that the finance bill (DDL) allocating funds for the Italian MOD contribution to the project would be approved by the Senate within a matter of days. In the event however Senate approval was subject to successive administrative delays (we are assured that all the main parties support EH101) and had still not been secured when Parliament was dissolved last week. Taking account of the time required to form a new administration and of the Summer holiday period, we judge that in the ordinary course of events the DDL is now unlikely to secure approval by both



Houses much before April next year. Thus if nothing were done the project would almost inevitably suffer up to a year's delay, which would not only bring serious operational penalties for the Royal Navy, but would jeopardise the very promising market prospects of the commercial versions of EH101.

4. These damaging effects could be avoided if industrial effort in both countries, which is currently running at a relatively low level under interim funding arrangements, were built up to the levels required for development with effect from July as originally planned and despite the absence of the DDL. We understand that the Board of Agusta, the Italian firm concerned, is considering a proposal that it should provide part of the finance necessary for the first year's development work in order to preserve programme timescales and give time for the DDL to be approved by Parliament. However a contribution from the Italian MOD would also be necessary, which in the absence of the DDL would have to be found from within the existing defence budget. To unlock that particular door we judge that a high level political approach from the UK side is necessary.

5. Ordinarily I would have written to Signor Lagorio the Defence Minister, but we believe that, as a member of the Socialist Party which brought about the downfall of the Fanfani administration, he is unlikely to play a very active part in the caretaker government. In the circumstances I believe - and H M Ambassador in Rome agrees - that it would be extremely helpful for you to write to Signor Fanfani, who is continuing as caretaker Prime Minister, urging him to use his influence to ensure that the necessary funds are made available.

✓ You may feel that there is some difficulty in making such an approach in present circumstances, but without it there is a very real danger of the project's becoming bogged down by inter-Service bickering within the Italian MOD, and if it is not done now there will be insufficient time to influence decisions before the Italian election on 26th June.



6. I would therefore be most grateful if you would agree to write to Signor Fanfani along the lines of the attached draft, the terms of which have been agreed with H M Ambassador, FCO and DOI. Lord Bridges suggests that he could hand the message to Signor Fanfani's political adviser, whom he is seeing next week.

7. You will see that the draft undertakes that we on the UK side will match the proposed build up of effort in Italian industry. I understand this assurance to be within the terms of Leon Brittan's approval to the defence elements of the EH101 project. Leon has also agreed in principle to the provision of launch aid by DOI and Westland for the commercial elements, and though I understand that he and Patrick Jenkin are still discussing the quantum of such assistance, I do not think that there is any conflict there with what I am now proposing.

8. I am copying this minute to Francis Pym, Patrick Jenkin, Arthur Cockfield, Leon Brittan and Robert Armstrong.

WJ

Ministry of Defence

12th May 1983



Secretary of State for Industry

JF3476

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

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

cc RJ

12 May 1983

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister

MUS 12/5

Dear Leon,

EH101 : LAUNCH AID

Following our discussion on 4 May I have reviewed the various aspects of the problem of providing an adequate amount of launch aid for Westland's EH101 project in response to the company's request for £106 million.

2 It is already agreed between us that the provision of launch aid for this project is acceptable in principle. But we have yet to settle the amount, its phasing, the repayment terms and the implications for public expenditure during the PES period.

3 On the question of amount you were unwilling to grant me any flexibility to go above £53 million. This figure is the bottom of the range £53-£79 million judged reasonable for negotiating purposes by my Department and its professional advisers and by MISC 25 (the Treasury reserving its position) as long ago as 24 February 1983. I have no reason to believe that an offer of £53 million (without flexibility to move upwards) will be any more realistic a basis for going back to the company than our original offer of £26 million. At your insistence we pitched our opening offer at £26 million and Toby Aldington rejected it as derisively low. The task of re-starting negotiations on a sensible basis has been made that much more difficult, as I pointed out at the time. I should therefore like your authorisation to negotiate up to a maximum of £70 million and I hope that taken together with the other proposals and considerations in this letter, this will have your approval.

/4 On ...



DEFENCE Budget Pt 10

CONFIDENTIAL
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12 MAY 1985

4 On the question of repayment of launch aid, I believe that you are willing to accept a rate of return below 10%. Although I have, as you already know, reservations of principle regarding the applicability of a sliding scale rate of return to launch aid, I am prepared in this particular instance to explore further the possibility of securing a real rate of return in excess of 5%.

5 As regards phasing, I am also prepared to explore with the company the possibility of avoiding the degree of front-end loading currently envisaged by the company.

6 I am also prepared to provide from within my existing departmental provision the sums of £4 million, £4 million and £6 million during the PES period on the understanding that I may have recourse to the Contingency Reserve for any sums in excess of those figures within a profile of £4 million, £8 million and £12 million respectively, in so far as this profile cannot be adjusted in the course of the negotiations mentioned in my previous paragraph. I cannot go further without exhausting the Department's wedge and thereby creating acute difficulties for the management of the Department's programme.

7 I am anxious that we should press ahead with our negotiations with Westland for three general reasons. First, it is essential to keep to the EH101 programme timetable if Westland and Agusta are to optimise their chances of world-wide commercial sales. Secondly, if we are to keep up pressure on the Italians during the next few months to play their part in maintaining the timescale, we must be able to demonstrate our commitment to civil funding arrangements. So long as the main elements of launch aid are incomplete, our credibility and that of Westland will be left in question.

8 Thirdly, I believe that further delay will expose us unnecessarily to criticism from our supporters in Yeovil and the South West. John Peyton has already alerted us to the risks we are running and I believe we must pay due heed to his warning.

9 Accordingly I should be grateful if you would reconsider the situation urgently in the light of current circumstances and authorise me to re-open negotiations as quickly as possible on the lines outlined above.

10 I am sending copies of this letter to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and to Sir Robert Armstrong and John Sparrow.

Your ever
Patel



Ref.A083/1244

PRIME MINISTER

Statement on the Defence Estimates 1983

(C(83) 11)

FLAG A

BACKGROUND

The Secretary of State for Defence has amended the text of his draft White Paper to take account of the points made in the discussion at OD on 18 April. He has also taken all the points recorded in Mr Coles's letter of 27 April, which reflected your discussion with Mr Goodall and Mr Jackling, although he has decided to retain most of the passage referring to the Palme Commission in paragraph 4 of the essay "Nuclear Disarmament: Alternative Approaches". You thought this was too specialised for the average reader but were content for the Secretary of State for Defence to decide on its retention or omission. No other changes of substance have been made to the draft which was circulated to OD: the Lord Privy Seal and the Foreign and Commonwealth Secretary commented in similar terms to you on the passages dealing with INF and nuclear disarmament.

2. Now that you have President Reagan's reply on the question of control of cruise missiles, it will be possible to draft the relevant paragraph (210).

3. Paragraph 326 still contains a passage in square brackets dealing with anti-radiation missiles: the Secretary of State for Defence is about to make his choice between the two competing systems HARM and ALARM.

HANDLING

4. You should invite the Secretary of State for Defence to introduce the Statement. The subsequent discussion should cover the following points:-

- (a) is the Cabinet content with the text?

FLAG B

FLAG C

2-13



- (b) when should the Statement be published? The Lord President should be asked whether the date originally suggested, 18 May, is too close to the date of the disarmament debate.

5. As regards control of cruise missiles, you will be receiving advice separately on the message from President Reagan. In the light of that advice, you may wish to inform the Cabinet that you intend to refer to this issue in your speech in the disarmament debate on 10 May and invite the Secretary of State for Defence to include a passage in the Statement using the same, or a closely similar, form of words.

CONCLUSION

6. The Cabinet might be guided to reach the following conclusions:-

- (i) to agree the Statement on the Defence Estimates 1983.
- (ii) to invite the Secretary of State for Defence to decide on a suitable date for its publication in consultation with the Lord President.

RA

ROBERT ARMSTRONG



4 MAY 1995



GOLDMINGER

PART 9 ends:-

C (83) 11 29/4/83

PART 10 begins:-

RTA to PM (A083/1244) Rec'd 4/5/83

