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PREM 19/1691

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PART 3

SECRET UKEB UKEA 42.182 Confidential Filing

Procurement of Weapon Systems.

HARM/ALARM air launched missiles.

Cost of Defence Procurement.

DEFENCE

Part 1: March 1983

Part 3: July 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~5.7.85~~		~~11.4.86~~					
~~10.7.85~~		~~25.4.86~~					
~~11.7.85~~		~~13.5.86~~					
~~17.7.85~~		~~21.5.86~~					
~~18.7.85~~		30.5.86.					
~~25.7.85~~							
~~29.7.85~~		ENDS					
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~~12.9.85~~							
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~~28.2.86~~							
~~14.3.86~~							
~~17.3.86~~							

PREM 19/1691

PART 3 ends:-

CST to SS/MOD 30.5.86

PART 4 begins:-

CDP to Sir C. Whitmore. 10.6.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 24th meeting, item 2	11/07/1985
CC(85) 25th meeting, item 2	18/07/1985
CC(85) 26th meeting, item 2	25/07/1985
CC(85) 27th meeting, item 2	12/09/1985
OD(85) 12	15/07/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 17/09/2014

PREM Records Team

012/1285

CC BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

CDP 2/6

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

30 May 1986

Dear George,

NIMROD AEW

Thank you for your letter of 20 May. It was helpful to have your progress report.

I am content to proceed as you propose, and I am grateful to have your assurance that you will write again when you see more clearly the way ahead. I trust that you will be in a position to do so by the end of June, and that by that time your experts will have completed the task of evaluation. As I implied in my earlier letter, it is important that we should not let this matter drift.

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

Yours ever,

JH

JOHN MacGREGOR

DEFENCE

PROCUREMENT

PT 3

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bc pe 10 83

10 DOWNING STREET

From the Private Secretary

21 May, 1986.

MODERNIZATION OF BMEWS RAF FYLINGDALES

Thank you for your letter of 20 May conveying the Defence Secrtary's intention to make a public announcement on 22 May about the modernization of Fylingdales.

The Prime Minister is content for the announcement to be made though thinks the text could be improved in various respects, principally by spelling out why we are satisfied that modernization of the system conforms fully with US obligations under the Anti-Ballistic Missile Treaty.

You will also wish to bear in mind that the Lord President will be visiting Moscow next week, and taking with him a message from the Prime Minister to Mr. Gorbachev which deals, among other things, with compliance with Arms Control Agreements. It will be essential for him to be fully briefed on the Fylingdales point.

I am sending copies of this letter to the Private Secretaries to other members of OD, the Attorney General, and the Secretary to the Cabinet.

(C.D. Powell)

Richard Hatfield, Esq.,
Ministry of Defence.

CONFIDENTIAL

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 26/7/3V

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

20th May 1986

CDD 23/5

Dear John,

AEW

Thank you for your letter of 6th May about the airborne early warning requirement.

There is, as you say, considerable press comment and speculation on the AEW bids which we have now received, much of it inspired by the bidders themselves. The present position is that we have received proposals from six contractors, including GEC Avionics and the three United States companies, Boeing, Grumman and Lockheed. In addition, we have had proposals from the United States Government to supply either of the systems in current US military service through Foreign Military Sales arrangements.

Most of these tenders are, as one would expect, extremely detailed and complex, and it is clear that the process of

The Rt Hon John MacGregor CBE MP

evaluating them and assessing them against our specification, on which a team of experts is now engaged, will take some considerable time. Moreover, as far as cost is concerned, bidders were at this stage required only to submit maximum prices for their systems. They have until 16th June to refine their estimates and make firm price offers.

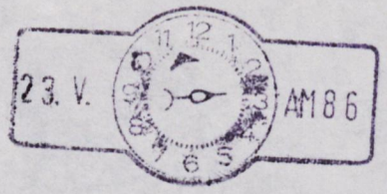
As you will appreciate, we cannot complete our assessment of the bids and reach conclusions about what they offer in terms of value for money until we can put technical performance and cost together: we shall not be able to do this until firm prices are received. Even then, we may wish to go to a further round of 'best and final' bids to see whether prices can be driven down further.

Given these uncertainties, a commitment now to a timetable leading to a collective decision on the way ahead would be premature. Once we have obtained the firm price offers and done enough work on them to enable me to be more definite about when we can expect a decision to be made, I shall write again.

I am copying this letter to the Prime Minister and other OD colleagues, and to Sir Robert Armstrong. Yours ever, George

George Younger

Defence, Procurement Pt 3



Prime Minister
Agree with it

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 26/7/2V

20th May 1986

proposed announcement should be made?
(The text needs some attention. I will pursue this).

Dear Charles,

MODERNIZATION OF BMEWS RAF FYLINGDALES

ATTACHED

CDP 2/5

It was agreed in OD last July (OD (85)12 of 15th July taken out of Committee) that we should proceed with the modernization of the Ballistic Missile Early Warning System at RAF Fylingdales subject to the satisfactory conclusion of negotiations on the financial and industrial arrangements designed to ensure an adequate level of participation for British companies. Negotiations on these arrangements have taken a considerable time but on 13th March this year Richard Mottram wrote to you to report that we had been able to negotiate arrangements with the American prime contractor, Raytheon, which should lead them to place work in Britain to the sum of about $135M over the next 10 years. This letter indicated that further discussions were continuing with the Americans on the Government to Government aspects of the project and said that the MOD would be giving careful thought, in consultation with the FCO, to the presentation of the decision to proceed with modernization. In his reply of 14th March Charles Powell said that the Prime Minister was content for Mr Younger to settle the financial and industrial arrangements with Mr Weinberger on this basis.

Agreed no

We have now reached the point at which we need to make a public announcement on our intention to proceed with this project before the House rises for the Whitsun recess. The reason for urgency is that the US authorities have funds earmarked for their share of the modernization ($220M against a UK share of £22.5M) which have to be committed before the close of their financial year. This means that a contract must be let before the end of September. If these funds are not so committed they will almost certainly be lost under the terms of the Gramm-Rudman amendment and we are told that it may be up to 2 years before adequate funding can be reinstated in the DoD programme. It is most important, from our own operational standpoint as well as that of the Americans, that we do not jeopardize timely completion of the modernization programme in this way.

The timetable is very tight. Until a public announcement is made we cannot permit the American prime contractor to

Charles Powell Esq
No 10 Downing Street

commence detailed discussions with British sub-contractors who will be doing the construction work in this country. Nor can we initiate consultations with the North Yorkshire Moors National Park Authority on the necessary planning procedures which may well take some 3 months or so. It is therefore going to be very difficult to meet the end-September deadline for contract award required by American funding procedures. The Defence Secretary feels that we cannot afford any further delay by deferring an announcement until after the Whitsun recess.

We have always recognised that the modernization programme could give rise to difficult questions in relation to United States obligations under the AMB Treaty. The terms of the announcement have been carefully prepared, in consultation with the US authorities, to underline our view, agreed at OD last year, that the modernization fully conforms with United States obligations under the Treaty. My Secretary of State understands that the Foreign and Commonwealth Secretary would ideally have wished the announcement to be deferred for slightly longer but that he accepts the pressing reasons set out above for going ahead now.

I enclose the text of a public announcement which we propose to make by written answer on Thursday 22nd May, subject to final clearance with the United States authorities. It has already been cleared at official level, with the FCO, the PSA and the Treasury Solicitor's office. Although we intend to make the announcement before negotiations on the inter-Governmental MOU are complete, these are going well and we do not anticipate any serious problems in this area.

I am copying this letter to the Private Secretaries to other members of OD, the Attorney General and the Secretary to the Cabinet.

(RICHARD HATFIELD)

MODERNIZATION OF BMEWS RAF FYLINGDALES

Public Announcement

The Ballistic Missile Early Warning System at RAF Fylingdales needs to be modernized in order to maintain its effectiveness in giving warning of modern multiple warhead missiles. Effective Early Warning Systems contribute significantly to [deterrence]. This modernization, ~~therefore,~~ enhances the overall safety of the Alliance. The Government has therefore decided to proceed with a modernization programme in cooperation with the United States Government. We are satisfied that the modernization of this system fully conforms with United States obligations under the Anti-Ballistic Missile Treaty because .....

The modernized system will be of a more advanced design and will have a more compact, less visible profile. The modernization and subsequent operation of the Early Warning System will be carried out under the provisions of the Anglo/US Memorandum of Agreement published in 1960 together with new arrangements to cover detailed matters implementing those provisions. The systems will remain under RAF Command and Control. The necessary consultations will shortly commence with the appropriate local planning authority.

As well as maintaining our early warning capability, the Fylingdales modernization will create job opportunities. British companies will be used in the construction of the facility and infrastructure required by the improved radar, and they will also be undertaking the deactivation work on the existing radars. In addition arrangements have been made which ensure that a range

of British companies will have a [significant] opportunity to [benefit to an extent closely equivalent to the investment undertaken by the Americans at Fylingdales]. [contribute to the work on the new radar itself].

SUBJECT
cc master

CONFIDENTIAL

No
81

10 DOWNING STREET

From the Private Secretary

Sir Robin Ibbs

NIMROD AEW

You had a discussion with the Prime Minister this morning on the lessons to be drawn from the history of the Nimrod project. The Prime Minister said that she had not been satisfied that everything necessary was being done to avoid a repetition of the problems which had arisen over Nimrod. There had clearly been failures in both project definition and project management. You stressed the importance of management systems which would define the stages of a project, set clear time targets for completing them, and treat science not as a mystery with rules of its own, but as subject to the same discipline as all other aspects of a complex project.

The Prime Minister asked you to talk further to Sir Clive Whitmore about the scope for strengthening the management of projects within the Ministry of Defence to avoid a repetition of the Nimrod failure.

I am copying this minute to Sir Robert Armstrong and to Sir Clive Whitmore.

(C.D. Powell)

13 May, 1986

CONFIDENTIAL

PRIME MINISTER

NIMROD AEW

You are to have a meeting with Sir Robin Ibbs on Tuesday to
A discuss the lessons to be drawn from the Nimrod affair.

You asked Sir Robin to look at the papers and consider three aspects:

i) the Ministry of Defence's failure to recognise that the Company were not coping with the technical problems;

ii) the Ministry of Defence's failure to act on delays and problems when monitoring revealed them.

iii) the nature of the relationship between the Ministry of Defence and the Company.

B Sir Robin Ibbs' minute sets out his preliminary views. He finds a failure both of project definition and of project management. He regards it as remarkable that the technical difficulties took so long to emerge. He is surprised to find that the MOD's Chief Scientific Advisor has the role of being chief advocate for the overall project, rather than chief inquisitor. He sees scope for a much more disciplined approach by the MOD to such projects, with clear effort and time targets set for each stage against which progress can be monitored rigorously. He also finds the relationship between the MOD and GEC cosy and slack and recommends a more hard-nosed commercial relationship with the contractor in similar projects in the future.

You will want to consider with Sir Robin Ibbs how to make sure that the lessons drawn from this affair are properly absorbed in the MOD and reflected in changes in current management practise. One option would be a full scrutiny of the MOD though this should not be necessary since Mr Levene has now

been in the saddle for a year and has had time to introduce new methods. Perhaps you might ask Sir Robin to discusss what went wrong with Sir Clive Whitmore, Mr Levene and the Chief Scientific Advisor to MOD and come forward with agreed improvements to procedures going beyond those set out in Mr Younger's minute.

CDP.

CHARLES POWELL
11 May 1986

CJ2AAJ

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Prime Minister
CDM 7/5

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1

6 May 1986

Dear George,

NIMROD AEW

Since we reached our decision on the way forward on 12 February, and your subsequent announcement of our position on 26 February, there has been a good deal of press comment. Some of this suggests that you will shortly be receiving tenders from US contractors for the alternative options to GEC. At the same time presumably your officials are in close touch with GEC as work progresses under their 6 month contract.

The contract with GEC expires on 2 September. I am anxious that we should be in a position to take a collective decision on the way forward immediately after that. Any delay could provoke demands from GEC for an extension of the contract, which I am sure we all want to avoid.

At the end of March your officials told mine that a key priority was to firm up on a timetable for the evaluation process and the decision on the way ahead. I am sure that we would all find this helpful if this timetable were to be circulated now. Any information you can give us on progress so far would also of course be very useful.

I am copying this letter to the Prime Minister and to colleagues on OD and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

SECRET

file

cc BG

10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

I write simply to record, on Mr. Powell's behalf, that the Prime Minister was very grateful for your minute of 24 April about Nimrod and she is looking forward to discussing this with you in May.

BF 1

TIM FLESHER

25 April 1986

JC

B

Prime Minister cc BA ②

You will want to see these helpful initial comments from Sir Robin Ibbs. We are arranging a meeting with him. CDP 24/4.

CONFIDENTIAL

Mr. C.D. Powell

NIMROD

I have read the papers you sent me and I am ready to discuss the project with the Prime Minister. It may be helpful if I let you have this brief note of my views which are based on ICI experience of complex technical projects. When considering my views it is as well to bear in mind that I know nothing of the Nimrod project, nor indeed of the organisation and practices in the Ministry of Defence, except what appears in the papers you sent or can be deduced from them.

2. There has obviously been a failure of project definition and project management. The facts in the papers indicate this clearly and the steps now being taken to avoid a recurrence, which are set out in paragraph 4 of the Minute dated 26th March 1986 from George Younger (and which are similar to general recommendations I made last year on control of capital projects) confirm this. However, there appears to be more to it than this.

3. It is remarkable that the technical difficulties which seem to have been the serious feature of the situation took so long to emerge. When the new Conservative Government reviewed the project in mid-1979 it was already about two years since development and production contracts had been placed, plenty of time for much deeper technical assessment than may have been possible when the project started in 1977. The submission on 4th July 1979 by the Chief Scientific Adviser expresses "confidence in the design concept and the competence of the firms involved". Furthermore his submission says little about the strictly technical side of the project but contains much about other aspects. To me it is surprising that rather than giving detached technical advice, the Chief Scientific Adviser should have the role of being chief advocate for the overall project, not setting out options for decision but simply asking that it should be allowed to continue. I wonder whether roles within the Ministry of Defence were seriously confused, at least in this instance.

4. Perhaps even more remarkable is the fact that the steps set out in paragraph 4 of George Younger's Minute appear to do nothing about tackling the failure to spot the technical difficulties. For such a project I would expect a highly disciplined approach from the start to be imposed by Ministry of Defence scientists on the contractor so that all the significant technical hurdles that had to be surmounted were analysed and defined from the beginning, with clear effort and time targets set for each against which progress could be monitored rigorously. It may be that something on these lines is already done. If so there is no evidence of it in these papers and it does not appear to have been effectively pursued.

CONFIDENTIAL

5. The relationship between the Ministry of Defence and GEC appears to have been cosy and slack, with substantial faults on both sides, until it changed fairly abruptly. Presumably such relationships, forms of contract, monitoring of progress and timely application of pressure are all things that Peter Levene is addressing.

6. To sum up: Better project management, clarification of the role of Ministry of Defence scientists, the imposition of clear technical targets and rigorous monitoring against these, and a sound hard-nosed commercial relationship with the contractor are the aspects that from my viewpoint need action if the Prime Minister's concerns are to be tackled effectively.

ROBIN IBBS
24th April 1986.

Defence : Procurement

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10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS
CABINET OFFICE

NIMROD

At the end of February, the Prime Minister asked the Ministry of Defence to provide an account of what had gone wrong with the Nimrod airborne early warning project during the present Government's term of office. I enclose a copy of her letter commissioning the study.

The Secretary of State for Defence reported on 26 March and I enclose a copy of his report. The Prime Minister was not satisfied with it, nor with some additional information from the MOD (also enclosed) and is now considering how best to proceed. She has asked whether you would kindly look at the papers and subsequently have a word with her.

The Prime Minister is concerned with three main aspects:

(i) the inability on the part of the company to master and to deliver the technology and the Ministry of Defence's inability to spot this;

(ii) the failure of regular monitoring of the progress of the project to lead on to action to deal with delays and problems (and to propose that the project be abandoned before good money followed bad); and

(iii) the damage that can be done by contractual arrangements that reward delay and increase costs by providing a cost plus mark up.

The Prime Minister would like to discuss these points and the most effective way to draw lessons for the future with you. The aim would be to improve procedures for assessing and managing such projects in the hope of avoiding such costly failures in future.

I should be grateful if you would let me know when you are ready for a discussion.

C D POWELL
13 April 1986

PRIME MINISTER

NIMROD AEW

You noted a number of supplementary questions as you went through the Nimrod report (Flag A). The MOD have now provided answers to these (Flag B). They are not very revealing. But one thing which they do bring out more strongly than ever is that there was no shortage of monitoring. But the monitoring wasn't much use, because nobody actually did anything when deadlines slipped and target dates were missed. The overall picture is one of drift and lack of any feeling of personal accountability, none of the Defence Secretaries or Ministers of Defence Procurement concerned taking a strong grip on the problem.

Other points which emerge are:

(i) both MOD and the company seem to have been at fault on the 'ground moving target' filter. The company failed to produce a system that worked adequately over sparsely populated land without it. But the MOD should probably have recognised the need for it from the beginning.

(ii) the decision in 1979 to go ahead with Nimrod was taken between Mr. Pym and a (rather reluctant) Sir G. Howe. Other Ministers do not appear to have been consulted. The decision was taken even though there were recognised to be major development problems, and even though the American E3A was preferred by the military and cost no more, on grounds of industrial/employment policy and prestige!

(iii) the August 1980 progress report was a very smug document ("the basic soundness of the programme and our ability to complete it with the CPD and within the confidential cost estimate are not in doubt").

(iv) the decision to continue the project in April 1983 was taken on the basis of a report which revealed serious slippages, setbacks in the Avionics Programme, management difficulties at Marconi Avionics and a 24 per cent real increase in estimated costs since 1974.

(v) it seems that payments in respect of development work were suspended at the time when you saw Mr. Levene last July and remained so, but production payments continued. — production ? what ?

WHAT TO DO?

You need to decide what to do about the mess which has been revealed. You suggested that you might talk to Robin Nicholson. But he is already at his new job. We might show the papers to his successor - Fairclough - and get his opinion. I suppose that the basic question to put to him is: should the scale and seriousness of the technical problems have been spotted earlier?

A further possibility would be to have some more formal inquiry to find out what went wrong and draw some lessons. This could be done by a retired senior civil servant or (as Peter Warry suggests) by the Efficiency Unit. The problem is that any such inquiry would leak. And its results might cause the Goverment political problems: the affair does not reflect well on the Government's decision-taking or management of defence (though all three of the Defence Secretaries involved have since resigned).

The rather sparse lessons drawn in paragraph 4 of the Defence Secretary's original report could be expanded and developed into new guidelines or a management code for major projects. This could be done by someone within the Government machine but not directly associated with the more disastrous aspects of Nimrod, eg. Mr. Levene.

You may like a preliminary discussion with me, David Norgrove and Peter Warry to agree on some proposals. You might then talk to the Defence Secretary and the Chief Secretary.

Agree:

(i) to show the papers to the new Government Scientific Adviser;

(ii) internal discussion with No. 10 staff to decide how you want to proceed;

(iii) meeting with Defence Secretary and Chief Secretary.

The Policy Unit have prepared a note.

CDP

Robin Ibbs could give the best advice of all on.

C D POWELL

11 April 1986

SL3APE

MR POWELL 11 April 1986

NIMROD AEW

The project seems to have fallen down on four counts:

1. totally unrealistic expectations of what could be achieved at the outset;

2. apparent inadequacies in the project specification even after this was meant to have been agreed in 1979;

3. contractual arrangements that rewarded delay and increased costs by providing a cost plus mark up; and

4. failure to take appropriate action when monitoring must have shown that the project was going way off course.

Investigating the failings is worthwhile because otherwise the real (as opposed to superficial) changes necessary to avoid a recurrence of NIMROD may not be identified. For example, MOD intend to appoint a single project manager for future projects: this is useful but the problem would appear not to be a lack of knowledge that things were going wrong, but a failure to take timely preventative action, or to propose the project be abandoned before more good money followed bad.

Ministers and officials duration in posts is usually shorter than the time it takes for the consequences of their actions to emerge. By conducting the occasional post-mortem people will be discouraged from seeking easy short term solutions in the hope that they will not still be in the job when the chickens come home to roost.

But such a post-mortem should not be a PAC-type enquiry into whether all of the i's had been dotted and all the t's

crossed, but an investigation into whether reasonable advice was offered and sensible decisions taken. If an enquiry were held it should be strictly internal and conducted by an official from, say, the Treasury, or the Efficiency Unit. Provided it was kept low-key and was broadly part of the normal functions of the official, then any leak ought to be containable. The investigation would be to find out how and when things went wrong, and to recommend how this could be avoided in the future.

Many of the failings on the NIMROD project have already been addressed, for example contract procedures are now more commercial. But it could be worth considering two changes:

1. To avoid unrealistic projects ever being started, ad hoc panels of <u>independent</u> experts should be asked to advise on viability.

2. To ensure action is taken when projects encounter serious delays or cost escalation, there should be an <u>automatic</u> referral to MOD and Treasury Ministers if, at any stage during a large project, costs incurred or time taken exceeds more than, say, 50% of planned levels for that stage. (All large projects have critical path plans prepared identifying dates by which the individual items should be completed). Such a condition should be built into all new contracts so as to permit cancellation without compensation.

Peter Warry

PETER WARRY

CONFIDENTIAL
Covering SECRET

B

Pym seen 11.4.86
cf Sir R. 1665.

6

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-930 7022

MO 26/7/3

10th April 1986

Dear Charles,

NIMROD AEW

Thank you for your letter of 5th April about the Nimrod AEW project. Here is the additional information for which you asked.

(i) 1978 proposal for 'ground moving target' filter. The 1978 GAv proposal of which a 'ground moving target' filter formed a part was made to give the MSA a full overland capability (including densely populated areas): the company were left in no doubt that this was beyond the approved Staff Requirement and that we did not wish them to proceed to provide it. The specification did, however, call for the detection of targets over water and areas overland such as the Northern Flank of NATO which are sparsely populated, and it is in order to help overcome the developed system's shortcomings on this original requirement that GAv will now have to develop the filter.

(ii) 1979 submission to Defence Secretary. I attach copies of:

a. the submission made to the Defence Secretary on 4th July 1979 by the Chief Scientific Adviser (Professor Mason);

b. the Defence Secretary's consequent letter of 6th August 1979 to the Chancellor of the Exchequer; and

c. the Chancellor of the Exchequer's reply of 7th September 1979.

[i.e it was settled between Mr. Pym & Sir G. Howe without other Ministers being consulted]

Charles Powell Esq
10 Downing Street

CONFIDENTIAL
Covering SECRET

(iii) CA's Project Review, August 1980. I attach a copy of the progress report tabled by Director Nimrod for Controller Aircraft's Project Review on 29th August 1980: paragraph 50 is the source of the reference you cite from the chronology.

(iv) 1983 Decision. I attach a copy of the submission made on 21st April 1983 by the Acting Chairman of the Defence Equipment Policy Committee.

(v) 1983 suspension of progress payments. Further payments to GAv were withheld in October 1983, pending the submission of "get well" proposals. The proposals eventually secured went well beyond the Department's contractual rights and, with the approval of Mr Pattie, the progressive release of the sums withheld was directly associated with the implementation of those proposals, of which the move to an incentive basis of contract formed only a part.

(vi) Negotiation of incentive contracts. This question appears to be based on misunderstandings. The contract specification dated February 1981 relates to the cost-plus contract and was not a satisfactory basis for an incentive contract. Moreover, there was no change in 1984 from the cost-plus basis. What happened in 1984 was that, following Mr Pattie's intervention in October 1983, GAv were instructed to submit incentive price proposals. Paragraph 19 of my Secretary of State's minute indicates the course of subsequent events.

(vii) The Defence Secretary's conclusion of December 1984. It was at a meeting with his officials on 19th December 1984 that Mr Heseltine reached the view that the aim should be to terminate the existing contract with GAv at the earliest technically possible moment. He did not consult Ministers of other Departments at that stage because a viable basis for achieving this aim had not at that time been established. The then Defence Secretary was not, therefore, in December 1984 taking a decision to terminate the existing development contract, but determining the basis on which it could be terminated. The executive implementation of this aim took some time and effort to negotiate and its outcome was reflected in the proposals Mr Younger put to OD colleagues in February 1986.

[15 months]

(viii) Payments to GAv. Following the agreement between Mr Levene and Lord Weinstock in May 1985 that the MSA development programme should be placed on an incentive basis, payments in respect of that work against the existing contract were indeed suspended as from July 1985, the earliest date which could be negotiated. These payments remained suspended until the risk-sharing

arrangements agreed in February 1986 were put in place. However, expenditure on production contracts continued to be incurred, albeit reined back to the lowest possible level consistent with maintaining the viability of the programme, until the risk-sharing arrangements were agreed. In addition, development and production work continued with BAe - though again at a minimum level.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Attorney General, and to Sir Robert Armstrong.

Yours sincerely,

Geoffrey Howe.

(J F HOWE)

SECRET Reference CSA/332/79

CN 37 of 37 copies

Secretary of State (through Minister of State)

INTERNAL MOD SUBMISSION OF 1979.

ASR 400 (FIRST REVISE) - NIMROD AEW Mk 3

1. The purpose of this submission is to seek your approval of the continuation of the Nimrod Airborne Early Warning (AEW) programme to meet ASR 400 (1st Revise) at an extra-mural development cost of £201.6M and intra-mural cost of £7.6M (at September 1978 prices), following re-endorsement by the DEPC at its meeting on 13th June.

Background

2. In January 1975 the ORC endorsed ASR 400 for the replacement of the RAF Shackleton AEW aircraft and, at that time, the preferred operational solution was UK participation in a NATO AEW force based on the Boeing E3A aircraft. However, when in March 1977 the Alliance again failed to approve the funding arrangements, the UK, no longer prepared to accept the risk of a gap in the UK's AEW capability, decided to proceed with Nimrod AEW as a contribution in kind to a NATO force, should one eventually be formed. A programme for 11 aircraft utilising existing Nimrod airframes was approved.

3. In December 1978 CA reported to the DEPC that development and initial production were proceeding satisfactorily, but some seven months had been lost, mainly due to industrial unrest, and a substanti real cost increase was expected. This increase has now been assesse as £75M, and necessitated resubmission of the project to Central Committees. These changes, together with the decision now taken to establish the NATO force, have led to a thorough reassessment of the UK position. Meanwhile approval has been given for essential expenditure to continue on the Nimrod AEW programme.

Threat and Concept of Operations

4. Current concern about air defence serves to reinforce the importance of AEW as an essential element needed to extend existing radar cover and to provide additional early warning and better continuity of radar tracking particularly at low levels. The air threat against targets in the United Kingdom and the EASTLANT/ACCHAN (ie primarily the Soviet BACKFIRE bomber and possibly the shipborne FORGER) has not changed substantially since ASR 400 was approved,

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except for a forecast increase in jamming power and the possible introduction of new stand-off missiles with very small echoing areas. Whilst these developments will make the AEW task more difficult (and may eventually require ECCM improvements), in general terms the current assessment is that Nimrod AEW's capability to provide early warning and interceptor control against the threat expected until at least the end of the next decade remains substantially unchanged from that assessed in 1977, though the environment will become increasingly hostile.

5. On the concept of operations, the UK has agreed, in principle, to proposals under which both the Nimrod and the NATO E3A aircraft will operate under a single NATO AEW Force Commander, who will task the fleet centrally on behalf of all three Major NATO Commanders (MNCs). Nevertheless in drafting their concept, the MNCs recognised the desirability of operating Nimrod in the manner and areas for which it is optimised, and our own planning assumptions continue to be based on a need to maintain simultaneously and continuously a minimum of two patrols for seven days at a range of 300 nautical miles from a Main Operating Base and two at 700 nautical miles from the nearest land base. However, two particular aspects of the operational concept, basing and interoperability, have been clarified in greater detail during the past two years, and this accounts for part of the increased costs now identified.

ORC Consideration

6. At its meeting on 6th June 1979, the ORC accepted that the operational case for an AEW force remained unarguable and, while expressing concern about a number of problems (referred to in paragraphs 8 to 10 below), agreed that the Nimrod AEW should continue to meet the threat likely to be posed in the 1980s and, with further improvements, in the 1990s. They noted also that the AFD would do everything possible to minimise any prospective gap in operational capability likely to derive from the phasing out of the Shackletons and the gradual build up of the Nimrod AEW force.

Project Status

7. The development and introduction into service of Nimrod AEW is a major undertaking involving two principal contractors and many sub contractors. Staffing levels at BAe are acceptable, but there has been an abnormal amount of unrest over pay differentials, and this has affected timely progress of the project. Whilst labour relations at Marconi Avionics have been good, there have been difficulties in recruiting the required number of design staff, although this problem should be corrected early in 1980.

8. That apart, CA does not regard Nimrod AEW as more unusual than other complex programmes and considers that good progress has been made. He is confident that design concepts are soundly based, and that the competence of the firms involved is not in doubt. The development problems still to be resolved should not, however, be underestimated. Specific reference is appropriate to those of particular operational significance.

a. AEW Radar Frequency. Although considerable care was taken originally in selecting the radar frequency for Nimrod AEW, difficulties are now foreseen in getting French agreement to the necessary international clearance because of potential

interference in some propagation conditions with European TV relay systems. The most practical solution is to lower the band of the radar operating frequency by a limited amount and introduce sector frequency control for peacetime operations. This could in turn introduce some interference with Rapier and Type 993 and solutions to this are being examined. Unfortunately such modifications are unlikely to be available before the seventh production aircraft, and extra costs are assessed as £4M. In the interim period training over the Southern North Sea and the SW approaches will be severely restricted.

b. Electronic Warfare Support Measures (EWSM). In view of the threat from Soviet jammers, EWSM has been regarded as a very important part of the Nimrod AEW overall capability amounting essentially to a primary sensor. The intention is to use the same American Loral equipment in both Nimrod AEW and Nimrod MR aircraft, but protracted contract negotiations have precluded fitting before the second or third production aircraft. No particular technical problems are expected but it is disappointing in operational terms.

c. ECM Resistant Communications System (ERCS). Future needs for an ECM Resistant Communications System go beyond just Nimrod AEW and are separately covered in NASR 891. UK policy is to rely on US development of their Joint Tactical Information System (JTIDS) and in due course seek agreement for UK production of JTIDS Class 2 terminals for installation in Nimrod AEW, Tornado F2 and other appropriate aircraft. Currently there is considerable internal US debate on JTIDS, particularly between the USAF and US Navy, and there is also at least two years work (in addition to technical development) to demonstrate frequency compatibility with other users and to gain NATO adoption of the JTIDS standards. Although we have purchased early development models of the JTIDS terminals from America for system development, the Nimrod ERCS programme will spread over six years, and the first operational system is not expected before the end of 1985. For comparison the USAF and NATO E3A aircraft will use initially a current Hughes Improved Terminal (HIT) in anticipation of frequency clearance and in the knowledge that it will require retrospective modification to achieve interoperability with the finally developed US JTIDS terminals.

d. Reliability and Maintainability. An issue of particular concern in the reassessment has been that of reliability and maintainability of the Mission System Avionics (MSA). ASR 400 called for a Mean Time Between Failure (MTBF) of 36 hours and a Mean Time Between Mission Failure (MTBMF) of at least 100 hours. It is now accepted that such a requirement for MTBF is impossible in systems of this complexity. Whilst industry believes that it could achieve 12 hours MTBF and 100 hours MTBMF, RAF experience suggests that figures of three hours and 45 hours, rising to perhaps six hours and 60 hours with the planned reliability growth programme are more realistic assumptions. Whilst these changes in failure rates affect both costs and operational effectiveness, as expressed by System Warning Probability (SWP), the latter has been affected also by realisation that earlier calculations had assumed ideal servicing conditions with, for example, no waiting time for diagnosis of faults or non-availability of spares. Thus current assessments of SWP for the planned Nimrod force of 11 aircraft have lowered from 90% to 75% for each of the four single patrols

and from 65% to 32% if all four patrols were maintained simultaneously. The AFD is considering what measures might be used to regain the previously accepted SWP. Possibilities include the conversion of two more aircraft at a cost of about £40M, the use of in-flight refuelling or modifications to reduce turn round times. Reports are expected early in 1980.

Timescales

9. The original Agreed Target Dates (ATD) and Confidential Policy Dates (CPD) were:

	ATD	CPD
Training Release	March 1981	May 1982
Initial CA Release	October 1982	April 1984

10. Taking account of the problems already referred to the current assessment is

	ATD	CPD
Training Release	February 1982	December 1982
Initial CA Release	January 1984	November 1984

Costs

11. The new estimated total costs for 11 Nimrod AEW aircraft at September 1978 economic conditions are £447.1M extra-mural and £7.6M intra-mural. The extra-mural total consists of £201.6M development and £245.5M production and about £100M will have been spent or committed by the end of June 1979. These figures represent a £75M real cost increase, of which £16M is attributable to development and the remainder to extra production and spares costs. An analysis of these cost increases is annexed. Provision for Nimrod AEW in LTC 79 is adequate at a total of £481M.

Other Procurement Options

12. The cost increases, programme delays and the NATO decision now taken on an E3A force made it appropriate to re-examine other options in deciding whether or not to recommend continuation of Nimrod AEW. Realistically the only possible option is the originally preferred E3A, and it remains in operational terms an attractive alternative.

13. The first NATO aircraft is now due to be delivered in February 1982 (almost a year before the first Nimrod with a Training Release in December 1982) and the last by April 1985. It would be reasonable to assume that the major part of any UK requirement for the E3A could be met by mid 1984 and that, with less need for retrofit programmes than Nimrod, the previously foreseen advantages of an earlier improvement and expansion of the RAF AEW capability remain. As proposed for the NATO force, the E3A lacks EWSM; but this could be fitted to RAF aircraft, and there is no question that such an aircraft would still, in all but points of detail, adequately satisfy the ASR. Indeed in certain respects such as overland capability and greater radar power (giving longer initial detection ranges, higher fuel load and a 25/30% greater endurance) the E3A is superior to Nimrod. It is also considered that the larger aircraft would be able to carry more spares and a servicing crew, thus permitting more comprehensive in-flight system maintenance to obtain higher operational availability.

14. Further, because the E3A is currently in production and the remaining development required to bring it to the standards for NATO (or RAF) use is very much less than that remaining to be done on Nimrod, the E3A would, once cost and delivery dates had been negotiated, be at less risk than Nimrod to increases in target costs and slippages in target delivery dates. For all these reasons, the military arguments for E3A remain attractive, and moreover the main objection , that of NATO uncertainty, has been resolved. But these considerations need also to be weighed against the likely cost of a change and of its industrial consequences, seen in the current circumstances compared with early 1977.

15. So far as costs are concerned, it is not possible to produce firm estimates without detailed negotiations with the US to determine the number of E3As required to provide an equivalent capability and the method of their procurement. As negotiations would inevitably raise considerable industrial and political speculation, no such action has been taken pending this submission. From the information that is available on the procurement of the E3A for NATO, it has been possible to make a preliminary cost estimate. The assumptions are that nine E3As would be required, that the UK would have to meet the capital costs in full (since it is unlikely that NATO partners would now accept higher attributions of AEW costs), but that currently programmed NATO support facilities would be shared and spares would be increased proportionately for a NATO fleet size of 27. On these assumptions, and with an allowance for fitting EWSM, costs would be of the order of £340M at 1978 economic conditions and $2 to the £. Since by the middle of 1979, the commitments on Nimrod will be of the order of £100M the position on cost is, broadly speaking that there is unlikely to be any significant difference between the overall cost of procuring E3As and the remaining expenditure (including contingencies) to be incurred on Nimrod. The budgetary position as between the two possibilities is also seen as evenly balanced.

16. In industrial terms, there are now some 5,000 people directly employed on the Nimrod programme and cancellation would have serious repercussions. Perhaps half of those could expect, as skilled men, to find employment fairly readily elsewhere, though there could be no certainty that they would be redeployed in support of other defence projects or, indeed, that they would remain in the British aerospace industry. Nor at this late stage could we expect agreement to re-open the NATO E3A offset arrangement in order that the UK should be beneficiaries of them. In these circumstances there would be a substantial loss of industrial morale and MOD's credibility would be in question, given the circumstances of the original decision to go ahead with Nimrod, the significant expenditure already invested in the programme and the substantial technical progress that has been achieved.

17. In summary, therefore, the E3A in operational terms remains an attractive alternative to Nimrod given its performance capability, its earlier availability, its status as a lower risk programme and its prospects of providing higher operational availability in terms of System Warning Probability. In these respects the position is substantially unchanged as compared with early 1977. On the other hand the Nimrod will also meet the operational requirement, and whilst there is less certainty about timescales and likely costs than with

the E3A, the project is not regarded as being uniquely of higher risk or less soundly based than other major and complex development programmes. Apart from difficulties associated with industrial unrest and the current universal shortage of certain specialists, progress has been good and there is confidence in the design concept and the competence of the firms involved. Substantial resources and money have been invested in the programme and a change to the E3A now would have widespread repercussions. Justification for such a change would have to rest on the military considerations only, since the industrial, foreign exchange and political arguments are against it, and on present cost assessments it is unlikely that there is a decisive advantage either way.

18. In these circumstances the predominant view which has come out of a very detailed reassessment is that the balance lies with continuing the Nimrod AEW programme. Further, it is considered important that support for the Nimrod programme should be seen as full and clear, since any suspicion of hesitation or doubt could seriously undermine industrial morale, commitment and enthusiasm leading to a most difficult project management situation; and there would also be international implications. For these reasons it is recommended that no approach should be made to the US for further information about E3A; but you will wish to note that the E3A will remain automatically for a limited period as a fallback option, against the unlikely event of Nimrod encountering major difficulties.

Publicity and Parliamentary Interest

19. You will be aware that Mr Wellbeloved, the former US of S(RAF), has been raising questions about the future of Nimrod AEW both in the House and in the Press. In a written answer to his question of 11th June 1979 he was told that the Government did intend to proceed with Nimrod and that the first aircraft was expected to enter service in the early 1980s. Although a further Parliamentary statement is not essential, the recent speculation in newspaper articles may be affecting industrial recruiting for the programme. If you agree, further publicity outside Parliament could be helpful.

Conclusion

20. I would be grateful for your agreement to the continuation of the Nimrod AEW programme to meet ASR 400 (1st Revise) at an extramural development cost of £201.6M and an intramural development cost of £7.6M (at September 1978 prices). Subject to this agreement, CA will be seeking shortly in the normal way approval to commit the additional £167.4M required to bring the total production authority to £245.5M.

21. Finally, at the DEPC, the Treasury representative argued that a decision on whether to continue with Nimrod AEW or not was of sufficient importance to bring to the attention of Ministers collectively. Subject to your views on this, the Defence Secretariat are ready to submit a draft of a minute which might be sent notifying your colleagues of your decision on this submission.

Rm [Chief Scientific Adviser].
CSA

4th July 1979

Analysis of Cost Increase

1. The increase of £75M (at September 1978 ECs) has three main components: £42M for revision of project costs £23M for changes in estimates of spares and support costs and £10M of additional contingen

Project Cost Increase

2. Project cost increase consists of:

a. Contractor Re-estimation. MAv's cost estimates have increased by £8M in development and by £10M in production following more detailed assessment of the work involved. The production cost increase has also had a marginal effect on the cost of spares.

b. Additional Work and Specification Changes. Following more detailed MOD(PE) examination, a number of changes have had to be made to the specification and additional work areas have been identified. The major elements are expanded interoperability requirements, an enhanced reliability growth programme and the purchase of a system evaluation rig. In total these add £8M.

c. Radar Frequency Change. The radar frequency band must be modified to avoid commercial interference. The cost is £4M.

d. "1st Revise" Items. A number of additions were made to ASR 400 when it was revised in March 1977 and until recently it had not been possible to cost them. The cost is now estimated at £10M.

e. Government Furnished Equipments. The cost of some items of GFE have contributed a real increase of £3.5M.

f. Major Servicing and Embodiment Loan. There has been debate between the finance staffs of the AFD and PE about the attribution of expenditure on the major servicing of the Nimrod MR1 aircraft before conversion to AEW and of the cost of embodiment loan items. Agreement has been reached that the major servicing costs of £3.5M should count as AEW programme costs but doubts remain on whether the embodiment loan items are refitment of those removed from the original MR Mk 1 or new items particular to the AEW role. No cost estimates for Embodiment Loan items are included but if a programme charge is agreed it is likely to be around £2M.

g. Saving on Air Vehicle Programme. A saving of £5M has been made in the air venicle programme following more detailed examination.

3. MSA Spares and Support Requirements. The basis of the earlier allowance of £25M for MSA spares was 65% of the MSA production cost. In addition £9M was allowed for Special Test Equipment (STE) and a Software Support Facility. MSA production costs have increased resulting in a consequent increase in spares costs of £4.7M. The requirement for spares has increased also by £3M to take account of the MTBF now accepted for the MSA. Spares costs increase by a further £15.3M to support changes in basing concept and deployment commitments: the overall total increase in spares and support is thus £23M.

4. Contingency Allowance. The remaining contingency for the project has been increased by £10M to retain the original figure of £60M. This now represents 13% of the total estimate.

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Letter from Mr. Ryan to Sir G. Howe

6th August 1979

Dear Geoffrey,

You will remember that in March 1977 our predecessors announced their decision to proceed with the development and production of 11 Nimrod AEW aircraft for the Royal Air Force. That decision was taken at a moment when our NATO European Allies had once again failed to reach a decision on whether or not jointly to subscribe to the procurement of an Allied force of Boeing E3A AEW aircraft. It had been made clear in the preceding discussions that the British were fully prepared to join such a force: indeed, it represented the preferred solution to the United Kingdom's operational requirement for AEW. However, the failure to agree on Allied procurement posed for this country a real risk of a gap appearing in the AEW cover which is essential to the air defence of the UK and the Fleet, and which is at present provided by Shackleton AEW aircraft. These aircraft need replacing as they are reaching the end of their service lives and as their radar capability is being rapidly overtaken by advances in the threat. At the time of the decision it was made clear that, should the Alliance procure a (reduced) force of Boeing aircraft, then the British Nimrod force would constitute a contribution in kind to the Alliance's AEW capability.

In December 1978 NATO did in fact agree to procure 18 Boeing aircraft which together with the 11 RAF Nimrods

/ represents ...

The Rt Hon Sir Geoffrey Howe QC, MP

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represents an AEW capability broadly equivalent to the 27 Boeings originally envisaged. In parallel, development and initial production of Nimrod has been proceeding. Apart from industrial disruption last winter over pay differentials, technical progress has been good. It has, however, become clear that the original estimate of the cost of the programme (£372m at 1979 PESC levels) has to be increased by about £75m to a revised total of £447m. This is a substantial increase and I have accordingly considered very carefully whether or not in the circumstances - and in particular given that NATO have decided to procure the E3A - to continue with the project.

It is certainly open to us to procure the E3A ourselves and if we did so then we should be getting the aircraft which we originally preferred to Nimrod (though the latter fully meets the British requirement) and one which is being largely developed and currently in full production, poses much less risk than does Nimrod of slips in the timescale and increases in cost, once these had been negotiated with the Americans. On the other hand, we have already invested over £100m in the Nimrod programme and on our best estimate of the E3A there is now not much difference between the sums of money that remain to be spent on the two programmes, even after allowing for the residual uncertainties which certainly do affect Nimrod. Further, cancellation at this stage would come as a severe blow to industry which has made a considerable effort to build up the resources required to undertake the programme. Finally, Nimrod AEW is a programme to which we gave support when in Opposition and have quite recently indicated our continuing commitment to it.

As I have said, on these grounds the balance of advantage seems to me to lie with continuation and my officials have, accordingly, sent over to yours a detailed statement produced at my request setting out the background to the problem, where we now stand and what the various considerations that bear upon the decision are in detail, together

/ with ...

with a formal request for approval of the revised sums of money involved. I believe, however, that this is an issue on which you personally would wish to take a view: hence my writing to you. I would be happy to discuss it with you if you wish.

Yours ever

Francis Pym

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

7 September 1979

Dear Francis

Thank you for your letter of 6th August about Nimrod AEW.

I note what you say about the substantial real cost increases which have been identified on this programme. I hope that every effort will be made to improve estimation on projects of this kind. Major cost increases create severe resource problems.

In this case, I am however inclined to agree that on the evidence available at present the best course would be to stick with the Nimrod programme. A switch to the Boeing E3A aircraft would not, on current estimates and excluding sunk costs on Nimrod, produce significant future savings. I should myself have preferred us to obtain a new E3A quotation before making up our minds, but I can see that this would have certain disadvantages. However the Nimrod/E3A choice is clearly very finely balanced and any further significant real increase in Nimrod costs would probably necessitate at least an exploratory approach to the Americans. If, for example, it were decided that 11 Nimrods would not in the event be sufficient, and that extra aircraft would be necessary, at a cost of some £20m each, a full re-assessment of the E3A alternative would in my view be essential to establish whether a corresponding increase in the numbers of aircraft would be required, and to discover the precise costs.

I should like therefore to ask you to ensure that particularly close attention is paid over the next few months to cost and other developments on the Nimrod

/programme

The Rt. Hon. Francis Pym, M.P.

programme and that any major changes are brought to your attention quickly. If we were in the event forced to opt for a US purchase, as I accept would not on today's evidence be justified, much of the expenditure on Nimrod would I imagine be rendered nugatory, and it is therefore important that any new evidence of adverse developments should be monitored and assessed at once.

Since I agree with your recommendation I do not think I need take up your offer of a meeting at this stage. But I should be grateful if you would ensure that Treasury officials are brought up to date again at the end of the year, and perhaps again six months after that.

(GEOFFREY HOWE)

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[Paras 1-21 deal only with the aircraft. The passage on the Avionics starts at para. 22].

NIMROD AEW MK 3

PROGRESS REPORT - AUGUST 1980

INTRODUCTION

1. This report covers progress on the Nimrod AEW programme since the May 1980 review.

2. CA's submission to the Minister of State advising him of recent programme changes was accepted on 16 May, subject to Treasury approval. Subsequently the Treasury advised that the Chancellor of the Exchequer had reluctantly agreed that the project should continue on the basis of the revised confidential cost estimate (£517M), but had expressed concern that the estimate might be optimistic and requested a detailed breakdown inclusive of contingencies. AUS(Air)PE's response advised the Treasury that we were satisfied that programme contingencies were adequate, pointing out that we expected all the allocated contingency to be spent in due course and that, at this stage, foreseeable calls on the total unallocated contingency of £30.7M amounted to some £11.5M. Treasury have since accepted as satisfactory the assurances given.

3. At the Programme Review Board in July, D/Nimrod formally advised the companies that their revised programme (NIM/AEW/036) had been accepted by CA and by Ministers and re-emphasised the serious view taken of the slippage and the importance of achieving the revised milestones leading to Training Release. The companies for their part recognised that renewed efforts must be made to maintain the new programme to time and within cost.

4. An Exchequer and Audit Department Reference Sheet was received in early August which poses questions about cost, delivery dates, reliability and System Warning Probability. Draft replies are being prepared.

PROGRAMME STATUS

5. Two major programme achievements took place in July. On the 16th, a formal 'switch-on' ceremony marked the completion of the commissioning and integration phase of the MSA (BC) development rig at MAv Radlett. Later the same day, DB1 made a successful first flight from BAe Woodford. By early August, DB1 had already flown sufficient hours to clear the aircraft for participation in Farnborough 80.

6. Delays in the delivery of airframe components, summarised in para 15 below, have until recently restricted BAe's ability to utilise to the full their aircraft assembly resources. In consequence, the build of

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DB2 has been set back and there is a high probability that the next significant milestone, DB2 Off-track, will not be achieved by the agreed target date of week 42 (mid-October); the prospective slip could be 6-8 weeks, which compares with DAP's earlier confidential estimate of 11 weeks. Delays on DB2 can now only be minimized by concentrating manpower on that aircraft, and there will inevitably be some repercussion on DB3's build programme. Although there was a significant recovery of slippage on DB1 between Off-Track and First Flight, it will be much more difficult to repeat that achievement on DB2 and DB3 because of the more complex MSA installation task on these aircraft.

7. The cardinal milestones remain unchanged, ie:

	ATD	CPD
a. Delivery of first aircraft to Training Release standard	Apr 82	Mar 83
b. Initial CA Release	Feb 84	Nov 84
c. Delivery of last aircraft	-	End 85
d. Final CA Release	Not yet programmed	

Unless specified to the contrary, all other dates in this report are agreed target dates (ATDs). The target programme is illustrated in Annex A.

DEVELOPMENT FLIGHT TRIALS

8. Since the last Review the companies have issued NIM/AEW/028 describing their joint ground and flight trials. This document, together with detailed trials specifications and flight plans, will enable RSRE and A&AEE to plan the integration of their activities with the companies' trials. In addition, with the issue of NIM/AEW/038 which lists the Special-to-Type Test Equipment (STTTE) to be located at BAe Woodford for the support of development and production aircraft and sets out the joint management arrangements for the STTTE facility, the companies have satisfactorily resolved a number of uncertainties affecting the planning of a particularly critical aspect of the programme. The cost of the enhanced STTTE is within the provision earmarked for that purpose.

9. A&AEE have indicated that, taking account of their existing commitments and the effect of manpower cuts, they may not have the resources to carry out the 10 months of trials programmed to take place in 1983 prior to Initial CA Release. Alternatives have been proposed and D/Nimrod will review the situation with Chief Superintendent A&AEE on 20 August to determine whether these are acceptable or increased priority should be given to the Nimrod task. It should be emphasised that the issue of an Initial CA Release is not in question.

Comet Trials

10. Comet XW 626 completed its refit programme and was delivered on schedule to RAE Bedford for Phase 2 trials on Friday 13 June. Notwithstanding the inauspicious date, familiarization and acceptance at RAE Bedford were completed rapidly and the Establishment is to be congratulated on this achievement. Flight trials to date indicate that improvements incorporated into the radar during the aircraft downtime were successful and radar performance is markedly superior to that shown during Phase 1 flying.

11. Improvements to the diffuser and oil scavenge pump in the Comet AAPU will permit reliable operation of the X1 radar up to 30000 ft altitude; during Phase 1 flying an altitude limitation of 20000 ft had applied.

12. Comet XW 626 has been allocated priority for RAE Bedford's strained industrial resource. D/Nimrod, DLRA and RSRE staffs have however rationalised other radar trials programmes at Bedford and, providing RAE Bedford's industrial staff remain at the present level, we can be confident that the XW 626 Phase 2 trials will proceed without hindrance.

CTA Trials

13. At the end of July, the CTA had flown 30 sorties (160 hours) and a great deal of useful information had been gathered; the results so far are encouraging, with all communications equipments proving to be very reliable. A possible system problem in Link 11 operation has been identified and is under investigation.

DB1 Trials

14. By 1 August, DB1 had flown 6 sorties totalling 21 hours. The aircraft flight envelope is being explored progressively and initial results are very satisfactory, bearing in mind the limited range of weight and CG position used to date. While stalling behaviour resembles that of other Nimrod Mks, directional stability appears to be superior. No flutter problems have been revealed at speeds up to M0.78. A minor vibration apparently originating at the rear of the aircraft has been observed and is under investigation.

AIR VEHICLE PROGRAMME

Development

15. Critical component shortages on DB2 were cleared in June but there remain some 440 shortages on this aircraft, 300 of which are essential for the transfer to Hatfield. On DB3, with some 770 shortages in all, non-availability of critical items is still causing slippage. DAP staff are continuing to monitor the situation weekly.

16. BAe are now able to deploy maximum resources to complete the assembly of DB2. Nevertheless, a significant intermediate milestone, Power On, which was forecast for late July (2 months late to plan) has not been achieved and may well be as much as 3 months late in the event. It is unlikely that BAe can recover more than half of the Power On slippage before the planned Off Track date of week 42 (mid October), and the subsequent ground trials period of 12 weeks will not offer significant scope for further recovery to enable DB2 to be transferred to Hatfield on time. Due to the concentration of effort on DB2, the assembly of DB3 is progressing slowly at this stage and its Power On milestone is forecast to slip by a similar amount to that on DB2.

Radomes

17. BAe have advised that the flight clearance for aircraft fitted with radomes to the current design will reflect indicated airspeed limitations of 215 knots below 2000 ft above ground level and 225 knots between 2000 ft and 5000 ft. BAe's recommendation, which differs somewhat from that which had been expected and reported to the last Review, is being examined by the Project Office prior to formal advice being passed to AFD. Meanwhile, work on Kevlar reinforcing techniques is proceeding.

FIN 1012 IN Platform

18. Deliveries to BAe are more than adequate to support both Mk 2 and Mk 3 programmes.

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19. Contract action on the Fist-L for 2nd line support of the FIN 1012 platforms is in hand. HQSTC have concluded that it would not be cost-effective to prolong the life of the Nimrod MR Mk 1 ATE for 2nd line testing of those Mk 1 Air Vehicle LRUs which are retained in Nimrod Mks 2 and 3: manual test equipment will be bought for this purpose.

Production

20. Although manufacture of the major elements of the conversion kits is progressing satisfactorily, that of detail parts continues to be a cause for concern. BAe had declared that, once problems on DB2 were overcome, parts availability should cease to be a significant problem for subsequent aircraft. It is clear that this hope has not been realised and progress on DB3 is being monitored closely to ensure that parts shortages are resolved in time to match the build schedule for the first production aircraft.

21. Three production aircraft (P1-P3) are in work at BAe. Progress in general is satisfactory, with the new rear fuselage being fitted to P1 whilst work on P2 and P3 is limited to stripping and major servicing.

MISSION SYSTEM AVIONICS PROGRAMME

MSA Hardware Development

22. Integration has progressed well during the quarter, and system testing is proceeding following the formal switch-on by CA on 16 July. Commissioning of flight trials models has commenced and most B1 LRUs have been delivered to BAe at Woodford.

23. New factory accommodation at Hemel Hempstead is approaching completion but construction delays have put back the occupation date. This has delayed formal qualification testing and reliability rig work, but all essential testing will be completed prior to Training Release.

24. Modifications to overcome previously reported cross-talk problems within the 4080M computer have been incorporated. Manufacturing and test difficulties have resulted in some hardware shortages but programme effects have been minimised by careful scheduling.

25. Deliveries of Tactical Displays from Decca are not being maintained following the Racal take-over, and MAv have been unable to establish a firm delivery programme for outstanding development models or for Service models. DGAWLS has written to Racal's Chairman expressing MOD(PE) concern.

Mission System Software (MSS)

26. Work on the MSS is progressing to plan and the specification for Service Model Software (SMS1B) has been frozen. Problems on the MAv bureau machines used in software development have been overcome with only minor effects on the development programme.

27. A study (reported last quarter) has proceeded to determine the most economic way of increasing computer store reserves. Conclusions and a report are expected by the end of September.

28. The independent audit of the MSS development programme by RSRE is planned to take place during the last quarter of 1980. RSRE are gaining experience, before undertaking the AEW task, by carrying out a software audit of another, smaller, project.

EWSM

29. Loral development model shipping dates have been set back. The new dates should not affect the planned programme, but will reduce the time available to clear any EWSM sub-system design problems before delivery of Service Model MSA commences.

MSA Production and Service Spares

30. The programme of Service Model release for manufacture is continuing. Spares are now largely defined and are being incorporated into production planning. A suggested economy of one Flyaway Pack has been abandoned and contract action is in hand for all outstanding unit spares.

Services Test Equipment (STE)

31. The definition of the 3 outstanding STE facilities has been completed and they are now on contract. Possible minor additions are being considered as a result of Built In Test Facility (BITF) analysis.

Service Software Maintenance

32. The MAv study of required facilities for software maintenance is well underway and the report is expected by the end of August.

Frequency Allocation

33. Work on design of the modification to change the radar frequency band is proceeding well and options for embodiment of the modification with minimum aircraft downtime are being examined. The complementary study of a single frequency marginally outside the existing band is now approaching the report stage.

Interoperability

34. The AFD Link 11 message list for Initial CA Release is still under discussion at Link 11 Working Party. A current interest is the proposed addition of aircraft engagement command functions, which DNCR sees as a necessary feature for AEW when operating with a Naval Task Force.

35. The draft Air Defence Steering Committee (ADSC) Interoperability Specification is now under discussion by Naval and AFD OR staffs in a Sub-Panel of the AFD Air Defence Co-ordination Committee (ADCC). ADCC will advise ADSC of any changes they consider advisable, and the operational status of the Specification.

36. The Board of Directors of NAFMO have accepted in principle that the NATO E3A and NAEGIS ground stations will need to be updated at some future date to NATO Link 16 Standard so that full interoperability with Nimrod AEW is possible.

ERCS

37. There is some uncertainty about the US intent to fund the Full Scale Development of ERCS, but it is hoped this will be resolved shortly. Discussions are proceeding on the best approach for the ongoing UK programme and re-submission to ORC/DEPC.

38. The MAv report on the current phase of the integration study is imminent and the next stage is now being defined.

RELIABILITY AND MAINTAINABILITY

MSA

39. The MSA Reliability and Maintainability Specification has been further discussed with AFD and the Contractor, but agreement has not

yet been reached. In view of the importance of reliability achievement it is highly desirable that a specification acceptable to both parties, and achievable within the programme, be formally agreed during the coming quarter.

40. An initial MAv report on the proposed Engineering Test Program (ETP) was received in July and AFD comments on it passed to the Contractor. A Company presentation to PE and AFD on their ETP design philosophy and proposed development programme was given on 1 August; this will be followed by a full report including formal cost and timescale estimates and a statement of expected performance in September.

Air Vehicle

41. Studies continue with HQSTC to assess modifications to improve Air Vehicle reliability, maintainability and turnround time. The first outcome has been an improvement to the integrity of the nose undercarriage hydraulic system. A Service trial is also underway on a simplified check for the presence of water in fuel, and early agreement is expected to the introduction of 'carry-on' liquid oxygen packs to dispense with the in-situ recharging procedure; both these measures will add to our confidence of meeting the target for the scheduled servicing element of turn-round time.

UPRATED ELECTRICAL GENERATING SYSTEM

42. Following successful completion of the 60 KVA Compact Constant Frequency Generator (CCFG) demonstrator programme carried out by Lucas Aerospace, DA Mech has advised that it is feasible to develop a 90 KVA CCFG to meet the need to uprate the AEW electrical generating system. After examination of other potential solutions to the requirement, this option has been selected and BAe have been tasked with a Project Definition study to provide a DPCP covering the development and procurement of an uprated electrical system incorporating the CCFG. In parallel, D Eng D is managing Rolls-Royce work to improve the Spey engine gearbox to match the CCFG. The BAe DPCP is scheduled for submission in October 1980 so that, subject to a satisfactory proposal being received, approval for full development can be given.

DYNAMIC AND MISSION SIMULATORS (ASR 618)

Mission Simulator

43. It is intended to bring forward full communication facilities into Phase 1 of the Mission Simulator, provided this can be done without compromising delivery dates. To accommodate the possibility that the Simulator building may not be available in time at the MOB, contingency plans are being prepared to retain the Simulator at MAv Radlett for up to 18 months.

Dynamic Simulator

44. A second draft of the DA Nav specification has been circulated for comment. Identification of the required aircraft parts is proceeding: these will be offered as GFE and a large proportion of them should be obtainable from Service sources. For some at least of the items which are new build for Nimrod AEW, the simulator programme will require the diversion of deliveries intended for the aircraft programme.

PROGRAMME COSTS

45. The MOD(PE) estimate for development and production now stands at £516M at Sept 79 economic conditions, as compared with £513M at the last CAPR and with the figure of £517M approved by Minister and the Treasury. Details are at Annexes B to E. The additional £3M is due to the provision made for the slippage in the CPD to March 1983, as reported at the last CAPR.

46. The main change within the total estimate since the last Review is that the MOD(PE) budgetary estimate for the Compact Constant Frequency Generator (CCFG) has risen by some £1.5M in development and £2.3M in production; this has been partially offset by reductions in the cost of airframe aspects of EWSM and the balance has been met from allocated contingencies. The increase in CCFG costs has therefore not affected the overall project estimate.

Contingencies

47. Allocated contingencies stand at £37.2M (£19M development and £18.2 production), a reduction of £3.2M since the last CAPR caused mainly by the need to meet increased generator costs. Unallocated contingencies stand at £30.7M (£8.1M development, £22.6M production), an increase of £3M because the cost of the CPD slippage has for the present been put to the unallocated contingency. We expect to be in a position in October/November to seek approval for a transfer of unallocated contingency funds from production to development: this will probably be in the order of £10M. The latter figure takes account of increases anticipated in the updated MAv DCP, which is now expected in early September. The updated BAe DCP was received in July: initial analysis indicates that it does not contain any unexpected increases in the firm's estimates for design and development of the Air Vehicle.

Moratorium

48. At the time of writing, guidelines for the application of the moratorium on Defence expenditure are being defined and it is not yet possible to provide a firm assessment of their effect on the Nimrod AEW programme.

CONTRACTS

49. Discussions are still in progress with BAe with a view to introducing an incentive price contract. A further meeting between Contracts staff and BAe took place on 8 July at which an outline

proposal for a pricing arrangement covering both development and production work was put to the company: BAe's response, expected in early August, has not yet been received.

CONCLUDING REMARKS

50. Overall progress of the AEW programme during the past three months has been encouraging and the major achievements signified by the MSA rig 'switch-on' ceremony and DB1's first flight have given a significant boost to the morale of all concerned in the programme. Both companies are working hard and enthusiastically and, although some slippage of immediate milestones is foreseen, the basic soundness of the programme and our ability to complete it within the CPD and within the confidential cost estimate are not in doubt.

D/Nimrod
18 August 1980

Director of the Nimrod Project.

Annexes:

A. Overall Target Programme
B. Development Cost Table
C. Production Cost Table
D. Development - Major Milestones and Expenditure Estimates
E. Production - Major Milestones and Expenditure Estimates

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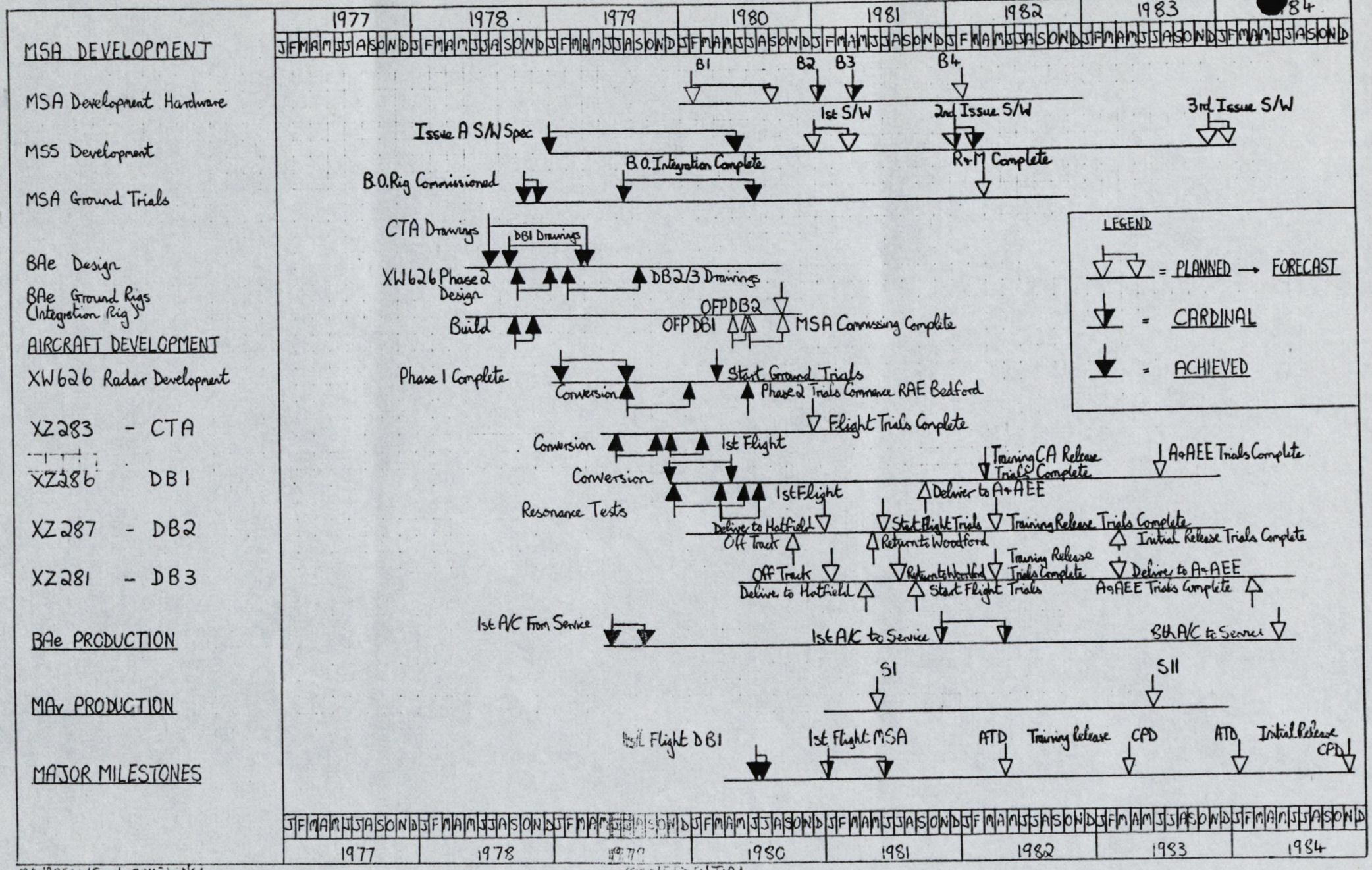
NIMROD AEW MK3 - OVERALL TARGET PROGRAMME



NIMROD AEW MK 3 DEVELOPMENT COST TABLE

£K VAT EXCLUSIVE

1	2	3	4	5	6	7	8	9	10	11
PROJECT AREA	DIRECTOR	FINANCE DELEGATED BY D/NIMROD	MOD(PE) CURRENT ESTIMATE AT 9/79 ec's	ALLOCATED CONTINGENCY ELEMENT IN COL 4	REAL VARIATION FROM: COL 4 TO: LTC 80 at 9/79 ec's	PREVIOUS EST AT CAPR 2/80 AT 9/79 ec's	L of L or FIXED PRICE	FIRM'S BOOKED COSTS EXPENDITURE TO 31.3.80	FIRM'S ESTIMATE TO COMPLETION AT 9/79 ec's	PAYMENTS TO 31.3.80
1. AIR VEHICLE CONVERSION	D/NIMROD	90,898	85,025	9,422	- 317	NIL	47,801	29,163	58,803	24,541
2. AIRCRAFT NAVIGATION EQUIPMENT AND ATE	DA/NAV	1,267	1,378	220	NIL	NIL	1,120	N/A	1,156	345
3. MISSION SYSTEM AVIONICS (MSA)	DLRA	119,132	130,886	8,977	+ 2,963	NIL	89,973	62,325	95,475	60,112
4. ELECTRONIC WARFARE SUPPORT MEASURES (EWSM)	DLRA	7,225	7,609	269	NIL	NIL	N/A	N/A	N/A	5,504
5. IFF INTERROGATOR/CRYPTO	DA/RADIO	1,081	1,142	118	NIL	NIL	1,098	920	1,242	690
6. UNALLOCATED CONTINGENCY	D/NIMROD	-	8,101	NIL	+ 8,101	+ 3,000	-	-	-	-
TOTAL	-	219,603	234,141	19,006	+ 10,747	+ 3,000	139,992	92,408	156,676	91,192

NOTE: Column 3: Delegations issued up to 2 July 1980 are included.
N/A = NOT AVAILABLE

Treasury approval for Development is £234,141K at 9/79 economic conditions. DEPC approval for Development is £228,860K at 9/79 economic conditions.

NIMROD AEW MK3 PRODUCTION COST TABLE

£K VAT EXCLUSIVE

1	2	3	4	5	6	7	8	9	10	11
PROJECT AREA	DIRECTOR	FINANCE DELEGATED BY D/NIMROD	MOD(PE) CURRENT ESTIMATE AT 9/79 ec's	ALLOCATED CONTINGENCY ELEMENT IN COL 4	REAL VARIATION FROM: COL 4 TO: LTC 80 at 9/79 ec's	REAL VARIATION FROM: COL 4 TO: PREVIOUS EST AT CAPR 2/80 AT 9/79 ec's	L of L or FIXED PRICE	FIRM'S BOOKED COSTS EXPENDITURE TO 31.3.80	FIRM'S ESTIMATE TO COMPLETION AT 9/79 ec's	PAYMENTS TO 31.3.80
1. AIR VEHICLE CONVERSION	DAP	81,854	103,164	8,478	- 1,948	NIL	33,793	20,062	76,669	17,406
2. AIR VEHICLE SPARES AND GSE		6,600	7,789	708	NIL	NIL	N/A	N/A	N/A	N/A
3. AIRCRAFT NAVIGATION EQUIPMENT AND ATE	DAEP/ DA/NAV	2,530	2,840	301	+ 132	NIL	N/A	N/A	229	44
4. MISSION SYSTEM AVIONICS (MSA)	DLRA	118,210	138,710	8,678	- 2,023	NIL	71,533	5,751	N/A	3,899
5. ELECTRONIC WARFARE SUPPORT MEASURES (EWSM)	DLRA	5,200	5,202	NIL	NIL	NIL	N/A	N/A	N/A	1,111
6. IFF INTERROGATOR/CRYPTO	DA RADIO	1,213	1,582	NIL	NIL	NIL	544	81	1,287	158
7. UNALLOCATED CONTINGENCY	D/NIMROD	-	22,573	NIL	+ 22,573	NIL	-	-	-	-
TOTAL	-	215,607	281,860	18,165	+ 18,734	NIL	105,870	25,894	78,185	22,618
DEVELOPMENT AND PRODUCTION TOTAL	-	435,210	516,001	37,171	+ 29,481	+ 3,000	245,862	118,302	234,861	113,810

NOTE: Column 3: Delegations issued up to 2 July 1980 are included.
N/A = Not available

Treasury Approval for Production £281,860K at 9/79 economic conditions. DEPC approval for Production is £284,141 at 9/79 economic conditions.

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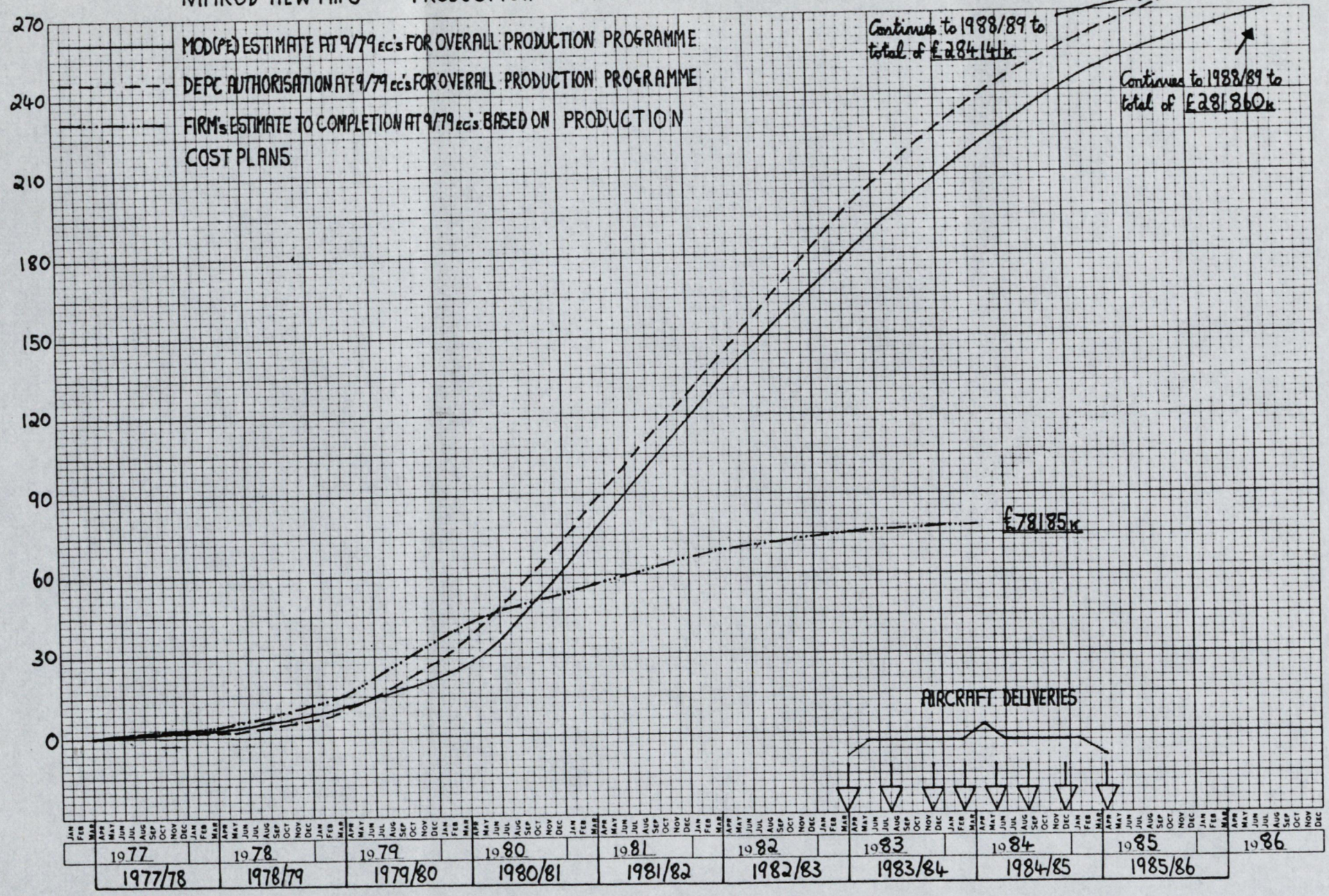
NIMROD AEW-CAPR 4/80
ANNEX 'E'

£M

NIMROD AEW Mk 3 - PRODUCTION - MAJOR MILESTONES AND EXPENDITURE ESTIMATES



Chartwell Graph Data Ref. 4008
100 Equal Divisions x 10 Years (months imprinted)

E90

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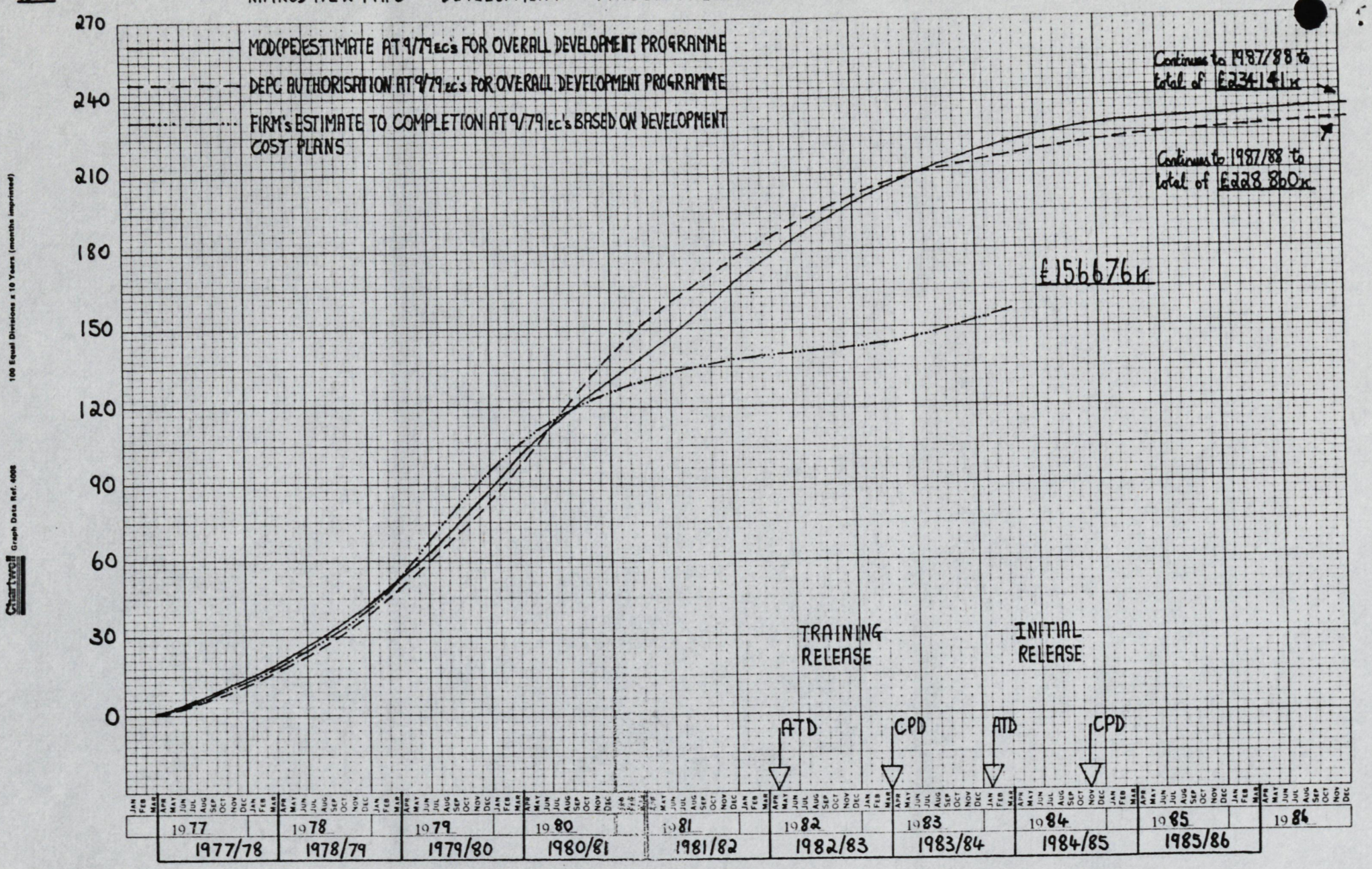
NIMROD AEW - CAPR 4/80
ANNEX 'D'

£m

NIMROD AEW Mk 3 - DEVELOPMENT - MAJOR MILESTONES AND EXPENDITURE ESTIMATES



Chartwell Graph Data Ref. 4008 100 Equal Divisions x 10 Years (months imprinted)

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Minister(DP)

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VCAS
PS/CSA
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CA
HDS
DCA(RT)
DCA
DGA2
AUS(RP)
AUS(IP)
AUS(AS)
AUS(SO)(Air)
AUS/Air(PE)
D/Nimrod
Nimrod F&S

ASR 400 (1st Revise) - NIMROD AEW Mk 3

1. In September 1979, Ministers approved the continuation of full development for Nimrod AEW following a real increase in cost of over 20% and some slippage in the programme. On 2 May 1980 in his CA 4/3, CA reported to the then Minister of State a 3 month slippage in the Confidential Policy Date (CPD) for first delivery to the RAF to March 1983: this had been caused by the 1979 national engineering strike. Since then, following further slippage in the programme it has been necessary to seek re-endorsement by Central Committees. In doing so, the opportunity has also been taken to consider the inclusion of Air-to-Air Refuelling (AAR) as part of ASR 400 (1st Revise).

PROGRAMME SLIPPAGE

2. The current CPD forecasts are as follows:

Training Release	December 1983
First Aircraft Delivery	April 1984
Initial CA Release	July 1985

The In-Service Date, based on the CPD for delivery to the RAF of the first production aircraft with Training Release, has consequently slipped from March 1983 to April 1984. Most of the slippage has occurred over a fairly short period, caused by setbacks in a number

of areas in the Mission Systems Avionics (MSA) programme. This programme, in common with BAe's associated air vehicle activities, was from its inception compressed and arranged to match ambitious aircraft delivery dates. Despite the advanced technology involved no fundamental weaknesses in the concept have so far emerged, but key areas of the programme have suffered repeated setbacks.

3. The development, production and on-board commissioning of the radar transmitter have been the main areas contributing to the delays. Problems with the transmitter, its mounting plinth and sub-systems have necessitated the development of new design solutions which have had to be proven and quality control improved. These defects have led to prolonged MSA commissioning periods on the development aircraft DB2 and DB3. In addition, the radar microwave receiver has needed extensive redesign to overcome manufacturing difficulties and much additional effort has been incurred by the need to increase computer core store capacity as the software developed. There have also been difficulties with crosstalk noise in the main computer, software for the communications control processor and design of the Build-in Test Facility. Finally, delivery of the aircraft MSA racks for the first production aircraft has been subject to a series of frustrating setbacks.

4. The technical problems have not been helped by management difficulties at Marconi Avionics, the MSA contractor. To resolve both the technical and management difficulties, CA has carried out a thorough review of the MSA programme with senior GEC/Marconi management. A revised programme has been agreed which tackles the technical problems and has now been presented, jointly with BAe, as a coordinated aircraft programme offering the most practicable route of recovery to a stable situation. In addition there have been management changes at both M Av and MRSL (a sub-contractor for the transmitter). CA is content that there is no reason to expect any major shortfall in meeting the new programme milestones.

AIR-TO-AIR REFUELLING

5. AAR was originally included in ASR 400 to meet the possible need for the aircraft to operate at greater ranges or for longer patrol times, and to extend the ferry times if required. Although excluded from ASR 400 (1st Revise) as an economy measure, the basic need remained. Experience with the NIMROD MR Mk 2 in the Falklands demonstrated that the capability can be installed relatively inexpensively and that the operational benefits far outweigh the cost. AAR has been shown to confer an enhanced degree of operational flexibility in terms of operating ranges and patrol times. It alleviates the practical problems of ensuring satisfactory availability and reliability, which are inevitable with systems of such complexity, since it allows a serviceable aircraft to be kept on station should its replacement be delayed by inserviceability or for operational reasons. Initial studies have been carried out into the feasibility of AAR in NIMROD AEW Mk 3 based on the successful NIMROD MR Mk 2 modification; and satisfactory assessments of long-term integrity and interaction with the AEW radar have established the feasibility of installing this capability.

COSTS

6. The current estimate of extramural programme costs is £760.7M at LTC 83 economic conditions, VAT inclusive (£330.2M development, £430.5M production) within which is included £5.3M for AAR (£2.3M development, £3.0M production). Intramural costs for development are estimated at £14.4M.

7. Programme slippage has resulted in increased costs of £14.3M The current estimate of £760.7M constitutes a real increase of 3.4% over the previous Central Committee approval (June 1979), and a real increase of some 24% since the project was initially approved for full development in 1977. There is a shortfall of £35.1M in LTC 83 provision which will be addressed during Estimates/LTC 84.

CENTRAL COMMITTEE CONSIDERATION

8. Both the ORC and DEPC have re-endorsed the programme, together with the inclusion of AAR. The Committees were content that the necessary action has been taken to correct the difficulties which led to the programme slippage and that there is no reason to expect that the revised programme cannot be met. The ORC noted that action was in hand to overcome a possible shortfall in the track capacity of the main computer and software, although the proposal was subject to the forthcoming Committee discussion on the JTIDS requirement for NIMROD AEW. On costs the DEPC, noting that the total real increase in the estimate for full development had increased by 24% since the DEPC initially approved the programme in 1977 and that the total project contingency stood at 24% of uncommitted expenditure (of which some 10% remained unallocated), asked to be kept informed of any further real increases in costs.

RECOMMENDATIONS

9. You are invited to approve the continuation of the Nimrod AEW Mk 3 programme with a revised confidential ISD of April 1984; and to note the revised estimate of total cost of £775.1M (including intramural costs) at LTC 83 economic conditions, VAT inclusive (a real increase of 3.4% since the project was last approved by Minister which includes provision of £5.3M for AAR.

K. C. M.

21st April 1983

(K C MACDONALD)

Acting Chairman DEPC

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MR. POWELL CDP 8/4.

NIMROD AEW

I entirely agree, if I may say so, with the Prime Minister's and your comments on the MOD paper.

I have only one other to add. The main lesson which MOD Ministers, and indeed all other Ministers, should draw from this disaster is that the UK should only attempt vast defence projects at the limits of technology after the most thorough study and with the greatest caution. This lesson has been recognised in general, but not yet in the particular: the strong lobby for a national version of EFA shows that the temptation to folly is still strong.

If it sticks, the decision to constrain defence R and D spending will have the effect of preventing grandiose projects. But an arbitrary limit of the kind which has now been set is a very blunt instrument for bringing about the control which a disciplined and restrained scrutiny of defence projects, without delusions of grandeur, would allow.

DAVID NORGROVE
7 April 1986

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CAJADO

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(A)

File

DSG (RAMAFJ)

bc: Sir P. Cradock

10 DOWNING STREET

From the Private Secretary

5 April 1986

Dear John,

NIMROD AEW

The Prime Minister is reflecting upon the report on the difficulties encountered with the Nimrod AEW project, contained in the Defence Secretary's minute of 26 March. She has commented, however, that it is not a very thorough report and conceals more than it reveals.

It would be helpful to further consideration here to have the following additional information:

(i) did the Ministry of Defence specifically turn down the proposal made by GEC in 1978 for a 'ground moving target' filter?

(ii) a copy of the submission made to Ministers about the project when the Conservative government came to office in 1979, and details of which Ministers were consulted;

(iii) there is a reference in the chronology to a report being made in August 1980 at CA's Project Review that the basic soundness of the programme and the ability to complete it within the MOD's time and cost estimates were not in doubt. Who was the report by? Was it a written report? If so, may we please see it.

(iv) a more precise statement of the criteria against which the decision in April 1983 to continue with the project was taken;

(v) the chronology shows that progress payments were suspended in October 1983, but all but £2 million of them were released by the end of April 1984. Why were they released against no more than an undertaking by GEC to submit incentive price proposals? Why were the proposals themselves not awaited before release?

(vi) why did it take until 1984 to negotiate a better type of contract than cost-plus, when the current version of the contract specification is dated February 1981?

DSG

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(vii) which other Ministers were consulted when the then Defence Secretary decided to terminate the existing development contract in late 1984?

(viii) the Prime Minister was herself informed in June 1985 by the then Defence Secretary and Mr. Levene that the MOD were suspending payments to GEC there and then until satisfactory assurances about future performance were received and agreement or risk-sharing reached. In fact payments do not appear to have been suspended until February 1986. Why this discrepancy? Why was the agreement apparently reached with Lord Weinstock in May 1985 not adhered to?

Could I please have answers to these points by 1600 on Thursday 10 April.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Attorney General and to Sir Robert Armstrong.

yours ever,

Charles Powell

Charles Powell

John Howe, Esq.,
Ministry of Defence.

CONFIDENTIAL

B.07379

MR POWELL

cc Mr Unwin
Mr Stark

NIMROD Airborne Early Warning

The Defence Secretary's minute of 26 March to the Prime Minister, about which I had a word with Mr Flesher, suggests that, apart from the multiple failings of GEC, this sad story arose essentially from two factors:

- the project was launched without proper project definition;

- we failed until this year to insist on contracts providing a fair sharing of incentives and risks between the Government and GEC.

2. Paragraph 9 of the memorandum says that a cost-plus contract was the only possibility at the outset of the project, since the specification could not yet be defined. Paragraph 22 says that the work of detailing the specification had been largely completed by 1979 and that the current version of the contract specification is dated February 1981. It is very surprising that no attempt was apparently made to obtain a better type of contract until March 1984 and that two more years elapsed before new contractual arrangements were actually secured. Some experts would argue that there is no alternative to a cost-plus contract until the intended product can be precisely described. But it must be counter-productive to have contracts which give the manufacturer no incentive to reach a precise definition quickly. And it would be reasonable for the manufacturer to take a major part of the

risk in the early phases; in civil projects the manufacturer takes all the risk.

3. The proposals in paragraphs 4 and 5 of the memorandum for avoiding such failures in future seem convincing. In particular, the idea of letting separate contracts for specific steps within the development phase will give the manufacturer an incentive to perform well, in the hope of winning the succeeding contract. But these paragraphs do not mention the idea of the manufacturer taking some of the development risk. The introduction of a single project manager in the Ministry of Defence for each project of this type is no doubt a step in the right direction. But I understand that the Nimrod project is still managed by an Air Commodore working to an Air Vice Marshal, and it must be questionable whether RAF officers, however able, have sufficient understanding of industry to strike hard bargains with manufacturers and monitor their performance completely effectively.

C L G Mallaby

3 April 1986

ANNEX A

NIMROD AIRBORNE EARLY WARNING PROJECT: CHRONOLOGY

Jan 1975 — The Ministry of Defence's Operational Requirements Committee endorsed Air Staff Requirement (ASR) 400 for an airborne early warning (AEW) system to report targets over the sea and over land on the Northern Flank of NATO. The preferred solution was participation in a NATO AEW Force based on the Boeing E3A (AWACS). However, because of uncertainties over whether the NATO programme would proceed and in view of the high estimated cost of a national purchase of E3As, a limited project definition study of a national alternative based on the Nimrod was authorised by whom (This followed a number of years of research into AEW radar and limited feasibility studies.)

Mar 1975

possibly I am not entitled to know.

Apr 1975- Sept 1976	Following project definition, Ministry of Defence Operational Requirements Committee and Defence Equipment Policy Committee concluded that Nimrod Option 4C should continue to be funded as the preferred national alternative against the possibility that NATO discussions on AWACS might prove to be prolonged or end in failure.
Mar 1977	NATO failed to agree on the funding of AWACS and the Secretary of State for Defence sought the Prime Minister's agreement for the Nimrod AEW to proceed to full development.
31 Mar 1977	The Secretary of State for Defence, Mr Mulley (as he then was), announced to Parliament the decision to proceed with the Nimrod AEW project. Seen as a contribution in kind to a NATO AEW force should one eventually be formed. 11 aircraft to be converted from surplus Nimrod Maritime Reconnaissance Mk 1 airframes.
1977	Development and production contracts placed with Hawker Siddeley Aviation (now British Aerospace) for the air vehicle conversion, and Marconi Avionics Borehamwood (now GEC Avionics - GAv) for the Mission System Avionics (MSA).

Estimated programme cost £856M at 1985-86 average outturn prices. Aircraft expected to be delivered for Training Release in May 1982, with Limited Release to the RAF in April 1984.

Dec 1978 — NATO agreed to form a mixed AEW force, based 18 Boeing E3A, together with the 11 Nimrod AEW aircraft (giving an Alliance capability broadly equivalent to the 27 E3As originally envisaged).

Mid-1979 — The new Conservative Government reviewed the Nimrod AEW project and considered the alternative of joining the NATO E3A programme. Cost estimate had risen to £1027M and Training Release date had slipped to December 1982. About half the cost increase attributable to increased GAv spend. Slippage caused by delays at contractors and in MOD in getting the programme started; a series of industrial disputes at BAe; manpower shortages; and a need to incorporate additional communication security testing. However, no significant technical difficulties encountered at this stage and the remaining estimated Nimrod expenditure and the likely costs of joining the NATO E3A project broadly comparable. Ministers judged therefore that there was no justificationfor abandoning

who, what, annulled, when, on what-info. what-advice

the Nimrod AEW project, with the loss of jobs that would ensue.

May 1980 — A further slip of three months and a consequent real cost increase of £3M, due primarily to effects of long national engineering strike in 1979, notified to Minister of State for Defence (Lord Strathcona) who accepted that this did not warrant re-exploration of the AWACS alternative.

Aug 1980 — It was reported at CA's Project Review that the basic soundness of the programme and the ability to complete it within the MOD's time and cost estimates were not in doubt. May I see the report

Mar 1982 — Air Chief Marshal Sir Douglas Lowe (Controller Aircraft - CA - from 1975 to September 1982) met GAv's Chairman to impress upon him MOD's dissatisfaction with poor progress and a consequent loss of confidence in GAv forecasts. Company responded by urgently reviewing the MSA situation with the aim of producing a modified programme which would take better account of remaining uncertainties.

May-Jun 1982

A further series of meetings with GAv eventually resulted in their production of a revised development programme. MOD consideed that a set of constructive proposals had been tabled and that a more realistic programme was now available. As a result of CA's pressure the following action resulted:

a. Two additional sets of flight-worthy MSA spares were made available to support flight development programme.

b. There were management changes at MRSL (manufacturer of transmitters), organisational changes in GAv's Airborne Warning Systems Division and a stiffening of GAv's management at Borehamwood by the appointment of a General Manager with specific responsibility for the performance of the company on the Nimrod MSA and the Tornado airborne intercept (AI) radar.

c. A six-weekly series of reports from GAv to CA was instituted which closely monitored significant milestones (this in addition to normal management information systems).

Jul 1982 — The Project Review Board considered the new programme and accepted it as the most practicable route forward.

Sep 1982 — CA again met GAv's Chairman to underline MOD's view and stress that MOD regarded the contractor as responsible for the MSA programme setbacks: recognition of this by GAv and their total commitment to achieving the new forecast was considered crucial to the success of what remained a tight programme.

Apr 1983 — Estimated cost had risen to £1060M and the forecast Training Release date had slipped by a further 13 months to April 1984.

Oct 1983 — The Minister of State for Defence Procurement, Mr Pattie, visited GAv and temporarily suspended progress payments as a measure of his dissatisfaction with continuing delays and difficulties in the MSA programme. (All but £2M of these payments were released by the end of April 1984.) why?

Mar 1984 — GAv were instructed to submit incentive price proposals for completion of MSA development

works in place of the cost-plus incentive fee basis of the original contract.

Aug 1984 — GAv incentive offer received: implied over 20% increase on approved cost of approaching ASR 400, and first aircraft to such a standard not available before 1989.

Aug/Sep 1984 — First production aircraft fails test of its acceptability to the RAF for training because of poor availability of MSA.

Dec 1984 — Joint Trials Unit established at RAF Waddington to prove the Nimrod in a Service environment, with aim of improving MSA availability and working up engineering and supply procedures. First production aircraft transferred to Waddington.

May 1985 — Mr Levene (Chief of Defence Procurement from March 1985) agreed with Lord Weinstock (Managing Director of GEC) the broad principles of an incentive contract. Most important feature was that development would continue at the company's rather than the taxpayer's risk, and that no further payment would be made to GAv in respect of development unless and until they had

demonstrated that system performance met MOD's specification.

Jul 1985 MOD specified to GAv a minimum level of capability acceptable as an initial standard at which the Nimrod could enter service. It was hoped that aircraft to this standard could enter service in 1987.

Dec 1985 GAv belatedly submitted an initial offer which did not comply with the terms agreed between Mr Levene and Lord Weinstock in May and which was considered totally unacceptable in terms of operational capability, timescale and cost. Meetings between Mr Heseltine (Defence Secretary from January 1983 to 9 January 1986) and GEC resulted in a revised offer. Estimated cost over £1250M (i.e. £375M on top of the £882M already spent or committed). In-service date not until 1990.

Jan 1986 Military advice that the level of capability offered would be so far below the Minimum Initial Operational Capability that it would be of no use whatsoever to the RAF, even for training purposes. Substantial further work and expenditure would be necessary even to approach

ASR 400. Advice by Chief of Defence Procurement that the GAv proposal did not represent value for money.

Jan/Feb 1986 — Further negotiations with GEC resulted in risk-sharing arrangement for GAv to continue development of MSA for a period of up to six months at a maximum cost of £50M; during that period MOD to seek costs of alternative AEW systems so that way forward may be determined.

ANNEX B

THE GENERAL ELECTRIC COMPANY LIMITED
1 STANHOPE GATE · LONDON W1A 1EH
01-493 8484

16th February, 1977

Dear Prime Minister,

I am very sorry to have to bother you again about a matter which might in the ordinary way have been taken up with the departmental minister concerned. The subject is the Airborne Early Warning system, for which there are two contenders,

(i) the U.K. AEW Nimrod; and

(ii) the U.S. AWACS.

With the highest motives of fulfilling our obligations as a member of the Alliance, the U.K. has participated constructively in the protracted NATO consideration of AWACS. NATO has not been able to make up its mind, questions arising as to the operational suitability of AWACS for Europe, as to its cost, and as to any counter-benefits which might fall to the non-US participants by way of off-set. For the U.K., it turns out that the off-set will be very small, while the other

/two

two questions remain unresolved.

I am sure you are well acquainted with the details of the controversy. On the one hand, AEW Nimrod will meet the operational requirements for the defence of the U.K. and fulfil our obligations to NATO. It will do this at the right time and at least as effectively as AWACS. It will cost notably less. It will integrate more readily and cheaply into the existing RAF operating and support structure. It will be completely inter-operable with the NATO ground environment and with USAF aircraft deploying in Europe.

On the other hand, if AWACS is bought, the ultimate cost of the so-called enhancements to meet the full U.K. and NATO requirements is unknown. The operating and ground support organisation will have to be developed also at unknown cost.

No doubt Boeing would present the arguments differently. But there are two points they would not make.

/Firstly

Firstly, if AEW Nimrod wins, there will be secure for five years, at any rate, 7,000 jobs in GEC-Marconi, Hawker Siddeley and their sub-contractors. If AWACS is chosen, there will be under sub-contract from Boeing at the most only 500 jobs for Britain. I do not have to emphasise the importance, particularly at the present time, of preserving 6,500 jobs which will be otherwise lost.

Secondly, if we go along with AWACS we will once again be handing over to the Americans an area of advanced technology in which we are at least as competent as they are. Airborne radar is a really complicated game; we are good at it, and it employs some of our brightest and brainiest people. In your letter to me of 11th November about nuclear energy, you were good enough to make specific reference to the importance of technological achievement in re-building our national self-confidence.

For reasons of Government policy, little is officially known of the AEW Nimrod system outside the

/U.K.

U.K. AEW Nimrod has not been presented to or evaluated by the other NATO countries; its effective capability, and its performance and timescale relative to AWACS are not widely appreciated.

From what we read in the Press, it seems that a NATO decision in favour of AWACS depends upon agreement between the parties on funding. Germany has no funds budgetted for airborne early warning. But Germany, like our own country, would find it uncomfortable, to say the least, to be the only opponent of an otherwise unanimous NATO decision.

If it is accepted that U.K. interests are better served by adopting AEW Nimrod rather than AWACS, the German position provides a key to the resolution of the difficulty. A work sharing arrangement between the U.K. and Germany to produce AEW Nimrod would satisfy NATO operational requirements and maintain employment and expertise in Europe. Of course, the Secretary of State for Defence, as a member of the NATO committee, can hardly make such a proposal to his German colleague.

/And

And that is why I am appealing to you to organise, by whatever means you judge appropriate, an approach to the German government offering them participation in the AEW Nimrod programme.

As the time for decision is already upon us, I would be grateful if the matter could be treated with some urgency. GEC-Marconi and the Hawker Siddeley Co. are ready at any time to make a full presentation of the AEW Nimrod system to the German authorities. And we are, of course, all at your disposal should you wish to call us for further discussion.

Yours sincerely,

Arnold Weinstock

A. Weinstock

The Rt. Hon. James Callaghan, MP.,
10 Downing Street,
LONDON, S.W.1.

Defence, Procurement Pt 3

(A)

PRIME MINISTER

NIMROD AEW

Not a very thorough report. Needs more work. I needs!!

You called for a thorough investigation of what went wrong with Nimrod. The Defence Secretary's report has just arrived. It is attached together with a copy of your minute commissioning it.

We shall need to look at it carefully and I will do this with David Norgrove and the Policy Unit after Easter. You will probably want to discuss it with colleagues.

Some immediate comments are:

(i) The project was fated from the beginning. The feasibility study and project definition phase were utterly inadequate. GEC's inflated claims about what they could do were accepted too readily. (Lord Weinstock's letter of February 1977 to Mr. Callaghan which you will find at Annex B to the report makes astounding reading.)

(ii) It was known in 1979 that there were problems with the contract and by 1981 serious technical difficulties had emerged. Persistent efforts were made to get GEC to remedy them but there were two vital omissions:

- first it appears not to have been until 1985 that the Government's dissatisfaction was made known directly to Lord Weinstock and that the Defence Secretary himself began to take a hand. Until then the problem was dealt with at a lower level. Given the immense cost of the programme, it would surely have been better to have dealt with the problems at the highest level.

- secondly no-one appears to have been ready to think

the unthinkable and propose cancellation of the contract and adoption of an alternative solution. The then Defence Secretary should surely have considered this option and discussed it with his Ministerial colleagues at a much earlier stage.

(iii) It is difficult to disentangle how far MOD really changed the specifications in the course of the contract. It is common ground that a significant change was required in 1981 in the design of a radar. It is also now clear that a major new part - "a ground moving target filter" - is needed to make the radar work. There is a dispute between the company and the MOD whether this results from a change in specifications or from a failure in the company's original design.

(iv) Otherwise the main failings in the MOD's handling of this contract have to be deduced from the lessons drawn by the Defence Secretary for the future in paragraph 4 of the report. These lead one to the conclusion that project definition was inadequate, that contracts contained no means of bringing contractors under effective discipline, that there was no single focus of responsibility for the project on the contractor's side and that responsibility was too diffused within the Ministry of Defence so that nobody really felt it was his job to blow the whistle.

You will no doubt want to read the report and the attached chronology during the week. But you may prefer to delay any comment or reply until you have had a chance to discuss it.

CDP

CHARLES POWELL

27 March 1986

MO 26/7/3E

PRIME MINISTER

NIMROD AEW

1. In your minute of 28 February, you asked me to prepare an account of what has gone wrong with the Nimrod airborne early warning (AEW) project during our term of office. The following report and the annexed chronological history of the project to date have been prepared in consultation with the Treasury, the Department of Trade and Industry and the Law Officers' Department.

2. We have of course frequently acknowledged in the House that this project is one of which neither Government nor industry can be proud and it is only right that we should seek to draw appropriate lessons from our experiences with the project.

3. Although you asked specifically about the handling of the project during our term of office - and the following report concentrates on this period - most of the difficulties and

delays which have beset the project have their origins in the way the project was begun in 1977. With hindsight it is apparent that, driven by a perceived need to replace our Shackleton AEW aircraft in 1984, the project was authorised after a limited feasibility study and a project definition stage which was inadequate by the criteria adopted by my Department following the Downey Report of 1966; the technology involved had not been demonstrated; the timescale, involving the overlap of development and production, was over-ambitious and allowed no margin for unforeseen difficulties or delays, despite the high-risk, technologically ambitious nature of the project. With support from both sides of the House, the Ministry of Defence was, in essence, accepting the assurances of contractors that they could meet a technological challenge which was in some ways greater than that presented by the development of the Boeing AWACS system - for example, the Nimrod airframe is only half the size of the Boeing and this made it necessary to automate certain facilities which are operated manually in the AWACS - and could do so in half the time and at a considerably lower projected cost. In this connexion, it is astonishing interesting to read the claims in the letter at Annex B from Arnold Weinstock, addressed to the Prime Minister of the day six weeks before the decision was announced. When, more than seven years later, GEC Avionics produced incentive price proposals to complete the development, it became apparent that they had seriously underestimated the scale of the task.

4. The essential lessons to be learned from the Nimrod AEW experience are that in future complex national development projects of this type:

a. we should ensure that project definition continues until the technology involved has been demonstrated and the full development contract can be based on a clear specification with agreed acceptance criteria to establish that the specification has been satisfactorily met;

b. until that stage has been reached and confidence established, we should move ahead by comparatively short steps defined as closely as possible;

c. we should establish contractual terms which, by providing for these shorter steps, bring the contractor under effective discipline;

d. we should appoint a single prime contractor and, as a natural corollary,

e. we should have a single project manager in the Ministry of Defence with full control over specialist activities and heading an integrated technical, financial and contracts team.

and to country

5. These lessons have been costly for the Department to learn. I attach the utmost importance to ensuring that they are applied to projects in future. For example, in the present case a single AEW Project Director has already been appointed on the lines of sub-paragraph 4e.

6. There may be other, subsidiary lessons, for example, I shall be considering with the Chief of Defence Procurement whether our project managers should spend longer in their appointments.

7. You asked me to cover a number of specific points: I do so in the following paragraphs.

The original contracts

8. Separate contracts were placed in April 1977 with what is now British Aerospace (BAe) for the development and production work on the Nimrod airframe and in August 1977 with what is now GEC Avionics (GAv) for the development and production of the mission system avionics (MSA). It is the latter work that proved the most technically challenging part of the project and the source of continuing delay. It included the radar, complex data handling, electronic support measures and the communications system.

9. Following the receipt of a costed programme prepared by GAv, the MSA development work was contracted for on a cost-plus percentage fee basis. A cost-plus approach was the only one feasible at the outset when it was impossible to define in detail the requirements of the specification: the contract was framed on the basis that the work would proceed "in collaboration with the Ministry of Defence".

10. Ever since the original contract was placed, the Ministry of Defence has been at liberty to terminate it. Under the terms of the contract, our liability to GAv in the event of termination would be strictly limited: it would not extend to compensation for loss of profit on the uncompleted work. The Treasury Solicitor advised early in 1985 that, given the terms of the contract and the periodic review and authorisation of the work by the Ministry under it, and in the absence of any evidence indicating misrepresentation or fraud on the part of the company, it was not possible for the Ministry for its part to claim for any relief.

11. Thus the absence of a contractual "remedy" has its origin in the initial cost-plus approach. As the annexed chronology records, discussions aimed at moving from a cost-plus to a definitive programme with contractual performance incentives were opened with GAv following an intervention by Geoffrey Pattie as Minister of State for Defence Procurement in October

1983. Our decision in OD on 12 February 1986 at last enabled us to bring those chequered discussions to a satisfactory interim conclusion.

Project management and monitoring arrangements

12. From the outset in 1977, there was a Project Director with overall responsibility for the Nimrod AEW programme. (There were four incumbents of this post from the inception of the project.) Within that overall responsibility, he delegated financial and technical authority for the development and production of the MSA to the 'specialist' director who managed the majority of the Department's airborne electronics equipments. (There have been four incumbents of this post with MSA responsibilities since 1977.) Similar delegations of authority were made for the procurement of a simulator, the development and production of IFF (Identification, Friend or Foe) and cryptographic equipment, and engine modifications. Technical and financial authority for the air vehicle element of the Nimrod AEW programme was held by the Project Director himself.

13. From the beginning, Quarterly Project Review Board Meetings were held separately with each of the main contractors. Joint meetings also took place each quarter. Contractors were required to submit a comprehensive quarterly financial report to

specialist directors and a Quarterly Financial Review of the project was also held. In addition, in accordance with management practice in the Ministry, Controller Aircraft (CA) himself reviewed the project on a quarterly basis and copies of the papers were sent to HM Treasury and the Department of [Trade and] Industry. The Nimrod AEW project was also, in common with other projects, subject to my Department's committee procedures, in accordance with which the project was re-submitted for review in 1979, in 1983 and twice in 1985.

Revelation of existence of major problems

14. The chronology shows that early slippages and the consequent cost increase in the Nimrod AEW programme were in the main caused by industrial action and manpower shortages. It was in 1981-82 that major technical problems in the MSA programme became apparent, with further slippage and significant cost increases. The company's top management were left at this time in no doubt about my Department's dissatisfaction with their poor progress and our consequent loss of confidence in their forecasts of cost and timescale for completion of what had been recognised at the outset as an extremely ambitious technical undertaking. At our insistence, GAv undertook urgently to review their programme to take better account of remaining risks and uncertainties. The review resulted in a revised overall AEW project plan which was accepted as offering the most practical

route to recovery. Notable factors were extra support to the flight development programme, improvements to the company's management and - in addition to normal management information arrangements - reports made every six weeks to CA until the end of 1983 which closely monitored progress against significant milestones. At the beginning of 1983, CA also called for weekly reports from the Project Office on the status of the project as a whole; the frequency was subsequently changed to once a fortnight, and these reports have continued to be made on that basis until this month. The further delays and difficulties with the MSA programme which these arrangements revealed led to the Ministerial intervention by Geoffrey Pattie mentioned in paragraph 11.

Ministerial involvement

15. The Nimrod AEW project was first considered by Ministers of this Government when we came into office in 1979. By then the estimated cost at 1985-86 average outturn prices had risen from £856M to £1027M, the date for delivery of the first aircraft for Training Release had slipped from May to December 1982, and the date for introduction to service from April to November 1984. However, at this time, there was little difference between the estimated further expenditure needed on the Nimrod and the cost of procuring the Boeing E3A (AWACS) aircraft. The then Defence Secretary (Francis Pym) took the view - with the agreement of

the present Foreign and Commonwealth Secretary, then Chancellor of the Exchequer - that the balance of advantage lay in continuing with the project.

16. In May 1980 the Controller Aircraft reported to the Minister of State for Defence (Euan Strathcona) a slippage of a further three months in the Training Release date as a result of the effects of the 1979 national engineering strike. Euan Strathcona came to the view that this did not warrant re-exploration of the AWACS alternative.

17. In April 1983 the project was submitted to the Minister of State for Defence Procurement (Geoffrey Pattie) for approval for its continuation following the review under my Department's committee procedures referred to at the end of paragraph 13. This report drew attention to the further slippages and the major problems outlined in paragraph 14. By that time the revised programme had been in place for some eight months, and GAv's progress against agreed cardinal milestones had been judged satisfactory. As a result of this renewed confidence that the revised programme timescales could be met, Geoffrey Pattie approved the continuation of the project.

18. This confidence proved misplaced, however: in the succeeding six months, further delays and difficulties in the MSA programme were reported, and as a result Geoffrey Pattie

visited GAv in October 1983. He made clear to the firm his profound concern at the state of both the Nimrod AEW and the Tornado airborne intercept (AI) radar projects and told them that progress payments in respect of the former would be withheld until deliveries met the requirements of the contract. He wrote to Lord Weinstock on 8 November 1983 telling him that he would reconsider the matter when the company had made "get well" proposals. Payments were resumed in April 1984 after GAv had undertaken to submit incentive price proposals - which would have superseded the cost-plus percentage fee basis of the original contract - for the work then in hand on the MSA. (Some £2M accordingly remained withheld until a risk-sharing basis was agreed with GAv following last month's decision.)

19. At the end of 1984, following officials' evaluation of GAv's proposals and further negotiations, my predecessor (Michael Heseltine) reached the view that the aim should be to terminate the existing development contract with GAv at the earliest possible moment, although this was recognised to be some months away. His objective was to achieve a technically viable level from which to institute, wherever feasible, incentive contracts and competition for the remainder of the programme. By July 1985, the Department had carried out a technical audit and identified a technically viable level of capability - the Minimum Initial Operational Capability (MIOC) - which, though well short of the requirement as laid down in ASR

400, could be accepted by the Defence Staffs as an initial standard at which the aircraft could enter service. GAv's first response to this was very disappointing in terms of operational capability, timescale, risk and cost. Only vigorous and robust negotiation enabled us to agree with them the risk-sharing proposals endorsed by OD last month.

No reference to what Peter Levene told me in July (?) 85.

Specifications

20. It is important to distinguish between the Air Staff Requirement for an AEW system (ASR 400) and the specification for the Nimrod AEW system. The first is a military statement of need, the second a description of that need expressed in technical terms and agreed with the company. Since its issue in 1977, there has only been one change in the Requirement - the addition in 1983 of in-flight refuelling. This change did not affect GAv or the MSA.

21. The 1977 contract for the MSA referred to an outline specification which, because the precise course of the complex and technically demanding development programme could not be adequately charted, was accepted by all parties as requiring amplification.

22. Management Committees, on which the companies sat, were set up to manage this process of fleshing-out the outline. Both the detailing of the specification and the associated programme changes were managed within this framework and decisions were reached by mutual agreement. This work had been largely completed by the time we took office in 1979 and re-endorsed the programme (the current issue of the contract specification is dated February 1981). I am satisfied, however, that during this early period of refinement neither the Department nor the company was in any respect seeking to change the intention behind what was, inevitably, as explained above, only an outline initial specification.

23. In fact, only one change was made to the initial MSA specification: the radar frequencies specified would have caused interference on the French television network and it was necessary to authorise the adoption of new frequencies. This was done in 1981 and necessitated a significant change in the design of the radar.

24. During 1985, GAv realised that some of their radar performance problems stemmed from the fact that echoes from moving vehicles were overloading the radar system and preventing it from operating satisfactorily when the Nimrod aircraft was within 120 miles from the coast. As a consequence, in order to meet the requirement stated in the outline specification for the

detection of targets over water right up to a populated coastline, GAv will have to develop a 'ground moving target' filter. This device formed part of a proposal the company put to us in 1978 for the development of a modification which could give full overland performance. This proposal was not then proceeded with - primarily because, although the Staff Requirement makes clear that the system should be usable over largely undeveloped areas of land such as the Northern Flank of NATO, it did not have to be usable over populated areas. The performance deficiencies in the radar which have given rise to the need for a filter now could allow my Department to be misrepresented as having changed the specification in this respect. As this explanation makes clear, that is not the case. Indeed, GEC have on a number of occasions represented publicly that the Ministry of Defence changed the specification of the project and that this caused them great difficulty. The above paragraphs show that this generalised complaint is not true.

Changes negotiated in the original contracts

25. Numerous amendments to the original contracts have been negotiated over the years - over 100 in respect of the air vehicle and over 140 on the MSA contract. Apart from the changes related to in-flight refuelling (paragraph 20), radar frequencies (paragraph 23), and an increase in the power of a generator which drives avionics equipment, these were chiefly

concerned with increasing the contractual Limitation of Liability as the development work progressed. None of them prejudiced the contractors' ability to meet the specification.

26. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Attorney General; and to Sir Robert Armstrong.

J. Bremner
(Private Secretary)

[Approved by the Defence Secretary and signed in his absence]

Ministry of Defence

26th March 1986

CONFIDENTIAL UK EYES A

B.07361

She has already reacted.
CDP 17/3.

MR POWELL

c Mr Stark

Ballistic Missile Early Warning System (BMEWS)

The commercial arrangement with the Raytheon Corporation, described in the Defence Secretary's minute of 12 March, looks very satisfactory. One could have wished that the Ministry of Defence had given more than a day or so for members of OD to react. The Secretary of State for Trade and Industry, in particular, has a direct interest. I understand from his office that he is unlikely to object but his officials are still reflecting. If the Prime Minister has not already reacted, I suggest that she should say that she agrees with what is proposed, assuming that it is also acceptable to the Secretary of State for Trade and Industry.

C L G Mallaby

17 March 1986

CONFIDENTIAL UK EYES A

DEFENCE Procurement Pt 3

CONFIDENTIAL UK EYES A

10 DOWNING STREET

From the Private Secretary

14 March 1986

Dear Richard,

BALLISTIC MISSILE EARLY WARNING SYSTEM (BMEWS)

Thank you for your letter of 13 March describing the arrangements which have been negotiated with the Raytheon company to place work in Britain in connection with the Fylingdales contract. The Prime Minister agrees that the firm's offer represents a good bargain and she is content for the Defence Secretary to settle the matter on this basis when he meets Mr. Weinberger on 17 March.

I am copying this letter to the Private Secretaries to members of OD and to Michael Stark (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL UK EYES A

(1)

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~930 7022~~ 218 2111/3

Prime Minister

MO 26/7/2E

We appear - for once - to have got the substance but not the form!
Agree that Defence Secretary should settle with Mr Weinberger on this basis?

13th March 1986

Dear Charles,

CDP 13/3

BALLISTIC MISSILE EARLY WARNING SYSTEM (BMEWS)

In your letter of ~~17th~~ at flap July 1985 you said that the Prime Minister was content that we should agree to the request from the United States Government to modernise the BMEWS station at Fylingdales, provided that we could reach satisfactory industrial and financial arrangements.

Yes - excellent news.

The need for equitable British industrial participation in the project was raised with Mr Weinberger by Mr Heseltine. Mr Weinberger, while content to allow British companies the opportunity to bid into the Fylingdales programme, expressed himself unwilling, indeed unable, to make any definite offer of work to British companies. He pointed to the well known Congressional constraints and Congressional pressure on the Administration and American industry to resist offset arrangements that relate to projects ultimately funded by the American Government. In subsequent negotiations American officials doggedly followed this line and were unwilling either to accept or to try to implement any offset obligation.

However we have, with the help of Pentagon officials, been able to negotiate arrangements with the Raytheon company, the main contractor for the radar modernisation, which should lead them to place work in Britain for the next 10 years to the sum of about $135M - the expected value of the Fylingdales contract to be awarded to Raytheon. The arrangements are set out in a Memorandum of Understanding with the company. Although this does not provide guarantees of work, Raytheon has agreed that their performance on this agreement is to be monitored regularly and reported to the Ministry. There will be scope then to bring pressure to bear, if this were to prove necessary. In addition to these arrangements the Pentagon has promised to place a de-activating contract for the old radar with a British company which is expected to be worth some $20M.

Charles Powell Esq
No 10 Downing Street

Raytheon does not wish its role to be revealed, since it sees a very real risk of other countries trying to make similar arrangements if this one becomes public knowledge. In the light of Congressional attitudes the Administration may also wish to distance itself publicly from any industrial agreements. Nevertheless American officials have been prepared to accept what has been done, and we are now discussing the text of a formal MOU to cover the details of inter-governmental arrangements on the modernisation. We will need to give careful thought, with the FCO, to the presentation of the modernisation decision. As part of this we have provisionally agreed a form of words with the Americans on industrial arrangements which is attached for information.

It is disappointing though not surprising that, after lengthy negotiations with the American authorities, we have not been able to make any officially supported arrangements. The Administration no doubt calculate that we shall not press the issue to the point of blocking the modernisation of a facility which is in our mutual defence interest. Unless we were seriously willing to block the modernisation - with all the attendant risks to other Anglo-US co-operation - there seems little purpose in further negotiations on an official arrangement. The firm's offer itself represents a good bargain which the Defence Secretary believes meets our requirements for satisfactory industrial and financial arrangements. Subject to the Prime Minister's agreement, he would propose to settle the matter on this basis when he meets Mr Weinberger on 17th March.

I am sending copies of this letter to the Private Secretaries to other members of OD, and to Michael Stark (Cabinet Office).

Yours ever,

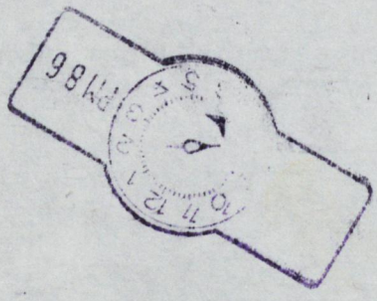
Richard Mottram

(R C MOTTRAM)
Private Secretary

As well as its improvements to our operational capability, the Fylingdales modernisation will bring jobs to Britain. British companies will be used in the development of the facilities and infrastructure required by the improved radar, and they will also be undertaking the deactivation work on the existing radars. In addition arrangements have been made which ensure that a range of British companies will have an opportunity to benefit to an extent closely equivalent to the investment undertaken by the Americans at Fylingdales.

DEFENCE

Procurement PTB



MJ/DA

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10 DOWNING STREET

THE PRIME MINISTER

Personal Minute
No. M4

SECRETARY OF STATE FOR DEFENCE

NIMROD

We need a thorough investigation of what has gone wrong over Nimrod during this Government's term of office.

I should be grateful if you would let me have before Easter a full report prepared in conjunction with the Treasury, the Department of Trade and Industry and the Law Officers.

Among other points, the report should consider:

- the nature of the original contract and why it was apparently constructed so as to leave the Government no remedy when things went wrong;

- how the project was managed within the Ministry of Defence, including the arrangements for co-ordinating the work of the Ministry of Defence, GEC and BAe;

- what provision there was within the Ministry of Defence for monitoring progress with the contract;

- at what stages this monitoring revealed the existence of major problems;

- at what stages Ministers were informed of the problems and what action was taken to deal with them;

- what changes if any were made in the original specifications and when;

- what changes were negotiated in the original contract and when.

It would be helpful to have annexed to the report a full chronological account of the history of the contract so far.

I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Attorney General and Sir Robert Armstrong.

Margaret Thatcher

28 February 1986

(2)

010

Prime Minister
Mr Younger has done well.
CDP
24/2.

MO 26/7/3V

PRIME MINISTER

AIRBORNE EARLY WARNING

1. Following our discussion at OD on ~~12th~~ attached February, I am pleased to tell you that we secured late last night GEC's agreement to the terms we wanted. GEC will be proceeding with the project for a six month interim period while we also establish possible alternative ways of meeting the AEW requirement.

2. As soon as these options have been appraised along with proposals to be prepared meanwhile by GEC Avionics, I shall report back. I shall, of course, let you know of any significant developments meanwhile.

3. It happens that there is today a debate in the House on the Royal Air Force at which we shall obviously be pressed on the future of Nimrod. Norman Lamont will be opening the debate and I attach for information the section of his speech which deals with the Government's approach and the agreement now reached.

4. I am copying this minute and the attachment to the other members of OD, the Paymaster General, the Chief Whip, and Sir Robert Armstrong.

G.H.

Ministry of Defence

26th February 1986

I come now to the position on the Nimrod airborne early warning project.

The House will recall that in March 1977 our predecessors announced their decision to proceed with the Nimrod system to replace the Shackleton in the airborne early warning role. Contracts were placed with what are now British Aerospace plc for the necessary work on the Nimrod airframe and GEC Avionics Limited for the development and production of its mission system avionics. At that time it was envisaged that the aircraft would enter service with the Royal Air Force in April 1984.

Since 1977, work has been proceeding on the project as an important component of the United Kingdom's air defence capability and as our contribution in kind to the NATO mixed AEW force.

British Aerospace's work on the airframe has proceeded satisfactorily. As the House is aware, however, serious difficulties have arisen in the development of the avionics system and these have led to significant time and cost overruns.

Given these difficulties, the Government has concluded that it would be right to consider all of the available options - both from this country and overseas - for meeting the RAF's needs before taking a final decision on the way forward. We must ensure value for money on this project as elsewhere in the Defence programme. GEC has fully accepted the Government's view that this evaluation is now necessary. The Government also believes that the project management and contractual arrangements for the Nimrod AEW programme, which were established in 1977, have clearly not provided a satisfactory basis for the timely completion of the project and that it can go forward only on a revised basis. We have been discussing with the company arrangements for sharing the risk and providing adequate incentive for completion and I am very pleased to inform the House that these negotiations have been satisfactorily concluded. We have reached agreement both on arrangements to cover the interim period while all of the options - including of course Nimrod AEW - are fully evaluated and on a possible basis for the longer term should we proceed to completion with the Nimrod project.

During the next six months, GEC Avionics will press ahead with the Nimrod development programme on a revised contractual basis under which they and the Government will bear 50% of the costs properly incurred within a maximum financial limit for the programme of £50 million. Before the end of this period they will provide us with a firm price proposal against a technical specification aimed at achieving the Royal Air Force's needs. They will also demonstrate to the Ministry the progress they have made on the development of the project. During this period, we shall also explore with other contractors at home and abroad alternatives to the Nimrod AEW approach and their technical, cost, industrial, and other implications. We shall also be consulting the NATO Authorities.

Following this six month period, the Government will reach a decision on the way forward. Should we then decide to accept a GEC Avionics proposal and to continue with the Nimrod AEW project, the contract will be extended within an agreed firm price and period for completion and with funding to continue on the basis of equal shares. Once the work had been completed satisfactorily to time, the funding borne by the company would of course be paid in full. In the event, however, that completion were to be delayed beyond the agreed period, the company have agreed that they would bear the cost of the programme until it was satisfactorily completed. These arrangements then would provide for the company to be paid in

full for work completed satisfactorily to time and for the company to bear the consequences should this not happen. They would I believe be fair to the company and fair to the taxpayer.

Mr Speaker the Government is anxious to give the company and its employees the chance to demonstrate that they can complete the project satisfactorily. The company have now shown their commitment to, and confidence in, their ability to do this. They have also recognised - and I pay tribute to this - the need to show that their solution is competitive with the alternatives that are on offer. The Government has sought in these negotiations to give them every opportunity to recover a most unsatisfactory position which reflects, in part, wider shortcomings in the management of defence procurement. These too are being vigorously tackled.

OD (86) 2

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COMMERCIAL IN CONFIDENCE

B.07324

PRIME MINISTER

c Sir Robert Armstrong

Nimrod Airborne Early Warning Aircraft
OD Meeting: 12 February
Supplementary Brief

In his minute (MO 26/7/3E) the Defence Secretary describes the revised offer made by GEC, to which reference was made in paragraph 7(d) of my brief (B.07321) of 11 February. He reports that GEC are now prepared to offer fixed prices for the two key features of the radar needed substantially to achieve Minimum Initial Operational Capability (MIOC) within the overall programme cost of £1300 million, quoted in his memorandum. But the maximum risk which the Company is proposed to take is only 15 per cent of the development costs.

2. The Defence Secretary remains concerned about the soundness of the Company's position to achieve MIOC on time; believes that the approach to US companies for alternative solutions should proceed without delay; and recommends that GEC should be required to demonstrate their belief in their proposals by bearing 50 per cent of the risk of development and 50 per cent of the funding for the next six months while alternative US solutions are assessed. The Company would only recover the 50 per cent interim funding (£30 million) if the Nimrod project is allowed to proceed six months from now and MIOC is then achieved on time.

3. The issues remain as set out in paragraphs 5 and 7 of the brief. The main additional question arising from the new offer is whether the Ministry of Defence should bear half of

the cost of keeping the Nimrod project alive while alternatives are assessed over the next six months. Is a 50 per cent cost share the most that the Company is likely to consider? Is an expenditure approaching £30 million by HMG over the next six months justified by the arguments for keeping the project alive -

a. there would then be increased pressure on US bidders;

b. there would be the certainty of assessing whether we could afford a US aircraft before abandoning Nimrod, so reassuring our allies that we were intent on acquiring an effective AEW capability;

c. there would be presentational attractions in giving GEC a final chance of proving themselves on the basis of an equal sharing of costs with HMG while alternative solutions were costed.

4. Subject to discussion in which the views of the Defence Secretary and Chancellor of the Exchequer should be sought, you could lead the Committee to agree that the Defence Secretary's proposals represent an acceptable compromise for keeping the Nimrod project in being at least while the essential work of exploring and costing alternative solutions is undertaken without delay. The need for a decision now to approach US companies remains clear.

C L G Mallaby

12 February 1986

PRIME MINISTER 11 February 1986

NIMROD

Nimrod cost estimates (in 1985/6 pounds) have risen from £856m in 1977 to £1,300m today, whilst the in service date has been pushed back from 1984 to around 1990. This is for a Minimum Initial Operational Capability (MIOC) standard that can only track a quarter of the number of targets originally specified in ASR400.

If GEC's latest promises are to be believed, then achieving MIOC should cost £400m on top of the roughly £900m already committed on Nimrod. To take the equipment from MIOC to ASR400 standard would take perhaps another three years, and could cost a further £200m, but might easily be £500m more, (the last 10% of performance often costs more than the rest put together).

By contrast purchasing American AWACs - which would meet most of ASR400 - might cost less, (estimates range from £600m to £1200m compared to the extra £600m-900m needed for Nimrod), deliver guaranteed performance, and could be in service to the full operating standard by 1990 rather than 1993. Given GEC's track record, and subject to more precise cost figures, the AWAC looks the safer commercial decision. But politically it is a minefield.

It is astute to test GEC's faith in their product by requiring them to fund more of the risk (rather than just £10m). But given their performance to date, and their behaviour so far over such commitments, it may well be that GEC don't believe they can get to MIOC or if they can, don't believe they can deliver the system for the £400m quoted.

GEC have already suffered tremendous damage because of Nimrod and they may want a way out. If the Government's

CONFIDENTIAL

terms could be described as sufficiently unreasonable this would give them the opportunity. GEC might also see this as a chance to damage our non-interventionist industrial policy which is increasingly applying the brakes to the GEC gravy train.

We recommend that:

i. US bids must be sought. This keeps the pressure on GEC and will allow the Government to take informed decisions.

ii. Until the political climate is easier we should delay insisting GEC take more of the risk. This will give time for negotiations with GEC, and also for the US to make preliminary bids before we finally call GEC's bluff.

D F Scola

pp PETER WARRY

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PRIME MINISTER

NIMROD

You read Mr Younger's paper over the weekend. There is now a Cabinet Office brief. Also a Policy Unit note.

The game has changed a bit since the paper and the brief were written. Not for the first time, GEC have submitted a last minute offer. Mr Younger will circulate a note overnight (now received and in folder). But the main points are likely to be as follows.

Last week GEC said that they needed six more months to see whether they could ever reach the Minimum Initial Operational Capability (MIOC), particularly in the two key areas of the capability of the radar when looking towards land and its tracking capability. They offered a fixed price contract of £375 million to achieve a sub-MIOC standard.

Now they suddenly find they have solved the key problems and can offer a fixed price contract to full MIOC standard. After all that's gone before, the temptation to say "oh yeah" is pretty strong.

Mr Younger will recommend:

(a) that we go ahead and explore the American options; but

(b) we do not cancel the GEC contract now, but continue negotiations in parallel with GEC, to make them take 50 per cent of the risk of completing the contract to full MIOC standard (ie if they fail, they would be liable for up to 50 per cent of £255 million. This is the development as opposed to the production cost.);

(c) a final decision would be postponed until 31 July when we would be in a position to assess the available US options and weigh them against whatever progress GEC have by then made towards proving that they have cracked the problems and can deliver to full MIOC standard;

(d) that work between now and end July should be funded on a 50/50 basis, with GEC being able to recoup their share if the project goes ahead.

This does not greatly affect the recommendation in Mr Younger's original paper. Clearly we must explore the American option. The only point in question is whether GEC will accept the terms proposed by Mr Younger. If not, the recommendation is that we cancel the contract now.

Duty Clerk.

CDP

11 February 1986

SLHAJN

MO 26/7/3E

PRIME MINISTER

NIMROD AIRBORNE EARLY WARNING AIRCRAFT

Since circulating my memorandum OD(86)2 on the Nimrod airborne early warning (AEW) aircraft, I have received a further offer from GEC Avionics Ltd (GAv).

2. Without waiting until the end of July, they are ready to offer now a fixed price contract for development substantially to achieve the Minimum Initial Operational Capability (MIOC), including the two key features of the capability of the radar when looking towards the land from over the sea and its tracking capability. After allowing for the consequential production expenditure, the total cost of achieving the standard now on offer would be just over £400M (£255M for development; £95M for consequential production; £52½M VAT) beyond the £882M (at 1985-86 average outturn prices) that we have already spent or committed. The maximum risk that the company are prepared to take is 15% of the development costs.

3. This means that GAv have suddenly made us now the offer that last week they were saying they could not provide until the

end of July: such a sudden change of approach does not enhance my confidence in the soundness of their position.

4. I do not believe that this latest offer affects the strong case for now approaching US companies and the NATO authorities to assess the cost and other implications of alternative ways of providing an AEW capability. GAv are still offering a limited solution at substantial cost. We need to know more about other options. Equally, for the reasons given in paragraph 15 of my memorandum, I remain reluctant to cancel the project before we have established the cost of the alternatives, which will take us some six months.

5. Two questions therefore arise: how are we to handle the interim funding of the project while all the options are assessed and what should be our stance on the acceptability of the proposals now made by the company to reach the MIOC, as a basis for a British solution to the requirement? In addition to the normal process of seeking to negotiate a reduction in the price quoted, I believe that we should tell the company that, if they are to remain in contention for this requirement, they must commit themselves now to bearing much more of the financial risk, both for the expenditure (approaching £60M) in the period while we are analysing the options and more fundamentally for the whole of the development expenditure (£255M) to reach the MIOC. In my view, we ought to require GEC to demonstrate their belief in their ability to achieve on time the proposals in

their latest offer and its competitiveness with American alternatives by asking them to agree that:

a. GEC and HMG will each bear 50% of the spend on the whole programme over the next six months. In the event that HMG then decides to terminate the programme, GEC's share will not be refunded. In the event that we proceed with the programme, GEC will have the opportunity to recoup their share if they complete the programme satisfactorily as in b. below;

b. For completion of the whole programme, including interim expenditure, they will be paid in full only if they meet the MIOC to time; if they do not succeed, they will be responsible for 50% of the development expenditure of £255M.

I propose to instruct the Chief of Defence Procurement to negotiate personally with the Managing Director of GEC on that basis.

Recommendation

6. For tomorrow's OD discussion, I therefore make the following revised recommendations:

a. I should immediately put in train the approaches to American companies and the NATO authorities needed to define alternative ways of providing an AEW capability;

b. I should instruct the Chief of Defence Procurement to negotiate with GEC on the basis described in paragraph 5. If we cannot reach agreement with GEC, the Nimrod AEW project should be terminated forthwith;

c. I should inform Parliament by an oral Statement of the way forward;

d. I should report back to the Committee when alternative options have been costed and assessed.

7. I am sending copies of this minute to the other members of OD, to Kenneth Clarke and John Wakeham, and to Sir Robert Armstrong.

GH.

Ministry of Defence

11th February 1986

B.07321

PRIME MINISTER

cc Sir Robert Armstrong

FLAG A Nimrod Airborne Early Warning Aircraft (OD(86)2)
Meeting of the Defence and Oversea Policy Committee
on 12 February at 10.00am

Background

In his memorandum, the Defence Secretary describes the course of the Nimrod Airborne Early Warning Aircraft project since the decision to proceed with full development was made in 1977 at a then estimated cost of £856m at today's prices and with first delivery in May 1982. The present position is that the project will cost about £1300m (according to industry) for an aircraft with an avionics capability which is reduced from what we had wanted and itself may not be achieved. In 1978 our European NATO Allies decided to buy eighteen Boeing E3A (AWACS) aircraft, which were delivered between February 1982 and April 1985 within cost estimates.

2. The Defence Secretary recommends that approaches to three American companies (Boeing, Grumman and Lockheed) and NATO authorities should be made, to define alternative ways of providing the required Airborne Early Warning (AEW) capability. As regards Nimrod, he recommends that GEC should be given six months to establish their ability to meet the minimum requirement for the avionics and that the project should be terminated now if GEC will not bear the whole of the continuing liability meanwhile.

3. The need to talk to US companies seems clear. Indeed it is arguably surprising that we have taken so long to reach the point of decision on this. But there are many implications. The Defence Secretary does not deal in any depth with three critical factors:-

a. Budgetary considerations: the Defence Secretary says in paragraph 10 of his paper only that purchase of US aircraft could demand resources above those allocated in the defence budget to Nimrod.

b. Industrial implications, where a workforce of over 1,000 is directly involved.

c. Presentational aspects: after such an extended and troubled development phase, a difficult balance has to be drawn between giving a public justification for seeking alternative solutions and damage to the reputation of a major section of the British industry.

4. All members of the Committee are expected to attend the meeting. The Paymaster General, the Chief Whip and the Chief of Air Staff (Air Chief Marshal Sir David Craig), representing the Chief of the Defence Staff who is overseas, have also been invited to attend.

The Issues

5. The main issues before the Committee are: .

a. whether the importance of meeting the operational requirement set by the RAF and the shortcomings of the Avionics, developed by GEC, make it essential to seek alternative solutions from US industry, against the background of the industrial implications for this country;

b. if so, whether meanwhile the Nimrod option should be kept open (despite the Defence Secretary's recommendation) as a fall-back in face of possible resource difficulties within the defence budget and as a means of increasing competitive pressure on US bidders;

c. how the Committee's decision can best be presented to Parliament and to the public.

Handling

6. You should invite the Defence Secretary to introduce his memorandum.

7. You may wish to direct discussion to cover the following main issues:-

a. The operational requirement
The work is at present directed towards achieving the Minimum Initial Operational Capability (MIOC). Is this level of capability, which falls short of the required specification, adequate? What level of improvement does it give over our existing Shackleton AEW aircraft? Is the RAF's full specification comparable with that laid down by NATO and is there confidence that AWACS could meet it? (The Defence Secretary and the Chief of Air Staff.) Is there any substance in the criticism in the press that some of the difficulties in development have arisen from changes in the RAF's specification? (Chief of Air Staff)

b. Shortcomings in the Avionics

The Defence Secretary's memorandum (paragraph 12) pinpoints the two key elements in achieving the full MIOC: improving the capability of the radar when looking towards land from over the sea and its tracking capability. GEC are reported as claiming that these can be overcome by the introduction of a new computer and a newly developed signal processor. Is it the view of the Ministry of Defence that the GEC design is incapable of sufficient improvement? If so, how far can this be attributed to inadequate Project Definition undertaken before full development was launched in 1977? (Defence Secretary and Chief of Air Staff)

c. Industrial factors

It is understood that a workforce of just over 1,000 is engaged directly on this project, some 500 at GEC Avionics, Hemel Hempstead and most of the remainder at British Aerospace at Woodford, Manchester and Chadderton. Would the termination of the project mean the closure of GEC's Hemel Hempstead plant? Would other UK companies, which are subcontractors on the project, be seriously affected? (Defence Secretary) On the face of things, Nimrod appears to exemplify how defence R and D ought not to be conducted. Enormous amounts of money, and a major tranche of skilled manpower, have been devoted to an attempt to maintain an independent capability in an area where there seems to be little prospect of military exports or civil spin-off; and the attempt appears to have failed. If the project were terminated, would the skilled manpower be absorbed by GEC either on other defence

work or on improving their civil/export business (very desirable from the standpoint of the UK economy)? Or would the resources be released for use elsewhere in the economy? If so, how easily would they be absorbed? (It has been a consistent theme of discussions in MISC 110 and MISC 119 that questions of this kind are not sufficiently addressed in reaching decisions on defence development/procurement issues.) The Defence and Trade and Industry Secretaries should be pressed for answers to these questions.

d. Budgetary issues

Can no estimate, however tentative, be made of the costs of buying AWACS or another American system? How much money could be found in the defence budget, once the cost of a terminated Nimrod programme was paid? (It is understood that the cost of £900m, quoted in paragraph 10 of the Defence Secretary's memorandum, is made up of about £780m already spent and £120m estimated termination costs.) Should we not decide whether we can afford a US aircraft before we abandon Nimrod? That would enable us to reassure our allies that we would still be acquiring an effective AEW capability. It is understood that GEC have just put forward a revised offer, details of which the Defence Secretary proposes to circulate as quickly as possible today: could it form the basis of an acceptable compromise for keeping the project in being, at least until alternative solutions have been costed?

e. Proposed approach to US companies

Are difficulties foreseen in purchasing AWACS on the same terms as it has been supplied to other NATO members? Would the approach be on the basis of the RAF's original specification? Has thought been given to the prospect of buying into the NATO purchasing arrangements, particularly in respect of shared support equipment and facilities? Would we approach all three US manufacturers, so as to gain negotiating leverage against each? Would we try to arrange for British companies to supply subsystems and components? Would it be open to BAe and GEC to compete against the Americans with a revised Nimrod AEW offer? Could we encourage BAe to bid on the basis of fitting US avionics into a suitable airframe, either produced or owned by the UK (Airbus, VC10, Hercules)? Is there any prospect of purchasing jointly with the French, who are apparently considering AWACS, and thus getting a better price (a joint purchase using Airbus might be attractive to them)? What are the prospects for substantial offset from the US under any of these arrangements? (Defence Secretary)

f. Presentation

The Defence Secretary proposes in his memorandum (paragraph 17d) that he should inform Parliament by oral statement of the way forward. You will wish to invite him to elaborate on the substance and timing of a statement. How could the length of time taken to reach such a decision be justified? How could the damage to GEC's reputation be contained?

How far can the potential for more productive use of the scarce scientific resources engaged in the Nimrod project be used to combat criticism? Could any inadequacies in the early stages of the programme, notably project definition undertaken before 1977, be helpfully deployed in the Defence Secretary's oral statement? (Defence Secretary) As to timing, would the Defence Secretary wish to ascertain GEC's willingness to undertake the next six months of work on acceptable terms before or after making his proposed statement? (Defence Secretary)

Conclusion

8. Subject to the discussion, you could guide the Committee to:

a. decide whether approaches should be made to American companies and the NATO authorities to define alternative ways of providing an AEW capability;

b. decide whether, as proposed by the Defence Secretary, GEC should be given six months to establish their ability to meet the MIOC and the project should be terminated if the company will not bear the whole of the continuing liability meanwhile;

c. agree the form and timing of the presentation of the Committee's decision to Parliament and the public.

C L G MALLABY

11 February 1986

RGFGS to OD(86)2(CMO) (1)

10 DOWNING STREET

PRIME MINISTER

NIMROD

You may like to have a look at the attached paper - to be taken by OD on Wednesday - over the weekend. I think you will approve the conclusions, viz:

(a) explore American options

(b) EC be told they can have 6 months more, but only at their expense

(c) if they don't accept, we cancel Nimrod now.

CDP

Charles Powell
7 February 1986

(56) 8pw

10 DOWNING STREET

From the Principal Private Secretary

31 January 1986

FRIGATES FOR THE NAVY

Following our recent conversation, Policy Unit have now rephrased their dossier on short fat ships, a copy of which I now attach. This, you might feel, could be given a wider, though I hope still restricted, circulation within the MoD.

Brian Griffiths has commented to me on the dossier as follows:

"There are two distinct issues involved; the first, which is of more immediate concern, is the extent of the Navy's involvement in the impending court case; the second concerns the merits of the decision to reject the Giles Thornycroft design. In my view, it would be sensible to keep these two issues separate from one another; ideally the latter may in any case fall outside the remit of the retired official whom Sir Clive Whitmore has in mind. However, the two issues may have become entwined."

(N. L. WICKS)

Sir Clive Whitmore, K.C.B., C.V.O.

8pw

MR WICKS

31 January 1986

FRIGATES FOR THE NAVY

Following our conversation the other day, the dossier on this subject, which was prepared by Christopher Monckton, has now been extensively rewritten in a clearer, more objective manner. Christopher's dossier questions both the decision to reject the short, fat design and the methodology by which this decision was reached. The substance of the dossier will not, of course, be welcome to the MoD but I think that its presentation, as currently drafted, should not give needless defence.

sent to MoD

There are two distinct issues involved; the first, which is of more immediate concern, is the extent of the Navy's involvement in the impending court case; the second concerns the merits of the decision to reject the Giles Thornycroft design. In my view, it would be sensible to keep these two issues separate from one another; ideally the latter may in any case fall outside the remit of the retired official whom Sir Clive Whitmore has in mind. However, the two issues may have become entwined.

Brian Griffiths

BRIAN GRIFFITHS

Subject cc Master

SECRET AND PERSONAL

EL3AVH

file

bc PC. 5.

10 DOWNING STREET

From the Private Secretary

22 January 1986

NIMROD AEW

The Defence Secretary came to see the Prime Minister this afternoon to talk about Nimrod AEW.

Mr. Younger said that some £850 million had already been spent on Nimrod AEW but it seemed clear that the product had no chance of getting up to or near the original requirement. It was not a matter of the requirement having been significantly modified by the MOD. The fact was that GEC had simply not mastered the requisite technology. With the benefit of hindsight, it might have been better to cancel the project at some stage in the past two years and look at alternatives. Cancellation would be a serious blow to the reputation of British technology and of GEC as a company but he saw no sensible alternative. He proposed to have a further meeting with Lord Weinstock and Mr. James Prior to see whether GEC had any new proposals to make. But he would be sceptical of further promises that the problems could be overcome. Unless the meeting produced anything startling, he intended to minute colleagues to propose cancellation and setting out the alternatives.

The Prime Minister took note of Mr. Younger's report and agreed that he should proceed on the basis he had suggested.

(Charles Powell)

Richard Mottram, Esq.,
Ministry of Defence.

SMH

SECRET AND PERSONAL

c.c. Mr. J. E. Pateman

22nd January, 1986

Dear Secretary of State,

NIMROD - A E W

The front page of this morning's Financial Times marks a further stage in the continual public harassment to which our people have been subjected as a result of controlled leaks to the press by MOD. We have hitherto been prevented from defending ourselves publicly from the accusations made against us, and we really cannot go on any longer like this.

The Nimrod AEW project has been carried out under a contract in which GEC Avionics is paid by MOD to do what it is told, and that is what we have done. Ever since the start of this programme, we have been obliged to work on MOD's interpretations of the requirement, and have repeatedly been refused the funding necessary to do things which are now required by MOD to guarantee the performance.

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To take just two examples:-

(i) MOD now requires the radar to track aircraft flying (a) over the UK, and (b) in the region between the AEW aircraft and the coast. In conformity with the directions given to us, this radar will see targets travelling at 20 mph and above. It will therefore see every motor car moving at this speed and faster in the UK. This number of observations overloads the capacity of the fastest digital computer which we were authorised to use at the time, and, perhaps, the fastest we or anyone else could make now.

Proposals to overcome this problem were made in 1977. They were rejected not on technical grounds, but because overland performance was not then a firm requirement, which, again, is not the case now;

(ii) since Nimrod AEW has only half the number of operators as AWACS, MOD now says that

/.....

it must have greater automaticity to keep down the operator work-load. But this is impossible at the level of computer capacity upon which MOD has always insisted. And here I am bound to tell you that the potential problem of insufficient computing capacity was known and recognised from the beginning of 1977.

GEC Avionics does not claim to be blameless in this matter, but the truth is that MOD has consistently failed to exercise the minimum level of technical, financial and management judgement necessary to bring the programme to a satisfactory conclusion. I myself wrote to Controller Aircraft in October, 1984 to draw attention to the computing and other problems, nothing has been done to enable these problems to be solved.

Continual denigratory press comment emanating, I am afraid, from MOD is doing damage to our reputation here and abroad, and it would be irresponsible to let the position drift any more. Accordingly, I suggest that unless we can resolve the matter by the end of February,

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the programme should be cancelled and the people working on it either transferred to other suitable work, if it is available, or be made redundant.

After so much has been promised, so much public money spent, so much effort made and so much odium endured, even to make such a suggestion is agonising. And this agony is intensified by the realisation that what has already been produced is incomparably superior (and so it should be!) to the existing Shackletons, and could be further improved in a reasonable time and at reasonable cost if it were put in service and followed a similar development route to AWACS.

I asssure you of our strong motivation to solve the problems associated with Nimrod AEW because we want to serve the RAF and because abandonment implies the end of our prospects of exporting this radar.

Despite the adverse publicity, we have so far been able to maintain the interest of several friendly countries because this equipment installed in a C130

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aircraft offers a technical performance close to AWACS for a much lower price. Indeed, our people are going to Australia next week with Lockheed for discussions with the Australian Government.

Lord Weinstock

The Rt. Hon. George Younger, MP,
Secretary of State,
Ministry of Defence,
Main Building,
Whitehall,
LONDON, SW1A 2HB.

PRIME MINISTER

Mr. Younger is coming to discuss Nimrod/AEW. I gather that he will ask your agreement to propose to OD that we cancel the project (another Blue Streak) and purchase instead from the US.

The points which you might ask him are:

(i) has he really reached the end of the road with GEC? How will they react? Are there wider implications for the government's relations with GEC?

(ii) are there alternatives to buying American? Cooperation with some other European NATO partners?

(iii) what are the implications for the Defence Budget?

CDP

CDP

21 January 1986

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

NIMROD/AEW

The Defence Secretary has asked to see you next week. His purpose is to tell you that he wants to cancel Nimrod/AEW. But he wants to make sure that you have no objections before he puts round a note to colleagues.

I am told that the Chief of Air Staff has advised that what is at present on offer from GEC, which would involve further expenditure of £400 million, would be no use even for training purposes. The MOD Accounting Officers are quite clear that against this background the project should be cancelled.

I am not sure how far Mr Younger will be ready to discuss alternatives. One thought which I know is being explored in the MOD is that we should try to persuade the Americans themselves to provide AEW cover for the United Kingdom given their interest in the proper defence of ~~air~~ their bases here. Another alternative would be to purchase an American system.

CDP

CHARLES POWELL
17 January 1986

CAJABL

PERSONAL AND CONFIDENTIAL

Copied to:
PRIME MINISTER:
meeting with Warren
Hawksley, MP: Jan 1986

JE VC
CPC

10 DOWNING STREET

From the Private Secretary

6 January 1986

Article Attached.

Rather belatedly I've noted an article in the 14 December issue of Jane's Defence Weekly about the apparent intention of the Berlin Brigade to buy German APCs for use in Berlin. MOD Ministers are quoted as expressing concern at this decision.

It would be helpful to know how this matter now stands.

BF

(CHARLES POWELL)

Dennis Brennan, Esq.,
Ministry of Defence.

BM

"Jane's Defence Weekly" 14.12.86.

GEC scoops Plessey

GEC recorded one victory over rival Plessey last week — even though it wasn't the one envisaged.

With the two companies locked in a take-over fight following GEC's offer to Plessey to consider merger, Marconi Radar announced that it had won a contract to supply a £4 million air traffic control radar to Jordan's joint civil/air force base at Queen Alia airport near Amman, against strong competition, including Plessey.

Israel's warning over F-5s

THE SAUDI Air Force has stationed F-5 fighters at its Tabuk air base. Lt Gen Moshe Levi, the Israeli CoS, has revealed that the US-made fighters are replacing the old British-made Lightnings.

The Israeli revelation is part of a campaign to warn the USA and Western countries not to supply the Saudis with new aircraft and modern weaponry.

They also point out that the Tabuk air base is only 160 km from Israeli borders, and might be used against the Israeli Air Force and sensitive installations in the Negev Desert.

Thais offered captured tanks

ISRAEL HAS OFFERED to sell Thailand at least 100 or more captured Soviet-built T-54/T-55 tanks with modernised fire-control systems and fitted with 100 mm Soviet or 105 mm Israeli-made guns.

The offer of the tanks, designated the T-54S and T-55S, was touched on during an unpublicised visit to Thailand in October by Gen Chaim Erez. During the visit the Israeli general met Deputy Defence Minister Panieng Kantarat, as well as army CoS Gen Chaovalit Yongchaiyut, Supreme Command CoS Gen Banchob Bunnag and Gen Pichit Kullavanich, First Army Region Commander.

In addition to being fitted with the 105 mm rifled tank gun, the T-55S has many other modifications including a new powerpack incorporating an American 8V-71T Detroit Diesel, new transmission, gun control equipment, commander's cupola, Blazer reactive armour and a EL-OP Matador computerised fire-control system.

A number of European companies have already sent tanks to Thailand for evaluation, including the Vickers Defence Systems Mk 3, Steyr-Daimler-Puch SK-105 and OTO-Melara OF-40.

Thai officers have travelled to China to study the Type 59 refitted with the 105 mm gun and Type 69 models which Beijing is apparently anxious to supply at friendship prices (*JDW* 26 October).

Thai officers indicated that the first shipment, sufficient to equip a complete battalion, may be provided free of charge. The Chinese are reportedly selling T series tanks fitted with the 105 mm rifled gun for about $550 000.

General Arthit Kamlang-Ek, Supreme Commander and Army C-in-C, said on 29 November, that no agreement had yet been reached on the Chinese tanks.

He added, however, that the Thai forces would welcome any military grant aid from friendly countries "with no strings attached," because the Thai armed forces were facing a budget squeeze.

Britain to buy German APCs for Berlin

No doubt Mr Richardson will be saying about comparable vfm?

By Simon O'Dwyer-Russell

THE BRITISH ARMY'S Berlin Brigade commander is poised to order up to 130 West German-built TM 170 armoured personnel carriers, at an estimated cost of DM70 million, despite a strongly-worded letter from the British Chief of the General Staff Gen Sir Nigel Bagnall, recommending that he procure the British-built Saxon APC.

Saxon is the army's new wheeled APC used by non-mechanised battalions based in the UK. Gen Bagnall's letter spoke of the "eminent operational sense" of the Berlin Sector commander choosing the Saxon APC. Maj Gen Bernard Gordon Lennox should "consider the case carefully" before buying the TM 170, said Gen Bagnall.

In his role as Commander and Military Governor of Berlin's British sector, Gen Lennox has extraordinary powers including some on procurement matters — and control of the budget.

The TM 170 is to be procured within the Berlin Budget, which is provided for the Western powers in Berlin by the Federal German Government in Bonn.

Mixed fleet

The UK's Berlin Brigade has for some years run a mixed fleet of support vehicles, buying a number of German-built trucks, staff cars and utility vehicles. However, never before has the brigade purchased German weapons or armoured vehicles. It is equipped with the same weapons as other British Army brigades.

Technical evaluation of the German TM 170 was carried out by the brigade's own workshops, a fact which the UK Ministry of Defence expressed "serious reservations" about because of the workshops' "limited technical capabilities" in this field.

The brigade is at present equipped with FV432 APCs and a wheeled APC is being sought to fill the gap between soft-skinned trucks and the heavy FV432 in the streets of Berlin. GKN Sankey, manufacturer of the Saxon APC, offered offsets in the production of vehicles bound for Berlin, thought to include a willingness to use German steel and components in the vehicle's construction, but without apparent success.

Did you feel a bump

Saxon 'unsuitable'

The Berlin Brigade's requirement is for a wheeled vehicle for urban warfare or garrison duties. The Saxon was ruled out on the grounds that it was unsuitable for garrison work, despite meeting the British Army's internal security requirements in full.

UK Minister for Defence Procurement, Norman Lamont, is receiving briefings on the decision.

According to his aides, he is "extremely worried" at the political implications of the British Army procuring a German armoured vehicle in favour of a British product.

◄ A West German police version of the TM 170 showing obstacle-clearing blade and the armoured window shutters lowered

What happened to that bulldozer Vanessa ran over?

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CLOUDS OVER CHINA

1. THE TIMES LEADER OF 28 DECEMBER WILL HAVE BEEN WIDELY READ AT HOME AND HAVE HAVE ATTRACTED THE INTEREST OF MINISTERS. I THINK IT GIVES A MISLEADINGLY GLOOMY IMPRESSION OF CHINA'S PROSPECTS.

2. I AGREE THAT CHINA'S EXPERIENCE WITH ITS REFORM PROGRAMME HAS NOT BEEN ENTIRELY HAPPY DURING 1985. THE ECONOMY BECAME OVERHEATED AND PRICE REFORM PROVED A CHASTENING EXPERIENCE. BUT THE FACT REMAINS THAT THE CHINESE LEADERS FACED UP TO THESE PROBLEMS AND TO A GREATER OR LESSER EXTENT DID SOMETHING EFFECTIVE ABOUT THEM. MORE IMPORTANT, THEIR COMMITMENT TO REFORM REMAINS UNALTERED, DESPITE THE DIFFICULTIES AND DESPITE THE DOUBTERS WITHIN THEIR OWN RANKS. THE PARTY MEETINGS IN SEPTEMBER ADOPTED GUIDELINES FOR THE SEVENTH FIVE YEAR PLAN (1986-90) THAT WERE THOROUGHLY REFORMIST IN INSPIRATION. I HAVE NO DOUBT THAT THE SPIRIT OF THESE GUIDELINES WILL BE REAFFIRMED WHEN THE PLAN IS FIRMLY INAUGURATED LATER THIS YEAR. SIMILARLY, THE OPEN DOOR REMAINS OPEN. CHINA WILL HAVE A DEFICIT ON TRADE ACCOUNT FOR 1985, BUT IT WILL NOT BE ON THE SCALE PREDICTED BY THE IMF OR HINTED AT IN THE TIMES LEADER. ON A POINT OF FACT, CHINA'S FOREIGN EXCHANGE RESERVES ACTUALLY BEGAN TO RISE IN THE THIRD QUARTER OF LAST YEAR.

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3. THE REFORM PROGRAMME OF THE PRESENT CHINESE LEADERSHIP IS UNLIKE ANYTHING ATTEMPTED BEFORE IN CHINA OR ELSEWHERE, AS THE LEADERSHIP HAS FOUND, SUCH LEAPS IN THE DARK ARE ACCOMPANIED BY PITFALLS, PERHPAS MORE THAN THEY HAD ANTICIPATED. THE REFORM PROGRAMME HAS NOW BEEN GOING ON FOR SEVEN YEARS AND HAS LOST SOME OF ITS INITIAL APPEAL DESPITE THE VERY REAL ACHIEVEMENTS TO ITS CREDIT. PEOPLE'S EXPECTATONS ARE NOW HIGHER. AT THE SAME TIME, A DELIBERATE RELAXATION OF SOME OF THE RIGOURS OF THE SELF-POLICING STATE HAS GIVEN PEOPLE AN OPPORTUNITY TO EXPRESS THEIR DISCONTENT MORE FREELY. I DO NOT FORESEE AN EASY PATH FOR CHINA. BUT THE FACTORS FOR CONTINUITY OUTLINED IN THE LAST THIRD OF THE LEADER OUTWEIGH IN MY MIND THE THREATS TO STABILITY POSED BY THE UNDOUBTED DIFFICULTIES THE CHINESE HAVE ENCOUNTERED. FURTHERMORE, THERE IS NO FIGURE COMPARABLE TO MAO TO RALLY OPPOSITION TO THE REFORM PROGRAMME OR TO FORMENT DISCONTENT.

4. I WILL BE COVERING ALL THESE ISSUES AT GREATER LENGTH IN MY ANNUAL REVIEW.

EVANS

LIMITED
FED
HKD
NEWS D
INFO D
PLANNING STAFF
TRED
R D
PUSD
ECONOMIC ADVISERS
PS
PS/LADY YOUNG
PS/MR RENTON
PS/MR EGGAR
PS/MR RIFKIND
PS/PUS
CHIEF CLERK
MR DEREK THOMAS
SIR W HARDING

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THE TIMES

SATURDAY DECEMBER 28 1985

TIMES PAST — THE TIMES

P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

CLOUDS OVER CHINA

This time last year, China's well-wishers were quietly confident. After nearly a century of turmoil, the country seemed at least to have settled down to becoming a modern state. Its economy had sprung to life, and its political leaders had one over-riding priority: to raise living standards.

Now, such confidence looks, if not misplaced, then premature in the extreme. China goes into 1986 less assured and less united in purpose than it was only 12 months ago. Its reform programme which survived a difficult birth seven years ago is now once again at risk. Its open door on the world, flung wide last year, is swinging perilously.

China's problems are legion. Its economy, which was boosted in 1985 by the further relaxation of controls and easy foreign credit, is overheating. Inflation is running – according to official Chinese figures - at an annual rate of over eleven per cent. Many food prices have risen by fifty per cent or more. Capital investment has been over-stretched, and building projects all over the country are being halted for lack of funds. Imports of manufactured goods, bought largely on credit, have flooded into the country from Japan and Hong Kong, and China's foreign currency reserves have fallen at an alarming rate.

In the countryside, where eighty per cent of China's population still lives, the effects of decentralization and a limited market economy are working themselves out. Grain production fell slightly this year for the first time since the reform programme began in 1978. And peasants, who have been keen competitors in the race for self-enrichment, are choosing to plant cash crops for profit rather than grain for the state. By now, productivity has increased about as far as it can without more advanced farming methods. But universal provision of modern machinery and chemical fertilizer is a distant prospect. The pace of rural reform has outstripped the pace of industrial development, and the two will be out of step for some time to come.

As the initial stimulus of the reforms has begun to wear off, so have many of the hopes they generated. What is left is resentment and deep social divisions. The impoverished peasants of the barren mountain interior now see less hope of catching up with the rich of the fertile southern valleys. The young unemployed, described euphemistically as "waiting for work", now see little prospect of matching the successful urban entrepreneur – not by legal means, anyway. And foreign visitors and their possessions inspire little but envy – envy which has erupted over the past year in occasional violence.

Everywhere, expectations have been raised: for a car, for a television set, for a wristwatch. But those expectations have not and cannot be met – at least not yet, and not for every one of China's 1,000 million people. Some have turned to extra-legal means; others to outright corruption, and webs of vice have been unravelled which lead back to senior Communist Party men or military officers. The days when either group was a model of probity and honour are gone.

Developments such as these have left China's political leaders confused. They are less certain now than they were that raising living standards is by itself enough; or even that it is possible given China's poverty and diversity. Open divisions have emerged within the leadership between those who blame the reforms – decentralization, the freer market and the open-door policy – for China's current difficulties, and those who blame the piecemeal way in which they have been introduced. There has been an uneven, and uneasy, retrenchment. The urban reform programme (which generated such confusion over the past year) has been slowed down. New restrictions have been imposed on foreign credit arrangements: Import quotas have been cut.

Deng Xiaoping, the architect and pioneer of the reform programme and a staunch believer in the possibility of raising living standards throughout China, has stood his ground. But even he has occasionally cast doubt on the permanence of his policies, causing a shudder to run through the country's Special Economic Zones and Hong Kong, not to speak of China's foreign trading partners. At the end of 1985, the balance of China's future is very delicately poised, and the risks of a complete about-turn must not be underestimated.

In some quarters, the slowing of the reform programme has been welcome. Many communists of the older generation would like it abandoned altogether: they regard its pursuit of material wealth as the source of corruptibility in China today. And many others would subscribe still to the twin values of ascetism and egalitarianism: the older generation who grew up amid the deprivation of the civil war; large sections of the military who have held fast to the old values and seen their political influence lost to the technocrats. There are also the have-nots of the new generation – the rural and urban poor, and the students, who have watched their living standards decline and their career prospects restricted.

Twenty years ago, it was the alliance of just these forces which unleashed the anarchy of the Cultural Revolution, and something similar could happen again. The angry demonstrations seen this year – against foreign sportsmen, against the Japanese, against poor living conditions – showed how close to the surface such passions run.

But there are good reasons why, with care, the events of twenty years ago should not repeat themselves. In the past decade, the face of China's countryside has changed beyond recognition. Once neglected landscapes are carefully planted and watered; new houses are being built. And even with this year's smaller harvest, China is still self-sufficient in grain – a major achievement for a country as undeveloped and populous as China. The cities are better supplied, and urban commerce is thriving; and while industrial development has fallen behind what was planned, an industrial infrastructure is taking shape. Too many people now have a stake in China's development to make a reversal of policies easy.

At the same time, China has avoided the major pitfalls of less advanced economies: it has not neglected agriculture for the sake of excessive industrialization, nor has it been relegated to a raw materials base for the developed world.

China also has certain historical advantages which help to underpin its modernization policies in a way that the extremes of Maoism were never underpinned. It had, before the communists came to power, a well developed network of commercial exchange between town and county based on its provincial centres, and a tradition of successful trading. How durable this tradition was has been illustrated by the speed with which it has revived in recent years.

The dogmas of Maoism, though not fifty years old, are already being subordinated gradually to the requirements of the mid-1980s. And China has another advantage, too. It has retained a sense of its own dignity – superiority even – which allows it to take its place on the international scene, unbeholden to any and free of the dangerous paranoia that has so afflicted the foreign policy of the Soviet Union.

But the greatest deterrent to change in China's current policies is the experience of the cutural revolution itself, which is still within living memory. As that memory fades, however, the risk of a reversal will increase. Despite Deng Xiaoping's best efforts, the continuation of his policies is not yet guaranteed after his death. His opponents are ready and waiting to take over. Any deterioration in China's economic position will make their task easier. In the long term, the very long term, the omens for a prosperous, powerful and responsible China are favourable. But the greatest risk at the moment is that we treat China as a stable country. It is not.

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Je ECL/VC
bc Gulthite

10 DOWNING STREET

From the Private Secretary

23 December 1985

Dear Denis

NIMROD AEW

I mentioned to you the Prime Minister's concern that GEC are proving so difficult over the Nimrod project, after the much more hopeful indications earlier in the Autumn. You told me that there have been further exchanges with GEC since the meeting mentioned in the Chief Secretary's letter of 19 December. You also said that a paper on the options now open to the Government is in preparation, and that it should be available early in January. The Prime Minister may well then wish to call a meeting.

I am copying this letter to Richard Broadbent (Chief Secretary's Office) and John Mogg (Department of Trade and Industry).

Yours ever

David

(David Norgrove)

Denis Brennan, Esq.,
Ministry of Defence.

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(1)

When Mr. Heseltine + Mr. Levene came to see me with Mr. Brittan, they indicated that Mr. Levene had been to GEC and G.E.C. had accepted that: (1) No more money to be paid to GEC until they had reached a satisfactory solution to their problems on this matter and (2) that the total outturn would be £200/250m. Otherwise nothing more. I see no reason to go back on that conclusion now.

PRIME MINISTER

NIMROD AEW

You will want to see the attached letter from the Chief Secretary which urges in effect that we should be looking at the possibility of buying American alternatives to Nimrod; and the Policy Unit's note recommending that we should be looking for an alternative British consortium to complete the work on Nimrod (I must say this seems pretty unrealistic to me).

I understand that Mr. Heseltine had a further inconclusive meeting with Jim Prior yesterday. GEC continue to claim that it will cost up to £450 million to finish the project and even that would not bring the system up to the minimum operational requirement set in 1977.

Mr. Heseltine will be replying to the Chief Secretary's minute next week. He is very reluctant to turn to an American option, both because of his instinctive anti-Americanism in these matters and because the Conservative Party (and particularly Geoffrey Pattie) lobbied very hard in favour of the UK/GEC solution in 1977.

I don't seem to have taken a full record of the meeting with Mr. Heseltine and Mr. Levene on 31 July. But from my notes it is clear that they told you that it was not acceptable to go on with cost plus contracts; that they would tell Lord Weinstock that he would receive no more funds for Nimrod AEW until the problems had been solved; and that the maximum amount outstanding was £250 million.

I have confirmed with MOD today that they suspended payments to GEC for development of Nimrod AEW in July; and have recently confirmed that they will not resume them until there is agreement on a solution.

I suggest we wait for Mr. Heseltine's reply. Thereafter you might like to chair a meeting yourself to look at alternative options.

CDP

Charles Powell

20 December 1985

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

19 December 1985

Dear Michael,

NIMROD AEW

My officials have had an account of your inconclusive meeting with Jim Prior and Lord Weinstock, and I understand you are to meet again on Thursday.

I realise that, in view of the significant financial, industrial and political implications of this project, you will wish to consult Leon Brittan, myself and other colleagues before any decisions are taken about the way forward. I am clear that we must face seriously the unpalatable option of terminating the project. In order for us to be able to take an informed decision, we shall need hard information on the alternatives to Nimrod AEW. You may wish to explore a number of options but amongst these I attach particular importance to the option of buying the Boeing AWACs or other existing systems, and to the option of buying nothing ourselves but of relying on the existing NATO system.

We shall therefore need, inter alia, a firm and up to date price quote from the Americans on total costs for numbers of AWACs up to nine and for other existing systems. I would be grateful if your officials could obtain this urgently, so that we can avoid further unproductive discussions with GEC (and therefore waste of money).

My officials will of course be ready to help in drafting a paper for the meeting which I take it you have in mind.

I am copying this letter to the Prime Minister and to Leon Brittan.

Yours ever,

JOHN MacGREGOR

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PRIME MINISTER 19 December 1985

NIMROD AEW

Negotiations with GEC have dragged on so inconclusively for two reasons:

1. GEC don't really know whether they can finish the project and are therefore asking outrageous sums (an extra £450 million was suggested by Weinstock and Prior at last week's meeting) just to reach an interim level of performance, well below the specification in the contract.

2. Michael Heseltine has taken no steps to provide an alternative option. Rather than approaching the Americans in a serious way, MoD have used the reported price at which three AWACS were offered to the French as their benchmark.

As John MacGregor says, Michael Heseltine must seek urgent quotes from the Americans. However, given the anti-American sentiment on procurement matters shown by Michael Heseltine, the House of Commons Defence Committee, and no doubt others, too, we must also find a British alternative. The most promising solution is that GEC simply gives the project away to a British consortium, and releases or seconds key personnel. A possible consortium might be a combination of the systems house which MoD commissioned to assess the

progress of the project (CAP Scientific) and a manufacturing company, not necessarily in the defence field, with sufficient financial resources to see the project through. A solution of this kind would save GEC's face and avoid the embarrassment of writing off over £1 billion of work.

We recommend that you support John MacGregor's suggestion and enquire whether the idea of a British consortium might not be pursued in parallel.

NICHOLAS OWEN

PERSONAL AND CONFIDENTIAL

315/1.

SL2AEF

bcc: Prof. Griffiths

10 DOWNING STREET

From the Principal Private Secretary

17 December 1985

BROAD-BEAMED WARSHIP DESIGN

I have discussed with you how we might follow-up the matters raised in the attached dossier of papers about the Court case of Osprey Ltd. against British Shipbuilders which the No. 10 Policy Unit has assembled. You suggested that you might ask a senior retired official from the Department to investigate, in a discreet but thorough way, the matters referred to in the dossier and to prepare a report.

I have now discussed this with the Prime Minister and she agrees that you should proceed as you have suggested. She has stressed that the matters referred to in the Policy Unit's dossier need to be investigated urgently and that a report on them should be quickly prepared. She believes also that your Secretary of State, if he has not already done so, should give his urgent personal attention to this matter.

Could I therefore leave it to you to proceed in this way. We should, of course, wish to see a copy of the official's report, together with your Department's recommendations for action on its findings.

N L WICKS

Sir Clive Whitmore, K.C.B., C.V.O.

PERSONAL AND CONFIDENTIAL

1

Has SoS given his personal attention to this? bc. Professor Griffiths
I think he should urgently.

PRIME MINISTER

BROAD-BEAMED WARSHIP DESIGN: COURT CASE INVOLVING THE NAVY

I attach a minute from Brian Griffiths and Christopher Monckton about the court case of Osprey Ltd. against British Shipbuilders alleging, among other matters, theft of copyright of the design for certain offshore patrol vessels and frigates. Their minute alleges that the Ministry of Defence received the results of some "unlawful testing" of Osprey's designs. They support their arguments by reference to the documents in the dossier attached (which you need not read), which Christopher has assembled in his investigations. Christopher and Brian go on to say that when these matters come to trial, in January 1987, any proof of MOD involvement could embarrass the Government.

With Brian Griffiths' agreement, I have shown these papers on a personal basis, to Clive Whitmore. Clive cannot himself come to any judgement on the matters raised, but he suggests that he might ask a senior retired official (perhaps Desmond Bryars, MOD Principal Finance Officer 1979-1984) to prepare a report for him. This would have to be done in a very discreet way in view of the legal case already proceeding between British Shipbuilders and Osprey Ltd.

I recommend that we should proceed as Clive suggests. Now that the Policy Unit dossier is in existence, it does raise certain questions. These clearly cannot, and ought not, to be investigated direct from No.10. MOD seems to be the main Government Department involved, and it is up to them to find out the facts. I am sure that we can rely on Clive to ensure that this is done in a fair and independent manner. Brian Griffiths agrees with this course of action.

Agree to proceed in this way? – Yes urgently

N.L.W.

NLW

16 December, 1985.

JD3AGK

PRIME MINISTER

BROAD-BEAMED WARSHIP DESIGN : COURT CASE INVOLVING THE NAVY

You may recall that we minuted you some two years ago about the Thornycroft, Giles "Osprey" and "S90" designs for fast, cheaply-built, "short, fat" offshore patrol vessels and frigates. In the light of recent developments, we have asked Percy Cradock for his advice and he has said we should warn you of what is in the wind.

Background

In April, 1981, Osprey Ltd. began a court action against British Shipbuilders, alleging theft of copyright and incorporation of Mr. Giles' designs in the Hong Kong Patrol Craft without his permission and without payment to him.

The preliminary rounds of the case, which have attracted a great deal of publicity, have been won by Osprey Ltd. British Shipbuilders have admitted theft of copyright and unlawful testing of the designs, but claim that the designs are worthless and that they were not incorporated into the Hong Kong Patrol Craft. British Shipbuilders have also admitted destroying evidence and a judge has called their behaviour "deceit piled upon deceit".

The MoD's involvement in the theft of copyright

It now seems that the Ministry of Defence, which handled the procurement for the Hong Kong Patrol Craft, had close knowledge of the unlawful testing before, during and after the tests, and that Osprey Ltd. have found out. MoD may even have paid for a substantial part of the testing.

On 21 December 1980, there was a meeting at Ship Department, Bath, between Mr. Kenneth Rawson, then Chief Naval Architect, and Mr. Jack Daniel, the British Shipbuilders executive in charge of the Hong Kong Patrol Craft project, to discuss the Osprey design. Evidence was subsequently doctored in an unsuccessful attempt to conceal the fact that this meeting took place.

The unlawful testing was done at the Vickers tanks at St. Albans and Dumbarton from late December 1980 to September 1981. There is evidence that Mr. Rawson at Bath received results from these tests in April 1981, though he has since denied this. British Shipbuilders unsuccessfully falsified evidence in order to suggest that Mr. Rawson could not have received the test results because the tests had been done after the date on which he was said to have received them.

There is also evidence that knowledge of the unlawful tests reached a very senior level at the Ministry of Defence.

Nick Owen and Christopher Monckton visited Bath on November 6 and were told that the MoD wished to distance itself from the case against British Shipbuilders. MoD officials said this was not something the MoD had ever seen or had any part in: later they said they might have received some results from the Vickers tests on a personal basis.

The court case

Osprey Ltd. have assembled what they regard as substantial evidence of the MoD's involvement and may very shortly amend the pleadings to include a request for exemplary damages, over and

above the commercial damages of more than £1m which they are seeking. One of the grounds for exemplary damages - a rare technique - is malfeasance by those in high places. The amended pleadings may name MoD personnel.

The full trial has been set down for January 1987, in the run-up to the next General Election, and will take 45 days. There is bound to be much media interest. If any involvement of the MoD is proved, the embarrassment of the Government will be acute: the plaintiffs have repeatedly asked for the help and protection of Ministers and have not got the assistance they wanted.

If the case were to be settled out of court before the pleadings were amended, the MoD's involvement need not become public.

We recommend that you should invite Michael Heseltine and Leon Brittan to let you have a full account of the position as they see it.

Could the designs be useful to the Navy?

Lord Hill-Norton, a former First Sea Lord, has set up an unofficial committee to find out whether the broad-beamed designs are as cheap and as quick as the inventors claim, MoD and British Shipbuilders claim the designs are no good. Private backers of a project to win the Blue Riband for a transatlantic crossing in the Spring of 1987 using the new hull-form think otherwise. We shall brief you when Lord Hill-Norton sends you his report.

BRIAN GRIFFITHS

CHRISTOPHER MONCKTON

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EUROPEAN FIGHTER AIRCRAFT
1. FOLLOWING IS TEXT OF PRIME MINISTER'S REPLY TO PRESIDENT MITTERRAND'S LETTER OF 11 OCTOBER.
BEGINS
'THANK YOU FOR YOUR LETTER OF 11 OCTOBER. I FULLY SHARE YOUR DISAPPOINTMENT THAT IT DID NOT PROVE POSSIBLE TO ESTABLISH A FIVE NATION COLLABORATIVE PROJECT FOR THE NEXT GENERATION FIGHTER AIRCRAFT.
I AGREE THAT WE NEED TO CONSIDER EUROPEAN REQUIREMENTS AND THE SCOPE FOR COOPERATION OVER THE ENTIRE RANGE OF MILITARY AIRCRAFT BETWEEN NOW AND 1995-2000. THIS IS A MATTER WHICH WILL NEED TO BE GUIDED AT THE POLITICAL LEVEL, AND ON WHICH WE WILL WISH TO KEEP IN CLOSE TOUCH WITH YOU AS WELL AS WITH OUR GERMAN, SPANISH AND ITALIAN COLLEAGUES. MEANWHILE, A NUMBER OF IMPORTANT QUESTIONS, INCLUDING THE INTERESTS OF THE OTHER MEMBERS OF THE INDEPENDENT EUROPEAN PROGRAMME GROUP (IEPG), NEED TO BE CONSIDERED CAREFULLY. I UNDERSTAND THAT YOU HAVE NOW WRITTEN TO HEADS OF GOVERNMENT OF OTHER MEMBER STATES OF THE IEPG. I WELCOME THIS. UNDER THE DIRECTION OF OUR DEFENCE MINISTERS, THE IEPG IS PLAYING AN INCREASINGLY EFFECTIVE ROLE IN THE HARMONISATION OF OPERATIONAL REQUIREMENTS

/AMD

AND TIMESCALES, AND INDEED IS ALREADY ADDRESSING THE QUESTION OF COLLABORATION ON THE LARGE MILITARY AIRCRAFT. I WOULD THEREFORE BE HAPPY TO SEE YOUR PROPOSAL PURSUED IN THAT FORUM. YOU RAISED THE QUESTION OF COOPERATION BETWEEN OUR RESPECTIVE INDUSTRIES ON THE TWO COMBAT AIRCRAFT CURRENTLY BEING DEVELOPED. I HAVE ALSO SEEN REPORTS THAT YOU HAVE MENTIONED SOME IDEAS ABOUT THIS IN PUBLIC FOLLOWING YOUR RECENT MEETING WITH CHANCELLOR KOHL. WE AND OUR OTHER EFA PARTNERS WOULD BE MOST INTERESTED TO KNOW THE DETAILS OF WHAT YOU HAVE IN MIND. YOU WILL UNDERSTAND THAT N ORDER TO MEET THE REQUIRED IN-SERVICE DATES IT IS NECESSARY FOR WORK ON THE FOUR NATION FIGHTER PROJECT TO CONTINUE WITHOUT DELAY ON THE LINES ALREADY AGREED.

YOU HAVE SUGGESTED AN EARLY MEETING OF OUR FOREIGN AND DEFENCE MINISTERS. I WOULD SUGGEST THAT, ONCE YOUR EXPERTS HAVE REFINED YOUR PROPOSALS FOR COOPERATION ON THE TWO COMBAT AIRCRAFT IN MORE DETAIL, THE BEST FIRST STEP MIGHT BE FOR THE NATIONAL ARMAMENT DIRECTORS OF THE UNITED KINGDOM,FRANCE, THE FEDERAL REPUBLIC OF GERMANY, SPAIN AND ITALY TO MEET. FROM OUR POINT OF VIEW IT WOULD THEN BE APPROPRIATE FOR DEFENCE MINISTERS TO CONSIDER THE OUTCOME OF THIS MEETING AND ANY RECOMMENDATIONS THE NADS MAY TAKE.

I LOOK FORWARD TO SEEING YOU HERE IN LONDON ON MONDAY.'

ENDS

2. PLEASE ARRANGE DELIVERY BEFORE MITTERRAND LEAVES FOR LONDON. ORIGINAL FOLLOWS BY BAG.

HOWE

LIMITED
DEFENCE D MR DEREK THOMAS
WED MR DAUNT
PLANNING & ST.
NEWS D
ECD (I)
PS
PS/MR RENTON
PS/PUS
MR GOODALL

SUBJECT
cc OPS, MASTER

BEMBCL
File.

cc: FCO
& MOD

10 DOWNING STREET

THE PRIME MINISTER

15 November 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T214/85

Dear Mr. President,

Thank you for your letter of 11 October. I fully share your disappointment that it did not prove possible to establish a five nation collaborative project for the next generation Fighter Aircraft.

I agree that we need to consider European requirements and the scope for co-operation over the entire range of military aircraft between now and 1995-2000. This is a matter which will need to be guided at the political level, and on which we will wish to keep in close touch with you as well as with our German, Spanish and Italian colleagues. Meanwhile, a number of important questions, including the interests of the other members of the Independent European Programme Group (IEPG), need to be considered carefully. I understand that you have now written to Heads of Government of other member States of the IEPG. I welcome this. Under the direction of our Defence Ministers, the IEPG is playing an increasingly effective role in the harmonisation of operational requirements and timescales, and indeed is already addressing the question of collaboration on the large military aircraft. I would therefore be happy to see your proposal pursued in that forum.

You raised the question of co-operation between our respective industries on the two combat aircraft currently

JA

being developed. I have also seen reports that you have mentioned some ideas about this in public following your recent meeting with Chancellor Kohl. We and our other EFA partners would be most interested to know the details of what you have in mind. You will understand that in order to meet the required in service dates it is necessary for work on the four nation fighter project to continue without delay on the lines already agreed.

You have suggested an early meeting of our Foreign and Defence Ministers. I would suggest that, once your experts have refined your proposals for co-operation on the two combat aircraft in more detail, the best first step might be for the National Armament Directors of the United Kingdom, France, the Federal Republic of Germany, Spain and Italy to meet.

From our point of view it would then be appropriate for Defence Ministers to consider the outcome of this meeting and any recommendations the NADs may take.

I look forward to seeing you here in London on Monday.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Francois Mitterrand

CCPC

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~930 7022~~ 218 2111/3

MO 26/11/9M

11th November 1985

Dear Charles,

EFA - PRESIDENT MITTERRAND'S LETTER

President Mitterrand's letter of 11th October to the Prime Minister is a reaction to the unexpected outcome (for France) of the European Fighter Aircraft (EFA) negotiations and a realisation of the technological and financial problems of going it alone. It also, no doubt, reflects an attempt to regain the initiative in the European aircraft field. Mitterrand's proposals have been put to the other EFA Heads of Government. The French also doubtless hope to provoke, and benefit from, divisions between the EFA partners: it may be significant that the letter to Chancellor Kohl was sent a week earlier than that to the Prime Minister. We have been careful to co-ordinate our proposed reply with them via our posts in the capitals concerned.

Press reports that "France was to rejoin the EFA programme", following the meeting between President Mitterrand and Chancellor Kohl on 7th/8th November seem to be an over-reaction to statements at the Summit press conference in which the President appears to have done little more than reiterate the contents of his October 11th letter. We are advised that no discussion of substance on EFA took place during the Summit itself, but that Woerner had been robust in making it clear that there should be no delay to EFA. But we have included a reference to this point in the draft reply.

We understand from the French Embassy here that President Mitterrand has now written in similar terms to the Heads of Government of the other Independent European Programme Group (IEPG) countries. That would appear to sit rather oddly with the proposal we understood him to be making to the Prime Minister, for a special study led by the Defence and Foreign Secretaries of the United Kingdom, France, Germany, Italy and Spain. But it does offer us an opportunity to mitigate some of the awkwardness of that proposal.

The President's proposals are couched in general terms; superficially they appear attractive. But it is difficult to see much that is new, valuable and substantive emerging from them.

Charles Powell Esq
No 10 Downing Street

The proposal for a European strategy on future military aircraft co-operation up to the turn of the century seems, at first sight, to be eminently sensible. But apart from EFA the United Kingdom's only requirement for a major new fixed-wing aircraft in the period is for the Future Large Aircraft (essentially the Hercules replacement). That project is already being addressed in an IEPG Panel under British Chairmanship as a result of an initiative taken by Defence Ministers last year; a number of European companies, including BAe and Aerospatiale, are also studying the project, together with Lockheed.

The French proposal that the industries of the 5 nations should work together on EFA and Rafale also gives rise to practical difficulties. The French have yet to decide what size Rafale will be. The problem as we see it is that, if they decide upon an aircraft of roughly the same size as EFA, the two will be direct competitors in export markets and the EFA consortium companies would strongly object to anything which helped to improve the French product. Conversely, if Rafale is to be a significantly smaller aircraft, the two would be less direct competitors but the technical opportunities for commonality would be much reduced.

None of this is of course to suggest that the Prime Minister's reply to President Mitterrand should be negative: clearly it cannot and should not be so. But, as they stand, the President's proposals entail the danger that the Defence and Foreign Secretaries would find themselves embroiled in a high visibility study (for the French Press would undoubtedly publicise it) which would have very little of substance to address, unless it were to reopen the EFA argument. That is not at all in our interests.

Reports from posts indicate that our EFA partners share these concerns, albeit in slightly differing degree. All agree, however, that our replies should make it clear to the French that there can be no question of delaying the EFA programme while any studies take place.

My Secretary of State therefore recommends that the Prime Minister should return a cautious welcome to President Mitterrand's initiative but that her reply should:

(i) make use of the fact that a similar letter has gone to the Heads of other IEPG Governments in order to divert follow-up action on the wider review of future military aircraft requirements towards that forum;

(ii) take up the President's offer of more detailed proposals on co-operation between EFA and Rafale suggesting that once received these proposals should be studied first by the National Armament Directors of the EFA countries and France, who would then report to Defence Ministers;

(iii) above all, make it clear that EFA must not be delayed, and that we intend to continue to maintain close contact with our EFA colleagues on these issues.

/ I attach a draft reply along these lines which my Secretary of State has approved. I understand that the Foreign and Commonwealth Secretary is also content with it. It would clearly be desirable for it to reach the Elysee before the President leaves for the Summit in London on 18th November. We understand that our EFA partners will also be replying over the next few days and we shall endeavour to obtain copies of their replies in due course.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office).

Yours ever,
Denis

(D BRENNAN)

cc PS

Foreign and Commonwealth Office

London SW1A 2AH

6 November 1985

NBPM
CDP
6/11

Dear Charles,

European Fighter Aircraft

Your letter of 15 October to Richard Mottram enclosed a copy of a message to the Prime Minister from President Mitterrand. I now enclose the original, received from the French Embassy.

Similar messages were also sent at the time to the Heads of Government of the other EFA partner countries - the Federal Republic of Germany, Spain and Italy. The French Embassy have told us that messages have now also gone to the Heads of Government of the 8 other members of the Independent European Programme Group: Belgium, Denmark, Greece, Luxembourg, the Netherlands, Norway, Portugal and Turkey.

I am sending a copy of this letter to Richard Mottram at the MOD.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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CONFIDENTIAL
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FM FCOLN TO BONNN
301645Z OCT
GRS 388

CONFIDENTIAL
FM FCO
TO IMMEDIATE BONN
TELNO 577
OF 301654Z OCTOBER 85
AND TO IMMEDIATE ROME, MADRID
INFO IMMEDIATE PARIS, MODUK (PS/S OF S, PS/CEDEC)

MIPT : EUROPEAN FIGHTER AIRCRAFT

1. FOLLOWING IS TEXT OF DRAFT REPLY FROM PRIME MINISTER TO PRESIDENT MITTERRAND.

BEGINS

'THANK YOU FOR YOUR LETTER OF LL OCTOBER. I FULLY SHARE YOUR DISAPPOINTMENT THAT IT DID NOT PROVE POSSIBLE TO ESTABLISH A FIVE NATION COLLABORATIVE PROJECT FOR THE NEXT GENERATION FIGHTER AIRCRAFT.

I AGREE THAT WE NEED TO CONSIDER EUROPEAN REQUIREMENTS AND THE SCOPE FOR CONCERTATION OVER THE ENTIRE RANGE OF MILITARY AIRCRAFT BETWEEN NOW AND L995-2000. THIS IS A MATTER WHICH WILL NEED TO BE GUIDED AT THE POLITICAL LEVEL, AND ON WHICH WE WILL WISH TO KEEP IN CLOSE TOUCH WITH YOU AS WELL AS WITH OUR GERMAN, SPANISH AND ITALIAN PARTNERS. MEANWHILE, A NUMBER OF IMPORTANT QUESTIONS, INCLUDING THE INTERESTS OF THE OTHER MEMBERS OF THE INDEPENDENT EUROPEAN PROGRAMME GROUP NEED TO BE CONSIDERED CAREFULLY. UNDER THE DIRECTION OF OUR DEFENCE MINISTERS, THE IEPG IS PLAYING AN INCREASINGLY EFFECTIVE ROLE IN THE HARMONISATION OF OPERATIONAL REQUIREMENTS AND TIMESCALES. THE QUESTION OF COLLABORATION ON LARGE MILITARY AIRCRAFT IS ALREADY

BEING EXAMINED IN THAT FORUM.

YOU ALSO RAISED THE QUESTION OF COOPERATION BETWEEN OUR RESPECTIVE INDUSTRIES ON THE TWO COMBAT AIRCRAFT CURRENTLY BEING DEVELOPED AND KINDLY OFFERED TO PUT FORWARD SPECIFIC PROPOSALS AS TO HOW THIS MIGHT BE ACHIEVED. IT WOULD CERTAINLY BE HELPFUL IF YOU WERE TO DO SO. YOU WILL UNDERSTAND THAT, IN ORDER TO MEET THE REQUIRED IN SERVICE DATES, IT IS NECESSARY FOR WORK ON THE FOUR NATION FIGHTER PROJECT TO CONTINUE WITHOUT DELAY ON THE LINES ALREADY AGREED.

YOU HAVE SUGGESTED AN EARLY MEETING OF OUR FOREIGN AND DEFENCE MINISTERS. I WOULD SUGGEST THAT, ONCE YOUR EXPERTS HAVE REFINED YOUR PROPOSALS, THE BEST FIRST STEP MIGHT BE FOR THE NATIONAL ARMAMENT DIRECTORS OF THE UNITED KINGDOM, FRANCE, THE FEDERAL REPUBLIC OF GERMANY, SPAIN AND ITALY TO MEET. IN OUR TERMS, IT WOULD THEN BE APPROPRIATE FOR DEFENCE MINISTERS TO CONSIDER THE OUTCOME OF THIS MEETING AND ANY RECOMMENDATIONS THE NADS MAY MAKE.
ENDS

HOWE

LIMITED
DEFENCE DEPT
WED
PLANNING STAFF
ECD(I)
PS
PS/MR RENTON
PS|PUS
MR GOODALL
MR DEREK THOMAS
MR DAUNT

CONFIDENTIAL

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

18 October 1985

Dear Mottram,

W 18/10.

EUROPEAN FIGHTER AIRCRAFT

The French Ambassador called on Mr Renton on instructions yesterday to draw attention to President Mitterand's purpose in writing to the Prime Minister on 11 October (Charles Powell's letter to you of 15 October).

The Ambassador placed the initiative in the context of France's conviction that Europe needed to assert its industrial and technological identity more forcefully. Going over the ground in the President's letter, Mr Viot said the EFA negotiations had shown the difficulty of reconciling the different approaches and requirements of different countries in a single project; hence the idea of looking at the entire range of military aircraft requirements until the end of the century. As a first step, President Mitterrand thought it would be useful for Foreign and Defence Ministers to hold an initial meeting; the same Ministers might then meet periodically as one group.

Mr Viot said that similar messages had been sent to the Heads of Government of the Federal Republic, Spain and Italy; no final decision had yet been taken on whether Heads of other IEPG Governments, which might be interested, should also be approached. Our views on this question, as well as the specific issues raised in the message, would be welcome.

Asked about the President's reference to the involvement of the British and French aerospace industries in the two current fighter programmes, Mr Viot said he thought his Government had in mind the development of common equipment for both aircraft. He also suggested that British industry might provide equipment for the French fighter and vice versa.

Mr Renton reminded the Ambassador of our strong commitment to defence equipment collaboration with our main European partners. We would give serious and urgent consideration to the President's proposals with a view to responding at an early date.

/I

R C Mottram Esq
PS/Mr Heseltine
Ministry of Defence
Whitehall

CONFIDENTIAL

I should be grateful if you would ensure that the reply to President Mitterrand is prepared in close consultation with the FCO. It will be important for us to be seen to be responding positively to the French ideas, while at the same time ensuring that work on EFA is not held up or driven off course. It will also be important to co-ordinate our approach closely with those of our other EFA partners. Our view is that, as a first step, we should instruct our Embassies in the relevant capitals to explain our initial thinking to German, Italian and Spanish officials and to seek their views. I attach a draft telegram. I suggest we aim to despatch it by Monday, 21 October.

I am copying this letter to Charles Powell.

Yours ever,

Peter Westmacott.

P J Westmacott
Private Secretary to
Tim Renton MP

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC
CAVEAT
FM
TO
TELNO
OF
AND TO
INFO

SECURITY CLASSIFICATION ....CONFIDENTIAL....

PRIVACY MARKING/RESTRICTIVE PREFIX ....

FM (post) ....FM FCO....

TO (precedence/post) ....IMMEDIATE PARIS....

TELNO/TELELETTER ....

OF (Time of origin) ....Z (Month)....(Year)....

AND TO (precedence/post) IMMEDIATE BONN, ROME, MADRID....

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AND TO SAVING ....

INFO (precedence/post) ..IMMEDIATE MODUK (PS/S OF S, PS/CDEC)....

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INFO SAVING ....

Distribution:–

PS
PS/Mr Renton
Mr Goodall
Mr Derek Thomas
Mr Daunt
WED
Planning Staff
ECD(1)

EUROPEAN FIGHTER AIRCRAFT

1. MIFT contains a translation of a message from President Mitterrand to the Prime Minister proposing concertation between interested European Governments on military aircraft requirements between now and the end of the century; and envisaging cooperation between the 2 current European fighter programmes. Similar messages have been delivered to Heads of Governments in Bonn, Madrid and Rome. No final decision has yet been taken in Paris on whether to approach other IEPG Governments.

2. For Paris: We should be grateful for any ~~application~~ comment you can provide on French intentions and motives (on assuming as the French Ambassador's call on Mr Renton on 17 October follows by bag.)

Catchword: 3.

File number	Department	Drafted by : (block capitals)	Telephone no.
	DEFENCE	G G WETHERELL	233 4399

3. For Bonn, Madrid & Rome: Please make early contact with host Defence/Foreign Ministries, with a view to finding out their reactions. You should say that we will wish to respond positively to the President's general proposals; but that, at the same time, it remains important that work on EFA should continue as planned. You should say that we should like to coordinate our approach and replies with our partners as far as possible. There are a number of issues, including the scope for collaboration between EFA and Rafale, ~~and~~ the question of involving other IEPG nations, and the need to create additional new machinery, which will require careful consideration.

NOTHING TO BE WRITTEN IN THIS MARGIN

Printed in the UK for HMSO Dd 8422057 2/84 (28532)

lile Bembaf. PM

10 DOWNING STREET

15 October 1985

From the Private Secretary

EUROPEAN FIGHTER AIRCRAFT

I enclose a copy of a message to the Prime Minister from President Mitterrand about co-operation in military aircraft design and production. He proposes the creation of a Ministerial Study Group to consider Europe's needs. He also appears to be suggesting that the current EFA project should be re-opened.

I should be grateful for a draft reply.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office).

(C.D. Powell)

Richard Mottram, Esq.,
Ministry of Defence

BM

AMBASSADE DE FRANCE

LONDRES

L'AMBASSADEUR

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. TA 848/85

15th October, 1985

Dear Prime Minister,

I have just received this message, addressed to you by Monsieur François Mitterrand, Président de la République française.

I enclose it herewith.

Yours sincerely,

J. Viot

Jacques Viot

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10, Downing Street,
LONDON S.W.1

MESSAGE DE MONSIEUR FRANCOIS MITTERRAND
PRESIDENT DE LA REPUBLIQUE FRANCAISE

A

THE RT. HON. MRS. MARGARET THATCHER, M.P.,
PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. TA188(1)/85

Paris, le 11 octobre 1985

"Madame le Premier Ministre,

Je tiens à rappeler qu'à mes yeux, la construction d'une aéronautique militaire commune est un projet fondamental pour la sécurité et la défense, comme d'ailleurs pour l'avenir technologique et industriel de l'Europe.

Je ne puis que regretter l'échec récent du projet unique d'avion de combat européen qui est dû pour l'essentiel, à l'impossibilité de concilier en un seul appareil des besoins militaires différents, bien que complémentaires, ainsi qu'au décalage des calendriers de renouvellement des équipements.

Aussi ai-je acquis la conviction que l'Europe de l'aéronautique militaire ne pourra se construire sans que s'effectue au préalable une réflexion commune, à l'horizon des vingt prochaines années.

.../...

Ce travail de réflexion devrait notamment porter sur :

- l'ampleur et la nature des besoins en avions de divers types d'ici à 1995-2000,

- la définition des programmes européens susceptibles de satisfaire ces besoins,

- les divers types d'appareils indispensables (avions de combat, avions de transport, avions école ou d'entrainement) ainsi que les équipements associés,

- la répartition des tâches entre les industriels, en prenant en compte la nécessité d'établir un réseau de coopération croisée sur les matériels essentiels : cellule, voilure, moteur, équipements électroniques, systèmes d'armes.

Ces considérations me conduisent à vous proposer que soit constitué un groupe européen d'études et de programmation dans le domaine de l'aéronautique qui rassemblerait les pays européens intéressés. Ce groupe réunirait périodiquement, au niveau politique, les Ministres de la Défense et les Ministres des Affaires Etrangères et, au niveau technique, les Directeurs de l'Armement d'une part, les industriels d'autre part.

Je vous propose donc que les Ministres de la Défense et les Ministres des Relations Extérieures de nos différents pays se réunissent rapidement à ce sujet.

.../...

Je souhaite également que puisse être envisagée la participation de nos industries aéronautiques respectives aux deux programmes d'avions de combat qui sont aujourd'hui en développement et dont la complémentarité, tant au point de vue opérationnel que technologique et industriel, pourrait être à nouveau recherchée. Le Gouvernement français est prêt à soumettre à cet égard des propositions précises.

Je reste persuadé qu'il y a place en Europe pour plusieurs projets correspondant à des besoins complémentaires de nos armées de l'air.

Je vous prie d'agréer, Madame le Premier Ministre, l'expression de ma haute considération et de mes meilleurs sentiments.

signé : François Mitterrand"./.

« OPS; Master .

LE PRÉSIDENT DE LA RÉPUBLIQUE

PARIS, le 11 octobre 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T218/85

Madame le Premier Ministre,

Je tiens à rappeler qu'à mes yeux, la construction d'une aéronautique militaire commune est un projet fondamental pour la sécurité et la défense, comme d'ailleurs pour l'avenir technologique et industriel de l'Europe.

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- l'ampleur et la nature des besoins en avions de divers types d'ici à 1995 - 2000,

- la définition des programmes européens susceptibles de satisfaire ces besoins,

- les divers types d'appareils indispensables (avions de combat, avions de transport, avions école ou d'entraînement) ainsi que les équipements associés,

- la répartition des tâches entre les industriels, en prenant compte la nécessité d'établir un réseau de coopération croisée sur les matériels essentiels : cellule, voilure, moteur, équipements électroniques, systèmes d'armes.

.../...

Madame Margaret THATCHER
Premier Ministre
de GRANDE-BRETAGNE

Ces considérations me conduisent à vous proposer que soit constitué un groupe européen d'études et de programmation dans le domaine de l'aéronautique qui rassemblerait les pays européens intéressés. Ce groupe réunirait périodiquement, au niveau politique, les Ministres de la Défense et les Ministres des Affaires Etrangères et, au niveau technique, les Directeurs de l'Armement d'une part, les industriels d'autre part.

Je vous propose donc que les Ministres de la Défense et les Ministres des Relations Extérieures de nos différents pays se réunissent rapidement à ce sujet.

Je souhaite également que puisse être envisagée la participation de nos industries aéronautiques respectives aux deux programmes d'avions de combat qui sont aujourd'hui en développement et dont la complémentarité, tant au point de vue opérationnel que technologique et industriel, pourrait être à nouveau recherchée. Le Gouvernement français est prêt à soumettre à cet égard des propositions précises.

Je reste persuadé qu'il y a place en Europe pour plusieurs projets correspondant à des besoins complémentaires de nos Armées de l'Air.

Je vous prie d'agréer, Madame le Premier Ministre, l'expression de ma haute considération et de mes meilleurs sentiments

François Mitterrand

François MITTERRAND.

DEFENCE

PROCUREMENT

OF WEAPON SYSTEMS

P 53

10 DOWNING STREET

From the Private Secretary

25 September 1985

EUROPEAN FIGHTER AIRCRAFT

I enclose a copy of Senor Gonzalez' reply to the Prime Minister's message of early August urging Spain's participation in the EFA project definition.

I am copying this letter and enclosure to Colin Budd (Foreign and Commonwealth Office).

C D POWELL

Richard Mottram, Esq.,
Ministry of Defence

cefc

SPANISH AMBASSADOR

24 BELGRAVE SQUARE
LONDON SW1X 8QA

NDPM
CDD
2579.

25th September 1985

Dear Prime Minister

I have much pleasure in forwarding a letter addressed to you by Don Felipe González, President of the Spanish Government, that has just reached me.

For your convenience I am also enclosing an unofficial translation.

Yours sincerely

JOSE J. PUIG DE LA BELLACASA

The Right Honourable Margaret Thatcher,
Prime Minister,
10 Downing Street,
LONDON SW1.

SUBJECT cc MasterOps

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T 1573/85

UNOFFICIAL TRANSLATION.-

Presidency of the Government

Madrid, 2nd September 1985

The Right Honourable Margaret Thatcher,
Prime Minister of the United Kingdom
and Northern Ireland,
LONDON.

Madam Prime Minister,

At the beginning of August I received, via your Embassy in Madrid, your letter relating to the construction of a European combat aircraft.

I would wish first to express my appreciation of your interest in Spanish participation in this programme. My Government believes in the great importance that participation, from the beginning, in the development and construction of a combat aircraft that is the consequence of cooperation between European countries, will have on wide sectors of Spanish industry. It has also given due weight to the importance to Europe, as a community of nations, that such projects have at the technological level as well as for this economic entity.

It was for this reason that I thought it proper to make a last effort aimed at maintaining the initial group of five countries as continuous participants in the programme, before Spain joined at the beginning of the definition stage of the combat aircraft agreed upon by England, Germany and Italy at the Turin meeting of Directors General for Armaments.

I am very pleased to be able to say that after a prudent lapse of time since that meeting, the Spanish Government yesterday agreed to empower its Director General for Armaments to sign the document drawn up at Turin.

Spain thus joins the new phase of the project with the wish and the hope that the initial group of five countries will be reconstituted in the near future, this being the objective that will continue to inspire our efforts.

I avail myself, Madam Prime Minister, of this opportunity to assure you of my highest consideration.

(Sgd.) FELIPE GONZALEZ MARQUEZ

EL PRESIDENTE DEL GOBIERNO

Madrid, 2 de septiembre de 1.985

Excma. Sra. Margaret Thatcher
Primer Ministro del Reino Unido
de Gran Bretaña e Irlanda del Norte
LONDRES

Señora Primer Ministro:

Recibí a principios de agosto, a través de su Embajada en Madrid, su escrito acerca de la construcción del avión de combate europeo.

Ante todo, quiero agradecerle su interés por la participación española en este programa. Mi Gobierno ha considerado de la mayor importancia para amplios sectores de la industria española la participación, desde sus inicios, en el proceso de desarrollo y fabricación de un avión de combate, fruto de la cooperación entre los países europeos. También ha valorado la trascendencia que para Europa, como comunidad de naciones, tienen proyectos de este nivel tecnológico y esta entidad económica.

Por ello, consideré adecuado hacer un último esfuerzo en la dirección de mantener el grupo inicial de cinco países como continuadores del programa, antes de que España se adhiriese al inicio de la fase de definición del avión de combate, acordada por Inglaterra, Alemania e Italia en la reunión de Directores Generales de Armamento de Turín.

Me es muy grato comunicarle que, transcurrido un plazo prudencial de tiempo desde aquella reunión, el Gobierno español ha acordado, en su reunión de ayer, autorizar a nuestro Director General de Armamento a proceder a la firma del documento elaborado en Turín.

EL PRESIDENTE DEL GOBIERNO

Con ello, España se incorpora a la nueva fase del proyecto, con el deseo y la esperanza de que se reconstruya en un futuro próximo el grupo inicial de cinco países, objetivo que continuará orientando nuestros esfuerzos.

Reciba, Señora Primer Ministro, el testimonio de mi más alta consideración,

Felipe González Márquez.

(2)

Prime Minister

CDP

2/8.

MO 26/11/9

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT

I should report formally to you and our OD colleagues that an agreement was signed this morning in Turin between the National Armaments Directors of the United Kingdom, Germany and Italy to proceed with the definition of a collaborative programme for a European fighter aircraft to enter service in the mid-1990s.

2. Following my minute to OD colleagues of 26th July, there have been intensive discussions this week between me and my German opposite number, Dr Woerner, and our experts, to establish a basis upon which a decision to proceed could be reached before the holiday period. The danger of further delay was that France would bring to bear pressure at the highest political level to secure a Franco-German solution rather than the 4 nation proposal favoured by the German Air Force and German industry. To head this off, I agreed with Dr Woerner and with the Italians a package of proposals, within the negotiating framework set out

in my minute of 26th July, to which we would all subscribe and proceed with in the event that wider agreement on a 5 nation basis could not be secured.

3. The essential elements of the agreement now reached are as follows:

a. An aircraft weighing 9.75 tonnes BME, (including 140 Kg for equipment and a 110 Kg contingency), with a wing area of 50 square metres, and two engines each with a thrust of 90 kilonewtons. The configuration is to be based on the 4-nation design submitted by British Aerospace and others.

b. A management structure including a Steering Committee responsible for the guidance of the programme; an international programme office for planning and the award of contracts; and two joint companies for the system configuration and integration of the airframe, engine, avionics and equipment and for the engine.

c. The three management organisations referred to in the previous sub-paragraph shall be co-located. The text of the agreement does not state where but it is understood between the partners that the location will be Munich.

d. Equitable arrangements for the distribution of key appointments in the three organisations taking account of their location.

e. Each nation will fund the work carried out in project definition by its own industries. Work and cost sharing in the development phase will be based upon assumed orders for production aircraft, which for the presently agreed 3 nation project gives 38% for the United Kingdom, 38% for Germany and 24% for Italy. Production worksharing will be on the basis of firm orders at the time when production commences.

f. The partners keep the programme open for the participation of additional nations, in which case decisions on worksharing and on the distribution of key appointments will be reconsidered. In a separate note a deadline of 15th August has been set for the other prospective partners each to decide whether they wish to join and agreement has been reached on 4 or 5 nation workshares in such circumstances (on the same principles originally envisaged for a 5 nation project.)

4. While this agreement falls short of our ideal of a 5 nation project, it represents a most satisfactory outcome. It is also clear that we would never have secured the support of the

Germans without pursuing the strategy of genuinely seeking a 5 nation solution. It seems unlikely that France will decide to join but, as you know, we have taken active steps today to seek to persuade Spain to do so.

5. Finally, the dangers ahead. First, just as today's news is good for us it will be profoundly disappointing for the French. They will seek at every milestone in the programme to find ways of detaching the Germans: we must be prepared. Secondly, there is the risk that pressure from Air Forces and from industry will drive up the weight and cost of the aircraft. This would provide the French with the opportunity to say that they had told their partners so and to reinforce the political drive aimed at the Germans. We must take the steps concerning the management and cost control of the project necessary to avoid this, on which I am already in preliminary touch with Dr Woerner.

6. I am copying this minute to the other members of OD and to the Secretary of the Cabinet.

Ministry of Defence
2nd August 1985

(approved by the Defence Secretary & signed in his absence)

cc OPS
MASTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T1461/85

10 DOWNING STREET

THE PRIME MINISTER

2 August 1985

My dear Prime Minister,

I have kept a close watch on the negotiations in which our two countries have played so active a part for the construction of a genuinely European Fighter Aircraft.

I am naturally delighted that Germany, Italy and the United Kingdom have now decided to move forward to the next critical step when the precise details of the aircraft are established and the industrial allocations in this high technology project apportioned.

But I had always hoped that your country would participate as well. I am pleased therefore that the agreement signed in Turin early today clearly sets out how you could do so and the share of this project which Spain would automatically receive.

I believe that by joining this new project now at its formative stage before the rigidities of design and industrial bargaining present ever larger hurdles, Spain can share in meeting one of the largest industrial challenges Europe has tackled. I do not believe that there is any alternative way forward for Spain which would offer a genuine industrial partnership of the kind we are so anxious to achieve.

I wanted you to know how much importance I attach to your country's membership of this important programme and of my strong hope that you will agree to take part.

With warm best wishes.

Yours sincerely

Margaret Thatcher

His Excellency Senor Don Felipe Gonzalez Marquez

10 DOWNING STREET

From the Private Secretary

2 August 1985

Dear Len,

EUROPEAN FIGHTER AIRCRAFT

Richard Mottram wrote to me earlier today enclosing a draft message from the Prime Minister to Senor Gonzalez. I enclose the message, in slightly briefer form, as signed by the Prime Minister and should be grateful if it could be despatched as soon as possible.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

Yours sincerely

(CHARLES POWELL)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

Dealt with CDS 4/8

MO 26/11/9

2nd August 1985

Dear Charles.

EUROPEAN FIGHTER AIRCRAFT

Following the signature of an agreement on EFA by three National Armaments Directors this morning, the Defence Secretary has been in touch with his Spanish opposite number, Senor Serra, to stress the British Government's desire for Spain to join the project. Sir Ray Lygo is making a parallel approach on the industrial net and the Foreign and Commonwealth Secretary has it in mind to speak to his opposite number in Spain. Senor Serra told Mr Heseltine that he would be reviewing the papers today and would speak tomorrow to the Spanish Prime Minister. He fully appreciated the urgency of reaching a decision if, as the Defence Secretary stressed, options for Spanish participation were not to begin to be foreclosed.

The Defence Secretary believes that it would be most valuable if the Prime Minister could send a personal message to Senor Gonzalez reinforcing the points which he has made to Senor Serra. I attach a draft. In the time available, this has not been cleared with the FCO who may wish to give you their comments direct.

The Foreign and Commonwealth Secretary may wish to draw on this draft in speaking to his opposite number.

I am copying this letter and the attachment to Len Appleyard (FCO).

Yours ever,

R. C. Mottram

(R C MOTTRAM)

C Powell Esq
10 Downing Street

CONFIDENTIAL

DRAFT

CONFIDENTIAL

AHJ

I have kept a close watch on the negotiations in which our two countries have played so active a part to seek arrangements for the construction of a genuinely European Fighter Aircraft.

~~Of course~~ I am naturally delighted that Germany, Italy and this country have now decided to move forward to the next critical step when the precise details of the aircraft are established and the industrial allocations in this high technology project apportioned.

But I had always hoped that your country would participate as well. ~~That is why~~ I am ~~so~~ pleased that the agreement signed in Turin early today clearly sets out how you could do so and the share of this ~~exciting~~g project ~~you~~ would automatically receive.

We have worked together now for many months to draw our two countries together within the European Community. It is perhaps not too much to say that relations between our two countries are at a particularly encouraging stage. There is no better way to move ahead from here than to draw our industries together and to cement our defence interdependence by the pursuit of common projects. It turns the rather intellectual concepts of Europe into real projects that our people can understand in their daily lives.

I believe also that by joining this new project now at its formative stage before the rigidities of design and industrial

bargaining present ever larger hurdles, Spain can share ~~across the board the experience of~~ in meeting one of the largest industrial challenges Europe has ~~attacked~~ tackled. I do not believe that there is any alternative way forward for Spain which would ~~also~~ offer a genuine industrial partnership, of the kind we are so anxious to achieve. ~~We in Europe have to co-operate if we are to compete in the technologies of the future, in defence and elsewhere.~~

I wanted you to know how much importance I attach to your country's membership of this exciting programme and I hope that you will agree to take part with warm best wishes.

SECRETARY OF STATE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 .....

2. 8. 85

Dear Margaret CDP 2/D

I know you may find this particular piece of European drilling to be but if you could sign it I would much appreciate it.

Thanks for your kind note

yours ever

10 DOWNING STREET

PM

Prime Minister

Seen

Received at

2.40 a.m. You

may like to

congratulate him.

C.D.P.

PM has written

to Mr

CDP 2/12-

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 .....

Friday 2nd '85

Prime Minister

I am pleased to tell you that at 2.0 AM this morning we signed an agreement with Germany & Italy to move forward with the European fighter Aircraft. The option to join the programme remains open to France & Spain.

The contract is to all intent & purpose that which I circulated to colleagues. Only one change was agreed after I had dismissed & agreed the matter with Sir Raymond Lygo. We agreed an increase in the Italic workshare in the development stage to 24% with Rolls & Snecma meeting 38% of the costs (Original figures 20.40.60)

The specification of the aircraft was agreed (without moving to the agreed lowest figure) at 9.75 tons BME. 90 Kn/s thrust and 50 sq.m wing

I am well pleased with this outcome which reflects the strategy I adopted to

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

NSAD 0007

Telegrams: Britair London Telex Telex: 24353

British Aerospace

PUBLIC LIMITED COMPANY

100 PALL MALL LONDON SW1Y 5HR

TELEPHONE 01-930 1020

From the Managing Director,
SIR RAYMOND LYGO, KCB

The Rt. Hon. Norman Tebbit, MP,
Secretary of State for Trade and Industry,
1, Victoria Street,
London, SW1H OET.

1st August, 1985

Dear Norman,

I enclose my comments on the documents to hand together with some recommended changes.

Annex. A. comments on M.O. 26/11/9

Annex. B. comments on CDEC 000203

I also enclose copies of letters to Secretary of State, Ministry of Defence which you have not seen. All these make clear the BAe position.

Annex. C. I.R.Y./LDT/DMD/1076 dated 26th July, 1985.

Annex. D. I.R.Y./JDP/DMD/1043 dated 2nd July, 1985

Annex. E. Letter from Sir Raymond Lygo to S.o.S. M.o.D. of 19/7/85

Annex. F. Woerner proposals.

We understand that in a Reuters report of an interview, Woerner intimated that they could accept a delay of a further week.

Yours sincerely,

ANNEX. A.

COMMENT ON M.O. 26/11/9

1. Sir Raymond Lygo had not seen the above document but assumed it to be based on the Woerner proposals (Annex F.). He was familiar with the general theme but he assumed that the Headquarters would be in Munich. The BAe position on work share with Dassault was well known to be, BAe to have a share and responsibility equal to Dassault and to include the design and manufacture of the front fuselage of the aircraft and for flight testing to take place at Warton. An acceptable minimun compromise would be, two front fuselage production lines with a common joint Anglo/French design team. Flight testing to be shared between Istres and Warton.

2. Mr. Yates was given a sight of the draft and questioned the wisdom of the phrase "as opportunity arises" wishing the drafters to take a stronger line. He assumed that "have a share" meant as described in 1 above. His notes of the meeting made it clear that Munich was to be the location. He left Annex. C. with D.C.A.

3. Proposed minimum amendments to MO26/11/9 to make it acceptable subject to the explanations in paragraphs 1 and 2.

Paragraph 8(b) amend to read:-
"British Aerospace should have an "equitable" share of two . . ."

Paragraph 9(d), delete "as opportunity arises", insert after British Aerospace "having an equitable share . . ."

ANNEX. B.

REF: CDEC 000203

This document, if it is meant to be signed, leaves many of the crucial issues completely open:- Work share: management: location. In the event of the French wishing to join, these issues must be resolved to our satisfaction. As a location, Paris is unacceptable to British Industry (see Annexes D. and E.) London is our preferred location.

Munich is an acceptable compromise and the Woerner proposals for management appointments are generally acceptable.

BAe's views on work sharing are set out in my comments on M.O. 26/11/9.

1. The British N.A.D. should be instructed to insist that if the French are inclined to join, the only acceptable compromise location is Munich and the only acceptable management structure is on the basis of the German compromise proposal and that these must be included in the document.

2. The British N.A.D. should understand that if the French are inclined to join, para 3 (3) "an equitable allocation" means in relation to BAe and Dassault. (See comments on M.O. 26/11/9). It also means that Rolls Royce get the hot end of the engine. His position on both these points must be made clear and minuted.

ANNEX. C.

British Aerospace
PUBLIC LIMITED COMPANY

100 Pall Mall
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IRY/LDT/DMD.1076

26th July 1985

Mr D Spiers
Deputy Controller Aircraft
Ministry of Defence (PE)
Main Building
Whitehall
London SW1

IN STRICT CONFIDENCE

Dear Donald,

BASIS OF EFA PROGRAMME

The attached notes represent what I understand to be the UK 'bottom line' as a basis for a 5 nation programme in the event that a ministerial meeting in the near future leads to such an eventuality. I hope it is useful background to the letter now being drafted for Secretary of State to send to the Prime Minister, as agreed in Mr Heseltine's office last evening.

In any event, since we cannot be sure of the outcome (and it is quite likely that a clearcut situation may not arise from the present political activity) the initiative suggested by Sir Raymond Lygo in his letter to the Secretary of State dated 19th July, namely that the UK should proceed to fund the Definition Phase of the 4 Nation solution in collaboration with whomsoever of the Partners wishes to join, should be given serious consideration. It is essential that we do not lose momentum, Industry needs support to keep the 4 Nation design work proceeding, and this is the most effective way to ensure a positive outcome, with 5 Nations or with a reduced number of partners, within an acceptable timescale.

Yours aye.

Ian

att.

From: I. R. YATES, C.B.E., B.Eng., F.Eng., F.I.Mech.E., F.R.Ae.S., F.A.I.A.A., C.B.I.M., Deputy Managing Director (Aircraft)

Registered in England & Wales No. 1470151 Registered Office: 100 Pall Mall London SW1Y 5HR

Industry would generally agree with the Woerner package, noting the following key points:

(the reference numbers quoted correspond to the numbers of the German proposal)

1. (a) The aircraft design must be completely new - a "clean sheet of paper" - the French proposal (to prescribe side intakes and fuselage mounted undercarriage) is intended to force the use of the Dassault ACX as the basis for the design; this is unacceptable to BAe and the UK equipment industry.

   (b) Technology from the ACX and EAP programmes must be available to all partners for use in the new design.

   (c) In any case (even if the German proposal to use the 4 Nation configuration is accepted) Industry must be asked to define the overall configuration of the airframe and engine in order to meet a clear 'check point' early in the Definition Phase. Failure to achieve an agreed configuration (by the end of September?) must be reported to Ministers and resolved quickly.

   (d) Acceptable performance, thrust and wing area, must be set by MOD/RAF. However, 89KN and 49.5m² wing as 'bottom-line' is acceptable to Industry - anything less is regarded as very unwise indeed, having due regard of the threat.

3. The Project Definition Phase should be started as soon as possible, with full programme "go-ahead" before mid 1986. In Service dates of 1995 must be respected.

4. Organisation

   (a) Industrial Consortia, generally agreed but some responsibilities may need further discussion.

   (b) Note that the French proposed GIE is not an acceptable legal structure for the company (it must be in Germany, a GmbH).

8. Location in Germany is acceptable, on basis that UK and France are mutually unacceptable. This also allows UK and France to be compensated, for the prestige accorded to Germany by Munich location, by the allocation of technically significant items of the worksharing package.

9. The basis of the workshares and principles accepted, but must be augmented by agreement on certain physical workshares in order to provide and acceptable overall package:-

(a) Both BAe and Dassault will wish to have a major share in two key areas

(i) The design and manufacture of the front fuselage,

(ii) Location of the Flight Testing

Note These are not prestigious symbols, but key to control of the programme

- Control of the front fuselage is de facto control of the aircraft design (and equipment specification) process

- Control (location) of flight testing gives effective control of the whole development programme which is key to the overall programme timescale.

These cannot reasonably be balanced against each other (British nose, French flight testing), therefore, the aim will have to be a compromise by an equitable split of both, which can be done on basis of:

(i) There are going to be more than one (national) weapons systems/cockpit arrangement, so have the front fuselage jointly designed with shared manufacture and two equipping lines.

(ii) Flight testing can be split by allocating the key tasks between Warton and Istres (as achieved effectively on Tornado).

(b) Since the French do not have the technical capability within SNECMA to achieve the engine performance in anythinglike the timescale, then Rolls Royce have to do the hot (turbine) end of the engine. This is a 'stand alone item' and whilst the French if necessary could possibly be 'compensated' for this, it can only be within the parameters of the engine itself, not by unbalancing workshares in the airframe or the equipment sectors.

Other points, as a reminder:-

(A) It is very important to keep the joint study work proceeding, particularly in the absence of any clearcut outcome to the present political activity. At the very minimum there should be a UK funded definition study initiated, for an aircraft aligned with the current compromise configuration (9.75t/90-89Kn/50-49.5m^2. (refer - letter from Sir Raymond Lygo to the Secretary of State dated 19th July copied to Mr Norman Tebbit).

(B) Attention is also drawn to a number of additional points:-

(i) The use of English language should not be a tradeable item; therefore, argue that it has already been accepted and anyway is the language of aeronautics.

(ii) Interim engine, we should press (at some stage) for use of the RB199 at least in the early UK assembled prototypes.

(iii) EAP must complete a useful flight test programme.

(iv) We have never asked for the EAP to be the basis of a new programme; Dassault have consistently pressed for the ACX to be the basis of the programme.

(v) If the ACX were to be used, even in a 'scaled up' 9.75t form, 90KN/50m², it puts a complete technological 'lid' on UK airframe and equipment industries, because all its equipment (important things like flying controls) is fully specified around French technology, and these technical specifications will, "in the interests of efficiency", be imposed on the other partners and supplies who will become effectively just sub-contractors: By this means the French will have achieved their strategic objective of leadership in military combat aircraft in Europe (as well as space, helicopters and airlines).

(vi) Whilst fully supporting the proposed 5 Nation programme if it can be achieved on the above basis, the UK will be better served, in terms of technology and the total return to the country, by a 3 (or 4) nation programme with the Panavia Partners. Note that this will cost the UK (MOD) no more (and probably less) than the UK share of the 5 nations programme; indeed the cost of a programme with only 1 partner (say Italy - a good partner) compares very favourably with the UK share of a 5 nation programme.

ANNEX. D.

British Aerospace
PUBLIC LIMITED COMPANY

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Kingston-upon-Thames
Surrey KT2 5QS

Telephone: 01-546 7741
Telegrams: Britair Kingston-upon-Thames
Telex: 23726

IRY/JDP/DMD/1043

2nd July, 1985.

The Rt Hon Michael Hesletine MP
Secretary of State for Defence
Main Building
Ministry of Defence
Whitehall
London, S W 1.

Dear Secretary of State,

European Fighter Aircraft

It might be helpful to update you on the industrial perspectives prior to your meeting on 3rd July, following my file note to your office dated 26th June and the General Managers Meeting in Turin on 27th June. Two issues emerge as central to any industrial progress before the meeting of Ministers on 24th July, namely a joint aircraft configuration and certain aspects of organisation.

The Ministers requirement for an answer on the basis of single aircraft configuration has been discussed with Dassault who are now prepared to work in a limited way with the other companies, but they have reservations which will prevent us making a meaningful joint report to the N.A.D.S. We have therefore tried further initiatives in order to try and achieve a more wholehearted support for a single aircraft configuration, but so far we have not had a clear response from Dassault.

In the international forum we have not been able to make any further progress with discussions on organisation but we have pursued discussions with MOD (PE) and I have written separately to DCA.

The Management issue has been one of continuing concern; you may recollect that it was referred to most recently in Sir Raymond Lygo's letter to you on the 8th May. While we are all agreed on the need for a governmental international programme office (IPO) there remain uncertainties on how it would operate, especially in the placing of contracts. The primary question is its legal authority and the extent of the use of National governmental organisations. It is one thing to have an equitable IPO in Germany making use of their BWB at Koblenz to sign the contract; it would be a very different matter to locate the IPO in Paris and allow DTCA contractual control.

From: I. R. YATES, C.B.E., B.Eng., F.Eng., F.I.Mech.E., F.R.Ae.S., F.A.I.A.A., C.B.I.M., Deputy Managing Director (Aircraft)

Registered in England & Wales No. 1470151 Registered Office: 100 Pall Mall London SW1Y 5HR

While four of the Nations' industries are seeking equitable management, Dassault continues to wish to dominate the project France has an excellent governmental procurement organisation and the closest of associations between it and Dassault. However, they have very little experience in multi-national military collaborative projects. They have many bi-lateral programmes but with French dominance or the concession of a partial or reciprocal lead, e.g. the Adour engine on Jaguar and the helicopter package, where it was in their interest. Dassault have never conceded their leadership position; when faced with it on the AFVG, they withdrew rather than concede. Our concern is that, if the governmental and industrial organisations were located in Paris, the French nationalistic attitude would drive them to utilise their capabilities to misdirect the international effort towards French national advantage. There is no way of protecting our legitimate industrial (and national) interests against such dominance by appointment of key executives in the joint company on a national basis (UK Technical Director, FRG Managing Director etc) even if the management structure is otherwise acceptable to us. (I need hardly add that in this environment the concept of a single central engineering office (Bureau d'Etude Commun) to control the programme is completely unacceptable).

We conclude therefore that the IPO must have full independent status - for instance a NATO agency - in relation to the joint Company. This is not only a BAe view, it reflects the considered opinion of the UK Aircraft Industry especially Rolls- Royce and the experience of the UK equipment and Avionics Industries for whom the implications could be even more serious. We need to have this point clearly established before we can hope to make any progress in establishing an acceptable industrial management arrangement with the other nations.

I hope this summary is helpful; I am arranging to be updated on all aspects prior to your meeting.

Yours sincerely

Copy: C.D.E.C.

ANNEX. E.

Telegrams: Britair London Telex Telex: 24353

British Aerospace

PUBLIC LIMITED COMPANY

100 PALL MALL LONDON SW1Y 5HR

TELEPHONE 01-930 1020

From the Managing Director,
SIR RAYMOND LYGO, KCB

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

19th July 1985

FUTURE OF EFA

At the meeting we held with you on Monday I undertook to give some thought to the best way ahead to secure a collaborative programme. Subsequent to your meeting we had a meeting with Norman Tebbit in which we outlined the results of your meeting, but learned of one new development; that it was unlikely that there would be a meeting of Ministers until September. In the light of this information we made a firm proposal; that if the in service date of 1995 was to be met, then it was necessary for us to proceed with Definition Studies this Autumn. This is a view that we understand is shared by our German colleagues. I believe that the best way of ensuring a five nation solution would be to be seen to be making progress on an aircraft that meets the requirements of four of those nations. Whilst this may not be the ideal solution to the eventual achievement of a quintilateral aircraft programme, I do not believe that any other strategy is more likely to bring that about. To this end, we would propose that H.M.G. should announce that it is proceeding to fund the Definition phase of a study of the four nation solution which most closely meets the operational requirements of the Royal Air Force. We should further offer to do this in collaboration with whomsoever of the partners wishes to join and we should discuss this with them in advance. We should make it clear that at the conclusion of this Definition Study other Nations not participating, could still join the consequent programme in accordance with Para 3 of the Ministerial statement issued after their meeting in London on 18th June 1985.

I suggested that Norman should attempt to get Bangemann on side and I know you will be in touch with Woerner in order to understand better his position.

Continued/.....

There are five points I feel I must reiterate in the event that any further discussions on a quintilateral programme take place:-

(a) our recommendation is that you stick to a thrust of 91.7 Kn. Anything less puts the supersonic combat capability increasingly and seriously at risk; ie. likely to fail to meet the minimum EST;

(b) whatever aircraft is selected it must be a totally new design. We must be careful to avoid a situation where the French ACX is edged into the position as the basis for the programme;

(c) since Dassault have consistently pursued their own objectives disregarding the instructions issued by the Ministers when they consider it appropriate, there can be little logic in believing that any minor concession will change their future attitude;

(d) that wherever the International Programme Office is located it must in any event take the form of an independent (NATO) agency with full authority to place contracts on both the airframe and engine companies;

(e) in the event that France were to become the likely Headquarters location then we would be deeply concerned about the degree of protection provided for British Industry and would need to review the situation with you before final decisions are taken.

I am copying this letter to Norman Tebbit.

COPIES TO:

The Rt. Hon. Norman Tebbit, MP,
Secretary of State for Trade and Industry,
1 Victoria Street,
London, SW1H 0ET.

Mr. R.M. Robins
Rolls-Royce Ltd.,

Mr. Derek Alun-Jones
Ferranti PLC

Sir Clive Whitmore, KCB, CVO,
Permanent Under Secretary of State

Mr. D.H. Perry,
Chief of Defence Equipment Collaboration

Air Marshal Sir John Rogers, KCB,CBE,
Controller, Aircraft

Internal Copies

Sir Austin Pearce
Sir David Evans
Mr. R. H. Evans
Mr. D. McClen
Mr. F. E. Roe
Mr. L. A. Sanson
Mr. I. R. Yates

At the NADs Meeting, Germany made the following compromise proposal:

1. Aircraft Design based on the 4 N configuration:

In_Service Basis Mass Empty	9.5 to plus 14o kg equipment and 11o kg growth allowance in accordance with an BME-Ceiling of 9.75 to
Thrust	9o kN nominal
Wing area	5o m^2

2. According to the results of the studies, the EST-requirements can be met substantially with an aircraft design of the above mentioned characteristics.

3. Based on these characteristics, the project definition phase can be started, provided all five nations are agreed on the characteristics and on the proposals for the organisation and worksharing.

4. System Consortium

As a System Consortium a joint company with adequate responsibilities/liabilities is to be established by the five national aerospace companies.
The five companies in this joint venture have equal rights and cooperate as partners.
The joint company is responsible for the system configuration total integration of the airframe, engine, avionics and equipment during the development, production and utilisation phases.
Execution of the worksharing packages is a responsibility of the national companies awarded by contract.

5. Structure of the airframe consortium (system)

The key-appointments should be shared, for example, as follows:

General Manager	FR
Technical Director	UK
Programm Director Coordination	GE
Finance Director	IT
Contract Director	SP
Flight Tests	UK

6. Structure of the Engine Consortium (as a possible proposal)

General Manager	UK
Technical Director	FR
Programm Director	GE
Finance Director	IT
Contract Director	SP

7. Official International Programm Office (IPO)

The IPO is responsible for the planning, control and monitoring of the programme and for the awarding of contracts. It acts on the bases of directives from the Steering Committee.
The key-appointments should, for example, be shared as follows

General Manager	IT
Technical Director	UK
Operational Requirements/ Logistic Director	GE
Finance Director	FR
Contracting	SP
Controller	UK, FR, IT, SP,

8. To enhance their efficiency, all three organisations should be at the same location, i.e. Munich.
The sharing of key appointments proposed under paragraphs 5 - 7 above takes into account that the seat of the organisations is in Germany. Over all, the weight of the five partners thus is balanced.

9. Worksharing among the System Companies
Within the System Consortia, the National Aerospace Companies have equal rights and cooperate as partners. Execution of the worksharing packages is a responsibility of the national companies awarded by contract.

In accordance with current arrangements among the NADs the qualitative and quantitative worksharing during development for the airframe, avionics, and equipment will be as follows:

For FR, UK, GE	24.5 % each
IT	16.5 %
SP	10 %

Production sharing will be done on the basis of firm orders for the aircraft from the participating nations at the beginning of the production phase.

Germany maintains the view that this proposal would enable all five nations to participate in the collaborative Programme. Italy and UK wish to review the allocation of responsibilities proposed in 5 to 7 but apart from this can agree to submit this proposal to the Ministers for their decision.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/11/9

1st August 1985

NBPM

EUROPEAN FIGHTER AIRCRAFT

Many thanks for your letter of today's date following up our discussion this morning.

I am delighted that we are agreed on the "bottom line" in the event that a five-nation agreement were to appear negotiable at this afternoon's meeting of National Armaments Directors in Turin, and that this should be based on the detailed proposals in my note to the Prime Minister of 26th July. I was happy to accept the details in Mr Yates' letter of 26th July to one of my officials since they reflect his understanding of the outcome of the meeting upon which I drew in circulating my original minute. (I also have no difficulty with Sir Raymond Lygo's comment since it is self evidently the case that we would seek an equitable share of the project for British industry and we have defined together over many months what this would comprise and what elements were negotiable).

I am therefore proceeding on the basis which I established at my meeting last Thursday with senior representatives of the companies concerned, the Chief of the Air Staff and my other senior military advisers, and your Minister of State.

I am copying this letter to the other recipients of yours.

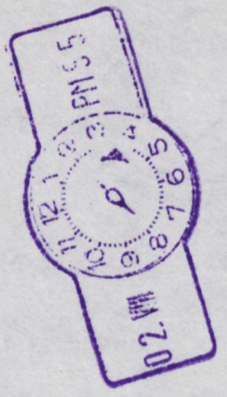
Yours ever

Michael Heseltine

The Rt Hon Norman Tebbit MP

DEFENCE : Procurement

A3



CC/DD

DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

1 August 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Informed Prime Minister
CDP
1/8

Dear Michael

EUROPEAN FIGHTER AIRCRAFT

Following the Prime Minister's meeting yesterday, we had a further discussion this morning. At that meeting, you told me that you would reject any proposal to go below the German bottom line proposal (which is reflected in the last sentence of para 7 of your minute to the Prime Minister of 26 July - i.e a 9.75 tonne design, having engines of 89 kilonewtons thrust and a wing area of 49.5 square metres). You also told me that you would reject any proposal for there to be a single headquarters for the project located in France.

2 Further to this, you said that you had no difficulty in accepting, as the detail of a "bottom line" for the UK in negotiations, the letter of 26 July, with its attachments, from Ivan Yates of British Aerospace to Mr Speirs of the Ministry of Defence, subject to your reservations concerning the desirability of a four or a five-nation consortium.

3 I showed you the letter which I have today received from Sir Ray Lygo. You said that while you were not in a position formally to accept the amendments it proposes to your minute of 26 July to the Prime Minister, there was nothing in Sir Raymond's letter which caused you any difficulty.

4 Since your confirmation of the points I have set out above meets the concerns of industry, as I understand them, I am content that you should continue negotiations on this basis. I believe that this discharges the remit upon us in the letter of 31 July to your Private Secretary from the Prime Minister's Private Secretary recording our discussion yesterday.

5 I am copying this letter to the Prime Minister, Nigel Lawson, Peter Rees, Geoffrey Pattie, Richard Luce and to Sir Robert Armstrong.

Yours ever
Norman

JH1CSH

NORMAN TEBBIT

TD3 Sec

Subject

cc Master

10 DOWNING STREET

31 July, 1985.

From the Private Secretary

EUROPEAN FIGHTER AIRCRAFT

The Prime Minister held a meeting this evening to consider the negotiating issues on the European Fighter Aircraft raised in the Defence Secretary's minute of 26 July on which the Trade and Industry Secretary commented in his minute of 30 July. The Defence Secretary, Trade and Industry Secretary, Chancellor of Exchequer, Chief Secretary, Minister of Information Technology, and Minister of State at the Foreign and Commonwealth Office were present.

It was agreed that at the meeting of National Armaments Directors to be held on 1 August the United Kingdom representative would be authorised to agree to a four-power project definition study on the basis set out in paragraph 10 of the Defence Secretary's minute, that is accepting if necessary the German compromise proposal of a 50 square meters wing and 90 kilonewtons engine thrust, with appropriate industrial arrangements.

It was also agreed that the terms and conditions on which we might agree to a five-nation project, and British industry's understanding of these, needed to be further elucidated. This was particularly necessary in the case of the industrial arrangements. The Defence Secretary and the Trade and Industry Secretary were invited to consult further and confirm the existence of a common understanding between them and the firms principally concerned on these points. Only on that basis could a decision be taken to go below the German compromise proposal described in the preceding paragraph. If necessary, there would be a further meeting of Ministers on 1 August to consider the matter again.

I am sending copies of this letter to John Mogg (Department of Trade and Industry), Rachel Lomax (HM Treasury), Richard Broadbent (Chief Secretary's Office, HM Treasury), Tim Abraham (Office of the Minister for Information Technology, Department of Trade and Industry), Hayden Warren-Bash (Office of the Minister of State, Foreign and Commonwealth Office), and Richard Hatfield (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT

Norman Tebbit has now commented as predicted on the Defence Secretary's minute. He argues that we have come a long way from the aircraft originally specified; that the resulting aircraft is so close to the French ACX as to be almost indistinguishable; that all we get is a share in the front fuselage and the hot end of the engine; and that our tactics now should be a four-nation consortium excluding France, failing which we should go for (in effect) a British plane.

We have a considerable problem. Michael Heseltine is likely to be summoned any minute to a further five-power meeting. I have therefore arranged a Ministerial meeting for after E(A) tomorrow to discuss next steps.

The strength of Michael Heseltine's position is that he has managed to secure the support of the Air Marshals, industry and Geoffrey Pattie for his final compromise. They probably were not left much option but he has their votes. Industry in particular will be influenced by their view of what is the least "cancellable" project, and probably conclude that a five-nation one meets the bill. The Treasury will probably go along with Michael Heseltine, seeing it as the cheapest option.

But there are some serious questions to be addressed:

1. OD on 7 May concluded that an engine of 92 kilonewtons thrust was needed to get the required performance out of a 9.75 tonne aircraft. Now it is suggested that we go down to 89 kilonewtons. Will the aircraft even take-off, let alone have the high manoeuvrability needed? And while we are coming down from 92 to 89, the French are sitting tight on 87.

2. What further work has been done since OD to define an alternative UK national programme? How can Ministers judge the new compromise until they know what the alternative is?

3. Why the rather shifty wording "as the opportunity arises" in paragraph 9(d) of the Defence Secretary's minute, when describing our hopes of getting the hot end of the engine and a share of the front fuselage? Surely clarity is needed whether we are to get them or not before we can subscribe to any compromise.

4. Have the French shown readiness to make any concessions at all since the OD discussion on 8 May? What are they?

5. If we think that the best solution now available is a four-nation consortium excluding the French, how do we secure it? Constantly moving towards the French position is unlikely to achieve it. Are we better off by matching French tactics and sticking to a position? Has the moment come to get really tough with the Germans? If they are not prepared to help us get an aircraft which will allow us to carry out our role on the Central Front, then we cannot carry out the role.

I have asked the Policy Unit to have another look at the papers, and see if they can come up with some further ideas.

Since writing the above, Michael Heseltine's office have been in touch with yet another development (about which he is telling only you at this stage). The long and short of it is that there will be a five-power Armaments Directors (not Ministers) meeting on Thursday. The German Defence Minister has apparently assured Michael Heseltine that his representative at that meeting will be ready to sign an agreement for 9.75 tonne aircraft with 50 square metre wing area and 90 kilonewton engine (i.e. the original German

compromise) whether or not the French do. Michael Heseltine has said that in those circumstances we would also sign.

Michael Heseltine will say this at tomorrow's meeting. Of course it remains to be seen whether the Germans will actually deliver (the French may appeal to Kohl). And even if they do, many of Norman Tebbit's points remain to be resolved.

C.D.P.

30 July, 1985

DG2ALD

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PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT NEGOTIATIONS

Michael Heseltine has set out the current state of negotiations in his minute to you of 26 July. The key point to note is that the Germans have moved again towards the French position and signalled their intention to take a further step. You will be familiar with that story.

2 What aircraft the RAF buys is primarily a matter for the Secretary of State for Defence. What is clear is that we have come a long way from the aircraft originally specified.

3 The proposed German position is now so close to the French (and I would expect it to move closer still) that it might well be represented as ridiculous to allow such minor differences to prevent the final small step to achieve a 5-nation programme.

4 Michael Heseltine's latest proposed negotiating remit now concedes everything to the French although he would ask for a share in the front fuselage and for Rolls-Royce to have the hot end of the engine. Our earlier ambitions for BAe leadership on the front fuselage has been dropped and I am uncertain whether leadership for Rolls-Royce on the engine remains an absolute sticking point. Nor am I clear whether an 89KN engine (let alone the 88KN which looks to be the next compromise) would be adequate for the ADV Tornado or how this all affects the RB199.

JF1AAK

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5 The present proposal, in essence to build an aircraft so close to ACX as to be almost indistinguishable, but to start to design it all over again as a 5-nation project, seems to me to be a non- cost effective formula in the short run and against our interest in the long-term. Certainly I would also have my doubts about the costs of a programme in which responsibility for the design of the key front end was split and flight testing was similarly either duplicated or split.

6 We need to re-assess our objectives instead of constantly allowing our position to be eroded without asking ourselves to what end we are making concessions.

7 As I see it Michael Heseltine's tactics are designed to achieve a 5-nation consortium. His fall back position is a 4-nation consortium.

8 I do not think that the Germans will side with us against France. Therefore the 5-nation fighter will be on French terms both in respect of specification and industrial matters . The 4-nation fall back consortium would be one which excludes us since I cannot believe that Kohl will desert Mitterand if we allow the difference between the Anglo-German position and that of the French to become so small (especially to the layman's view) as to be dismissed against the political imperatives.

9 Therefore, we should set as our objective a 4-nation consortium excluding France by seeking to widen, not narrow, the differences. If I am right and the Germans

JF1AAK

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still stick with the French then our fall back should be a unilateral or a British led programme in which participation is invited from the Italians or others.

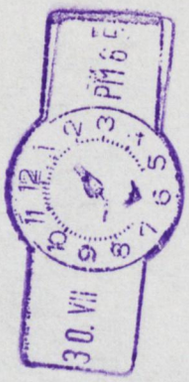
10 I am copying this minute to OD colleagues and to Sir Robert Armstrong.

NT

N T
30 July 1985

DEPARTMENT OF TRADE AND INDUSTRY

JF1AAK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10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr. Levene is coming with MH. The purpose is to let you meet him and give support to his efforts to get better value for money from the defence budget.

He will want to ask in particular about Nimrod.

Please see note by the Policy Unit.

CDP 29/7

SECRET

4

PRIME MINISTER

29 July 1985

MEETING WITH PETER LEVENE

You will want to give Peter Levene some encouragement. He has been sniped at from a number of quarters since his appointment. You could remind him how much depends upon his efforts. Few, if any, civil servants can save (or lose) so much. He and Michael Heseltine will be ready enough to let you know how he has set about his task. Some points which you could then raise are:

1. **Savings**. In evidence to the PAC, PL hinted at savings equal to a "double figure percentage", ie over £800 million after five years on a procurement spend of £8 billion. How confident is he of this figure? How does he derive it?

2. **The Procurement Executive**. When he was an adviser, PL reported on how the PE could be improved. Now that he is in charge, how is he reforming it? One problem in particular which he identified was that it is not clear who, if anyone, is in charge of major contracts. He suggested project teams. This seems a sensible idea. How is it progressing?

3. **How much competition can we expect?** The share of new contracts by value which were priced by competition

SECRET

rose from 14% in 1979-1980 to 26% in 1984-85 - a good start. How much further scope is there?

4. **Over-runs on existing contracts**. PL inherited a vast overhang of cost-plus contracts which, if not corralled quickly, could eat up all the savings he might make on new contracts. The Efficiency Unit's recent study on Capital Expenditure Contracts revealed that all the five defence contracts in their sample over-ran on cost by around 50% in real terms (Tigerfish Torpedo, Seabed Operations Vessel, SP70 Howitzer, Foxhunter Radar, Nimrod AEW). They are also late and expose our defences. Our air defence is scarcely credible. The Tornado F2s (introduced in November last year) have been flying with concrete ballast to compensate for the absence of their Foxhunter Radars.

You might ask whether all major contracts with a risk of over-run could be reviewed and renegotiated if necessary. (MOD did a good job recently renegotiating a contract for a battlefield artillery engagement system.)

5. **Nimrod AEW**. This must be PL's biggest headache at the moment. It is also the biggest defence scandal. MOD have carried out a technical audit, and conclude that we could have a workable system by the end of 1986. It would, however, fall a substantial way short of the

standard originally contracted for (Air Staff Requirement 400) in that:

- its communications would not be resistant to electronic counter-measures

- it would not work over land

- it could track 160 aircraft, not 400

- it would not have much spare capacity.

One way forward would be to negotiate a fixed price with GEC to finish to this revised standard and invite competition to develop the system further to the original requirement. PL's task is to negotiate a favourable, fixed price, knowing that the alternatives available to us now are not attractive. It would be nice to contract out air defence until the contract is completed, and send the bill to GEC! We could still buy AWACS, but nine AWACS might cost as much as $2.5 billion and not be available until 3-4 years' time.

You might offer to help PL by finding an opportunity to impress upon Arnold Weinstock that he has let the country down badly. Morally, he ought to complete the

revised contract at GEC's own expense. He would not wish to forfeit a major customer's goodwill.

6. MOD procurement generally. You will be discussing MOD R&D on Wednesday. You could ask PL how we could avoid such heavy defence-related R&D expenditures. Off-the-shelf purchase is the obvious, but unpopular, answer. Michael Heseltine and PL are keen to let industry do more R&D and approach MOD with products which offer original and cheap solutions.

But how will MOD respond when industry does come up with the goods? BAe has developed an anti-tank mortar (Merlin) which is highly effective, because it would penetrate downwards through the vulnerable top of Soviet tanks. But the Army's funds are already committed. So it is difficult to see how adventurous defence contractors can do business with MOD for, whatever the attractions of the offer, funds are already committed to projects which MOD has originated.

You might ask PL if there is not something wrong with MOD's procedures, if they make it difficult to respond to attractive private initiatives.

NICHOLAS OWEN

CDP
TVE 30 July
at 0930.
OK.

Deadline.

We need to fit in a meeting before the end of July. Is it to be before leaving a Peter Levene.

½ an hour is plenty. Can you please negotiate a time with M. Heseltine's office.

CM.

BF | Await T&P copy (T/Message)

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT MITTERAND

As you know the lengthy exploratory discussions between our two countries together with Germany, Italy and Spain on the possible collaboration over the European Fighter Aircraft (EFA) are now approaching a conclusion.

I am concerned that whatever decisions are taken we should fully understand each others' position. If we can get the decision right it would be of major significance for European industrial co-operation.

I am looking forward to seeing M. Fabius next Wednesday and I would normally have discussed EFA with him. But in view of the possibility of Defence Ministerial meetings next Tuesday or Wednesday I ~~would like to send Michael Heseltine to see you and your defence collegue~~ can propose Minister of Defence. I think that it could also be very useful if you could find the time to see him, at your convenience so that you may be aware of our views on the nature of the possible collaboration and the detail of our position before decisions are reached.

If you feel this would be helpful to you ~~Michael~~ he could come within the next couple of days.

I wonder whether you would find it useful if I were to send Richard Heseltine to see you, so that you may be fully

E.R.

For CDP on return

cc FCO

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND

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I am looking forward to seeing M. Fabius next ~~Wednesday~~ THURS. and I would normally have discussed EFA with him. But in view of the possibility of Defence Ministerial meetings next Tuesday or Wednesday, I wonder whether you would find it useful if I were to send Michael Heseltine to see you, so that you may be fully aware of our views on the nature of the possible collaboration and the detail of our position before decisions are reached. If you feel this would be helpful to you he could come within the next couple of days.

Approved by PM
Please send to
FCO for despatch despatched.
25/7/85.
CDP.

010

MO 26/11/9

PRIME MINISTER

Prime Minister

Michael Heseltine's 'final compromise' proposals for the EFA. He is claiming the support of British companies and the RAF. You will probably want to wait for Norman Tebbit's reaction. It may well be necessary to have a meeting.

C.D.P. 27/7

EUROPEAN FIGHTER AIRCRAFT NEGOTIATIONS

1. Events have continued to move since I last reported on the 5 Nation EFA negotiations. The National Armaments Directors met in Madrid on Tuesday and, as Dr Woerner had previously told me, the German delegate tabled a 'final compromise' proposing an aircraft design of 9.75 tonnes basic mass empty (BME), having an engine thrust of 90 Kilonewtons and a wing area of 50 square metres.

2. The German compromise also made proposals for management structures which shared the key posts between nations in an equitable way and suggested Munich as the international headquarters. Worksharing was proposed on an equal partnership basis with the United Kingdom, France and Germany taking one quarter of the work each during development, with the remaining quarter split between Italy and Spain. Production workshares would be on the basis of national requirements for numbers of aircraft.

3. Officials of Italy and the United Kingdom both agreed to submit these proposals to their Ministers for consideration. France made a counter-proposal more closely aligned to their national design (87 Kilonewton thrust, 49 square metres wing area) while Spain floated in between.

4. Following this meeting of officials, Dr Woerner visited Paris on Wednesday to explain the German position to President Mitterrand and M. Hernu. He subsequently told me that, whilst there is still a clear gap between the French position and the other nations, the German Government is suggesting one last meeting at Ministerial level to try and forge a 5 Nation agreement to enter the Project Definition phase. Such a meeting could take place next Tuesday at a location yet to be agreed. As you know, I am also hoping to have a private meeting with President Mitterrand in the next day or so.

5. Since the meeting of Defence Ministers would be our last chance to achieve a 5 Nation solution to EFA, we need to be quite clear on the 'bottom line' for our negotiating position. I therefore held a meeting yesterday evening with the Managing Directors of British Aerospace, Rolls-Royce and Ferranti to discuss the situation. Geoffrey Pattie was present. The Chief of the Defence Staff, the Chief of the Air Staff and my senior officials were also in attendance.

6. We fairly rapidly reached complete agreement that the German compromise described above was acceptable as a basis for agreeing a 5 Nation Project Definition study, even though the engine thrust of 90 Kilonewtons and wing area of 50 square metres are slightly below our preferred figures of 91.7 Kilonewtons and 51 square metres.

7. But France will certainly press for lower figures and Dr Woerner has told me privately that he will if necessary go down to 89 Kilonewtons and 49.5 square metres. I therefore sought the views of my military advisers and industry on these figures and, after considerable discussion, all present at my meeting agreed that, if it became necessary in order to reach a five nation agreement to enter the Project Definition phase, I could as a last resort and as part of a total agreed package accept a 9.75 tonne design having engines of 89 Kilonewtons thrust and a wing area of 49.5 square metres.

8 Industry were generally very supportive of the organisation, location and workshare proposals made by Germany, but there are other key issues in the package which will also have to be resolved satisfactorily. In particular I agreed the following points with industry:

a. Although the maximum use will be made of data obtained from the British and French demonstrator programmes, EFA must be a completely new aircraft design and not a "stretched" version of the French demonstration aircraft.

b. British Aerospace should have a share of two important areas of the programme: firstly the design, development and manufacture of the aircraft front fuselage, and secondly the location of flight testing.

c. Only Rolls Royce have the necessary experience to undertake development of the high pressure turbine (a view which I know that Germany and Italy endorse).

9. At our discussion in OD on 7 May 1985 (OD(85) 5th Meeting) we agreed on the technical and administrative objectives I should pursue in the negotiations. In the light of subsequent developments I now need to determine the irreducible bottom line to which we might go in order to secure a successful 5 nation solution of the project. With the support of my military advisers and industry, I therefore propose to adopt the following absolute bottom line for agreement on a 5 nation Project Definition study for EFA:

a. The aircraft must be of a new collaborative design and not a derivative of any existing single nation's design.

b. The aircraft design is to have a Basic Mass Empty (BME) of 9.75 tonnes and a wing area of not less than 49.5 square metres.

c. The engines must have a nominal thrust of not less than 89 Kilonewtons.

d. Development workshares are to be on the basis of the United Kingdom, France and Germany taking equal shares of about 25% and, as the opportunity arises, we should insist on the high pressure turbine being part of the Rolls-Royce package and British Aerospace having a share in the front fuselage design and manufacture and in flight testing.

e. The German proposal for locating the international headquarters in Munich and for sharing the key posts between nations in an equitable way.

10. In the event that agreement is not possible between the 5 Nations on the above basis, Dr Woerner will almost certainly wish to go ahead without France. I would support this, although in those circumstances I would intend that the Project Definition study should be based on the design proposed by the industries of the 4 nations having a 9.75 tonne BME, an engine thrust of 91.7 Kilonewtons and a wing area of 51 square metres. In no case would I agree to a 4 nation solution that went below

the German compromise position - upon which they might insist - of 90 Kilonewtons engine thrust and a 50 square metres wing.

11. I am sending copies of this minute to colleagues on OD and to Sir Robert Armstrong.

D. Brennan (Private Secretary)
[approved by The Secretary of State and signed in his absence]
Ministry of Defence

26th July 1985

SUBJECT

CCOPS Master.

CONFIDENTIAL

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PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T142/85

ZZ PARIS
GRS 189
CONFIDENTIAL
FM FCO 251619Z JUL 85
TO FLASH PARIS
TELEGRAM NUMBER 417 OF 25 JUL
MESSAGE FROM PRIME MINISTER TO PRESIDENT MITTERRAND

1. PLEASE PASS FOLLOWING MESSAGE FROM PRIME MINISTER TO PRESIDENT MITTERRAND:

BEGINS: AS YOU KNOW THE LENGTHY EXPLORATORY DISCUSSIONS BETWEEN OUR TWO COUNTRIES TOGETHER WITH GERMANY, ITALY AND SPAIN ON THE POSSIBLE COLLABORATION OVER THE EUROPEAN FIGHTER AIRCRAFT (EFA) ARE NOW APPROACHING A CONCLUSION.

I AM CONCERNED THAT WHATEVER DECISIONS ARE TAKEN WE SHOULD FULLY UNDERSTAND EACH OTHERS' POSITION. IF WE CAN GET THE DECISION RIGHT IT WOULD BE OF MAJOR SIGNIFICANCE FOR EUROPEAN INDUSTRIAL COOPERATION.

I AM LOOKING FORWARD TO SEEING M. FABIUS NEXT WEDNESDAY AND I WOULD NORMALLY HAVE DISCUSSED EFA WITH HIM. BUT IN VIEW OF THE POSSIBILITY OF DEFENCE MINISTERIAL MEETINGS NEXT TUESDAY OR WEDNESDAY, I WONDER WHETHER YOU WOULD FIND IT USEFUL IF I WERE TO SEND MICHAEL HESELTINE TO SEE YOU, SO THAT YOU MAY BE FULLY AWARE OF OUR VIEWS ON THE NATURE OF THE POSSIBLE COLLABORATION AND THE DETAIL OF OUR POSITION BEFORE DECISIONS ARE REACHED. IF YOU FEEL THIS WOULD BE HELPFUL TO YOU HE COULD COME WITHIN THE NEXT COUPLE OF DAYS. ENDS.

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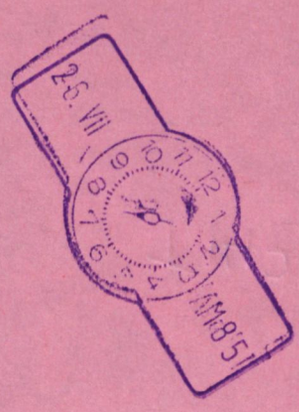
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FM BONN 181615Z JUL 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 731 OF 18 JULY
AND TO IMMEDIATE MOD FOR PS/S OF S, PS/MINISTER OF STATE (DP), PS/PUS, PS/CDEC

MIPT (NOT TO ALL) AND YOUR TELNOS 399 AND 400: EFA

1. KOHL RAISED THIS DURING MY CALL ON HIM TODAY, SAYING THAT HE WOULD BE DISCUSSING IT THIS EVENING IN STRASBOURG WITH MITTERRAND. THE FIRST AND MUCH THE MOST IMPORTANT PRIORITY FOR KOHL WAS THAT THE AIRCRAFT TO BE BUILT SHOULD BE ONE WHICH THE LUFTWAFFE WANTED. HE WAS NOT PREPARED TO HAVE A REPETITION OF THE STARFIGHTER EPISODE. EXPORT SALES WERE ALL VERY WELL, BUT THIS WAS THE SECOND CONSIDERATION, NOT THE FIRST.

2. I SAID WE WOULD PUT THE FIRST POINT EVEN MORE STRONGLY: THE AIRCRAFT MUST MEET THE REQUIREMENTS OF THE AIR FORCES CONCERNED. OUR SECOND PRIORITY WOULD BE A FAIR DISTRIBUTION OF THE WORK AND MANAGEMENT. THIRD, THE DECISION MUST BE TAKEN VERY SOON: OTHERWISE WE WOULD NOT ONLY MISS THE IN-SERVICE TARGET DATE OF 1995 BUT FIND OURSELVES FACED WITH FAITS ACCOMPLIS WHICH MIGHT SERVE NATIONAL INTERESTS BUT NOT THE JOINT INTEREST.

3. KOHL, SOUNDING RATHER BETTER INFORMED THAN I HAD EXPECTED, AGREED WITH THESE POINTS, ALTHOUGH HE INDICATED THAT ''REQUIREMENTS'' MIGHT BE SUBJECT TO FINE TUNING.

4. I TOLD HIM THAT A LOT DEPENDED ON HIS BEING ABLE TO PERSUADE MITTERRAND TO BE REASONABLE.

BULLARD

Copy 1 to
Ps. No 10 D. St.

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DEFENCE .D
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PS/MR LUCE
PS/PUS
MR DEREK THOMAS
MR BRAITHWAITE
MR GOODALL
MR RENWICK
MR JENKINS
MR DAUNT.

CONFIDENTIAL

Ref. A085/1940

PRIME MINISTER

MT

Cabinet: European Fighter Aircraft

As you know, the meeting of the Defence and Oversea Policy Committee, which was planned to take place after Cabinet on 18 July, has been cancelled. Mr Heseltine has just visited Dr Woerner in Bonn and there may be further meetings involving the British, French and German Defence Ministers aimed at resolving the current difficulties over launching the Project Definition phase of the European Fighter Aircraft (EFA).

2. I suggest that you ask the Secretary of State for Defence at Cabinet -

a. to report on his meeting with Dr Woerner and on the prospects for reaching either a five nation or four nation collaborative agreement;

b. to advise on the outcome of the industrial study which was due to be available at the beginning of this week on options for engine thrust.

3. You may also wish to take the opportunity of reminding Mr Heseltine that a meeting of OD will be required before substantive decisions on the launching of the Project Definition phase can be agreed, unless the conditions meet the requirements laid down by OD on 7 May (OD(85) 5th Meeting) which are briefly summarised at Annex.

Approved by
ROBERT ARMSTRONG
and signed in his absence.

17 July 1985

BRIAAF

ANNEX

Conditions necessary before a commitment to enter into the EFA Project Definition Phase could be undertaken (Agreed at OD(85) 5th Meeting on 7 May 1985)

a. Aircraft specification to meet the RAF's requirements on performance and capability.

b. Engine of not less than 92 kilonewtons nominal thrust, with the EFA design being capable of taking an engine of RB199 size.

c. Equal work shares of about 25 per cent for development in the United Kingdom, France and FRG with every effort being made to secure the front fuselage and high pressure turbine for the United Kingdom's share.

d. UK design leadership for engine and airframe not a condition of entering the Project Definition (PD) phase, but every effort needed to secure leadership for Rolls Royce on the engine and to block France on airframe.

e. Press for project management headquarters to be in the United Kingdom but, if location in FRG only way forward, compensating concessions needed from FRG.

f. All relevent United Kingdom firms should be able to compete for equipment work while maintaining overall work share.

g. Common marketing organisation should be fully addressed before any post PD commitments agreed.

CC DS

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 26/11/9

17th July 1985

Dear Len,

EFA

We spoke on the telephone about the line which Sir J Bullard should take on EFA when he sees Chancellor Kohl tomorrow (Colin Budd's letter of 10th July refers).

As you know, Mr Heseltine had an informal working dinner last night with Dr Woerner at which Sir J Bullard was present. This revealed a close identity of view between ourselves and Dr Woerner on the essentials of the project. Dr Woerner also categorically denied reports that the Germans were engaged in seeking a deal with the French. We have yet to receive a read out here of today's meetings in Bonn but Sir J Bullard may himself have this.

In the light of these developments I have revised the draft line as attached, which the Defence Secretary has approved.

I am copying this letter to Charles Powell (No 10), John Mogg (DTI) and Richard Hatfield (Cabinet Office).

Yours ever,
Richard Mottram

(R C MOTTRAM)

L Appleyard Esq
Foreign and Commonwealth Office

DRAFT SPEAKING NOTE FOR SIR J BULLARD

- Britain and Germany have worked now for some 2 years to try to achieve a truly European solution, including the French, and a five nation project which meets the jointly agreed military requirement remains our first choice.

- Extensive discussion on Tuesday night between Dr Woerner and Mr Heseltine to review the latest round of studies by industry showed close identity of view on all important aspects of the project.

- Despite repeated efforts and joint attempts closely to define parameters for the project to which industry would submit a single response, on every occasion four nations have been able to put forward a joint proposal but Dassault has responded separately. We agree with the German Government that this process cannot go on. In accordance with agreement reached in London in June meeting of Defence Ministers can be no further delay and we must decide one way or the other whether five nation project is possible within the next week or so. If it is not, then very ready to work with you and other nations who have participated in four nation industrial studies and to move to project definition by September.

- In evaluating scope for co-operation two key considerations. First aircraft must have the characteristics required to deal with the threat and the potential to respond as that threat develops beyond 1995. Little or no difference between us on what we need in terms of engine thrust and other characteristics to do this. Second co-operation must be on the basis of a genuine

industrial partnership with "no winners and no losers". Again the views of our industries are in very close accord about how this can be achieved.

- The British Government shares German concern to keep down the weight and cost of the aircraft and to ensure that it is competitive in world markets. Have supported the restrictions on weight sought by Dr Woerner and need to keep up the pressure on this.

- Hope we can keep very closely in touch over the next few days in our joint efforts to find an acceptable five nation solution. But ultimately we like you must have an aircraft which is credible in military terms and arrangements for its development and production which do not involve the subordination of our industry. If, to achieve this, we have to go ahead on a four nation project definition study, can leave open opportunity for France to join later.

- If ultimately we have to proceed to later stages on a four nation rather than a five nation programme this will be gravely disappointing as a missed opportunity for Europe but should be seen in the perspective of collaborative opportunities as a whole. Different partners will collaborate on different projects on basis of shared technical and operational requirements. Note Franco-German agreement last year on anti-tank helicopter. Important to maintenance of viable and <u>relevant</u> European defence industry that we collaborate on projects which make sense in <u>cost</u> and <u>performance</u> terms.

SECRET UK EYES A

BEMASM 3

file

10 DOWNING STREET

17 July 1985

From the Private Secretary

Dear Richard,

Ballistic Missile Early Warning System

The Prime Minister has considered the joint memorandum by the Foreign Secretary and the Defence Secretary on the proposal to modernise the Ballistic Missile Early Warning system at Fylingdales.

The Prime Minister is content that we should agree to the United States Government's request to modernise the BMEWS provided we can reach satisfactory industrial and financial arrangements. She has commented that we should use our agreement as a further encouragement to the United States Administration to purchase the Ptarmigan MSE system.

The Prime Minister is also content with the proposed public line.

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

Yours ever,

(C.D. Powell)

Richard Mottram, Esq.,
Ministry of Defence

SECRET UK EYES A

2

PRIME MINISTER

FYLINGDALES

The attached OD paper deals with modernisation of the Ballistic Missile Early Warning System (BMEWS) at Fylingdales. The main points are:

- modernisation is essential to keep pace with the development of Soviet weapons systems. We have a strong national interest in this.

- we need to be sure that modernisation would not breach the ABM Treaty. We have received specific assurances from the US that they would not use Fylingdales in an ABM role. Since we would continue to man and operate the system, we can effectively control its use.

- the legal advice is that since Fylingdales performed a BMEWS function before the ABM Treaty entered force, modernisation of it is not caught by the provision of that Treaty against deploying such radars in future.

- nonetheless, it is likely that the Russians will claim that it is in violation of the ABM Treaty, to counteract US claims that the construction of Krasnoyarsk is a violation. This may cause domestic criticism here and allegations that Fylingdales will have an SDI-related role. There will be a need for careful presentation.

- the recommendation is that we should tell the Americans that we agree in principle to modernisation, on the understanding that our companies get an equitable work-share.

It is suggested that this be agreed out of Committee.

Yes mr

Content? (We should use our agreement as a further bargaining card over Ptarmigan).

C.D.P. → Agreed mr

16 July 1985

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

10 July 1985

Dear Richard,

European Fighter Aircraft

You will have seen Sir J Bullard's telegram 689 (attached for ease of reference) recommending that our case should be put repeatedly to the Germans at the political level over the next fortnight.

The next two weeks are likely to be crucial for the future of EFA; and the Germans are the key actors. The "political" arguments for accommodating the French are likely to commend themselves particularly to the Chancellor and Herr Genscher. It would therefore suit us best to confine the debate to Defence Ministers, but we can be certain, as HM Ambassador in Paris has argued (Paris telno 563: also attached), that the French will be pressing their case to the Germans at all levels. The Foreign Secretary therefore believes it important that Mr Heseltine's regular contacts with Herr Woerner should be supplemented by approaches to the Foreign Ministry and the Chancellery. Sir Geoffrey Howe proposes to speak to Herr Genscher in Bonn on 21 July. Sir Julian Bullard hopes to speak to Dr Kohl shortly after the latter's return from Turkey on 12 July. Subject to Charles Powell's views, we think it would be best for Sir J Bullard to have the Prime Minister's authority to speak to Kohl (or his senior advisers, if he is unable to get an appointment before the German Cabinet's regular meeting on 17 July).

It is clearly important that the message we get across to the Germans should be consistent. I therefore attach a draft Speaking Note which, subject to your views, might serve as the basis for separate approaches by Sir Julian Bullard and Sir Geoffrey Howe. It is based on the briefing material you prepared for the Milan Summit.

I am copying this letter to Charles Powell at No 10, John Mogg at the DTI, Rachel Lomax at the Treasury, and Richard Hatfield at the Cabinet Office.

Yours ever,

Colin Budd

R C Mottram Esq
PS/Secretary of State
for Defence

(C R Budd)
Private Secretary

DRAFT SPEAKING NOTE FOR SIR J BULLARD

- EFA important test case of European ability to collaborate effectively on defence equipment.

- The UK has throughout battled for a truly European solution, including the French, and that, if achievable, remains the ideal solution.

- But if, as now seems clear from Paris, the French are not prepared to participate on terms acceptable to the FRG and UK, then we do not believe that this of itself should prevent the project from going forward.

- The overriding need is for a plane which will meet the Soviet threat.

- UK, FRG (and Italy) in complete accord on technical characteristics; and we have common experience in Tornado on which to draw.

- Hope therefore that when current studies are completed, those nations able to agree a common programme can proceed - on basis of equal partnership: no winners, no losers - to joint project definition stage, as Defence Ministers decided on 18 June.

- We share Germany's need for an <u>early</u> decision on both operational and industrial grounds.

- Understand political difficulty for any German Government to contemplate parting company with France on matter of such magnitude. But in this case, technical and military arguments point incontrovertibly towards a solution not favoured by the French. The defence and security interests of both Germany and

/Britain

Britain are at stake. Aircraft intended for use by Britain and Germany for air defence of Central Region.

- Would be difficult to understand if it appeared that even in a case where technical and security arguments were overwhelmingly in favour of cooperation with Germany's other partners, the German special link with France were to take precedence. Grave implications for Europe's ability to collaborate effectively on broad and balanced basis.

- We need to see this in perspective. Different partners will collaborate on different projects on basis of shared technical and operational requirements. Note Franco-German agreement last year on anti-tank helicopter. Important to maintenance of viable and relevant European defence industry that we collaborate on projects which make sense in cost and performance terms.

- Understand French desire to sell EFA in third markets. We too are determined to build competitive aircraft and to keep costs down. But first requirement is to meet threat in Europe. Expert advice in both UK and FRG is that French design would not meet that threat.

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GRS 400
CONFIDENTIAL
FM BONN 051010Z JUL 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 689 OF 5 JULY
INFO PRIORITY PARIS, ROME, MADRID, MODUK (FOR AS/CDEC, PS/S OF S AND PS/MR BUTLER)

YOUR TELNO 354: EUROPEAN FIGHTER AIRCRAFT (EFA)

1. DURING MR ADAM BUTLER'S VISIT HERE THIS WEEK THERE WAS PLENTY OF EVIDENCE THAT THERE IS INDEED A DANGER OF THE WEIGHT OF THE PROFESSIONAL ADVICE BEING OVERRIDDEN BY CHANCELLOR KOHL FOR POLITICAL REASONS. IT WAS PUT TO MR BUTLER BY STATE SECRETARY TIMMERMANN THAT IT WOULD BE IMPOSSIBLE, ESPECIALLY FOLLOWING MILAN, FOR KOHL TO TAKE WHAT WOULD LOOK LIKE AN ANTI-FRENCH DECISION ON EFA WITHOUT SOME ''COMPENSATION'' TO FRANCE, AND WE WERE INVITED TO SUGGEST WHAT FORM THIS MIGHT TAKE. THE TROUBLE IS THAT THE ONLY OTHER DEFENCE PROJECT WHICH IS (A) OF IMPORTANCE TO FRANCE AND (B) OF COMPARABLE SIGNIFICANCE TO EFA IS THE IDEA OF A EUROEPEAN RECONNAISSANCE SATELLITE, WHICH THE GERMAN DEFENCE MINISTRY ARE EXTREMELY COOL ABOUT AND DO NOT THINK THEY WOULD GET THE MONEY TO PAY FOR.

2. I THINK IT ESSENTIAL IN THE NEXT FORTNIGHT THAT OUR CASE SHOULD BE REPEATED TO THE GERMANS AT THE POLITICAL LEVEL, KOHL ESPECIALLY. IF CIRCUMSTANCES ARE NOT THOUGHT PROPITIOUS FOR A PERSONAL MESSAGE OR TELEPHONE CALL FROM THE PRIME MINISTER, I BELIEVE IT WOULD BE VALUABLE IF I COULD RECEIVE INSTRUCTIONS TO SPEAK ON THE PRIME MINISTER'S AUTHORITY. AS REPORTED TO RENWICK, I HAVE ALREADY ASKED FOR A CALL ON THE CHANCELLOR ON COMMUNITY BUSINESS. IF I COULD RECEIVE A PACKET OF INSTRUCTIONS COVERING BOTH COMMUNITY AND EFA (THE CONNECTION BEING OBVIOUS) I COULD TRY TO SEE KOHL EITHER BEFORE OR MORE LIKELY AFTER HIS VISIT TO TURKEY (9-12 JULY).

3. THERE IS ALSO GENSCHER, WHOSE INFLUENCE, IF HE HAS ANY IN THIS MATTER, WILL BE EXERTED IN A PRO-FRENCH DIRECTION. I RECOMMEND THAT I TELL THE MFA THAT, ALTHOUGH YOU DO NOT WISH THE POINT TO BE PUT ON THE FORMAL AGENDA, YOU WOULD LIKE TO TAKE THE OPPORTUNITY OF YOUR MEETING WITH GENSCHER ON 21 JULY TO TALK TO HIM VERY SERIOUSLY ABOUT THE POLITICAL IMPLICATIONS OF EFA.

CONFIDENTIAL

M. BOYD

4. BOTH WITH KOHL AND WITH GENSCHER OUR MAIN MESSAGE COULD BE THAT THE PROFESSIONAL ADVICE IS IRREFUTABLE, AND THAT IT WOULD BE THE HEIGHT OF IRRESPONSIBILITY AT GIGANTIC COST TO EQUIP FIVE NATO AIR FORCES WITH AN AIRCRAFT IN WHICH NEITHER GERMAN INDUSTRY NOR THE GERMAN DEFENCE MINISTRY HAVE ANY CONFIDENCE. THE TECHNICAL ARGUMENTS IN PARIS TELNO 563 WOULD NEED TO BE ADDRESSED AT LEAST AS DEFENSIVE POINTS. ON THE POLITICAL SIDE, THE ARGUMENT IN MY TELNO 657 IS ALL THE MORE VALID SINCE MILAN.

BULLARD

LIMITED
DEFENCE D
WED
PS
PS/PUS
MR DEREK THOMAS
MR DAUNT
MR JENKINS

CONFIDENTIAL

CONFIDENTIAL
FM PARIS 031639Z JUL 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 563 OF 3 JULY
INFO BONN, ROME, MADRID, MODUK (FOR PS/CDEC).

YOURTEL NO 352 TO BONN.

EFA

SUMMARY.
1. POLITICAL INTERVENTION WITH THE FRENCH PRIOR TO 22 JULY UNLIKELY TO HELP. EFFORTS BEST DIRECTED TOWARDS COUNTERING ARGUMENTS THAT THE FRENCH ARE LIKELY TO DEPLOY WITH THE GERMANS AND OTHERS.

DETAIL.
2. I HAVE NOT A LOT TO ADD TO MY TELNO 531. FURTHER ACTION WITH THE FRENCH AT THE POLITICAL LEVEL PRIOR TO 22 JULY IS UNLIKELY TO DO MUCH TO SAFEGUARD OUR POSITION. AN APPROACH TO MITTERRAND THEREAFTER MIGHT POSSIBLY BE INDICATED IF WE WANTED TO MAKE A LAST ATTEMPT TO BRING THE FRENCH ON BOARD OR ALTERNATIVELY TO SECURE A SHARE IN A FRENCH-LED PROJECT. AN EMOLLIENT MESSAGE MIGHT BE APPROPRIATE IF BY THEN IT IS THE FRENCH WHO HAVE BEEN SQUEEZED OUT OF A JOINT PROJECT.

3. IF A FIVE-NATION PROGRAMME IS NOT ATTAINABLE THE POLITICAL AND BUDGETARY PREFERENCE OF THE FRENCH AUTHORITIES IS LIKELY TO BE FOR A FRENCH-DOMINATED CONSORTIUM INCLUDING THE GERMANS, DESPITE STRONG LOCAL PRESSURE IN CERTAIN SECTORS TO GO FOR A FRENCH NATIONAL PROGRAMME. IT IS REASONABLY CERTAIN THAT THEY WILL THEREFORE BE IN CLOSE TOUCH WITH THE GERMANS AT ALL LEVELS ON THIS ISSUE, ALTHOUGH WE HAVE NO DIRECT EVIDENCE OF RECENT FRANCO-GERMAN EXCHANGES.

4. IN ANY SUCH CONTACTS WITH THE GERMANS WE WOULD EXPECT THE FRENCH TO TRY TO EXPLOIT THE SPECIAL STATUS OF THE FRANCO-GERMAN RELATIONSHIP. THEY MAY EVEN BE TEMPTED TO PLAY UP THE RELEVANCE IN THIS CONTEXT OF RECENT PUBLIC EXPRESSIONS HERE OF CHANGING FRENCH ATTITUDES TOWARDS THE DEFENCE OF GERMANY IN ORDER TO STRENGTHEN THEIR POSITION WITH THE GERMANS OVER EFA. THEY WILL CERTAINLY EMPHASISE DASSAULT'S SUCCESSES WITH THE MIRAGE, WHAT THEY SEE AS THE FRUITFUL PARTNERSHIP THEY HAVE HAD TOGETHER ON THE ALPHA JET AND ALLEGED SHORTCOMINGS IN THE TORNADO PROJECT.

CONFIDENTIAL /5.ON

5. ON THE TECHNICAL SIDE, THE FRENCH WILL TRY TO DISCREDIT THE RESULTS FROM ANY SIMULATIONS AND UNDERMINE THE IMPORTANCE WE ATTACH TO MEETING THE THREAT, BY ARGUING THAT THE WING SURFACE AND ENGINE THRUST ARE ONLY TWO OF THE PARAMETERS AFFECTING PERFORMANCE: AND THAT ANALYSIS IS INCOMPLETE IF ONE DOES NOT TAKE INTO ACCOUNT THE FULL WEAPONS SYSTEM (WHICH IN ANY CASE COULD NOT BE ACHIEVED BY 22 JULY). NO DOUBT THEY WILL ALSO BE SEEKING TO IMPRESS ON THE GERMANS THEIR VIEW THAT COLLABORATION WITH THE UK WOULD BE BOUND EVENTUALLY TO LEAD TO A HEAVIER, MORE COSTLY AND LESS COMMERCIALLY VIABLE AIRCRAFT THAN THOSE PROVIDED FOR IN THE OPTIONS NOW BEING CONSIDERED.

6. OUR OWN EFFORTS IN THE COMING DAYS MIGHT THEREFORE INCLUDE THE PROVISION OF CONVINCING COUNTER-ARGUMENTS TO THESE MAIN THEMES.

FRETWELL

LIMITED.

DEF D.
WED
PS
PS/PUS.
MR. DEREK THOMAS
MR. DAUNT
MR. JENKINS.

Copy to Mr Powell No 10

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Discussed with Mr Heseltine. CDP 2/7.

GRS 400
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FM BONN 051010Z JUL 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 689 OF 5 JULY
INFO PRIORITY PARIS, ROME, MADRID, NODUK (FOR AS/CDEC, PS/S OF S AND PS/MR BUTLER)

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/H. BOTH

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BULLARD

Charles - we must discuss. We can't have our pilots flying an inadequate aircraft on the German front - or anywhere else.

MT

LIMITED
DEFENCE D
WED
PS
PS/PUS
MR DERER THOMAS
MR DAUNT
MR JENKINS

10 DOWNING STREET

Please keep this PM's
journal as 29 July

CDN

CONFIDENTIAL

1) FERB Good idea: we should clear with Mr. Heseltine.
2) Prime Minister FERB
Agree to all

PRIME MINISTER

4 July 1985

Yes pl Mr. Levene before the summer break? MJ

MEETING WITH PETER LEVENE

Peter Levene discussed progress on defence procurement today with John Redwood and myself.

So I will arrange it through the Defence Secretary's office. CDP 4/7.

It is clear that he has established his own style at the MoD, for example, by refusing to sign over his spending authority to the Service Controllers.

It looks as if he on the way to capping the run-away AEW Nimrod expenditure, in a novel way - payment only on delivery of a working product. There would be no further MoD expenditure on this project unless and until the equipment works to Mod's satisfaction. GEC, and not MoD, will now be on risk with this project. Lord Weinstock was apparently taken aback by this proposal, but accepted it nonetheless.

A high percentage of new contracts are being let on a competitive basis. In evidence to the PAC, Peter Levene said that this approach could lead to a 'double figure' percentage saving in the equipment bill within five years, ie £800 million.

Peter Levene has had a bad time in the press and in the House. Part of this hostility originates, one suspects, from one or two major defence contractors, who sense (correctly) that value-for-money for the taxpayer threatens a cosy life for them.

Could I suggest that you meet Peter Levene? It would be encouraging for him to relate, and for you to hear, how he is setting about his task.

NICHOLAS OWEN

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10 DOWNING STREET

From the Private Secretary

1 July 1985

EUROPEAN FIGHTER AIRCRAFT

Thank you for your letter of 27 June enclosing a brief on the European Fighter Aircraft. In the event there was no real opportunity for the Prime Minister to raise this subject in bilateral discussions.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), John Mogg (Department of Trade and Industry), and Richard Hatfield (Cabinet Office).

C D POWELL

Richard Mottram, Esq.,
Ministry of Defence

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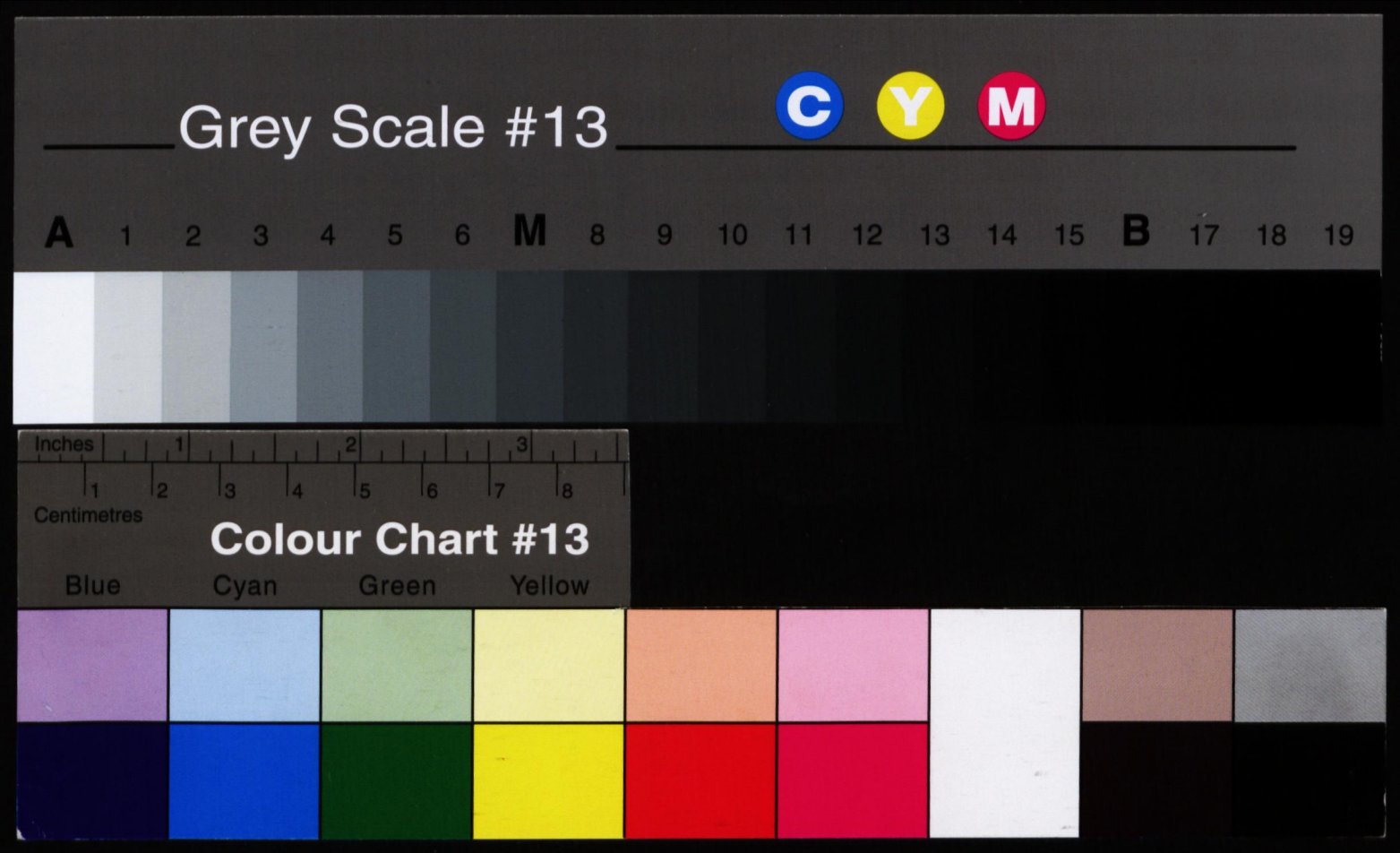
PART 2 ends:-

MOD to CDP 27.6.85.

PART 3 begins:-

CDP to MOD 1.7.85.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