



MR COLES11 January 1984NATIONAL DEFENCE TECHNOLOGICAL CAPABILITIES

The report on Essential Defence Technologies sets out a short and clearly defined list of those areas in which an indigenous capability is essential for defence purposes. This is an important statement for future procurement decisions.

Michael Heseltine's response is too dismissive. The report arose from the difficulties we had with the HARM/ALARM decision. The political and industrial considerations are important but procurement can only be better informed against a considered judgement of what is strictly essential.

The Secretary of State points out that the list excludes virtually all the main systems and sub-systems for our maritime, land and air defence roles. However, this does not mean that we should rely on our allies for the future supply of our ships, submarines, aircraft, tanks and their associated systems. It does mean that we can now consider the wider industrial and political aspects of procurement decisions in the context of commercial rather than strategic criteria.

None of this undermines the importance of our defence equipment industries. But we must ensure that our industries are, or become, internationally competitive. It is in the interests of our Forces and the national economy that we achieve the best value for money from defence procurement.

Value for money and a more open system of procurement for non-essential technologies need not lead to a decline in the size of our defence industrial sector. If we are able to achieve overseas sales and long production runs in those areas and technologies in which we have a competitive advantage, the size of our industrial base might well increase - even though its shape would change.

However, we should recognise that we cannot realistically expect to be successful in all areas. As with other industrial sectors, our general approach should be to allow the market greater scope to identify and encourage our successful defence industries

We prefer to see the competitive forces emerging within UK industry and will need to use the threat of overseas competition judiciously to move our defence industries forward to providing better value for money.

### Recommendations

We recommend that the current report should be accepted as a useful input to future procurement decisions.

We recommend that a similar Group under MoD chairmanship, including Policy Unit representation, should be asked to build on this work.

We suggest that the next stages should be to consider

- the strengths and weaknesses of our defence industries and technologies in terms of international competitiveness
- the scope for adopting a more open system of equipment procurement for non-essential technologies
- the scope for achieving greater standardisation and collaboration within NATO.

I have discussed our lack of information on the first issue with Geoffrey Pattie. It is vital that we have a clearer idea of where our defence industrial strengths lie. This study would need to take into account both military and industrial issues and would be a necessary prelude to any further changes in our approach to procurement.

Greater standardisation and improved collaboration within NATO is a desirable objective given the increasing economic pressures upon NATO countries. There are significant political problems involved but it is now opportune to take a closer look at some of the defence and industrial implications. I shall be accompanying Geoffrey Pattie to an international conference in France in February on this theme.

The suggested further work of the Group would be complementary to the paper which the Secretary of State is preparing on the steps which are being taken to promote competitiveness.

*D.P.*

DAVID PASCALL

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10 DOWNING STREET

*From the Private Secretary*

12 January 1984

National Defence Technological Capabilities

The Prime Minister has seen your Secretary of State's minute of 6 January and the accompanying report by officials on the areas of defence technology where it is essential that a national capability should be retained.

The Prime Minister would like to discuss with Mr. Heseltine possible further work by a similar group (under MOD chairmanship). Three matters may be worth further consideration:

- a) The strengths and weaknesses of our defence industries and technologies in terms of international competitiveness;
- b) The scope for adopting a more open system of equipment procurement for non-essential technologies;
- c) The scope for achieving greater standardisation and collaboration within NATO.

We will be in touch separately to arrange a meeting.

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Mr. Redwood

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## 10 DOWNING STREET

*From the Private Secretary*

6 January 1984

As you know (my letter of 14 December), the Prime Minister told the Secretary of State for Defence when they met on 14 December that she was looking forward to seeing the paper on indigenous technologies in defence, in which Cabinet expressed an interest on 28 July. It would be helpful to know when the paper is likely to be available.

Another matter which was discussed at the meeting on 14 December was the question of competitiveness in the UK defence industry. The Prime Minister would be grateful if she could see a paper as soon as possible describing the steps which are being taken to promote competitiveness.

ATC

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