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MO 26/11

21st March 1985

Dear Tim,

A NEW BASIC TRAINER FOR THE RAF

I attach a copy of the Statement which my Secretary of State proposes to make in the House this afternoon, following Cabinet's decision this morning.

I am sending copies of this letter, with the attachment to Rachel Lomax (Treasury), Callum McCarthy (Department of Trade and Industry), Len Appleyard (Foreign and Commonwealth Office), David Normington (Department of Employment), David Morris (Lord Privy Seal's Office) and Jim Daniell (Northern Ireland Office).

Yours ever,  
Denis

(D BRENNAN)

T Flesher Esq  
10 Downing Street



## A NEW BASIC TRAINER FOR THE ROYAL AIR FORCE

With permission, Mr Speaker, I wish to make a statement on the selection of a new basic trainer aircraft for the Royal Air Force.

My Rt Hon Friend the Minister of State for Defence Procurement informed the House on 18th December 1984 that best and final offers were being invited from British Aerospace and Shorts to clarify and amplify certain aspects of their tenders for aircraft to meet the Royal Air Force's requirement in order to enable a final decision to be reached.

It was subsequently agreed that Westlands and Hunting's, who had also submitted tenders in the first round, could submit their own best and final offers. All four tenders have now been fully evaluated.

The prices quoted by Westlands and Hunting's, although substantially reduced compared with their original offers, remain well in excess of the other two bids, thus confirming our earlier assessment that on cost as well as technical grounds the choice effectively lay between the PC9, proposed by British Aerospace in association with the Swiss firm, Pilatus, and the Tucano, proposed by Shorts in association with the Brazilian firm, Embraer.

Procurement of either aircraft would provide much better value for money than the alternative option of refurbishing the Jet Provost fleet.



The choice between these two fine aircraft has proved to be evenly balanced.

Both comfortably meet the minimum specification and either is capable of meeting the RAF's training needs very satisfactorily. Selection of either would boost jobs for British industry, both directly through the order for the RAF and indirectly through the export sales which the successful firm could be expected to win.

In the end cost has been the decisive factor.

Our policy is to reduce the cost of defence equipment through the maximum use of competition, thus providing better value for money for the taxpayer and stronger defences for the country within the resources available.

Of the two best and final offers, Shorts' is the cheaper by a clear margin.

Subject to final completion of contractual negotiations, therefore, we shall be placing an order with Shorts for 130 Tucano aircraft. The contract will be on a firm price basis: that is to say, the price is fixed in cash terms, and any cost escalation or foreign exchange risks will be borne by Shorts.

Allowing for potential overseas sales our decision should result in over 1,100 Job opportunities in the United Kingdom with over half of them in Northern Ireland.

In addition the American firm Garretts, who will be supplying the engine for the Tucano, have given offset undertakings which will bring further work to British industry.



Shorts' partnership with Embraer in this venture should open up many commercial opportunities.

I should tell the House that the price now agreed with Shorts is some 35% less than my Department had originally envisaged in its forward costing process.

Mr Speaker, this is a good decision for the Royal Air Force, for British industry, for jobs and for the taxpayer.



## RAF (Basic Trainer Aircraft)

3.57 pm

**The Secretary of State for Defence (Mr. Michael Heseltine):** With permission, Mr. Speaker, I wish to make a statement on the selection of a new basic trainer aircraft for the Royal Air Force.

My right hon. Friend the Minister of State for Defence Procurement informed the House on 18 December 1984 that best and final offers were being invited from British Aerospace and Short Bros. to clarify and amplify certain aspects of their tenders for aircraft to meet the Royal Air Force's requirements in order to enable a final decision to be reached. It was subsequently agreed that Westland Helicopters Ltd. and Hunting Engineering Ltd. which has also submitted tenders in the first round could submit their own best and final offers. All four tenders have now been fully evaluated.

The prices quoted by Westlands and Huntings, although substantially reduced compared with their original offers, remain well in excess of the other two bids, thus confirming our earlier assessment that on cost as well as technical grounds the choice effectively lay between the PC9, proposed by British Aerospace in association with the Swiss firm, Pilatus, and the Tucano, proposed by Shorts in association with the Brazilian firm, Embraer. Procurement of either aircraft would provide much better value for money than the alternative option of refurbishing the Jet Provost fleet.

The choice between these two fine aircraft has proved to be evenly balanced. Both comfortably meet the minimum specification and either is capable of meeting the RAF's training needs very satisfactorily. Selection of either would boost jobs for British industry, both directly through the order for the RAF and indirectly through the export sales which the successful firm could be expected to win. In the end cost has been the decisive factor. Our policy is to reduce the cost of defence equipment through the maximum use of competition, thus providing better value for money for the taxpayer and stronger defences for the country within the resources available. Of the two best and final offers, Shorts' is the cheaper by a clear margin.

Subject to final completion of contractual negotiations, therefore, we shall be placing an order with Shorts for 130 Tucano aircraft. The contract will be on a firm price basis: that is to say, the price is fixed in cash terms, and any cost escalation or foreign exchange risks will be borne by Shorts.

Allowing for potential overseas sales, our decision should result in over 1,100 job opportunities in the United Kingdom, with over half of them in Northern Ireland. In addition, the American firm Garrett, which will be supplying the engine for the Tucano, has given offset undertakings which will bring further work to British industry. Shorts' partnership with Embraer in this venture should open up many commercial opportunities.

I should tell the House that the decision I have just announced is an important one in the context of our enhanced competition policy. The price of the contract is approximately £60 million or 35 per cent. less than that which my Department had originally envisaged in its forward costing process.

This is a good decision for the Royal Air Force, for British industry, for jobs and for the taxpayer.

**Mr. Kevin McNamara** (Kingston upon Hull, North): I congratulate the Secretary of State on showing his high regard for the RAF by choosing an aeroplane which has not flown, which the RAF does not want, and which has not even gone through the Boscombe Down evaluation with the Garrett engine. Had the interests of the RAF been paramount instead of the ideological attitude of the Prime Minister, who is seeking to make Shorts safe for privatisation, the PC9 would have been chosen.

What has been the reaction of the Swiss Government to the Secretary of State's decision, particularly given the knowledge that £96 million worth of potential sales of the Hawk have now been lost, as well as other potential military sales? What estimate has been made of the general sales potential for Hawk as a result of the loss of the marriage between the PC9 and the Hawk?

The Government are shortly to put on sale their shares in British Aerospace. It is likely that this decision will affect the value of those shares and the amount of money that the Government will receive. A penny off each share is equivalent to £1 million. If the Government make a similar disastrous decision about the European fighter aircraft before the shares go on sale, or if that decision is still in doubt at that time, the whole policy of selling the shares will be at risk and, with it, the Chancellor's policy. It seems that by this decision the Secretary of State has shot the Chancellor in the foot, as well as himself.

I congratulate Shorts on getting the contract. Not only was the goal post moved for it on occasions, but the conscience of the Minister of State for Defence Procurement was in the company's pocket because of the number of jobs that he lost for Northern Ireland's industry during his tenure there.

A major Government defence contract is going to Northern Ireland, and it will create new jobs there. How will the Secretary of State ensure that all sections of the community enjoy the benefits of the contract? Has Shorts given any undertaking to accelerate the implementation of its fair employment policies? On this contract, has it given undertakings about how many members of the minority community will be employed and, in particular, how many youngsters will be offered skilled apprenticeships? Is the offset agreement with Garretts as good as that offered by Pratt and Whitney, in particular with regard to the jobs that were at stake in Scotland?

The Government seem to be paying part of their debt to the Brazilian Government for their help during the Falklands campaign. Is this the final settlement, or do other debts remain to be paid? The Government have paid this debt at the expense of the finest air force in the world and the best pilots. It is a pity that the Government had to show their contempt for the RAF in this way, and their lack of trust in British industry's ability to design a plane that would meet the RAF's requirements. Once they had reached the decision to buy off the shelf, this disastrous decision was inevitable.

**Mr. Heseltine:** I shall not follow very closely the hon. Gentleman's line of approach. It bears no relationship to the way in which the Ministry of Defence goes about its evaluation processes. The hon. Gentleman's suggestions about the position of the Ministry of Defence are without foundation.

The RAF and my other advisers spent a great deal of time on the matter. While it is well known that the RAF



has a regard for the PC9, as I tried to make clear in my statement, it also fully recognises that the Tucano meets the specifications that it laid down.

When procurement decisions have to be made in the Ministry, for every winner there must be a loser. It is impossible for us to make a decision which benefits one company or one country without other companies and other countries feeling that they have missed out. Our primary responsibilities are to the defence of this country, the taxpayer and the national interest. We conducted a fair competition, and there was a clear winner. When such a clear winner emerges in terms of the cost to the taxpayer and the defence budget, it would not be right for us to take into account issues such as the hon. Gentleman has raised. That is my response to what the hon. Gentleman had to say.

Of course the Swiss Government will be disappointed, just as the Brazilian Government will be pleased. In different circumstances, the situation might have been reversed. That is not the first consideration that I have to bear in mind.

The hon. Gentleman will not expect me to comment on the arrangements for British Aerospace. That is a matter for the company rather than for me, and the same applies to Shorts in Northern Ireland. If the Opposition are concerned about the arrangements, they should address their questions either to the company or to the Secretary of State for Northern Ireland. It would be wrong for the Secretary of State for Defence to pursue issues such as the hon. Gentleman raised, and I do not believe that any Secretary of State for Defence would have done so.

**Sir Antony Buck** (Colchester, North): Will my right hon. Friend confirm that the chosen aircraft fully meets the staff requirements put forward by the Minister of Defence, and tell us about the export potential of his decision? Could he say a final word about the beneficial effects that there will clearly be on the economy of Northern Ireland, which is so much in need of assistance?

**Mr. Heseltine:** All four aircraft in the later stages of the competition met the RAF's specifications, at least on paper. Some of them have not yet reached full development stage.

Export possibilities must, in essence, be matters of calculation. It is considered that the arrangement that Shorts has with Embraer, giving it exclusive rights in some territories and competitive rights in others, provides a significant export opportunity. It is up to the company to grasp the opportunities, but I am advised that as many as 200 aircraft might be in question.

**Mr. Ken Maginnis** (Fermanagh and South Tyrone): Is the Secretary of State aware that we welcome his announcement, which will be a great morale booster for the people of Northern Ireland and of great economic benefit to the whole community? I agree that the decision was a just one, bearing in mind the cost and performance of the aircraft available for contract. The decision was a just one, in that the aircraft will fit the requirements of the RAF. Those who saw it perform at Farnborough before it was fitted with the upgraded engine know just how fine it is.

The decision is a just one also from the point of view of employment. The contract maximises the potential for new jobs in the United Kingdom. Finally, the decision is

a just one from the point of view of the taxpayer. It retains in competition with British Aerospace another firm which is highly skilled in airframe construction.

May I, however, utter a word of warning? It would be unjust and unworthy to suggest that the contract was awarded for political reasons. The contract was awarded to a firm with a highly skilled work force and very good labour relations, whose management, as it has proved by sales to the United States air force and by its relations with China, conducts the business in an efficient way.

**Mr. Heseltine:** I am grateful to the hon. Gentleman, but I should like to make it clear that the contract was awarded solely because Shorts, on commercial ingenuity and merit, won on price. That is what the competition was about. It is not for me to intrude into Northern Ireland politics, but the best thing that I can say for Shorts is that it won without any attempt to influence how the decision was taken, in terms of jobs or other political issues. If I had had to take such issues into account, I should have been as concerned for the levels of unemployment in Scotland, the north-east of England or anywhere else where there might have been opportunities for jobs. However, the competition was on price, and on that basis the Tucano wins, although I am the first to recognise that British Aerospace's offer of the PC9 is a very good aircraft, which would have created many jobs.

**Mr. James Kilfedder** (North Down): Is the right hon. Gentleman aware that this difficult and important decision will give great satisfaction to all sections of the hard-pressed and decent people of Northern Ireland, especially the dedicated workers and management of Short Brothers, who, by their tremendous efforts, are turning Shorts into one of the nation's success stories? As to the allegation of religious discrimination, the right hon. Gentleman can rest assured that Short Brothers is endeavouring to encourage Roman Catholics to take employment in the firm and that there is no religious discrimination.

**Mr. Heseltine:** I deeply regret the fact that the result of fair and honourable challenge means that the Opposition must search for underhand motives. Shorts is a first-class company which has won in a straight commercial battle. The whole House should get behind it and back it. That is the best way in which to help the country, including the economy of Northern Ireland.

**Mr. Merlyn Rees** (Morley and Leeds, South): In view of what the Secretary of State said about Shorts being a good firm and getting the job because of what the defence staff said, does he agree that the Secretary of State for Northern Ireland was wise in 1976 to keep the firm in public ownership, to extend public ownership and to ensure that it did not become part of British Aerospace, with the result that it has never been privatised? That former Secretary of State is extremely pleased at the great praise that has been given to a publicly owned firm. As skilled jobs are involved, will the Secretary of State confirm that some of the work is to move to the De Lorean site in west Belfast? As skills are necessary and not anyone can get a job there, will the right hon. Gentleman assure us that training will be given to young people in west Belfast to ensure they are able to get jobs?

**Mr. Heseltine:** The right hon. Gentleman will know that I do not have responsibility for how Shorts manages a contract such as this. If it is as good as the right hon.



[Mr. Heseltine]

Gentleman and I believe it to be, the training of adequate recruits will be at the forefront of management's responsibility. I am sure that it is best left to it to make that disposition.

**Sir Patrick Wall** (Beverley): Is my right hon. Friend prepared to deny that the PC9 is the aircraft that the RAF wanted? Is he aware that his decision will probably cost 2,000 jobs in England and Scotland and the loss of the Pratt and Whitney factory in Scotland? It has long been obvious that Shorts can cut its prices — being a nationalised firm, it does not have to bear the losses— whereas British Aerospace cannot.

**Mr. Heseltine:** I understand, as does the House, that when such difficult decisions are made people whose interests might be in another direction question what is done. This was a competition about price. All the entrants to that competition were acceptable to the RAF in that they met the specification which the RAF had laid down in advance. If someone puts in a specification about that which the competition is about, it is possible for a more attractive but more expensive option to be on the table. The judgment was on the original standards laid down by the air staff. As long as those standards are achieved it would be wrong to take account of standards over and above those considered necessary because, in those circumstances, anyone who lost the competition could say that he had been invited to participate on a false prospectus.

**Mr. Paddy Ashdown** (Yeovil): Is the right hon. Gentleman aware that many people believe that he has made the right decision and welcome the clarity of it? We hope that he will be able to make an equally clear decision in favour of a wholly British manufacture, the AST 404, in the near future. As price is the determinant, what was the price differential?

**Mr. Heseltine:** There is not a convention that we give a list of those who have failed to win a contract. The differential at the close of the competition was significant. There were later bids which did not change the fact that Shorts had won at the close of the competition, although they substantially narrowed the lead. I should have had to disallow the later bids anyway, because they were out of time.

**Mr. Robin Maxwell-Hyslop** (Tiverton): Will my right hon. Friend accept the congratulations of many of us on choosing the best aircraft for the United Kingdom? Thirty years after the end of the last war, will he take the opportunity to remind the House and the country that, in that war, Brazil was an ally which put 25,000 troops into Italy on our side and lost 90 per cent. of her merchant fleet in our cause, and that Switzerland has never done that?

**Mr. Heseltine:** As always, my hon. Friend has made a most valuable point. He is stretching the perspective that I bring to bear on these matters to an even wider historic dimension. If I had taken that wider issue rather than price, I should have reckoned a substantial opportunity for British industry in South America, especially Brazil. Shorts will be able to work well with Embraer. This will be the beginning of a considerable partnership to our advantage and theirs.

**Mr. John Maxton** (Glasgow, Cathcart): Is the Secretary of State aware that there will be considerable anger and dismay in Scotland and in the constituency of the right hon. Member for Ayr (Mr. Younger)—the Secretary of State for Scotland—over this decision? How many fights on jobs in the Cabinet does the Secretary of State for Scotland have to lose before he does the honourable thing and resigns? Can the right hon. Gentleman give us an estimate of how many jobs will be lost in Prestwick? What is the difference in terms of export orders between Short Brothers' aeroplane and that of British Aerospace?

**Mr. Heseltine:** Such an attack on my right hon. Friend the Secretary of State for Scotland is contemptible. The House understands that any responsible Minister with integrity does not reveal the arguments that he employs in Cabinet. In my experience, Scotland could not have a man who fights with more determination than does my right hon. Friend in the interests of his job. [HON. MEMBERS: "Yes, in the interests of his job."] In the interests of his job as Secretary of State for Scotland. My right hon. Friend would never be prepared to reveal the cases that he frequently wins in the Scottish interest; nor would he expect his colleagues to reveal arguments deployed when the decision has gone against the best Scottish interests. The aeroplanes were clearly evaluated. All were satisfactory to the RAF, and a judgment was made on price.

**Sir Hector Monro** (Dumfries): Perhaps my right hon. Friend will allow me to share in his warm tribute to my right hon. Friend the Secretary of State for Scotland. Nevertheless, there will be great disappointment in the Scottish aviation industry. Why does my right hon. Friend put so much store on cost, bearing in mind that the life of the aircraft is 20 or 30 years? Does he agree that, as evaluated at Boscombe Down, the PC9 is outstandingly the best training aircraft?

**Mr. Heseltine:** I am grateful to my hon. Friend for taking exactly the same view as I do about our right hon. Friend the Secretary of State for Scotland. Of course I understand, as all Ministers with my responsibility clearly understand, that when decisions have to be taken on major procurement issues there are massive constituency interests and that this can lead to disappointment. It is impossible to satisfy them all. One has to make a judgment about where the best interest of the nation as a whole lies. It is my responsibility to get the best possible value for money for the £8,000 million spent on defence equipment, 95 per cent., or thereabouts, of which is spent in this country. The more that I pursue value for money within the quality demands laid down by my advisers, the more successful the British economy will be, not only in satisfying our legitimate interests, but in exporting to the rest of the world.

**Mr. William McKelvey** (Kilmarnock and Loudoun): Is the Secretary of State for Defence convinced that the specifications of this aircraft meet all the criteria laid down by the RAF? Will he tell the House that there is no doubt at all in his mind, because there is some in mine, since the specifications have not been tested on all the aircraft? That is one of the problems with which the Secretary of State will have to deal. Will he take it from me that there will be great disappointment in Ayrshire and the whole of



Scotland and on Humberside at the loss of jobs that might have flowed from this contract in areas which suffer from very high unemployment? These matters will certainly not be taken lightly in those areas. Does he understand that the shop stewards and trade unionists who have persistently and consistently lobbied Parliament over the past 12 weeks, particularly those from British Aerospace, will be going home tonight very disappointed at having to tell their men that the contract has been lost purely on cost?

**Mr. Heseltine:** I repeat what I have already, I hope, made clear; that all the tenders evaluated towards the end of this competition met the air staff target. The hon. Member is well aware that the Garrett engine has not yet been fitted to the Tucano, and to that extent has not been proved through its final testing, but that is a common phenomenon in competitions for defence equipment. This country has bought Garrett engines in the HS125 and the Jetstream and found them to be thoroughly satisfactory. The military advice that I have is that there is no likely reason why the Garrett engine will not be developed and will not prove perfectly satisfactory. I am fully aware that, as the hon. Gentleman said, people who have been lobbying me on the other side will be disappointed tonight, but that could not be a guiding principle. As I have been lobbied by every conceivable pressure group for months on end, there are bound to be people who are going to be disappointed tonight.

**Mr. Jonathan Sayeed** (Bristol, East): Despite the hysterical outburst from the Opposition Front Bench, I am sure that my right hon. Friend's Department has taken a properly balanced decision. Does my right hon. Friend recognise, however, the very considerable disappointment that this will mean to my constituents in British Aerospace, and can he reassure me that an early decision will be announced on the EFA?

**Mr. Heseltine:** I realise, of course, that my hon. Friend's constituents will be disappointed that they have not won this commercial contract. With regard to the European fighter aircraft, I spent several hours yesterday with British Aerospace looking at its proposal for a national solution to the requirement that could develop in this context. It is my responsibility to discuss with my European colleagues whether a collaborative venture is possible for this very ambitious scheme. I assure my hon. Friend that in those negotiations one of the issues at the forefront of my mind will be the interests of British Aerospace.

**Mr. Gordon Wilson** (Dundee, East): Does the Secretary of State not realise that his decision will be regarded in Scotland as an act of sabotage against the Scottish economy? Does he not realise that Scotland, in terms of population, has a very low share of the defence procurement? We get the bases and the danger, but never the jobs that go with defence procurement. Will he undertake, when he looks at his plans over the next year or so, to steer towards Scotland a fairer and larger share of the defence procurement so that we get the jobs to which we are entitled in the United Kingdom, if it is really united?

**Mr. Heseltine:** I am sure that the hon. Gentleman will join me in welcoming enthusiastically the substantial expenditure that I have just committed to Scotland for the development of Britain's independent nuclear deterrent, the Trident.

**Lord James Douglas-Hamilton** (Edinburgh, West): Can my right hon. Friend tell the House exactly what was the technical advice of the Royal Air Force on the performance of the two aircraft? Will he bear in mind that aerospace associated industries in Scotland have a considerable interest in the development of the European fighter aircraft?

**Mr. Heseltine:** On the last point, I fully understand the interest of the Scottish as well as the rest of our aerospace industry in the European fighter. As to the advice of the RAF, it was quite clear that all the results that I had to evaluate came within the staff target laid down. After that, it was a trade-off between the additional cost of going for one solution as opposed to the cheaper cost of going for the other, compared with the different specifications, which were above what it considered to be necessary for the task that it had defined. It would be wrong for me to try to evaluate the precise way in which the RAF would try to quantify the judgment as to whether it would be right to pay the premium that was offered to us for the opportunity of going to the PC9. The RAF accepted that all the aircraft that I had to consider came within the specifications, and accepted also that it was a legitimate judgment whether we would save the money or go for a more expensive specification.

**Mr. Speaker:** Order. I shall allow questions to go on for a further 10 minutes, but then we must move on.

**Mr. D. N. Campbell-Savours** (Workington): Did more favourable regional assistance and higher grants in Ulster enable Shorts to submit a lower tender?

**Mr. Heseltine:** The positions of Shorts and British Aerospace would be identical in this matter, to the best of my knowledge, because grants would be available to those companies under the broad concept of either Northern Ireland policy or regional policy. There would be no specific grant associated with this particular project.

**Rev. William McCrea** (Mid-Ulster): May I express my joy and the joy which many unemployed in Northern Ireland will experience at what amounts to a vote of confidence in Northern Ireland industry? Does the Minister agree that the awarding of this contract to Shorts will create jobs not only in Northern Ireland but in other parts of the United Kingdom, through the supplying of parts, and so on? Does he also agree that, in spite of a considerable reputation in aircraft manufacture and a wide interest in Shorts products by other air forces throughout the world, only 2 per cent. of the aircraft output of Shorts went to the Ministry of Defence in the United Kingdom? This contract will perhaps redress that situation and therefore ought to be welcomed by the whole House.

**Mr. Heseltine:** I cannot find the figure immediately, but I shall give it to my hon. Friend later, and I think he will find that the amount of Short's turnover that comes from the Ministry of Defence is very much higher than the figure that he gave. I should perhaps have stressed to the House that, while there are perhaps 600 to 700 jobs to be located in Northern Ireland, that is just over half, perhaps, of the job opportunities that might develop from this contract, and the rest of them will be spread throughout the rest of the country.

**Mr. Roy Beggs** (Antrim, East): Is the Secretary of State aware that those who represent constituencies in Northern Ireland totally deplore the sentiments expressed



[Mr. Roy Beggs]

by the hon. Member for Kingston upon Hull, North (Mr. McNamara)? We very much welcome the decision that has been made and the opportunity for Shorts to prove that it can compete, when given the opportunity, with any other company in the United Kingdom. Does the Secretary of State agree that the decision confirms the claims made by Shorts in the whole period leading up to this decision that the Tucano met the technical specifications and the requirements of the RAF and was the best value for money for the taxpayer? Does he agree also that the contract has been awarded to a company which has offered the best product at the most competitive price? Will the right hon. Gentleman encourage Shorts so far as possible to subcontract work to companies in Northern Ireland which have the competence to deal with such work?

**Mr. Heseltine:** I hope that the hon. gentleman will agree that I have clearly shown that where companies in Northern Ireland are able to compete effectively and make the product that, in this case, the market requires I see every reason why they should attract the orders that they have won in fair competition. I therefore repeat my absolute certainty that Shorts can carry through this work and that, having won it, the firm deserves to get the contract.

I can now answer the question posed by the hon. Member for Mid-Ulster (Rev. William McCrea). Approximately 50 per cent. of British Aerospace turnover relates to Ministry of Defence business. The proportion for Shorts is less than half of that, and the majority of it is on missiles.

**Mr. Michael Colvin** (Romsey and Waterside): Bearing in mind the importance of the so-called two-way street — reciprocal sales and purchases between the United States and this country—which is out of balance in favour of the US by two to one, what offsets have been arranged for the purchase of the Garrett engines?

**Mr. Heseltine:** I am grateful to my hon. Friend for raising that point. One third of the Garrett engine will be manufactured at Rolls-Royce, the remainder in the US. It is the intention of Garretts, however, to see what further offset can be arranged, and discussions on that are under way.

**Mr. Keith Best** (Ynys Môn): Will my right hon. Friend confirm that the last best offer, the Hunting Firecracker, was fully considered by him? What reciprocal arms export sales has he managed to secure from Brazil as a result of this deal with Tucano, and what other export sales has he been able to secure as a result of it?

**Mr. Heseltine:** I assure my hon. Friend that the Hunting Firecracker offer was closely examined. It did not come within range in terms of price of the two to which I have referred most prominently. In terms of contracts overseas by way of offsets in this context, there are no specific contracts. However, there is an ongoing relationship with both countries concerned, though it is difficult to lay down a time in respect of which any arms negotiations shall take place.

**Mr. Michael Marshall** (Arundel): Will my right hon. Friend accept that part of the disappointment about his announcement must inevitably turn on the reduced prospects of selling the whole range of training aircraft,

including the Hawk and PC9, and that that must have an impact on prices over a whole range of aircraft in the long term? Having said that, and recognising that the deal has been done, may I ask him to say how widely avionics contracts will be placed in this country?

**Mr. Heseltine:** I appreciate the point that my hon. Friend makes. The avionics contracts will largely be placed in this country. I hope that he will understand if, in the circumstances, I do not get drawn into commenting on the strategy of British Aerospace.

**Dr. Keith Hampson** (Leeds, North-West): Without challenging the choice of the airframe, in that Shorts was the cheapest, is it not illogical to choose a plane which is powered by an engine which has not been used in it, when the air staff requirement was met by that very plane with a different engine, which was the Pratt and Whitney? Would it not be more sensible to stick with Pratt and Whitney, which met all the requirements, which is better for training purposes, which does not need redesign work, so causing delays in the contract and which has been the subject of long-established subcontract work in this country, including in my constituency, and which is not easily done by this American company?

**Mr. Heseltine:** I appreciate the real interest of my hon. Friend. He will understand that my concern must be to secure a competitive environment for that which the Ministry of Defence wishes to procure. Interestingly enough, it was because the Ministry of Defence pointed out to Shorts that its earlier options would not provide an engine power sufficient to match that which was required that Shorts went back to Garrett and reconsidered the position. That enabled a competitive environment to come into existence. That competitive environment, the House will wish to remember, has secured economies of about 35 per cent., or nearly £60 million, over and above what we might otherwise have been able to achieve if the estimates of the planners in the Ministry of Defence had prevailed. This, therefore, is an immense enhancement to the value-for-money principle, which is at the centre of what we are trying to achieve.

**Dr. Norman A. Godman** (Greenock and Port Glasgow): In answering a question put by the hon. Member for Dundee, East (Mr. Wilson), the right hon. Gentleman talked about Scotland's share of defence procurement orders. Is he aware that he could please enormously my constituents in Greenock and Port Glasgow if he were to place orders for the SKK24 conventional submarine with a certain shipyard on the lower Clyde?

**Mr. Heseltine:** I have no doubt that the hon. Gentleman is right and that I could please his constituents in that way. But I have a feeling that a number of hon. Members who represent other constituencies would feel rather aggrieved by such an arbitrary use of power in the Ministry of Defence.

**Mr. Peter Bruinvels** (Leicester, East): As a Leicestershire hon. Member, may I ask my right hon. Friend to accept the disappointment that will be felt throughout the area over the fact that the Hunting Firecracker has not been successful in winning the contract? Will he consider that aircraft for other purposes? We offer good wishes to Shorts on being the best of the others that were competing.



**Mr. Heseltine:** I am grateful to my hon. Friend for the broad-minded approach that he adopts. My view is clear in that we are opening up competitive opportunities to the Ministry of Defence as widely as we can. It is up to the companies concerned to take advantage of that new freedom to compete.

**Mr. A. Cecil Walker (Belfast, North):** The Secretary of State has mentioned price in the decision to give the order to Shorts. Will he accept that he will be getting an aircraft of exceptional quality, based on 50 years' experience by Shorts in the industry, during which time that company produced the wonderful and famous Stirling and Sunderland aircraft which contributed so greatly to our victory in the last war?

**Mr. Heseltine:** I appreciate that, but I must make it clear that I would have got a very fine plane had I chosen the British Aerospace solution. I was not making a judgment between one good and one indifferent candidate. I was faced with two desirable choices. It is simply that on the first criterion, that of cost, Shorts clearly won. From that moment on, the issue was whether there was a political reason why anyone should want to raise the question of overturning a decision which the market had dictated. There are no issues which would have justified some of the more partisan approaches that have been adopted by hon. Members representing certain parts of the country.

**Mr. McNamara:** It would be to the satisfaction of the House if the Secretary of State would inform us whether there were any regional differences in terms of grants for re-tooling or for buildings or matters of that nature. Perhaps he will write to interested hon. Members about that so that we may reach a decision on it.

The reasons that the right hon. Gentleman has given for his decision are absolutely amazing. We are dealing with a major contract worth £120 million and the Ministry of Defence, in placing it in Northern Ireland, is not in the least concerned about labour conditions and export potential. Is it suggested that the Secretary of State sat down in a little room with an ice pack on his head and judged two aircraft, one against the other, without any concept of the industrial, political and economic background to the case? In view of what was said earlier on other matters, I find that hard to believe.

**Mr. Heseltine:** The hon. Gentleman will have heard me say many times that a whole range of factors had to be considered. The issue was whether any of them was of such significance as to override the essential first consideration—value for money for the defence budget. The idea that if ever there were another Labour Government they would be applying the sort of criteria to which the hon. Member for Kingston upon Hull, North (Mr. McNamara) referred in every judgment that Governments are supposed to make would be a devastating indictment of the standards of high public accountability that people expect of this country.

## Supplementary Benefit (Board and Lodging Payments)

4.39 pm

**The Minister for Social Security (Mr. Tony Newton):** With permission, Mr. Speaker, I should like to make a statement on proposed new arrangements for supplementary benefit payments towards board and lodging charges.

The House will recall that consultative proposals were referred to the Social Security Advisory Committee in November 1984. We are today laying before the House the committee's report, together with the Government's response to its recommendations. We are grateful to the committee for the constructive approach it has brought to its task, and have taken its views fully into account in framing the regulations which are also laid before the House today. Subject to the approval of Parliament, the new arrangements will come into operation on 29 April 1985.

The maximum weekly amount payable for ordinary board and lodging, which is at present set locally for each DHSS office, and varies from £40 to £110 will be set for each area at one of six standard amounts ranging from £45 to £70 per week. For this purpose, DHSS local offices will be grouped, taking account of Department of Employment travel-to-work areas so as to reflect so far as possible established patterns of employment and job seeking.

Subject to these limits, there will be no restriction on access to board and lodging accommodation for people aged 26 or over, or for those of any age who come within defined categories such as those who are chronically sick or disabled, those who have a dependant child, and those who have been in the same accommodation while in employment. For unemployed claimants aged 25 or under, unless they are in an exempted category, each area will have a limit of two, four or eight weeks on the period for which board and lodging payments will be made.

Hostels—I know that this is a subject to which the House attaches importance—which have hitherto been subject to the normal board and lodging rules, will be treated as a separate category, reflecting the importance which the Government attach to them. They will have a higher limit—set at £70 a week nationally—than most ordinary board and lodging accommodation; and there will be no restrictions on the length of stay for hostels.

For residential care and nursing homes the Government intend to set new limits at a level which they believe will allow reasonable charges to be met in homes meeting the new registration arrangements under the Registered Homes Act 1984. At present, local limits vary from £51 to £215 per week for residential care homes and from £80 to £295 per week for nursing homes. The limits for residential care homes will be £110 a week for the elderly, £120 a week for the mentally ill and for drug and alcohol misusers, £140 a week for the mentally handicapped, and £170 a week for those who became physically disabled below pension age. A sum equivalent to the higher rate of attendance allowance—currently £28.60 a week—will be added to these limits for people in nursing homes. There will be an additional hospice category, with a limit of £198.60 a week.

In future, "topping-up" payments by local authorities towards the cost of younger people in residential care homes will not reduce the payment of supplementary