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FROM: CHIEF SECRETARY

DATE: 2 April 1985

PRIME MINISTER

EUROPEAN FIGHTER AIRCRAFT (EFA)

I commented earlier about the timetable for considering the proposal for a new fighter aircraft (my minute of 1 March) following Michael Heseltine's minute to you of 26 February. I am glad to see that we are to discuss the project on 25 April.

2 The further correspondence has included a useful note about industrial aspects circulated by Norman Tebbit's office on 20 March. I hope however that our discussions can start further back, from the UK's own defence needs. Michael Heseltine's minute to you of 2 July last year gave a summary of the role envisaged for an EFA, and said that a national review of the operational requirement was continuing. Our discussions of this complicated and massive project - probably the largest procurement decision in this Parliament and second only to Trident since 1979 - will need to be based on a clear understanding of the gap in capability which a new fighter would be designed to fill, and of its operational requirement.

3 Michael has asked for studies of a substantial list of options, including EFA, a national project and US aircraft, whether bought off the shelf or made in the UK under licence. We shall want to consider the results carefully, and of course to discuss how the resources are to be found within the defence budget to finance the project. There are two points in particular which I hope Michael's paper will address to help our discussion on 25 April.

4 First, in looking at costs we shall need to take account of risks. Collaboration on a new project in some ways helps to spread risks, but it also increases them, bringing problems

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of co-ordination and of decision taking, and opening up increased risk that requirements may change while the project is underway. Collaboration can also be an enemy of competition, compelling purchase of equipment from particular countries and suppliers on grounds of workshare, with all the extra expense which that entails. The history of the five nation EFA proposal offers no strong omen for harmony in the future, and the risks could be increased if any of the partners make major compromises at this early stage which result in continuing tensions within the project.

5 A national project of course also brings with it great risks, which would need to be given full weight. I hope therefore we shall be able to discuss the prospects for achieving other collaborative approaches, in addition to a five nation EFA, including the possibility of a collaborative purchase under licence from the US. The five European nations' collaborative purchase of F16s under licence from the United States and the three nation Tornado are both precedents which may offer useful lessons.

6 Secondly, industrial aspects. British Aerospace (BAe) faces the possibility of a sharp fall in the workload at Warton from the end of this decade. EFA would I understand not produce substantial work for Warton until well into the 1990s, leaving a major gap. It would be inconsistent with our commitment to competition to accept a self-imposed obligation to manage BAe's work flow or to make work for the company. But there would clearly be pressure on the Government to act to avoid a major reduction in capacity at Warton, and this could be unavoidable if we were committed to EFA. Work on a purchase under licence could perhaps begin earlier, and thus reduce the size of any gap. The timing of work for BAe should be a factor in our discussion.

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7 The position at Rolls Royce will also be relevant. A successor to the RB199 would be expensive to produce, and would carry with it all the familiar risks.

8 Against this background I welcome Michael's statement that discussions about EFA have so far been entirely without commitment, and that this has been stressed to the potential partners.

9 I am copying this minute only to Michael Heseltine, Norman Tebbit and Geoffrey Howe.

PR

PETER REES

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Defence Pt 2

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