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MO 26/11/9

Print Minister
 For meeting
 next week.

Policy Unit
 Comments please
 not

CDP
 17/4.

PRIME MINISTEREUROPEAN FIGHTER AIRCRAFT

I undertook to produce a short paper to focus the discussion of this subject which we are to have with colleagues principally concerned after Cabinet on 25th April. My minute of 26th February to you, copied to other members of OD, summarises the essential background. I shall of course be providing a fuller analysis of options for collective discussion ahead of the meeting of Ministers of the five nations now scheduled for 17th May. At this stage the issues as I see them are as follows.

Importance of a new fighter aircraft to the defence programme

2. By the mid-1990s the RAF's fleet of Phantoms and Jaguars will be a poor counter to the threat and the ~~Jaguars~~^{Phantoms} will also be running out of fatigue life. A replacement aircraft will therefore be necessary if the Royal Air Force front line capability is to be maintained. But it will be an expensive project with a substantial opportunity cost in that it will be competing with requirements to replace or improve other important capabilities. I am not committed to a replacement aircraft at any price, and I have consistently made this clear. There are other possibilities such as buying more Tornado F2s, although this would not meet a military requirement which centred critically on high agility. Much will hinge on cost. I fully recognise of course the importance of a new project to BAE's Warton Division. At the same time there is the point that with work on Tornado now past its peak, a decline



in their loading is inevitable anyway, and even EFA will not restore it to present levels. Of greater strategic importance however is design capability; without a new project in the near future, the BAe combat aircraft design capability will be lost. This capability is unique to BAe in the United Kingdom, is important to us industrially, and is considered vital by the Royal Air Force.

Is collaboration a desirable aim?

3. The financial case for collaboration is that it is cheaper than a national venture because development costs are shared among the partners rather than borne by a single nation and because of the economies of scale which result from a large production volume. If the partners bring with them a sales market the costs of development can potentially be shared more widely still. In general, these benefits outweigh the additional cost which arises because of the dispersal of work and the plurality of management and Government agencies involved in a collaborative project. In the present case, our current cost projections suggest that a national project can be expected to be some 20% dearer than a collaborative EFA. The need for nations to compromise on military requirements is a recognised penalty of collaboration. Against this must be set the potential benefits in terms of defence and wider political co-operation, which for a project of this size would be enormous.

4. I am in no doubt that the cost and wider advantages of pulling off a successful collaboration in this case would justify some sacrifice of operational capability in the aircraft itself - though obviously the latter must not be carried too far. If we can secure a deal which is acceptable in military, cost and industrial terms this would in my mind tip the balance in favour of including the project in the defence programme. I take Norman Tebbit's point in his letter of 14th March that exports resulting from past collaborations have sometimes been disappointing; but we cannot assume that a national project would necessarily have better export potential.



Is collaboration attainable?

5. Obviously there must be doubts about this; the failure of French industry to co-operate fully in the feasibility study phase is not encouraging. This may owe something to their lack of experience in, and hence suspicion of, a major aircraft collaboration involving several partners. It also reflects the determination of Dassault to dominate both the design of the aircraft and the management of the project. Only negotiation will show whether there is a way forward. But we must beware of the assumption, which parts of our own industry seem to be making, that a four-nation collaboration excluding France is necessarily available as an alternative. The fear must be that in a last resort Germany would align herself with France; and whilst an Anglo-Italian partnership would be technically feasible, I am not at this stage persuaded of its economic viability.

Military capability

6. In-service date. Because the Phantom's fatigue life is running out, an in-service date of 1995 is necessary if we are to maintain our capability and we should therefore continue to press for this. Since however the decision in principle to buy a replacement aircraft has not yet been taken, in a last resort the date of 1995 cannot be considered sacrosanct, although the penalty of further slippage would be an increasing gap in both UK and RAF Germany air defence.

7. Aircraft Mass. On the face of it the difference between France and the other four nations is clear but narrow - 9.5 tonnes against 9.75 tonnes. The important factor in the eyes of my military advisers is the critical need for sufficient space to install the weapon system equipment required to give the aircraft a viable capability against the Warsaw Pact threat; they believe that at 9.75 tonnes, the aircraft has already been squeezed to the limit. I find it hard to believe that a 0.25 tonne difference should be a make-or-break issue for the French, but the negotiations will show.



8. Engine Thrust. The French proposal for an engine of 82 kilonewtons (kn) thrust is manifestly too small for the job, and too small to sell in world markets for applications other than EFA. We need an engine of at least 92 kn nominal thrust (which is equivalent to an engine having a minimum in-service installed thrust of 88 kn - a definition preferred by Germany) to provide sufficient power for EFA; to sell abroad; and also from the UK standpoint to re-engine the Tornado F2 in due course. To avoid programme slippage, an existing engine should be used for initial flight trials and this should be the European RB 199 rather than the American GE 404. Using an American engine will prejudice Rolls Royce export sales of the RB 199 and we should only give way on this point in exchange for very considerable benefits in other directions.

9. Radar. We are examining the feasibility of a common radar for EFA, but as the weapon requirements of France are different from those of other nations, we may only achieve a common core radar, with individual nations making specific additions to suit their national requirements.

Industrial arrangements

10. On the airframe, BAE are not prepared to concede industrial leadership or a larger workshare to Dassault; on the engine, Rolls Royce would not concede to SNECMA. Rolls Royce however are pre-eminent in their field in Europe, whereas BAE and Dassault are more nearly on a par. The question therefore arises whether there is scope for a deal in which Rolls Royce take the lead on the engine while Dassault take the lead on the airframe (which would obviously create enormous problems with BAE); or whether we should aim for the safer course of Anglo/French parity on both the airframe and the engine. This is one of the most difficult issues we face. One aspect of it is the interests of the British avionics and equipment industries; do these stand or fall by the outcome on the airframe worksharing or can they be negotiated



independently? Also we must not forget the position of the other partners in all this, particularly Germany.

11. My general approach is that the only acceptable industrial outcome is one in which there are no winners and no losers. The question is whether we apply this to the interests of each nation as a whole or separately to each sector of the industry.

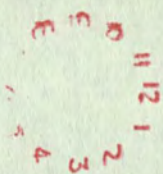
Management of the programme

12. Here too the principle of "no winners no losers" applies. French dominance is as unacceptable to us as our dominance would be to them. I see no alternative to a structure embodying an international agency representing all Governments, and an international organisation representing the industries of all the partners. Much will depend on the details of the structure and the allocation of posts to nations, whether permanently or on rotation. By the same token, while it would obviously be desirable to have the headquarters of the project in this country, the French would no more accept this than we would accept that it should be in France. A compromise, probably on a German site, seems the most likely outcome.

13. I am sending copies of this minute to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chief Secretary, Treasury and to Sir Robert Armstrong.

MSH
Ministry of Defence
15th April 1985

DEFENCE Procurement: Pt 2.



17 APR 1985

Comptroller
GENERAL
LONDON



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~2307800~~ 218 2111/3

CP/NO

MO 26/11/9

18th April 1985

Charles Powell
I have amended the
minute (for the w/c box)
accordingly. M&A 11/4

Dear Mark,

PM's Box
Folder 4

EUROPEAN FIGHTER AIRCRAFT

My Secretary of State minuted the Prime Minister on 15th April on the European Fighter Aircraft. As I mentioned to you, paragraph 2 of the minute stated that the RAF's Jaguar aircraft would be running out of fatigue life in the 1990s. As is made clear later in the minute, the reference to fatigue here should be to the Phantom aircraft rather than to the Jaguar. I regret any confusion this may have caused.

I am copying this to Private Secretaries to other recipients of the original minute.

Yours ever,
Joemy Wright

(J S WRIGHT)

M Addison Esq
10 Downing Street

18 APR 1965

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SPW

MR OWEN

European Fighter Aircraft

You will have seen a copy of the Defence Secretary's minute to the Prime Minister of 15 April which is to serve as a basis for Ministerial discussion of the EFA. It would be helpful to have Policy Unit views.

BF

NO to have a word with CSP 25/4

C D Powell

22 April 1985

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Cardiac - J. W.

Charles Powell

Ray thanks -
Sorry it caused so
much trouble

I have fixed (at the expense of
delaying Norman Tebbitt's physiotherapy,
ditto OD (H.D)) at EFA meeting on
Thursday 20th April, between 10 & 11.

The following are coming:

Deferve
Ch/Ex
Ch/Sec
S/Tx I
FCS.

So the only one not coming is the hard Prod.
OD itself is proving difficult to fix. Currently
down for 8/5.

M&A 24/4