

Prime Minister

✓ KC FM
AP



Mr Heseltine sets out in more detail his reasons for buying Harpoon rather than Sea Eagle.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3

22nd September 1983

You will recall Sir Robert Armstrong's minute (attached) which sets out the background.

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See Cecil

MS

WR
23/9

SURFACE TO SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

In your minute of 8th September, you raised a number of points on the proposals in my minute of 1st September, following a presentation made by British Aerospace (BAe) to Norman Lamont also on 1st September. BAe and Marconi Space and Defence Systems (MSDS) had earlier made similar points in letters to Geoffrey Pattie in parallel with the submission of a revised tender. My minute took account of the significant features of BAe's latest offer, notably a reduction in price of about £10 million.

Costs

2. You asked for a reconciliation of the assessed cost of SEA EAGLE at £258.5 million with the current BAe offer of £185 million before VAT. I attach a table which explains this and gives the corresponding details for HARPOON. It will be seen that the £185 million now quoted by BAe and SEA EAGLE does not (as they recognise) allow for the cost of items associated with the proposed purchase but not included in the tender (Serial 3); for a general contingency allowance appropriate to the uncertainties or risks attaching to each proposal; or for VAT. Allowing also for the adverse movement in the £/\$ exchange rate since the original bids were compiled, HARPOON still comes out £40 million cheaper than SEA EAGLE. It is worth mentioning too that the costings for HARPOON assume that we will pay an R & D levy amounting to some £10 million; in practice we shall seek a waiver of this levy, as we are entitled to do, as each year's order is placed.

The Rt Hon Cecil Parkinson MP



3. BAe have also confirmed an earlier offer to charge less for follow-on air-launched SEA EAGLE missiles if the ship-launched version is bought for the Royal Navy. We do not yet have a firm price quote for follow-on air-launched missiles so this offer needs to be taken with a pinch of salt. It would be worth between £3 and £4 million depending on the number of missiles bought.

4. I confirm that HARPOON would be purchased on US Foreign Military Sales (FMS) terms. Each year the US Department of Defense would let fixed price contracts to meet the requirements of US forces and overseas customers. We would pay the same as the US forces plus allowable charges. The pros and cons of this indirect method of contracting depend on the circumstances of the case. The basic HARPOON missile has been in production for many years and is at present being bought, at known prices, for Royal Navy submarines. The allowance in the HARPOON costings for enhancements (attached table, Serial 2) incorporates a generous contingency. The general contingency (Serial 4) provides for unforeseen modifications, for the possibility that the total volume of HARPOON production may be lower than expected, and for cost overruns of up to 20% on the ship system. I believe that we can be satisfied that the uncertainties over the cost of a HARPOON purchase have been fully reflected in the costings. There are also uncertainties in the cost of a SEA EAGLE purchase; the missile has yet to enter service and the ship system has yet to be developed, and so there is a strong possibility that substantial modifications would be required before the weapon system reached a satisfactory level of effectiveness. A contingency margin has also therefore been included in the SEA EAGLE costings.

Programme Timescale

5. BAe earlier claimed that they would need an order by 1st April 1983 if they were to meet the Type 22 frigate ship-fitting timetable. To have a chance of doing so they would have had to carry out work to a value of £8 million in the current financial year. No evidence of



this has been produced. It remains likely that the SEA EAGLE ship-system would be 9-15 months late for the Type 22.

Technology Base

6. You also raised the question of whether a purchase of HARPOON would deprive UK industry of the ability to compete in future for a third generation SSGW system. The way ahead on third generation systems is not yet clear. Seekers could be active or passive, or a combination of the two. The ALARM decision brings us into the development of passive seeker technology; and the continuation of the air-launched SEA EAGLE programme will give us a basic capability in active seeker technology which would benefit from any upgrading of the air-launched missile seeker that may in due course prove necessary. But, in any case, SEA EAGLE would not be capable of being improved to the point of being a third generation SSGW which is likely to involve the options either of stealth technology or supersonic flight. Separate decisions will be needed in due course on this. In my view, the financial premium for maintaining a fuller capability in the active seeker field through a purchase of ship-launched SEA EAGLE is too heavy.

Sales Offset

7. The position on potential sales of ship-launched SEA EAGLE was, I believe, correctly stated in paragraph 9 of the note attached to my minute of 1st September. Although the potential receipts from R & D levy on overseas sales are quite large, achievement of the total of £25 million given in the note would depend both on the volume of sales and on the achievement of a healthy level of profit in what, as I have said, is a highly competitive market, where a number of countries have a headstart. A purchase of HARPOON properly handled ought not to affect the sales prospects of air-launched SEA EAGLE.

8. Finally, on offset, I would refer you to my Private Secretary's minute of 7th September. McDonnell Douglas have signed an agreement



to the effect that 100% offset will be provided for a purchase of ship-launched HARPOON; the firm have also undertaken to ensure that at least 50% of the offset work is in high technology areas.

9. I hope that these additional details meet the points you raised, and that I may have your early agreement to announce a decision in favour of HARPOON.

10. I am sending copies of this letter to our OD colleagues and to Sir Robert Armstrong.

Yes see

A handwritten signature in black ink, appearing to read "Michael Heseltine".

Michael Heseltine

BREAKDOWN OF COST ESTIMATES FOR HARPOON AND SEA EAGLE
(£M July 1982
economic conditions)
HARPOON SEA EAGLE

Serial			
1. Tendered equipment (basic)	126.1	}	185.0
2. Improvements to 1	15.8	}	
3. Non-tendered costs	21.4		22.7
4. Contingency	6.8		17.1
Total (VAT exclusive)	170.1		224.8
5. VAT	25.4		33.7
Total (VAT inclusive)	195.5		258.5
6. Exchange rate variations	+22.8		NIL
Total (at current exchange rates, July 1982 prices)	218.3		258.5

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Defence 3/83 Procurement
of weapons systems

27 SEP 1983

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*cf O. Pascal / FM
AP*



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~2300202~~ 218 2111/3

MO 26/3

6th October 1983

N.B. P.N.

Dear Steve

AP 7/10

SURFACE TO SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

We spoke this morning about my Secretary of State's letter of 22nd September to Mr Parkinson, on the subject of Surface to Surface Guided Weapons for the Royal Navy. I mentioned that there had been a further development.

British Aerospace, who are offering Surface Launched Sea Eagle as a solution to the Navy's requirement, made a revised bid on 30th September which could involve a substantial improvement on the terms we have been offered so far. Ministers have asked officials to hold urgent discussions with BAe about the details of the bid. When assessing the new bid, we will also, of course, have to consider the position of the other competitors.

In these circumstances we agreed that it would be better if your Secretary of State did not reply to Mr Heseltine's letter for the moment. We will, of course, keep you in touch.

I am copying this to the Private Secretaries of the members of OD and to Richard Hatfield at the Cabinet Office.

Yours

A H Lowe

(S H LOWE)
Private Secretary

S Nicklen Esq

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Defence
March 83
Harm/Harm



MINISTRY OF DEFENCE
MAIN BUILDING, WHITEHALL, LONDON SW1A 2JH

10 Downing Street
London SW1A 2AA
1885

NO 2013

Dear Sir
We spoke this morning about my letter of 2nd September to Mr. Richardson, on the subject of surface guided weapons for the Royal Navy. I mentioned that there had been a further development.

Room 174
11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

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I am copying this to the Private Secretaries of the Secretary of State and to Richard Heston at the Cabinet Office.

Yours faithfully
The Secretary
Private Secretary

Richard Heston

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MR COLES

seen by ABC

New
LS19.

SURFACE-TO-SURFACE GUIDED WEAPONS FOR THE ROYAL NAVY

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We continue to support the proposal to purchase the McDonnell Douglas Harpoon system which is clearly superior to the Sea Eagle development put forward by British Aerospace.

The recent correspondence does not alter the strength of the Secretary of State for Defence's original proposal. What it does illustrate is that a lack of co-ordination between the MoD and the DTI leads to avoidable delays in procurement decisions.

DLP

DAVID PASCALL