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OD(81) 14th Meeting

COPY NO

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at  
10 Downing Street on  
TUESDAY 8 SEPTEMBER 1981 at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of  
Lancaster and Paymaster General

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

The Rt Hon John Biffen MP  
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

Admiral Sir Henry Leach  
Chief of the Naval Staff and  
First Sea Lord.  
Acting Chief of the Defence Staff

SECRETARIAT

Sir Robert Armstrong  
Mr R L Wade-Gery  
Mr R L L Facer

SUBJECT

THE HEAVYWEIGHT TORPEDO

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## THE HEAVYWEIGHT TORPEDO

The Committee considered a memorandum by the Secretary of State for Defence (OD(81) 41) on the choice of heavyweight torpedo for the Royal Navy.

THE SECRETARY OF STATE FOR DEFENCE said that a new heavyweight torpedo was urgently required to equip the Royal Navy's attack submarines. The choice lay between the American Mark 48 torpedo produced by Gould Incorporated with a new advanced capability (ADCAP) guidance system and a British torpedo being developed by Marconi Space and Defence Systems (MSDS), part of the GEC Group. Either torpedo should meet the Royal Navy's requirements, but the British weapon was likely to be about £100 million more expensive overall, and its purchase would cause serious cash flow problems for the defence budget in the years up to 1986/87. The competition between GEC and the Americans had been beneficial and the outcome was likely to set a valuable precedent for the future procurement of defence equipment. GEC had proposed a fixed price package deal covering the heavyweight torpedo and the lightweight torpedo (Sting Ray) already under development, and had offered on certain terms to limit its cash demands in the earlier years. But there still remained a gap of at least £55 million in those early years resulting from the need to finance the development of the British weapon. If the defence budget were required to find this extra sum within its present limits, other items in the programme would have to be cancelled or deferred. It might, for instance, be necessary to cancel Sea Eagle and purchase the American Harpoon instead; or to defer either the Type 23 Frigate or the diesel submarine programme, with severe consequences for the shipbuilding industry. This would merely transfer job losses from one sector of British industry to another. On the other hand, it would be difficult to get a decision to buy American accepted by Parliament. He was seeking the views of colleagues before putting forward a firm recommendation.

In discussion the point was made that the comparative costs of the British and American torpedoes would be much affected by the exchange rates valid over the long period of procurement. The estimated costs of the American torpedo had already risen as a result of the reduction in the assumed rate of exchange of the pound against the dollar. GEC had reduced their price

three times and now claimed that the overall price difference would turn out to be marginal; but they were not short of money and might be persuaded to move further towards meeting the Ministry of Defence's budgetary problems. On the other hand, the estimated costs of the American torpedo included a 15 per cent contingency margin which past experience had shown to be adequate. While the estimates inevitably contained some uncertainties, it was most unlikely that GEC could reduce their price so as to eliminate the £100 million premium over the United States torpedo. Unless the defence budget were increased, therefore, it would be necessary to identify the savings that would be needed elsewhere to accommodate the extra cost of the British torpedo. For example, the additional cost of the British torpedo in 1982/83 of £9.7 million represented the running costs of two frigates. The cancellation of Sea Eagle would be particularly undesirable. In view, however, of the Government's decision to increase the defence budget by 21 per cent over the period from 1979 to 1986, when some of our allies were reducing their defence programmes, it would be difficult to justify any further increase.

THE PRIME MINISTER, summing up the discussion, said that a decision to buy the American torpedo would be much criticised in Parliament. A decision to buy British would show confidence in our torpedo industry and would improve the prospects of export sales of both the heavyweight and the lightweight torpedo. The difference in cost to the Exchequer between the two torpedoes might turn out to be marginal, and the Committee were not at this stage accepting that the savings (if any) required to offset the extra cost of buying British should be found by cancelling other projects in the defence programme. She welcomed the fact that GEC were offering a fixed price contract for development and initial production, as a result of American competition. The Committee were clearly inclined to the view that the British torpedo should be chosen. But further consideration should be given both to the financial terms and as to how any resulting extra costs should be met. In presenting the Government's decision, care should be taken to preserve their negotiating position with GEC.

The Committee -

1. Agreed that, subject to satisfactory financial and contractual arrangements, the heavyweight torpedo under development by Marconi Space and Defence Systems should be purchased.
2. Invited the Secretary of State for Defence, in the light of the result of further financial negotiations with GEC, to consider with the Chancellor of the Exchequer and the Secretaries of State for Industry and Employment, how any extra costs still remaining in the years up to 1986/87 could be accommodated.

Cabinet Office

9 September 1981