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~~Prime Minister~~
Mr. Younger has
done well.
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PRIME MINISTER

AIRBORNE EARLY WARNING

1. Following our discussion at OD on ^{attached} 12th February, I am pleased to tell you that we secured late last night GEC's agreement to the terms we wanted. GEC will be proceeding with the project for a six month interim period while we also establish possible alternative ways of meeting the AEW requirement.
2. As soon as these options have been appraised along with proposals to be prepared meanwhile by GEC Avionics, I shall report back. I shall, of course, let you know of any significant developments meanwhile.
3. It happens that there is today a debate in the House on the Royal Air Force at which we shall obviously be pressed on the future of Nimrod. Norman Lamont will be opening the debate and I attach for information the section of his speech which deals with the Government's approach and the agreement now reached.



4. I am copying this minute and the attachment to the other members of OD, the Paymaster General, the Chief Whip, and Sir Robert Armstrong.

A.Y.

Ministry of Defence

26th February 1986

CONQUEROR
LONDON

I come now to the position on the Nimrod airborne early warning project.

The House will recall that in March 1977 our predecessors announced their decision to proceed with the Nimrod system to replace the Shackleton in the airborne early warning role. Contracts were placed with what are now British Aerospace plc for the necessary work on the Nimrod airframe and GEC Avionics Limited for the development and production of its mission system avionics. At that time it was envisaged that the aircraft would enter service with the Royal Air Force in April 1984.

Since 1977, work has been proceeding on the project as an important component of the United Kingdom's air defence capability and as our contribution in kind to the NATO mixed AEW force.

British Aerospace's work on the airframe has proceeded satisfactorily. As the House is aware, however, serious difficulties have arisen in the development of the avionics system and these have led to significant time and cost overruns.

Given these difficulties, the Government has concluded that it would be right to consider all of the available options - both from this country and overseas - for meeting the RAF's needs before taking a final decision on the way forward. We must ensure value for money on this project as elsewhere in the Defence programme. GEC has fully accepted the Government's view that this evaluation is now necessary. The Government also believes that the project management and contractual arrangements for the Nimrod AEW programme, which were established in 1977, have clearly not provided a satisfactory basis for the timely completion of the project and that it can go forward only on a revised basis. We have been discussing with the company arrangements for sharing the risk and providing adequate incentive for completion and I am very pleased to inform the House that these negotiations have been satisfactorily concluded. We have reached agreement both on arrangements to cover the interim period while all of the options - including of course Nimrod AEW - are fully evaluated and on a possible basis for the longer term should we proceed to completion with the Nimrod project.

During the next six months, GEC Avionics will press ahead with the Nimrod development programme on a revised contractual basis under which they and the Government will bear 50% of the costs properly incurred within a maximum financial limit for the programme of £50 million. Before the end of this period they will provide us with a firm price proposal against a technical specification aimed at achieving the Royal Air Force's needs. They will also demonstrate to the Ministry the progress they have made on the development of the project. During this period, we shall also explore with other contractors at home and abroad alternatives to the Nimrod AEW approach and their technical, cost, industrial, and other implications. We shall also be consulting the NATO Authorities.

Following this six month period, the Government will reach a decision on the way forward. Should we then decide to accept a GEC Avionics proposal and to continue with the Nimrod AEW project, the contract will be extended within an agreed firm price and period for completion and with funding to continue on the basis of equal shares. Once the work had been completed satisfactorily to time, the funding borne by the company would of course be paid in full. In the event, however, that completion were to be delayed beyond the agreed period, the company have agreed that they would bear the cost of the programme until it was satisfactorily completed. These arrangements then would provide for the company to be paid in

full for work completed satisfactorily to time and for the company to bear the consequences should this not happen. They would I believe be fair to the company and fair to the taxpayer.

Mr Speaker the Government is anxious to give the company and its employees the chance to demonstrate that they can complete the project satisfactorily. The company have now shown their commitment to, and confidence in, their ability to do this. They have also recognised - and I pay tribute to this - the need to show that their solution is competitive with the alternatives that are on offer. The Government has sought in these negotiations to give them every opportunity to recover a most unsatisfactory position which reflects, in part, wider shortcomings in the management of defence procurement. These too are being vigorously tackled.