PRIME MINISTER

DEFENCE R & D

You will remember that E(A) decided in February that Defence R&D should be reduced in line with the projections in the 1985 long-term defence costings.

I do not think MOD really believed that such a decision could have been taken or would stick and I am told that they did nothing to consider what they should be doing to live within the decision.

Predictably, the figures in the 1986 long-term costings are higher than those for 1985. (The 1985 figures even excluded EFA). Mr. Younger has accordingly proposed to E(RD), the Committee chaired by Mr. Channon, that E(A)'s decision should in effect be abandoned. He argues that it would mean either sacrificing capability or that we would have to buy off the shelf or manufacture under licence existing equipment from the US and Europe where the development costs have already been paid by somebody else. He recommends that instead of the specific decision taken by E(A) there should be 'a general ministerial directive to minimise R&D expenditure'. He would be prepared alternatively to work on the basis of the 1986 figures, putting off the evil day.

E(RD) has no authority to over-turn a decision taken by E(A) and this may well come back to you in due course. There is no need for you to intervene now.

It would surely be wrong to abandon the constraint set by E(A), as Mr. Younger wants. But it seems to me quite likely that in due course some increase in the figures will have to

be granted to Mr. Younger to accommodate the pressures on defence R&D coming even from procurement projects which are under way. However, Mr. Younger should be made to produce a full justification for this, and to put in place a proper management procedure to keep R & D in check.

DAVID NORGROVE

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