

Reference

PRIME MINISTER

You should be aware of discussions on another defence procurement issue where the price quoted by a British manufacturer is uncompetitive.

Mr. Pym has in mind to purchase some 250 Cummins engines to power the Army's new tank transporters. Rolls Royce produce an engine which is technically very similar. The Cummins engine is up to 36% cheaper and, because it is smaller, it will be cheaper to run. At April 1980 prices, the Rolls Royce engine cost including spares and contract repair over their lifetime was estimated at just over £10 million. On a comparable basis Cummins were quoting £6.44 million for US manufacture and £7.24 million if they guaranteed 50% UK content. Cummins have also suggested that an MOD order for this engine could "accelerate their consideration" of using a factory at Shotts or at Daventry as a source of engines for UK and European customers, creating up to 150 jobs.

Mr. Pym has now agreed to reopen negotiations with both Rolls Royce and Cummins, to see whether there is any prospect of Rolls Royce bridging the gap. This seems most unlikely. Mr. Pym and the Treasury are clear that the decision must rest on best value for money, although Sir Keith Joseph has taken the part of Rolls Royce to date.

24 November 1980



Defence

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/4

21st November 1980

MJP

Dear Keith,

*More would
have like us to
get this?*

ENGINES FOR THE COMMANDER TANK TRANSPORTER

Not copied to 10/10?

Thank you for your letter of 18th November. I share your concern for the success of Rolls Royce Motors in the diesel engine field. It was because of my concern that this proposal has been given the high level consideration that it has had, and that I particularly wished to seek your views.

I can assure you that adequate weight was given to the advantages of commonality of parts and servicing by having Rolls Royce engines in the tank transporters, as well as some tanks and some personnel carriers, but in the event, these did not match, let alone outweigh, all the cost and other factors involved.

I have given much evidence of my support for our public sector purchasing policy, not least in the case of RRM, where my decision in favour of MCV 80 was made with the effects on RRM had we bought the US vehicle very much in mind. Because of my decision on MCV 80, and the order for 237 Challengers with CV12 engines together with the Jordan tank order which also stipulates CV12 engines, these military orders go a long way towards assuring the future of RRM diesel engine divisions. Rolls Royce may claim that the Commander order is significant to the company; so also is the difference in cost to us, particularly when we are looking very hard indeed to make every possible economy in our expenditure.

The Rt Hon Sir Keith Joseph Bt MP

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Nevertheless, in view of the importance which we both attach to this matter, I am directing my officials to reopen negotiations with both RRM and Cummins, under the aegis of Scammells, the main contractor. In any case it would not be contractually proper to speak only to RRM, and I do think we must be fair to Cummins who have tendered a much lower price and who, on that basis, must surely be regarded as the front runner. I will write again when the outcome is known.

I am sending copies of this letter to the recipients of yours.

Handwritten signature
Handwritten signature

Francis Pym



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MAD
Defence

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 November 1980

J.D.S. Dawson Esq
Ministry of Defence
Main Building
Whitehall
LONDON SW1

Re: Jonathan,

ENGINES FOR TANK TRANSPORTERS

Thank you for copying to me your letter of 11 November.

We are content that officials should be asked to negotiate further with Cummins on contract prices, and to make a final effort with Rolls Royce to encourage them to bring down their prices. It may also be possible to determine with greater certainty whether, and to what degree, Cummins might be encouraged to expand production at their UK factories. However, on the information currently available, the premium of 57 per cent by which the dearest option (Rolls Royce) exceeds the cheapest (Cummins) is a substantial one which Rolls Royce will find it difficult to close. We entirely accept that the final decision should be one based on securing best value for money.

Copies of this letter go to Catherine Bell (Department of Industry), Mike Pattison (No.10), John Wilson (Scottish Office), Andrew Hardman (Department of Employment) and David Wright (Cabinet Office).

Yours ever,

Richard Tolkien

R.I. TOLKIEN



4. This is a small but potentially complicated subject. The Chancellor of the Exchequer is likely to be in favour of the cheaper engine. The Cabinet Office suggest that it would be premature for the Prime Minister to intervene in this matter which may well be sorted out by the departmental Ministers directly involved in it. If the Prime Minister does decide to intervene, we would recommend that she should do so in support of the Defence Secretary unless the Secretary of State for Industry introduces a new argument in favour of the Rolls Royce engine. The Ministry of Defence have encountered considerable pressure in the past to accept cheaper weapon systems from abroad. In this present situation it does not seem right to press them to take a more expensive British system which offers nothing in terms of greater effectiveness.

A handwritten signature in dark ink, appearing to read 'D J Wright', is written over a horizontal line. The signature is stylized and cursive.

D J WRIGHT

14 November 1980

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MO 26/4/2/1

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone J1-9387022 218 2111/3

11th November 1980

John Catherine,

The Defence Secretary has asked me to write to let you know that he is considering the purchase of some 250 Cummins KTA 600 engines to power the Army's new tank transporter. He is inclined to favour the Cummins, which is manufactured in the USA, because of its substantial price advantage (the KTA 600 is up to 36% cheaper) over the alternative engine, the Rolls Royce CV12. A table demonstrating comparative costs is attached to this letter.

You will see from the table that we have been considering the possibility of Cummins manufacturing and assembling in this country up to 50% of the engine. This could create up to 18 jobs. There would, however, be a price disadvantage attached to this course. Our aim is, of course, to secure the right engine at the lowest possible price.

There is a further consideration which favours selection of the cheaper engine, which is that Cummins have indicated that an MOD order for the KTA 600 could accelerate their consideration of possibly using their factory at Shotts or at Daventry as a source of K6 engines for UK and European customers. We understand that this could create up to 150 more jobs.

My Pym, in favouring the Cummins engine, is particularly mindful of the fact that, he understands, Rolls Royce's military diesel engine capability will be maintained in the UK as a consequence of the selection earlier this year of the British MCV 80 for the Army and the decision to purchase the Challenger tank, as well as Khalid tank order for Jordan.

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Mrs Catherine Bell

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Subject to Sir Keith's views my Secretary of State would propose at the end of this week to instruct officials here to negotiate further with Cummins on contract prices, but at the same time to ask officials to make a final effort with Rolls Royce to encourage them to bring down their prices. A final decision on which engine to procure would be taken in the light of the cost information to be obtained.

I am copying this letter to Mike Pattison (No 10), Richard Tolkien (Treasury), John Wilson (Scottish Office), Andrew Hardman (Employment) and David Wright (Cabinet Office).

Yours

Andrew Hardman

(J D S DAWSON)

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CONFIDENCE

Estimated Cost Comparison - £M at April 1980 prices (VAT exclusive)

<u>Item</u>	<u>Rolls Royce</u>	<u>Cummins</u>	
		<u>US Manufacture</u>	<u>50% UK Content</u>
Initial capital cost installation of validation and production engines (230)	4.850	3.100	3.476
Spare engines (20)	0.437	0.240	0.288
Spares and contract repair (20 year lifetime) - assumed costs	<u>4.850</u>	<u>3.100</u>	<u>3.476</u>
Total lifetime engine costs	10.137	<u>6.440</u>	<u>7.240</u>
		3.697 less	2.897 less

In addition the Cummins engine is significantly more economical, and fuel savings of up to 8%, ie. £1.7m over a 20-year lifetime, are thought possible.

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RP
Defence

10 DOWNING STREET

From the Principal Private Secretary

20 October 1980

Dear Brian,

TANK POLICY

The Prime Minister has seen your Secretary of State's minute of 16 October 1980 about future tank policy.

She agrees generally with the note which Mr. Pym sent with his minute and with the conclusions which he has come to, as set out in paragraph 2 of his minute. She has asked me, however, to stress the importance she attaches to the need to do all we can to achieve a successful collaborative arrangement for our main battle tank for the 1990s.

The Prime Minister is accordingly content for her brief for her forthcoming meeting with Chancellor Schmidt to reflect the general thrust of the note attached to Mr. Pym's minute.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

Yours ever,

Alvi Whitmore.

B.M. Norbury, Esq.,
Ministry of Defence.

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