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PRIME MINISTER

10 July 1985

SDI RESEARCH: UK PARTICIPATION

Our participation is worth a high price and the Americans expect to pay one. They value the quality of our research in the relevant technologies. The political value of our participation will be enhanced by the lukewarm or negative attitudes of other Allies. So we should not undersell our technology, and we should look for a political premium on top of that.

Negotiate Bilaterally, or with Partners?

Michael Heseltine's European approach is misconceived. Co-ordinating European SDI inputs would be difficult enough. Bargaining collectively would be even more difficult, since the Europeans take different attitudes to SDI, have differing contributions to make, do not share our interest in strategic deterrence. If a substantial European collaborative programme in the relevant technologies was already underway, the European approach would be feasible. But this collaboration is minimal. In contrast, our collaborative work with the Americans is extensive.

The multilateral approach also has the disadvantage that it would make it harder for the USA to share technology.

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Resources

There is no proper discussion of resources in the OD paper at all. We must be clearer about the resource implications of SDI participation for MoD. MoD currently spend around £6 million and involve 50 MoD scientists on SDI-related technologies. What kind of commitment would participation lock us into? Rising to £100 million or £300 million? We should approach the matter as a potentially profitable business opportunity, which could reduce, rather than swell the defence budget. We should be realistic about the relevance of these technologies to our own defence. If they were highly relevant, why do MoD devote only 1½% of their research budget (£6 million out of £400 million) to them? MoD might also consider linkage to other procurement areas, like the US Army's choice of Plessey's communication system (Ptarmigan), where we are in competition with the French.

Michael Heseltine needs to think through the procurement and manpower implications of SDI participation. Manpower numbers in the defence establishments have been reduced in line with Civil Service numbers. To exploit the SDI market, there will have to be greater flexibility over defence establishment pay and manpower. However this is achieved, there will certainly be diversion of skilled people away from other work. MoD will not be able to afford to design so much of its own equipment. More off-the-shelf purchasing must be the answer - a development we want to see anyway - in order to

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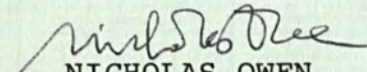
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reduce MoD's costs and pre-emption of the UK's scarce
electronic engineers.

Recommendations

We recommend that you try to secure:

- 1) a businesslike deal, fully reflecting our scientific and
political contributions;
- 2) bilateral negotiation;
- 3) an assessment of the resource implications of
participation, and of the steps MoD must take to cope
with them.


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