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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

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HEALTH OF THE ALLIANCE

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Note by the Secretary of State for Foreign and Commonwealth Affairs
and the Secretary of State for Defence

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When the Committee considered the defence programme in July* it commissioned from us an examination of the scope for putting proposals to Britain's allies for improving burden-sharing and the basic health of the Alliance.

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2. An appraisal of the Alliance today finds, as always, good points and bad. There remains a powerful will towards cohesion; the problem of Greece seems solved; the Long Range Theatre Nuclear Force (LRTNF) scheme is holding together; awareness of the Soviet military build-up remains high. On the other hand, the momentum of the 1978/79 drive symbolised in the Long-Term Defence Programme is flagging. US leadership has been erratic in every sense; South-West Asia is a powerful preoccupation; US relations with the FRG remain defective; and US forces are in patchy condition. Money is short; the readiness of the smaller European countries to take hard decisions and bear a fair share of the burdens is at a low ebb; and the stalled condition of arms control does not help. The Alliance is headed by a Secretary-General clearly over the hill.

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3. On balance, this is a worrying picture, and could become a dangerous one. The search for ways to reverse drift is therefore timely.

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4. We have reviewed five aspects of Alliance affairs - strategic priorities; division of effort, and specialisation; financial shares; organisation and structure; and the problem of France. Brief accounts of these five studies are attached at Annexes A-E. Our conclusions are as follows:

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a. Strategic Priorities. There is no clear basis - and certainly none likely to command general acceptance - for holding that NATO's broad strategic priorities within the formal boundaries are markedly wrong; and the Alliance is now showing rather more awareness of events beyond the North Atlantic area.

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*OD(80)18th Meeting, Item 1.

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b. Division of Effort. With general economic pressures and mounting unit costs driving numbers of weapon systems down, there is little doubt that several Alliance members, including ourselves, will be forced to spread their effort less diversely; and in Alliance terms more specialisation would improve cost-effectiveness. The main difficulty is to organise the process, and in particular to avoid suspicion that the UK aim is either to get out of Germany or to transfer burdens to others. But there are long-term possibilities.

c. Financial Shares. We have a broad case in equity for relief in respect of our efforts in Germany and for a better return for our defence industrial effort. We have also a more clear-cut case, though the absolute sums at issue are modest (perhaps a theoretical maximum of about £17M a year in total) for a lower share of the civil and military budgets, but not of the much larger infrastructure budget. There are also wider possibilities, of potential value to the Alliance as a whole, for changing common financial arrangements. Almost any new scheme will cost the Germans more.

d. Organisation and Structure. The NATO civil and military bureaucracies, in Brussels and elsewhere, need cutting down and shaking up. This would save everyone money, albeit modestly. No single measure stands out as a panacea; and the institutional obstacles are considerable.

e. France. There are some low-profile signs of helpful movement in French attitudes, and we must work to exploit possibilities as they arise. But there is no likelihood of securing major change even after the May 1981 Presidential election.

5. We should be guided now by two British interests: making the Alliance on which our security critically depends more efficient, and getting a fairer deal for Britain within it. The more genuinely we pursue the first of these objectives, the better our chances of achieving the second. To make the second the immediate and primary objective - especially if this were at a time when British defence effort was thought to be flagging - would generate high friction, notably with the Germans, without likelihood of large or early profit.

6. The survey summarised in paragraph 4 suggests broad (and perhaps interrelated) possibilities of Alliance improvement in division of effort; financial shares; and organisation and structure. None of the ideas is however ripe for a direct British initiative, and our motives would be widely suspected. The better course, slower but more realistic and promising, is to stimulate a general Alliance re-appraisal into which we could channel our ideas.

7. The normal NATO machinery is unsuited to such a re-appraisal. But good Alliance use has been made in the past of special high-level commissions - the Three Wise Men exercise of the early 1950s, and the Harmel report of 1966/67. A comparable exercise now would seem timely, especially but not only if it were coupled with a change of

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Secretary-General. We favour seeking to persuade our Allies of the case for setting up now a special study of this kind. There is some evidence that the US may be thinking on similar lines, although doubtless with rather different aims.

8. Details would need careful thought and discussion, covering for example membership, timescale, terms of reference, staff support, status and setting-up (including the problem of French association). Broadly, however, a team might comprise a politician, a diplomat and a military man, nationally balanced. Its precise remit would have to be evolved carefully in discussion. Our own chief concern would be to see it address the most effective use of increasingly stretched Alliance resources in the dangerous world of the 1980s. Discussion of the wider objectives of the Alliance (e.g. in relation to detente) could lead to dissension, but it may prove impracticable to deny the team any scope for restatement of basic Alliance aims.

9. Ideally, such an idea could be launched at the NATO meetings in December. Careful advance preparation would be needed, especially with the Americans and the Germans. The Bonn Summit meeting in mid-November is timely in the latter respect. We could point out to the Germans that a new study could tackle their ideas on Division of Labour. They might also welcome - as we should - an initiative to help head off or pre-empt American ideas, of which hints are audible, of a fresh and awkward initiative on military effort and resource allocation, perhaps going beyond the "3%" theme.

10. We conclude that:

a. the Alliance is entering a difficult era in much need of reinvigoration;

b. the best course would be to institute a wide-ranging Alliance appraisal, at high and independent level, of how to make the Alliance more relevant and cost-effective;

c. Britain's own direct interest in fairer burden-sharing would best be furthered in the context of such an appraisal;

d. we should now work towards securing the agreement of our Allies to initiating a fresh look at the effectiveness of the whole Alliance.

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Foreign and Commonwealth Office

Ministry of Defence

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ANNEX A

STRATEGIC PRIORITIES

1. The main threat to the West remains that posed by the Soviet Union and its Warsaw Pact (WP) allies, and it is growing. Improvements in the WP's military stance have given it an offensive capability in all forms of warfare and broad strategic equivalence with the US. The supply routes and sources of Western raw materials, particularly oil, are becoming increasingly vulnerable to Soviet pressure.

2. No Western European nation can withstand the WP alone and, without the US, a credible Western European defence is not feasible. The US commitment to NATO is therefore fundamental to Western security, but this in turn is dependent on firm European, and in particular FRG and UK, contributions to the Alliance.

3. NATO's strategic aim of security through deterrence at all levels remains valid notwithstanding the Soviet Union's achievement of broad nuclear parity with the US. The doctrine of massive nuclear retaliation gave way to that of flexible response with the Alliance perception that the former was no longer credible. Within flexible response, a concept of forward defence has been adopted in order to signal to the WP that no NATO territory will be conceded without a fight. In its absolute form forward defence applies only in the Central Region where, at the insistence of the FRG, the battleline is drawn at the Inner Germany Border itself. It is vital that the Allies should be able to contain either a surprise

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attack or a more general aggression in Europe for long enough to permit full consultations on recourse to nuclear weapons should that be necessary and also to permit the arrival of transatlantic reinforcement.

4. The first call on Alliance resources must remain the security and territorial integrity of its signatory states and all members devote the majority of their defence resources to this end. At the same time the wider threat, by direct or indirect action, to Western interests and economies and the effects of local instabilities in the Third World must be met with equal resolution. Western counter-measures in the wider world need to be as varied as the threat - ranging from economic and military assistance through routine deployments to military intervention itself. A balance must be struck between what is acceptable to local states and what is necessary to convey a sense of Western resolve to potential aggressors.

5. Only certain NATO countries can make any effective out-of-area defence contribution. In the final analysis, only the US could hope to counter Soviet military action aimed at securing the oil resources of the Gulf area, and Allied contributions must be made more with a view to demonstrating political solidarity than to enhancing US military capabilities. The Spring 1980 DPC communique acknowledged the out-of-area efforts of individual members whilst noting the possible in area consequences. There has been no recent attempt to extend NATO's formal competence

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over such operations and gaps in the NATO area left by the creation of the Rapid Deployment Force must be filled if the basic strategy of deterrence is not to be called into question.

6. NATO must possess adequate forces in both the continental and maritime theatres. The current assessment that, in the worst case, there may be as little as 48 hours warning of Soviet readiness to attack has resulted in more reliance being placed on in-theatre forces and rapid reinforcement than hitherto. Current NATO thinking is to build up stocks of equipment in Europe for US units which will deploy by air on mobilisation. This will buy time for the initial transatlantic sea reinforcements to start arriving in Europe. Substantial progress has already been made, but completion of the proposed programme will need continued pressure from both the US and the European allies.

7. The means required to sustain the Flanks of NATO differ. In the North the Scandinavian countries require rapid and substantial reinforcement in time of crisis. The requirement on the Southern Flank is to improve the current effectiveness of its comparatively larger forces. In peacetime, considerations such as Alliance solidarity must lead to the conclusion that both Flanks are of equal importance. However, should the WP attack, loss of the Northern Flank would have an immediate and crucial impact on the Alliance and the UK Base in particular.

8. In broad terms, the UK's particular interests lie in the maintenance of a buffer of allied nations as far east in Europe as possible, a secure home base and secure sea lanes of communication with the US. To these must be added

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UK national worldwide commitments and trading interests.

9. UK strategy must conform with that of the Alliance. This has resulted in a UK defence posture based on four main pillars: an independent strategic nuclear force, the security of the UK Base, a contribution to the land/air forces in the Central Region and a contribution to the sea/air forces in the Eastern Atlantic/Channel. There is no military justification for the UK doing less in any area, indeed quite the reverse.

10. In summary, the events of the last year have caused the Alliance to develop a greater awareness of the need to respond to pressures outside its boundaries. Nevertheless, there are no grounds at present for altering NATO's existing broad strategic priorities. The UK should continue to pursue its defence objective through its contribution to NATO. The Alliance's strategy of deterrence through flexible response and forward defence remains valid and must be supported by member states. There is no viable defence strategy for the UK other than in an alliance which commits the US to the defence of Western Europe.

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ANNEX B

DIVISION OF EFFORT

1. The growing Soviet threat coupled with increasing pressure on defence budgets in all NATO countries means that cost-effective resource allocation is even more vital if a credible deterrent is to be maintained. One approach to the problem would be through greater specialisation of defence tasks, with each nation concentrating on force contributions most appropriate to itself and most valuable to NATO's collective defences. It makes less and less economic sense for each nation to maintain a full range of capabilities.
2. Some specialisation already exists within the Alliance; for example, only the US and UK make a strategic nuclear contribution. There are, however, substantial obstacles to further progress, which derive primarily from perceptions of national including industrial interests. Earlier NATO studies (in the mid-1970s) foundered despite US pressure. Although the obstacles should not be under-rated, there are some signs that the Alliance may now be more receptive to the idea. Following the Soviet invasion of Afghanistan, the US have advocated what amounts to a division of effort, with the European allies doing more to take up the slack in Europe. The FRG have advanced their notion of Arbeitsteilung, though with no clear indication of what is meant beyond reference to their own efforts to assist Turkey and the expansion of their naval deployments into the North Atlantic.
3. Experience strongly suggests that attempts to foist a complex or ready-made blue print on our Allies would be counter-productive and that success is most likely to be achieved through the adoption of a pragmatic approach in self-contained,

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achievable areas. However, an overall philosophy would be needed as a framework for such steps. We should not expect too much too soon and progress would be likely to depend on the ability to identify trade-offs in the short-term, although major readjustments would probably only be possible at a time when important decisions on re-equipment or in the support area were due.

4. One possible approach which could be considered would be a concept under which the FRG and the UK provided the basic "framework" for European land/air and maritime efforts respectively. This would not be meant to involve any significant diminution of commitments, but might lead to the provision by one country of the "framework" into which other national contributions, perhaps of more specialised types not necessarily internally balanced, would be channelled in a rational way. It might involve, for example, increased provision of host nation assistance by the FRG in return for maritime support facilities (training, work-up or basing arrangements) by the UK. It would, of course, require a careful presentation of the relative advantages for this idea to be found attractive by the FRG; and an awareness of the sensitivity of other allies and the Soviet Union to any perceived increase in FRG strength and influence. Initially the tasks which the UK could give up under any such arrangement would be limited, though we might in time avoid replacing certain small capabilities. However, further areas for

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specialisation might eventually emerge. The gradual growth of such a concept would imply greater use of multinational forces, similar to STANAVFORLANT, and acceptance by smaller nations of the need to concentrate on a narrower range of capabilities.

5. There is a clear danger that other nations would perceive any specialisation initiative as a cover for UK defence reductions. Careful presentation of our ideas and discussions in advance with the FRG and the US are therefore essential.

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ANNEX C

THE UK SHARE OF NATO COMMON FUNDING

Present Arrangements

1. The existing schemes for NATO common funding are the Infrastructure, Military and Civil Budgets. Nations pay fixed proportionate shares. The formulae have not been fundamentally revised for some twenty-five years, save that since France's withdrawal from the integrated military structure there have been different formulae for those aspects of the infrastructure and military budgets in which France takes part and those in which she does not. The references to these budgets below refer to the formulae without France.
2. The Infrastructure programme finances certain classes of capital facilities and installations. Nations have agreed to commit £2,150M for the 1980-84 period. The UK share, at 12%, will average some £50M per year.
3. The Military Budget meets the running costs of NATO military headquarters and agencies, and the Civil Budget those of the NATO HQ in Brussels and other non-military activities. Our share of the Military Budget, at 22%, will cost Defence Votes some £27M this year; that of the Civil Budget (which falls to FCO Votes) is 19.5%, and will cost some £6M.
4. The US infrastructure share is artificially low, at 27%. It seems unrealistic however to expect change here. Given this, our own share is not out of line with GDP

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relativities; the FRG pays 26%.

5. The position on the Military and Civil Budgets is different. The FRG pays respectively 19.4 and 16.1% against our 22 and 19.5. If the US shares (30.2 and 24.2) were again taken as fixed and others were set proportionately to GDP, our proportions would become 12.6 and 11.2. For budgets at today's levels, the total annual saving to the UK if such figures could be negotiated would be some £17M.

Improvements in Funding

6. One approach to improving the UK position might be to build on existing schemes and alter their nature and size. The two main such ideas are:

(a) Host Nation Support

This would seek to extend to peacetime current obligations to provide certain support in tension and war, and could include remission of charges for social security and utilities and the provision of services currently the responsibility of the sending nation such as labour and barracks or hirings. Any scheme would need to be multi-lateral to avoid the stigma of offset. Even then, the Germans would be the main contributors (to US costs even more than to ours).

(b) Common Defence Fund

This scheme would brigade together the infrastructure, military and civil budgets. We could aim, within this, to end the UK's anomalous share of the latter

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two. The concept would also bring more flexibility in resource application at the expense for example of NATO bureaucracies. One might consider in a second stage expanding the scope of common funding to include major new areas of activity common to the Alliance. Action on these general lines would emphasise the common interests of the Alliance.

Schemes for Wider Change

7. Other possible schemes might go beyond the adjustment of current common funding arrangements and seek to equalise financial burdens more broadly within the Alliance. The two main schemes identified are:

(a) Equifund

This concept - not new - starts from the basis that the balance of payments gains and losses on defence account are arbitrary and accidental. The central idea is of a common fund into which balance of payments "gainers" would pay and from which balance of payments "losers" would draw. Stationing costs and equipment transactions would be included. Its main conceptual drawback is that it inevitably entails budgetary payments to meet a largely non-budgetary (i.e. foreign-exchange) problem. Its main political obstacle is that it would entail large payments by the FRG.

(b) "Ressources Propres"

This concept would seek to break away from common

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funds of a size whose total size needed constant fresh negotiation and whose national inputs were fixed in proportions that readily became outdated. The idea would be to levy on each member, for a common fund, an amount expressed as a proportion of some continuing measure of ability to pay - for example, a small fixed percentage of GDP annually. The monies might be applied either to the existing purposes of the NATO common funds or to revised or expanded purposes.

8. The different ideas reviewed above could be combined in various ways.

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ANNEX D

ORGANISATION AND STRUCTURE

1. The organisation and structure of NATO reflects many of the realities of Alliance life, including its long-established character as an association of independent sovereign states. During this time it has inevitably developed an entrenched bureaucracy, both military and civilian, though this has not excluded an ability to adapt, for example, to changes of membership or strategy. There have also been periodic investigations of Alliance aims, as in 1956 with the report of a Committee of Three Ministers (The Three Wise Men) on the extent of political consultation and the Harmel Report in 1967. During the last ten years, however, there has been little substantive change.
2. Besides its fundamental importance to European security, the Alliance as an organisation has achieved much in practical terms especially through its infrastructure and other common programmes. It has done this despite its unanimity rule, which, however, also has its penalties when applied, as it is, to all formal decision-making. Other national characteristics (eg US dominance, UK's traditionally strong role and the FRG wish to see its influence match its weight) also play a part; for example in the need to ensure an acceptable spread of senior posts between member countries. The long service and entrenched interests of some of the staff are also factors militating against change, but in any case it will not be possible to promote any major changes in organisation in advance of the appointment of a younger and more flexible Secretary

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General. A new tone needs to be set which will be conducive to the introduction of new procedures.

3. It is unlikely that fundamental changes in Alliance organisation could be achieved and, if they involved limits on national freedom of decision, it is not certain whether they would be desirable. However, areas can be identified where efficiency might well be improved. For example, longer term planning work, already begun in the Alliance, would help national planning; there is scope for improved arrangements for the coordination of defence planning; better organisation of Ministerial meetings and of the work at Permanent Representative level might lead to more fruitful political consultation and speedier transaction of regular business; the relationship between the civil and military sides of NATO might usefully be re-examined to see whether an amalgamation of International Civil and Military Staffs would be advantageous; the Committee structure could be rationalised and, in particular, the number of equipment collaboration fora reviewed. Work on cutting staff in NATO HQ already begun should be continued and we should ensure that UK nominations to key posts are of a high quality.

4. There are in short areas where useful reform seems possible, but sensitive handling would be needed and there would be a greater chance of progress with a new Secretary General.

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ANNEX E

FRANCE

1. Despite some changes under President Giscard, France's independent foreign policy remains in some ways far removed from the realities of the security situation in Europe. A closer military relationship between France and NATO, though entailing the frustrations inseparable from any close cooperation with France, would strengthen the Alliance, both politically and militarily.
2. French defence policy has deep roots in France's view of its place in the world and in French domestic politics. It reflects a hard-headed assessment of French interests, particularly in the emphasis given to maintaining a presence in France's former African empire and to the interests of French defence industry. Its credibility has, however, been somewhat dented by the end of unquestioned US nuclear superiority and the increasing unreality of the idea that France could guarantee its immunity in a European conflict involving the rest of NATO. Moreover, her ambitious nuclear programme puts a growing strain on her defence resources. Some continuing evolution in French defence policy is therefore likely, though we see no prospect of France's return to NATO's integrated military structure in the foreseeable future.
3. France's attitude tends to inhibit the development of improved methods for political consultation within the Alliance and her absence from the military structure increases considerably the complications of defence

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management on an Alliance basis.

Conclusion

4. Although there is no scope for an early initiative, it would suit us if France were to move closer to the Alliance, and the best we can realistically hope for is a gradual convergence over many years between France and NATO, both in terms of practical cooperation and of policy. We have, however, to recognise that there is a strict limit to the extent to which such convergence can be achieved as long as France remains outside the integrated military structure. France's special position within the Alliance will always cause problems for her allies. But we shall have to guard against the extension of exclusive Franco-German cooperation into the defence field.

5. We can contribute to these objectives by:

- (a) encouraging where possible those trends in French defence policy which tend towards convergence with NATO doctrine and so make practical military cooperation between France and NATO easier;
- (b) in connection with (a), undertaking a long and patient process designed to deepen our discussion with the French on nuclear matters;
- (c) also as part of (a), deepening our existing discussions with the French on other issues where we share interests. These include nuclear arms control, a field in which, as in nuclear defence, we have special reasons for closeness to the French,

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and military activities outside the NATO area. We have already made a start with both of these;

- (d) developing our relations with the FRG on defence matters, in parallel with our efforts with the French. Close relations with the FRG - particularly in the industrial field - will enhance our attractiveness to the French;
- (e) exploiting to the maximum the scope for defence equipment cooperation with France, both bilaterally and trilaterally with Germany;
- (f) contributing in every way possible to the improvement of US-FRG understanding, and so to an overall relaxation of transatlantic tensions in NATO. US-FRG friction does more than anything else to promote displays of a Franco-German 'special relationship' in defence;
- (g) developing a realistic defence programme of our own, sustainable over the ten or fifteen years' lifespan of major defence projects. Nothing does more damage to our standing with prospective collaborative partners than uncertainty as to whether we have the will or the means to see projects through to completion.

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