

SECRET AND PERSONAL



10 DOWNING STREET

From the Principal Private Secretary

19 May 1981

Dear Brian,

DEFENCE PROGRAMME

The Prime Minister held a meeting yesterday with the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry and your Secretary of State to discuss, on the basis of the papers provided by Mr Nott, the future shape of the defence programme. Sir Robert Armstrong was also present.

The Defence Secretary said that the defence programme needed to be revised for two reasons. First, our operational capability was deteriorating: the development of military technology demanded changes in our operational priorities and thus in our investment and deployment. Second, the defence programme was bigger than any feasible defence budget could sustain. The process of reshaping the defence programme would require difficult political decisions but we should not seek reasons to defer these. In particular, we should not use the current PESC exercise on which the Government as a whole had just launched, as an excuse for deferring decisions on the defence programme until the late autumn of this year. Decisions had to be taken in the coming weeks on a number of individual equipment programmes which totalled £2 billion in value over the next ten years, but these could not be sensibly reached without a view first being taken on the totality of the future programme.

Although moving the defence programme in a new direction was going to be difficult, many benefits would result. In the case of the Army we should go ahead with a reduction from four divisions to three in BAOR. This would remove a Divisional Headquarters and associated support staff but would strengthen the front line. The size of BAOR would come down to 55,000 but we should still be able to meet our Brussels Treaty commitment. These changes had effectively been agreed by SACEUR already. More generally, the Regular Army as a whole would be reduced by about 5,000 men, but he proposed to increase the size of the Territorial Army, a development which would be popular in the House of Commons and with the Conservative Party. Moreover, most of the Army equipment programme would be unchanged. Similarly, he did not propose many fundamental changes in the size and capability of the Royal Air Force, and he recommended that we should go ahead with the AV8B and JP233 programmes. It was

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on the programme for the Royal Navy that most of the changes were likely to fall and the nub of the matter was how many destroyers and frigates were maintained. He believed that we should increasingly concentrate our effort in the Atlantic on nuclear submarines and Nimrod maritime patrol aircraft and move away from expensive ships to cheaper ones like the Type 23 frigate. He thought that he would be able to carry the allies and the United States Defence Secretary personally on this adjustment to our surface fleet. We should in any case still have, under his proposals, two ASW carriers for out of area operations.

/make To bring about this reshaping of the programme and to accommodate the cost of Trident it was essential that the defence budget figures published in the last Public Expenditure White Paper (Cmd 8175) should be carried forward with a 3 per cent per annum increase until 1987/88, thus taking account of the newly agreed NATO "roll forward", and that in addition some £600 million should be provided to cover the period up to 1984/85. He had almost no room for manoeuvre over the next three years and he could not bring the defence programme under control and give it fresh direction without the resources he was asking for. It was clear from this that it would not/sense to include the defence budget in the 3%/5%/7½% options exercise with which the present PESC exercise was beginning. He recognised that he was faced with a major political task but he believed that he could bring it off provided he was granted the resources he was seeking and his colleagues supported him in the decisions that would need to be taken.

The Foreign and Commonwealth Secretary said that the Defence Secretary's papers brought out the facts starkly: the cost of the defence programme exceeded any likely defence budget, and difficult decisions had to be taken therefore to bring the programme and budget into line. This would require some hard thinking about our priorities as a nation, and we should have to decide which measures to reduce the existing defence programme would do least damage both in terms of the military strategy and politically at home and in the Alliance. For his part, he accepted the Defence Secretary's analysis which led to the conclusion that the Navy's programme would have to be adjusted more than those of the Army and RAF. It had been apparent for a long time that SACLANT was planning to fight a much longer conventional war than SACEUR who was assuming that conventional hostilities would last a comparatively short time before the decision to use nuclear weapons. It seemed to him that SACEUR's approach was the more realistic. From a domestic point of view it would no doubt be more attractive to reduce the size of BAOR than to cut the surface fleet but this would be politically disastrous. It was not an exaggeration to say that a substantial run-down of BAOR would pull a keystone out of the fabric of NATO and might well lead to the collapse of the Alliance. None-the-less we should not minimise the problems that would arise from a large reduction in the surface fleet: this would be an emotive issue in the country at large and it was likely to cause great trouble inside the Conservative Party, unless it was handled with enormous care. In particular there was likely to be a campaign to cancel Trident if there was any suggestion that

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this programme was being retained at the expense of the conventional navy. In any case there were clear limits to reductions in the size of the surface fleet. The purpose of much of our defence capability today was more political than military. In ordinary peace time circumstances it was, for example, more important to have surface ships capable of worldwide deployment than to have nuclear powered hunter-killer submarines. The French had a large number of ships off Djibouti and even though many of them were old vessels, they had gained a good deal of political credibility in the present conditions in South West Asia simply by having them there. But having said that, he repeated that he supported the broad thrust of the Defence Secretary's proposals. He believed that if we told the Americans we had to choose between cutting Trident, BAOR and our conventional maritime capability in the Eastern Atlantic in order to bring the defence programme into line with the available resources, they would want us to make the greater part of the reductions in the Eastern Atlantic. They would want us to keep Trident because they would not wish to see France as the only country in Europe with a nuclear deterrent.

The Chancellor of the Exchequer said that he fully understood the fundamental and daunting task of bringing the defence programme under control. He also acknowledged the difficulty of postponing decisions until November. None-the-less, the issues had to be considered in the wider context of public expenditure and revenue programmes as a whole. The tables and graphs which he had given his colleagues brought out the demands the defence programme already made on the totality of public expenditure. In particular the table at Annex E showed how deeply other programmes would have to be cut if the defence programme, together with provision for law and order, health and retirement pensions, was exempted from further reductions in total public spending. But the position was made yet worse by the other outstanding demands for additional expenditure over and above the existing PES provision for other programmes, particularly the nationalised industries. As his colleagues knew, he was now faced with bids for additional money for the coal industry and British Telecommunications. He was anxious to avoid committing the Government now to a path of defence expenditure that would make it inevitable that the defence programme would have to be cut yet again in two years' time. That would be damaging enough in itself, but in the meantime there would have to be enormous cuts in other programmes - which were already under great pressure - to accommodate the increases in the defence budget. For these reasons he was unable to go along there and then with the Defence Secretary's proposal that the defence budget should be carried forward from the Cmd 8175 levels with an increase of 3 per cent per annum until 1987/88 and that on top of this an additional £600m. should be provided for the period up to 1984/85. This was a major issue which could be decided only by Cabinet as a whole. He recognised that this could not wait until November, but by July the broad picture of public expenditure as a whole would be beginning to emerge and he believed that decisions on the defence programme should be held over until then.

/Sir Keith Joseph

Sir Keith Joseph said that he would discuss separately with Mr. Nott the detailed industrial implications of his proposals. But there were two points he wished to raise now. First, it was vital that when we bought equipment abroad, we used our negotiating powers to the full to secure offset and to manufacture as much as possible under licence in this country. Second, he would be grateful if the Defence Secretary would confirm that the prospectus on which shares in British Aerospace had been sold was not affected by the proposed cancellation of AST 403.

The Defence Secretary said that he was confident BAe's prospectus was not invalidated by the decision to cancel AST 403 but he would none-the-less have Sir Keith Joseph's point checked. Elsewhere in the industrial field, if he could find the resources for a Type 23 frigate programme, this would help British Shipbuilders. He accepted in general what the Chancellor of the Exchequer had said about the relationship of defence expenditure to public expenditure and revenue programmes as a whole, but he believed that if the defence programme was not changed in the way he was proposing, in the end he would need much more money than he was now seeking. The figures contained in his papers were for Trident I. Negotiations were now under way with the Americans to see whether we could switch to Trident II. If that were possible, expenditure would be pushed forward, but we should still not know by July, when decisions on his proposals would have to be taken, whether we could go for Trident II. He would bring a full paper about Trident II to his colleagues as soon as possible.

The Prime Minister, summing up the discussion, said that it was essential that the Government stood firm on its decision to acquire Trident: it was the ultimate safeguard of our national position. More generally, they were grateful to the Defence Secretary for carrying out such a fundamental review of the options for the defence programme. This provided the only way of getting defence expenditure under control for the future. If the defence programme was not adjusted broadly on the lines proposed by the Defence Secretary, there would have to be much more severe reductions later. Their meeting had been only a preliminary one and they had not taken any decisions. The Defence Secretary should now bring his proposals for reshaping the defence programme to a meeting of OD to be held in early June. Thereafter the matter should be put to Cabinet. In the meantime it would be important to make clear in the defence debate due to begin the following day that there was no question of defence expenditure being cut from the levels published in Cmd 8175 but that, on the contrary, what was under discussion, even though no decisions had yet been taken, was how best to allocate the steadily increasing defence budget.

I am sending copies of this letter to John Halliday (Home Office), George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Ian Ellison (Department of Industry) and David Wright (Cabinet Office). I need hardly emphasise the sensitive nature of this letter and I shall be grateful if you and they would restrict its circulation to the absolute minimum.

Yours ever,

Heri Whinn.