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FM WASHINGTON 041955Z JUN 81
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TELEGRAM NUMBER 1721 OF 4 JUNE 1981

UK DEFENCE REVIEW AND UK/USA RELATIONS

1. AFTER THE HIGH-POINT REACHED DURING THE PRIME MINISTER'S AND YOUR VISIT IN FEBRUARY THE UK'S STOCK HAS BEEN DECLINING HERE. EVEN AMONGST THOSE WHO UNDERSTAND OUR DIFFICULTIES OVER IRELAND AND ARE SYMPATHETIC TO OUR POLICIES, THERE IS AN UNEASY FEELING THAT ULSTER IS A RUNNING SORE WHICH IS WEAKENING THE UK, MUCH AS THE ALGERIAN PROBLEM WEAKENED FRANCE. REPORTS OF THE GROWTH OF NEUTRALIST TENDENCIES IN THE LABOUR PARTY HAVE ATTRACTED SOME ATTENTION AND ARE CREATING DISQUIET ABOUT THE LONG-TERM FUTURE. THE ECONOMY IS WIDELY SEEN AS BEING IN PERSISTENT DIFFICULTY BECAUSE OF STEADILY RISING UNEMPLOYMENT AND DECLINING INDUSTRIAL PRODUCTION, ALTHOUGH THE PICTURE HERE IS NOT UNIFORMLY BAD: FAVOURABLE ITEMS OF NEWS ABOUT THE INFLATION RATE AND IMPROVED BUSINESS CONFIDENCE ALSO COMMAND ATTENTION.

2. IT IS AGAINST THIS BACKGROUND THAT I SHOULD RECORD THE CONCERN HERE ABOUT THE PRESS STORIES AND RUMOURS OF CUTS IN THE BRITISH DEFENCE EFFORT. WE ARE DOING WHAT WE CAN TO CORRECT MISUNDERSTANDINGS (EMPHASISING FOR INSTANCE THAT WE ARE STICKING TO THE THREE PER CENT INCREASE IN REAL DEFENCE EXPENDITURE AND THAT WE SPEND A LARGER PROPORTION OF GDP ON DEFENCE THAN EITHER FRANCE OR THE FRG). BUT I CANNOT PRETEND THAT THERE IS NOT APPREHENSION ABOUT WHAT MAY LIE AHEAD. OUR CHANCES OF DOING BETTER ON DEFENCE SALES TO THE USA MAY BE IMPAIRED BY THE UNCERTAINTY OVER OUR DEFENCE PROGRAMME.

3. I REALISE THE ECONOMIC CONSTRAINTS, THE APPALLING RISING COST OF MODERN WEAPONS AND THE NEED TO CONDUCT A THOROUGH-GOING REVIEW; BUT I SHOULD LIKE TO SUGGEST THAT WHEN DECISIONS COME TO BE TAKEN, THE FOLLOWING ELEMENTS SHOULD BE TAKEN INTO ACCOUNT IN STRIKING ANY BALANCE AND IN PRESENTATION:

(1) WE HAVE UNTIL NOW BEEN GAINING CREDIT IN THE USA ON DEFENCE - TO SUCH AN EXTENT THAT THIS HAS CLEARLY IRKED HELMUT SCHMIDT. ANY DECISIONS THAT INVOLVE IMPORTANT CURTAILMENTS OF OUR VISIBLE DEFENCE CAPABILITY (EVEN IF EXPENDITURE HAS INCREASED) WILL BE MEASURED AGAINST THE PROMISE THAT WE HAVE SEEMED TO BE SHOWING AND AGAINST THE ENORMOUS INCREASE IN DEFENCE THAT THE U S ITSELF WILL BE MAKING.

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(II) I DO NOT OF COURSE KNOW WHAT THE DECISIONS MAY BE AS REGARDS NAVAL FORCES BUT A REDUCTION ON ANYTHING LIKE THE SCALE CANVASSED IN THE BRITISH PRESS RECENTLY WOULD BE SEEN AS A GRAVE MATTER HERE. IT WOULD IN PARTICULAR BE CONTRASTED WITH THE U S AIM TO INCREASE THEIR FLEET FROM 450 TO 600 SHIPS IN THE COMING YEARS. INDEED, THE AMERICANS WOULD CERTAINLY SUFFER A SHOCK FROM ANY IMPORTANT REDUCTION IN THE BRITISH NAVY, SO CRUCIAL FOR THE SUPPORT OF OUR WIDE INTERESTS AND FOREIGN POLICY AND WHICH FOR SO LONG HAS CONTRIBUTED TO AMERICAN AS WELL AS TO BRITISH SECURITY. THE NAVY IS SOMETHING THAT WE HAVE OF A SIZE AND QUALITY THAT NO OTHER ALLY POSSESSES AND, WITH THE SOVIETS INCREASING THEIR FLEET TO SUCH AN EXTENT, THE AMERICANS WOULD SEE ANY BRITISH CURTAILMENT AS A REDUCTION OF THE BACKING FOR FOREIGN AND FOR DEFENCE POLICY.

(III) WE MUST CERTAINLY BE AWARE OF THE POSSIBLE IMPACT ON OUR INFLUENCE AND ROLE IN FOREIGN POLICY. WE CARRY MUCH MORE WEIGHT IN THE COUNSELS OF WASHINGTON THAN OUR MILITARY POWER JUSTIFIES, BUT THERE IS A LIMIT TO THE DISCREPANCY.

(IV) THE NEGATIVE CONSEQUENCES HERE OF ANY REDUCTION IN DEFENCE CAPABILITY MIGHT TO SOME EXTENT BE OFFSET IF THEY COULD BE SHOWN TO BE LEADING TO GREATER FLEXIBILITY IN THE DEPLOYMENT OF BRITISH FORCES FOR THE WORLDWIDE NEEDS OF THE ALLIANCE. IF, FOR INSTANCE, OUR NAVAL PRESENCE IN THE INDIAN OCEAN COULD BE ENHANCED OR MADE MORE PERMANENT, OR IF WE COULD DEMONSTRATE A GREATER OUT-OF-AREA INTERVENTION CAPABILITY IN SUPPORT OF OUR ALLIES LIKE THAT INDICATED IN THE LAST TWO BRITISH DEFENCE WHITE PAPERS AND IN THE DEFENCE SECRETARY'S REMARKS AT THE ARK ROYAL LAUNCHING ON 2 JUNE, THIS WOULD CERTAINLY GO SOME WAY TO MAKE UP FOR ANY ABSOLUTE REDUCTION IN NUMBERS.

HENDERSON

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PS/PUS
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MR URE
SIR A ACLAND
MR GILLMORE

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