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CC(81) 24th
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 18 JUNE 1981

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster and
Paymaster General

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

SECRET

The Rt Hon Norman Fowler MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 2 and 3)
Mr R L Wade-Gery (Items 2-4)
Mr R M Hastie-Smith (Item 4)
Mr W N Hyde (Item 1)
Mr L J Harris (Item 1)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

FOREIGN
AFFAIRS

Afghanistan

Previous
Reference:
CC(81) 4th
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government were in process of launching a new initiative on Afghanistan. The initiative had the support of Britain's European Community partners in political co-operation, and it was intended that it should be publicly launched at the meeting of the European Council at the end of June.

Arab/Israel

Previous
Reference:
CC(81) 22nd
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that following the Israeli attack on Iraq's nuclear reactors there had been intense activity at the United Nations, where a crucial vote was likely to be taken later that day. The Iraqis wanted a resolution which did more than merely condemn Israel, but too extreme a draft would attract an American veto, and in some circumstances it might even be impossible to avoid a British veto. The situation was a delicate one for the Western powers and there was a real danger of alienating Arab opinion. He would be consulting the Prime Minister further on how Britain should vote. Meanwhile the Prime Minister of Israel, Mr Begin, had renewed his threats to destroy Syrian missile sites in Lebanon unless they were dismantled.

Iran

Previous
Reference:
CC(81) 22nd
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the internal situation in Iran was very disquieting. There appeared to be no future for President Bani-Sadr, who for all his faults was a comparatively moderate man. The Ayatollah Beheshti, who was likely to emerge as the country's real ruler, was an extreme fanatic in the mould of Colonel Qadhafi of Libya. He was an Islamic fundamentalist, not a Communist; but the fundamentalist regime was likely in due course to provoke its own downfall and might well then be replaced by the extreme Left.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Sheepmeat

Previous

Reference:

CC(81) 20th

Conclusions,

Minute 2

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the meeting of the Council of Ministers (Agriculture) on 15 June, the French Government, with German support, had continued to resist changes in the clawback arrangements on exports of sheepmeat which had formed part of this year's price package. He had therefore maintained a reserve on other elements of that package. He was continuing to press the Commission to find a suitable solution.

Joint Council
of Finance,
Economic and
Employment
Ministers

THE CHANCELLOR OF THE EXCHEQUER said that the Joint Council of Finance, Economic and Employment Ministers on 11 June had passed off without difficulty. Although the Belgians had shown some interest in holding another Joint Council, no such meeting would take place during the British Presidency.

Previous

Reference:

CC(81) 21st

Conclusions,

Minute 3

THE CHANCELLOR OF THE EXCHEQUER reported that discussion at the Council of Ministers (ECOFIN) on 15 June on the problem of United States interest rates had been reasonably harmonious. A sensible line had been agreed which the Prime Minister would be able to put to the United States Government at the forthcoming Ottawa Summit meeting. The Council had also made useful progress on the Directive on Non-life Insurance Services and there now seemed a prospect that agreement could be reached during the British Presidency.

Council of
Economics
and Finance
Ministers

Previous

Reference:

CC(81) 12th

Conclusions,

Minute 3

The Cabinet -

Took note.

THE DEFENCE
PROGRAMME

Previous
Reference:
CC(81) 12th
Conclusions,
Minute 5

4. The Cabinet considered memoranda by the Secretary of State for Defence (C(81) 31) and the Chancellor of the Exchequer (C(81) 33) about the future defence programme and the financial basis on which it should be planned.

THE SECRETARY OF STATE FOR DEFENCE said that the basic problem underlying his proposals was the fact that peace was becoming more and more expensive to maintain. The present defence programme was over-ambitious in relation to the resources available. There was an immediate problem in relation to the level of current expenditure which would probably exceed the existing cash limit if drastic action was not taken to curb it. It would be necessary to impose a system of cash rationing on defence industries. He could not accommodate increases in armed forces' pay within cash limits; either the cash limits would have to be adjusted or the Government's commitment on armed forces' pay would have to be modified. There were more serious problems in the longer term. It was unrealistic to believe that the resources available for defence could be significantly increased beyond the 3 per cent growth in real terms to which the Government was already committed. It was therefore necessary to make major changes to future plans in the defence programme. Priority was accorded in his proposals to the preservation of the Trident programme, various weapon projects and building up combat stocks, particularly in Germany where a dangerous lowering of the nuclear threshold had taken place. It would be necessary to come out of the military aircraft business after the completion of the Tornado programme and to relinquish such important projects as the British heavyweight torpedo replacement programme. So far as possible projects involving high technology would be preserved but many equipment projects would have to be cut. In regard to the future force structure, his preferred proposals would involve reducing the British Army of the Rhine (BAOR) from four divisions to three, without a reduction of front-line effectives, and cutting regular manpower by up to 10,000 men. Any further reductions in this direction would in his judgment place the cohesion of the Alliance at risk. The defence of the United Kingdom had been neglected in the past and some additions were necessary in this area. His proposals therefore included running on the Phantom aircraft, diverting Tornados to air defence, increasing the capability for protective mining and enlarging the Territorial Army (which would be a popular measure among the Government's supporters). The main brunt of the cuts would fall on the Royal Navy, particularly the surface fleet and its logistic support. Chatham Dockyard would be closed and Portsmouth run down to a reserve role. It would be necessary to give further thought to the future of Gibraltar Dockyard in the light of the arguments put forward by the Foreign and Commonwealth Secretary in correspondence. In their present form the proposals would involve reducing the surface fleet by some 20 hulls and declaring redundancies among Army and Naval manpower. It might be possible, at some slight extra cost,

to reduce the severity of these measures by putting some older frigates into reserve and achieving the rundown in manpower by natural wastage. In the immediate future there was no room whatever in the programme for manoeuvre and it would be impossible to accept a further squeeze on the volume of the programme during the process of translating it into cash terms. It would be difficult, but he believed possible, to persuade Allies and the Government supporters to accept the changes to the future programme implied in his Defence Line (II); these, in his judgment, would actually represent an improvement in this country's military effectiveness. He could see no possibility of securing acceptance of the changes implied by the Chancellor of the Exchequer's proposals.

THE CHANCELLOR OF THE EXCHEQUER said that he supported the general approach of the Secretary of State for Defence's review, but its proposed future level of expenditure on defence was more than the country could afford. Despite the high priority accorded by the Government to its defence programme, it was on this year's budget proposals that the Government had come closest to defeat so far in the House of Commons. Britain was spending 5.2 per cent of Gross Domestic Product on defence, which was already more than either France or West Germany; the Secretary of State for Defence's proposals would raise this level to nearly 6 per cent. It was not realistic in economic or political terms to plan at this stage for continuing major increases in defence expenditure to or beyond the mid-1980s, and to do so was not even in the interests of the defence programme, as a need for further radical reviews would undoubtedly arise. It would be preferable for the 3 per cent growth in real terms not to be extended beyond 1983-84; if the Cabinet considered that such an extension should be made, the cost of it would have to be met from other programmes.

In discussion there was general agreement with the broad shape of the proposals contained in C(81) 31 and summarised in Defence Line (II) in Annex A to that memorandum. These proposals might just be saleable to the Government's supporters and to Britain's Allies. There would be no possibility of selling the more severe proposals which must inevitably flow from the Chancellor of the Exchequer's alternative financial basis. Even so there was likely to be considerable opposition among the supporters of the Government, either on general defence grounds or because the proposals created particular constituency difficulties.

The following were among the main points made in the course of the discussion -

SECRET

- a. It was regrettable but inevitable that the timing of the decisions which the Cabinet was asked to take made it impossible to relate the implications of the proposals to their possible impact on other public expenditure programmes.
- b. The proposals before the Cabinet would certainly increase the pressure upon the Government to abandon the Trident programme.
- c. The political presentation of the proposals would be eased if it could be shown that they were supported by professional military advice, that the resultant programme would represent an improvement of military effectiveness, and if redundancies (as opposed to wastage) in Service manpower could be avoided.
- d. In the process of consulting Allies it would be desirable if the Supreme Allied Commander Europe (SACEUR) and Supreme Allied Commander Atlantic (SACLANT) could be consulted, as their views would be influential.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the highest priority must be given to the defence programme, and accepted that that entailed lower priority to other expenditure programmes. The Government was not entitled to commit itself to figures for the defence programme beyond 1985-86. With this qualification the Cabinet approved the general thrust of the Secretary of State for Defence's proposals as set out in C(81) 31, including the second resource option as set out in Annex A and Appendix J, and endorsed the figures up to and including 1985-86, as a basis for consultation with Allies. So far as possible the Secretary of State for Defence should implement his proposals to reduce the size of the armed services without declaring redundancies in Service manpower. Like every other programme the defence programme should be expressed in cash terms, not in volume terms. The Cabinet agreed that there should be a realistic translation of the defence programme up to 1985-86 from volume to cash terms; but in taking account of relative price effects for defence expenditure it would be important not to countenance excessive increases in overhead rates and wages of the kind which some defence contractors had recently been seeking to apply. The cash figures for defence, like those for other programmes, would be for review and final settlement at the conclusion of the current Public Expenditure Survey. There were a number of points of detail which the Secretary of State for Defence would need to discuss bilaterally with colleagues. Unless offsetting savings could be found for any proposals which, after discussion, remained unacceptable to the particular colleague concerned, the matter should be referred to the Defence and Oversea

Policy Committee for resolution. It was important that there should be no public disclosure of the conclusions reached by the Cabinet until the Secretary of State for Defence had completed his consultation with Allies and made a statement to Parliament.

The Cabinet -

1. Authorised the Secretary of State for Defence to enter into consultations with Allies on the basis of the broad thrust of his proposals as set out in C(81) 31, and of the resource line set out as Defence Line (II) in Annex A and Appendix J to C(81) 31 up to and including 1985-86.
2. Recognised and accepted the implications that these conclusions in relation to the defence programme would have for subsequent decisions on reductions in other fields of public expenditure.
3. Invited the Secretary of State for Defence -
 - i. To discuss points of detail arising from his proposals bilaterally with colleagues and to bring these issues to the Defence and Overseas Policy Committee or find alternative savings if they could not be resolved.
 - ii. To prepare drafts of an announcement to Parliament and of supporting documentation, for agreement with the Ministers concerned.

Cabinet Office

18 June 1981