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OD(80)49

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

THE DEFENCE PROGRAMME

Note by the Secretary of State for Defence

I have now examined what adjustments should be made to the defence programme in the light of my earlier report to the Committee (in OD(80)26) that the then estimated cost of the planned programme was 5-7% higher than the PESC allocations. I have looked at the programme on the assumption that, as we have always maintained to our allies and in public, we adhere to our plans for an annual increase in resources for defence of 3% in real terms; and against the consideration that now is not the time, either from the point of view of the Alliance or in terms of the growing dangers we face, to make any major changes in direction.

2. My proposals for reshaping the programme are set out in the Annex to this memorandum. They represent, in the round, a very considerable cutback in plans. Their make-up reflects my judgement that while changes to earlier plans are now essential in several areas because of the shortfall in the sums originally allocated to the Defence Budget, the safe limits to change are at present reached rather earlier in respect of our contribution to Europe - particularly BAOR and its equipment - than elsewhere. My proposals also take very careful account of the interests of British industry, where it would indeed on other grounds be better for us to spend more, rather than less.

3. If the Committee is content to endorse my proposals for adjustments to the programme I would also propose, in consultation with the Foreign and Commonwealth Secretary, to consider how best we might initiate within the Alliance a re-appraisal of its division of effort, structure and working in the defence field. Experience over the past year has left me uneasy about the Alliance's basic health; while I have neither illusions about the difficulty of change nor preconceptions about its direction, I believe that we must pursue in the longer term how to make the Alliance both more cohesive and more cost effective. An approach might be made initially to the United States and the Federal Republic, after the elections in those two countries. Meanwhile our defence programme decisions must, in our own interest, give special weight to their effect on our Allies.

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4. I invite the Committee:

a. to endorse the general scope and balance of the adjustments I propose (Annex, paragraphs 2 and 3);

b. to agree accordingly that MBT 80 should be cancelled and 237 Challenger tanks ordered (Appendix C); and that the British mechanised combat vehicle should be chosen (Appendix D);

c. to agree that I should, in consultation with the Foreign and Commonwealth Secretary, examine the scope for putting proposals to our Allies to improve the basic health of the Alliance in the defence field (paragraph 3 above);

d. to note the position on the replacement of the Harrier and Jaguar aircraft (Appendix E) and the Sea King helicopter (Annex, paragraph 19);

e. to note the measures I propose for enhancing our flexibility outside the NATO area (Annex, paragraph 11).

FP

Ministry of Defence

3rd July 1980

ANNEX

THE PROGRAMME

1. Paragraph 3 and Annex A of OD(80)26 explained that the estimated cost of the planned defence programme, including provision for a Polaris successor, was 5-7% higher than the PESC allocations for the three years 1981/82 - 1983/84. Paragraph 10 proposed guidelines to be followed in making adjustments to the programme, and discussion in the Committee on 20 March generally supported these.

The Broad Pattern

2. Given the thrust of the Committee's earlier discussion, the two areas in which we must mainly look for adjustments are our NATO contributions on the Continent and in the Eastern Atlantic. Our effort in each of these areas is of key importance to Alliance cohesion, and no black-and-white choice between them would be sensible; Appendix A briefly illustrates the diversity of the considerations. I have considered very carefully the relative weighting of possible cutbacks. My general conclusion, with which the Chiefs of Staff agree, is that in the face of the financial pressures both areas and all three Services must suffer substantial reductions in plans, the more serious in face of an unremitting rise in Soviet capability; but that current Alliance realities - including the particularly clearcut task we have on the Central Front - set narrower limits to the scope for change in plans for BAOR and its equipment than elsewhere. We must accordingly rein back plans for the Royal Navy, and to a lesser extent the Royal Air Force, rather more than a purely mechanical division between the Services would entail.

3. Within this general approach, I regard it as particularly important to devise a coherent programme which will give stability - both in avoiding sharp disruption to our volunteer manpower and in offering the prospect, if we stick to our resource decisions, that we can sustain our course.

4. I have already taken action on a substantial number of measures which I regard as necessary on any view of role priorities. The main ones are listed, with their total financial effect in the PESC years, in Part I of Appendix B. Part II lists the main further measures which I regard as appropriate, given the basic judgment in paragraph 2 above, to close the rest of the resource gap. Not all of these would need immediate executive

action - some would be taken for the present as planning assumptions, to be validated in the light of further examination and costing in the next annual financial cycle.

5. The financial effects of the measures over the PESC period, at 1980 survey prices, are these:-

	£M		
	1981-82	1982-83	1983-84
Programme as originally costed (and after adjustment for realism)	10301	10706	11076
Published annual targets (Cmnd. 7841) revalued	9905	10202	10508
Overall gap	396	504	568
Measures already taken (Appendix B Part I)	193	242	320
Further measures (Appendix B Part II and residual items)	203	262	248

6. The overall military effect of the adjustments - both Part I and Part II of Appendix B - is summarised in paragraphs 7 - 10 below.

7. As regards the European theatre, we should have fewer men in BAOR than planned but more than now; this, with some changes in organisation, should eliminate under-manning. BAOR would be partially re-equipped with an improved tank earlier than planned. We should buy fewer anti-tank missiles and forego planned improvements to tracked reconnaissance vehicles. The quality of air defences in Germany - both aircraft and missiles - and of offensive air support would be less high than planned. In particular, plans for replacing the Jaguar with a new tactical aircraft capable of air combat as well as ground attack would be substantially deferred. Planned capacity for air reconnaissance would also be reduced but overland strike/attack would be improved; total aircraft numbers in Germany would be much as at present. Production plans for the Tornado would not be affected, but we would keep more air defence Tornados in the UK and would leave maritime strike/attack to the Buccaneer, which would be run on into the 1990s assuming that its future life (with which there have been problems) so permits.

8. Within the United Kingdom itself improvements to our defences would go ahead, although more slowly than planned and possibly with more tasks undertaken by reserve forces. Home-based reinforcement capability for operations in Europe would be much as planned. There would be a modest improvement in capability for operations outside the NATO area.

9. In the maritime field, the quality of planned air defence would be lower. Six planned new destroyers and frigates would not now be built; older, less effective, manpower-intensive ships would be run on, and by the end of 1980s slightly fewer ships would be declared to NATO. Planned air strike and attack capability would be cut back in quality and staying power. The quality of naval weapons systems would be generally reduced, even in the key anti-submarine role.

10. More generally, for all three Services many minor equipment projects, including improvements to existing systems, would be deferred or cancelled, and there would be a marked cut-back in the planned works and stores programme. The scope for planned improvements in conditions of service and amenities would be reduced and delayed; this could affect morale and then recruitment and retention.

Capability Outside NATO

11. The Committee's discussion of OD(80)25 accepted a case for some improvements to our intervention capability outside NATO, so that we could use more flexibly the forces we already have. I intend to undertake modest extra expenditure totalling £24M, partly for a stockpile of basic equipment (radio sets, Landrovers and the like) to support up to two battalions for six months without raiding our NATO holdings, and partly for station-keeping equipment for our C130 transport aircraft to facilitate the concentrated drop of trained parachute forces needed for assault landing against limited opposition. I intend also to make some related organisational changes; to increase "double-earmarking" of our forces; and to extend where possible out-of-area training and exercise deployments.

Army Manpower

12. BAOR's peacetime establishment is 58,000, and due to rise to 59,500. The actual strength is about 53,500 even

without withdrawals for Northern Ireland. This shortfall, which is criticised in NATO, is bad for efficiency and morale, and damages recruitment and retention. We cannot responsibly plan for continued shortfall on this scale. On the other hand, while there are good military reasons for the growth in establishment, I believe we must hold it back. I am setting a ceiling of 56,500 and having the implications studied of getting down to the Brussels Treaty figure of 55,000. Some restructuring and unit withdrawals are likely to be unavoidable. Given our general record in the Alliance (including above all the crucial 3% real growth) it should be feasible in due course to present this constructively in NATO alongside a firm intention to achieve full manning. I shall seek also, in consultation with the Secretary of State for Northern Ireland, to end as soon as practicable regular withdrawals from BAOR for temporary duty.

13. In parallel with this BAOR adjustment, I intend to hold the Army's total trained strength to a figure 4,000 fewer than had been planned though still 8,500 higher than the current under-manned figure. I shall achieve the overall reduction so far as possible by general economies, but it may be necessary to transfer more home defence responsibility to a strengthened Territorial Army. I do not intend to cut our UK-based ground forces for reinforcing the flanks.

Equipment and Other Savings

14. Besides holding back planned growth in Army manpower I shall be further cutting civilian manpower throughout the defence support field, in accordance with the policy laid down by Cabinet. I shall also cut provision for personnel support and non-operational logistics. These economies must be partly offset however by the need for substantial build-up in several categories of war reserves, particularly ammunition; most present holdings do not provide the staying power now needed. The net result is that major savings must still be made by other methods. This has to mean curtailing the equipment programme.

15. The first criterion must be military need to meet our strategic priorities. This cannot however be applied

narrowly or rigidly; we must consider also the health of our defence industrial base. This has been an important factor throughout my Department's studies, and it is reflected in my major proposals.

16. Appendix C sets out my proposals in the tank field. I propose that we should abandon MBT 80 and introduce a new tank (Challenger) from 1984; we should plan on the basis that half our fleet would be re-equipped with this, but at this stage we need decide no more than an initial order of 237, costing £315M. We should maintain a programme of development work in the tank field while we review the further way ahead, including collaborative possibilities.

17. Appendix D sets out my proposals for a new infantry combat vehicle. I propose that we order the British vehicle MCV 80, at an estimated future programme cost of £970M over fourteen years for some 1900 vehicles.

18. Appendix E sets out my proposals on Harrier and Jaguar replacement. In the V/STOL field, there are closely-balanced arguments between cooperation with the United States on the AV8B and going it alone with the GR5. We must in any case not close our options unless and until discussions with the United States establish that a firm and fair deal on the AV8B is possible. On Jaguar, I propose to make a virtue with France and the FRG of accepting a later target date (about 1995) for a possible collaborative aircraft, and to close some of the immediate post-Jaguar gap in numbers partly by buying more improved Harriers than originally planned and partly by using more of our strike/attack Tornados for European tasks, running on Buccaneers for the maritime role.

Anti-Submarine Helicopters

19. We must decide fairly soon on the future ASW helicopter for the RN as the Sea King phases out. The present Westland proposal is a costly one, and other options are being further explored. Decision now would be premature; I shall bring the matter back to the Committee in due course.

Industrial Implications

20. I attach at Appendix F a survey of the industrial implications of the programme changes. Inevitably hopes will be disappointed and some sharp problems caused, particularly for the aircraft and guided weapon industries. We must also keep particular watch on ship-building;

though I do not propose to cancel any major ship now being built, reduced rates of ordering are inevitable and these will add to the difficulties of yards already short of work, with possible consequences for future warship-building capacity.

21. There is no way of making savings of the order required without extensively affecting prospective procurement from British industry. Planned expenditure on equipment will still however be higher than it is today. The selection of adjustments has paid much regard to industrial factors, and I hope to avoid cancelling major contracts already placed. My officials will keep the Department of Industry closely informed.

Future Handling

22. In the aggregate, the changes from plans as they stood last year are very substantial because the prospective defence budget has been so much reduced. I believe however that their presentation should be manageable. I have kept to a minimum those which will show up as cutbacks in previously-declared plans to NATO; and in my judgment their scale falls short - though only just - of the level requiring special report to and consultation with the Alliance on 1974/75 lines. Given this, few of the changes need be specially announced. Ordering Challenger and MCV 80 can indeed be exploited positively, as a timely counter to criticisms that replacing Polaris must damage our BAOR contribution.

23. I must however most strongly emphasise that my appraisal, on both substance and presentation, rests on the assumption that we will make good the real resource allocations to defence which we announced in March and have promised to the Alliance. If, by whatever route, we provide significantly less, we will be driven rapidly to measures with much graver consequences. Aside from direct security damage, the whole political climate in which our programme adjustments - even the present batch, let alone additional ones - were viewed both at home and in the Alliance would change sharply if we defaulted on our resource decisions.

APPENDIX A

MARITIME AND CONTINENTAL EFFORT:
THE PROBLEM OF PRIORITIES

1. The problem of how to divide limited resources between support for NATO in Europe and support for NATO in the Atlantic raises a wide variety of issues and considerations. The conclusion to be reached is a matter of broad judgement, and of political as much as military judgement. The purpose of this note is simply to indicate briefly the range of factors; it does not attempt comparative evaluation or conclusion. Purely for illustration, the factors are grouped into two artificially-opposed statements of case, one for a primarily Continental emphasis and the other for a primarily maritime emphasis.

The Case for Continental Emphasis

2. It is essentially on land in Europe that successful aggression would bring the Soviet Union most benefit and do NATO most harm. In Europe, moreover, NATO is at a much greater disadvantage in relative force strengths than it is at sea. This imbalance is compounded by the great strategic advantage which geography gives the USSR in the European theatre (the inverse of the great strategic disadvantage which geography gives them at sea). Short-warning aggression, and the prospect of short-duration war, is far more attractive to the Soviet Union and more dangerous to NATO in Europe than at sea; and in such circumstances seaborne Transatlantic reinforcement might simply become irrelevant. It is significant that the US are making major efforts to increase their use of reinforcement by air, coupled with pre-stocking of heavy equipment. In Europe the Alliance has virtually no expectation of holding major Soviet aggression by conventional means, and the nuclear threshold is uncomfortably low; whereas the prospects are less adverse at sea.

3. All our significant European allies, especially the FRG, would dislike cuts in Europe far more than maritime cuts. There are indications that the United States would take the same view - for example, their new emphasis on South-West Asia and their calls for off-setting Alliance effort repeatedly use the phrase "in Europe" for the latter. Cuts evidently oriented in favour of the Atlantic and away from Europe could seriously damage HMG's European relations beyond the defence field, particularly if the cuts ran counter to our formal Treaty commitments on force levels, which have no real maritime counterpart. Major cuts in the Central Region would also run more risk than in the Atlantic of providing a stimulus or pretext for others to follow suit. And cuts in our contribution to the Northern Flank would damage Alliance political cohesion in areas where it is already none too robust.

4. Mainly because of our history, geographical position, skills and experience Britain currently provides much the largest proportion of the European maritime contribution. But there is no absolute reason why this should remain so. The FRG has the resources, and is increasingly showing the will, for a wider maritime role in the long run, and it would be less awkward politically for her to devote some of her growing wealth to this than to enhancing her already large military preponderance in Central Europe.

5. Maritime forces provided for NATO can obviously provide presence outside the NATO area, at some loss of readiness for NATO. The United States have already made it clear that the importance they attach to our out-of-area effort is "quasi-symbolic". And if actual intervention is called for, the practical contribution of naval forces would in most scenarios be limited. The likelihood of Soviet "out-of-area" maritime aggression (for example against trade routes) which we would have to meet without the United States is arguably very low.

The Case for Maritime Emphasis

6. The Soviet maritime capability worldwide has increased dramatically in the past two decades, both absolutely and relatively to NATO's. Particularly in NATO's circumstances, comparative force ratios at sea and on land mean quite different things. On land, against a defender with a clearcut frontier to protect, an aggressor seeking to seize territory needs a large advantage; at sea, an aggressor concentrating on sea-denial against a sea-dependent defender has far more flexible options and can achieve his purpose without numerical superiority (though in fact the Soviet Union has a clear lead in such key maritime categories as submarines and long-range land-based air striking power, with BACKFIRE).

7. The Alliance's main strength lies across the Atlantic, in the US. Any perception in peace or tension that the Transatlantic bridge to Europe was unsure would seriously damage Alliance cohesion, just as any actual severing of it in war would make rapid conventional defeat in Europe certain. Seaborne reinforcement remains vital to NATO strategy, as the United States (who strongly oppose short-war expectations) have made clear. We are far better able than any other European country to contribute to maritime security (the FRG is much less well placed, and would take many years to approach our breadth of competence even if Brussels Treaty restrictions were removed). As a result, we provide a far bigger proportion of Alliance strength in EASTLANT than in AFCENT, and a given proportionate cut would therefore diminish the total European contribution far more.

8. The stable and well-defined character of East/West demarcation lines on land make aggression there unmistakeable and the stakes - with the consequent risks to the aggressor - high. There may be much more scope for Soviet miscalculation or exploratory adventurism in the less clearcut environment of the sea. And even in relation to conflict in Europe it might be very hazardous to gear planning and force provision to particular contingencies narrowly drawn in terms of warning time or conflict duration. Maritime forces offer insurance against a wide variety of situations.

9. There are dangers in too great a dependence on the US Navy. The NATO area is only one of several where the United States might have to undertake major maritime confrontation with the Soviet Union; the possibilities are much more restricted on land. Both for this reason and because of the flexibility of maritime forces, permanent reliance on particular US plans and deployments as a justification for reduction or narrowing of our own NATO capabilities could be more hazardous at sea than on land. Moreover, as Soviet ASW capability continues to improve, we may increasingly need to deploy significant elements of our maritime forces to help ensure the invulnerability of our SSBNs by making the task of any opposing forces more difficult. We cannot count on the United States for this.

10. After years of urging, largely from Britain, NATO is now belatedly developing a collective awareness of the mounting threat, including the maritime threat, outside the formal Treaty area. A UK change towards a narrower Continental emphasis in its defence effort, particularly when we continue to rely crucially upon seaborne supplies and trade, could set back this effort.

APPENDIX B

PROGRAMME ADJUSTMENTS

I - MEASURES ALREADY TAKEN

NAVY

Anti-Submarine Warfare

1. Orders for two or three nuclear-powered fleet submarines will be deferred. The planned number of Lynx helicopters on Type 22 frigates will be reduced from two to one. The modernisation programme of 5 Leander class frigates will not now proceed.

Anti-Air Warfare

2. The programme for producing a more advanced Sea Dart area air defence missile has been cancelled and will be replaced by a cheaper and less effective system. The major refits of the guided missile destroyers ANTRIM and NORFOLK have been cancelled.

Anti-Surface Vessel Warfare

3. UK participation in the NATO future anti-ship missile will be concluded at the end of the study phase.

Mine Warfare

4. The conversion of HMS KENT to a minelayer has been cancelled.

Amphibious Warfare

5. The conversion of RFA TARBATNESS to the amphibious role has been dropped. HMS BULWARK's next refit will be cancelled and she will be paid off early.

ARMY

Armour and Anti-armour

6. There will be no improvements to the present tracked reconnaissance vehicles, and no increase (as earlier planned) in Milan anti-tank missile launchers and in operational Swingfire anti-tank missiles.

Air Defence

7. Reductions will be made in the programme for the self-propelled Rapier air defence missile system. Blowpipe missile production will be slowed down.

Artillery

8. The development of an unmanned helicopter for surveillance and target acquisition has been cancelled.

AIR FORCE

Army Support

9. The plan to buy Puma Mk II helicopters to form a new Army support squadron has been abandoned.

Photo Reconnaissance

10. The two Canberra PR squadrons will be phased out earlier than planned.

Training Support

11. Facilities for Air Defence and Electronic Warfare training will be reduced by cutting the rest of the Canberra force by up to one-third.

Airfield Survival Measures

12. Extensive reductions and deferments in the programme for hardened aircraft shelters and fuel pipelines in RAF Germany, and hardened facilities and airfield survival and damage repair in the UK.

OTHER

13. Extensive reductions in the forward works programme. Deferment and cancellation of minor equipment orders and improvements. Reduction in provision for training, stores and support programmes.

FINANCIAL EFFECTS

14. The above measures have reduced the cost of the defence programme over the period 1981/82 - 1983/84 by about £750M at 1980 Survey prices.

II - FURTHER MEASURES

NAVY

Anti-Submarine Warfare

15. Three planned frigate orders would be dropped. The possibility would be explored of a cheaper (and thereby less capable) alternative to that now planned as a replacement for the Sea King helicopter. Planned stocks of sonobuoys would be reduced by 10%.

Anti-Air Warfare

16. Three planned destroyer orders would be dropped.

Anti-Surface Vessel Warfare

17. The number of both Sea Eagle and Sea Skua anti-ship missiles to be bought would be reduced by 50% and the planned improvements to the Lynx's Sea Spray radar and Sea Skua missiles abandoned.

Mine Warfare

18. An order for 12 minesweepers planned for this year would be stretched over a longer period.

Amphibious Warfare

19. The Wessex 5 replacement would be deferred.

Afloat Support

20. Two planned support tanker orders would not now proceed and the quality of a new class of afloat support ships would be reduced.

Other

21. The plan to order a second ship of a class of Underwater Research Vessels would be abandoned.

ARMY

Manpower

22. The planned level of Army manpower would be reduced by 4,000 and the planned stationed strength of BAOR by 3,000 from 59,500 to 56,500. Plans to achieve this will need to be refined, but it could involve the peacetime withdrawal from BAOR of units and headquarters. The reductions in the overall planned strength of the Army would be met so far as possible by general thinning out and by disbandment of the Infantry Demonstration Battalion.

Armour and Anti-armour

23. The MBT 80 programme would be cancelled and 237 Challenger tanks ordered. Planning would for the present assume that further Challengers would be ordered in due course so that half BAOR's front line would be so equipped. A programme of limited tank development would continue to support the longer term programme for replacing the remaining Chieftains, whether by an improved Challenger or by a renewed collaborative project.

Air Defence

24. The self-propelled Rapier missile system would be deferred by one year, and the proposed self-propelled air defence gun by four years.

Other

25. The Cervantes rocket-locating radar would be cancelled unless equivalent savings could be found elsewhere; and the Clansman communications equipment programme would be cut back.

AIR FORCE

Maritime Strike/Attack

26. The Buccaneer would not be replaced as planned in the mid-80s by Tornado (which would now concentrate on land/air roles), but would be run on into the 1990s (fatigue life permitting) with improved avionics and electronic warfare fit and re-armed with the Sea Eagle anti-ship missile. The planned buy of Sea Eagle missiles would be halved.

Overland Strike/Attack and Offensive Support

27. Planned Jaguar improvements would be limited and the number of Jaguars operational in the RAF Germany strike/attack wing would not be increased from 48 to 60 as announced to NATO. There would be no direct replacement of the strike/attack Jaguar until the mid-1990s. The Harrier force would however be improved, and new aircraft procured, to offset in part the numerical drop in our offensive support force.

Reconnaissance

28. The Jaguar reconnaissance squadron in Germany would disband in 1987 and not run on as currently planned.

Air Defence

29. Air defence Tornados would not replace air defence Phantoms in RAF Germany in the 1980s but would all be kept in the UK, with the Phantoms being run on in Germany. Improvements to Rapier would be reduced in scope.

Defence Suppression

30. Subject to further studies, the national programme for an anti-radar missile would be replaced by a collaborative programme or off-the-shelf purchase.

OTHER

31. Planned provision for improved war stocks (particularly ammunition) would be increased by £450M in the 1980s as a whole, and the money would be found by cutting back further the personnel and logistics support fields.

FINANCIAL EFFECTS

32. These measures (Part II) would reduce the cost of the defence programme in the years 1981/82 - 1983/84 by about £710M at 1980 Survey prices.

APPENDIX C

TANK POLICY

1. The Warsaw Pact armoured threat in the Central Region of Europe is growing in numbers and quality. Intelligence assessments since 1977, accepted in NATO, indicate a much greater advance in the quality of Soviet tanks coming into service now and in the 1980s than had previously been thought probable. Successful defence against armoured attack requires a combination of weapon systems of which the tank will for the foreseeable future be an essential element. At present BAOR can deploy about 600 Chieftain tanks in war.

2. Chieftain has been in service since the mid-1960s. Despite improvements now being installed or developed, it will be increasingly out-matched by the quality of Warsaw Pact tanks. Following the failure of persistent attempts to achieve collaboration within NATO, development began in 1978 of a national tank (MBT 80) to replace the whole Chieftain fleet starting at the end of the 1980s.

3. Two new factors require this policy to be revised. First, it is now apparent that the development of MBT 80 will take longer and cost more than expected, partly because of constraints on our resources of key civilian specialists. The new tank cannot be available until at least 1992, and the operational risks of relying wholly on Chieftain for so long would be very great. Second, the collapse of the planned Iranian tank order provides an opportunity to bring into service with the British Army a derivative of the Iranian tank (Challenger) from 1984 at minimum development cost. Challenger would not completely match the forecast Warsaw Pact threat in the 1990s, but it offers important improvements over Chieftain's performance in two important operational areas - protection and mobility. The Chobham armour on Challenger's turret and frontal aspect would provide effective protection against the T64 and T72 Soviet tanks currently in service at normal battle ranges where Chieftain would be defeated; and the Rolls Royce CV12 diesel engine in Challenger will generate 46% more power per ton than Chieftain's engine, so that Challenger will be much more agile. It could also improve our sales prospects.

4. Challenger, as it stands, is not a fully adequate long-term substitute for MBT 80 and could not therefore be used to replace the full Chieftain fleet. In due course a better tank will be required. But a substantial purchase of Challenger would provide a significant improvement of our anti-armour capability from the mid-1980s; would enable us to increase the number of tanks we could deploy in war (because we need not discard the replaced Chieftains); and would allow us to abandon the MBT 80 programme and to reconsider tank replacement policy in the longer term, the possible options including an improved Challenger and a renewed collaborative project within NATO (for example with France and the FRG, or with the US, against the background that our timescale may now prove more easily compatible with that of our Allies).

5. I therefore propose that MBT 80 should be abandoned; that our planning should assume enough Challenger procurement to replace half the present fleet of Chieftain (the precise number remains to be determined, but is likely to be in the range 350-450); that our immediate commitment should be limited to 237 Challenger, for which an order should now be placed at an estimated cost of £315M, including completion of development; and that a programme of limited tank development should continue to support the longer term programme for replacing the Chieftains in the 1990s, whether by an improved Challenger or a renewed collaborative project.

6. There are two sources of tank production in this country - Royal Ordnance Factory Leeds and Vickers, Newcastle. It would be uneconomic to split the order for 237 Challenger and I propose to place the contract with Royal Ordnance Factory Leeds, which has long been our preferred source of supply for main battle tanks and has the facilities and experience (derived from the cancelled Iranian order) to provide the tanks in the early timescale required. The order will provide welcome continuity of employment at Leeds, as well as work for other parts of British industry.

7. I invite the Committee to agree that our future tank policy should be revised as set out in paragraph 5 above, and an early announcement made accordingly.

APPENDIX D

REPLACEMENT ARMOURED PERSONNEL CARRIER FOR THE ARMY

1. The Army requires a replacement armoured personnel carrier to come into service in the later 1980s. By then our AFV 432 vehicles will have been in service for over twenty years and will provide inadequate protection, mobility and firepower.

2. Some 1,900 vehicles are required. Half will be basic vehicles for taking infantry platoons into battle, the others will be variants for such purposes as command, artillery observation, forward recovery, and use by Engineer regiments and mortar platoons.

3. The choice lies between a British vehicle (MCV80) under development by GKN Sankey since 1977 and the US Infantry Fighting Vehicle (IFV) manufactured by FMC and due to enter service with the US Army in 1981. Operationally either vehicle would be acceptable to the Army, though IFV has better firepower and night fighting capability. IFV is also more certain to be available promptly, and its adoption would advance standardisation in NATO.

4. MCV80 would meet the Staff Requirement to which British industry was asked to work. Future programme costs are estimated at £970M, spread over a period of fourteen years. Some 10,000 job opportunities would be sustained in British industry (notably in semi-skilled engineering) at the production peak. But we could not realistically expect much success with sales overseas in competition with IFV.

5. Purchase of IFV off the shelf from the US might cost up to £100M less than MCV 80, but the loss to British industry would be very serious.

6. IFV could be built under licence in Britain. For this to be acceptable industrially we would want the US to guarantee that they would buy vehicles from us to meet some US requirements and that they would not set up a further source of competition in America (in addition to FMC). Even then, although British industry as a whole might get more work than with MCV80, British design capability would suffer, and some firms, (notably Rolls Royce Motors, who were hard hit by the Iranian cancellations) would lose considerably; and the option would be little if any cheaper for the Defence Budget. The US are very keen to secure our order and have made what are, by their normal standards, considerable concessions, including an offer of 100% offset opportunities for expenditure on parts bought from them. But they have not been able to give the guarantees we seek. These would be made feasible only by special legislation, which could certainly not be secured this year and probably not at all.

7. The choice is fairly balanced. In purely military terms IFV is rather better, and buying it off the shelf would be best for the Defence Budget. In the round, however, and against the background of the political and industrial scene as a whole (including the general impact of adjustments elsewhere in the defence programme) I do not believe the advantages of IFV are enough to override the general presumption in favour of buying British. I recommend therefore that we should choose MCV80.

APPENDIX E

REPLACEMENTS FOR RAF OFFENSIVE SUPPORT AIRCRAFT: ASR 409 AND AST 403

Background

1. The RAF's front line for ground attack and tactical reconnaissance includes eight squadrons of Jaguars and three of Harriers. Half of the Jaguar squadrons (all based in RAF Germany) are also nuclear-capable. Both the Jaguar and the Harrier in its present form will by the 1990s be very vulnerable to Warsaw Pact Central Region defence; moreover, assuming normal peacetime losses, front-line strengths could not be maintained beyond about 1987 without buying more. Replacement of the Jaguar and further development of the Harrier have thus become essential features of the RAF's re-equipment programme.

2. The Air Staff originally envisaged replacing both types with one aircraft combining high manoeuvreability, supersonic performance and short take-off and landing. Studies showed however that this would not be feasible within a reasonable timescale and cost. It was therefore decided to aim for two separate aircraft: one an improved version of the Harrier, continuing to exploit vertical/short take-off and landing (VSTOL) in which we lead the world, and the other (replacing the Jaguar) a highly-manoeuvreable ground attack aircraft with an air combat capability enabling it to survive against improved Soviet fighters. The Harrier development is covered by Air Staff Requirement (ASR) 409 and the Jaguar replacement by Air Staff Target (AST) 403.

ASR 409

3. There are two contenders for ASR 409:

a. a British Aerospace development of the present Harrier, known as the GR5(K);

b. an American development, also based on the Harrier and with a very substantial British content (especially Rolls-Royce engines), known as the AV8B and designed to meet a US Marine Corps (USMC) requirement.

4. Either aircraft would meet nearly all the specified criteria. The AV8B would be available about one year earlier. Total programme costs are very similar, in each case around £580M for the 60 aircraft our plans have hitherto assumed, though we shall in fact now want more than this, as paragraph 9 below explains. British industry has a very strong interest in the AV8B programme - the USMC requirement for 340 aircraft could bring our firms business worth some £700M. RAF involvement would increase the benefits to British industry and should enhance the prospects of sales to third parties. On the other hand, BAe understandably want to maintain their leading role in VSTOL design. They would therefore like to see two programmes: the AV8B (with full British involvement) for the US forces and the GR5(K) for the RAF.

5. The drawback to this BAe preference is that the AV8B project is not yet certain to go ahead, and the US Defense Secretary has said that RAF participation in it would markedly influence the views of the Administration, which has up to now been ambivalent. There is no doubt some element of poker-playing in this, and BAe (though not our own staff in Washington) consider the AV8B strong enough to survive without RAF participation - it has good friends in Congress. Nevertheless British industry would lose heavily if this judgement proved wrong and the AV8B programme folded. It is also possible that if both programmes went ahead we might find British firms getting less AV8B business and our own programme still coming second in any clash of industrial priorities.

6. We cannot yet choose between the options; further discussion is needed with the US. I propose to approach Dr Brown on the following lines:

a. We are very interested in the AV8B, but we have also the GR5(K) contender.

b. We intend to complete project definition of the GR5(K) and to continue our examination of the AV8B.

c. No choice has been made at this stage, but we should like seriously to discuss the prospects of a joint AV8B programme.

d. Our willingness to accept such a programme would have to be subject to final agreement on specific conditions important to us; to adequate assurances that a joint programme would be carried through to completion;

and to securing substantial progress in detailed negotiations in the coming months.

I would say that on this basis we should be ready to explore the ground with the US at the earliest opportunity.

AST 403

7. On current plans AST 403 will be met through a collaborative programme with France and West Germany on what is usually called the Tactical Combat Aircraft (TCA). Such a course would build on experience gained with the Anglo-French Jaguar and Anglo-German-Italian Tornado, and would achieve a further major success in European armaments co-operation. The three operational requirements have yet to be fully harmonised, but the three national airframe companies have put forward initial design and proposals for an aircraft aimed at meeting the requirements as closely as possible. These proposals are now being examined.

8. The RAF originally hoped to introduce AST 403 in about 1987, as the Jaguar force started to waste. More recently we have been envisaging a date of about 1990. Even this has become unrealistic, and about 1993 is the best likely to be achievable in a collaborative programme. In theory we could buy F18s from the United States, and this would certainly be much cheaper than collaboration; but I do not regard it as a practical option. I believe however that the right course now is to look rather to a collaborative aircraft entering service in about 1995. This would substantially ease our budgetary problems in the 1980s and should not be unwelcome to our prospective partners, whose timescales have always been later than ours.

9. There will as a result be a gap left as the Jaguars waste out from 1987 onwards. I propose to deal with this by buying rather more improved Harriers than we would otherwise have done, and by keeping Buccaneers longer in the maritime role (assuming current fatigue life problems are resolved) so that more of our planned strike/attack Tornados can be devoted to the land/air task.

10. We do not need to settle now on a definitive view of the long-term way ahead. It is both politic and right to keep the TCA option going, but neither we nor our Allies will be finally

committed for years to come (full development need not start before about 1985). Our eventual decisions will need to take into account also possible options along the VSTOL line of development, including the likely need to replace our Sea Harriers from the mid-1990s.

Recommendation

11. I seek no decisions from my colleagues at this stage on either ASR 409 or AST 403. I invite the Committee to note the position set out in this paper.

APPENDIX F

INDUSTRIAL IMPLICATIONS

1. By 1983/84 expenditure on equipment is planned to rise by some £600M above the 1980/81 Estimates figure of £3905M (at 1980 Survey Prices), with the overseas element remaining fairly steady at around 8%. In real terms, therefore, even after the reshaping, UK industry as a whole can look forward to an increase in total business. Nevertheless, while apart from MBT 80 and possibly the CERVANTES radar no cancellation of existing contracts is envisaged, business expectations - like those of the Services - will be disappointed in many individual instances.

2. The major items envisaged are listed in Appendix B. The four main areas affected, in addition to tanks, are combat aircraft, helicopters, guided missiles and shipbuilding. (Numerous other adjustments to equipment plans will arise affecting industry, but none of these are judged to merit special comment here). The decisions as between MCV 80 and IFV, and between Harrier GR5 and AV8B, do not arise directly from the reshaping: industrial considerations affecting these choices are covered in the separate Appendices on these projects. Throughout, particular attention has been given to maintaining basic technological capabilities, especially in advanced fields such as guided weapons and electro-optrics.

COMBAT AIRCRAFT

3. European collaboration on a tactical combat aircraft (AST 403) will continue to be assumed but with the in-service date for the RAF deferred to about 1995, as Appendix E explains. This gives time for the European collaborative situation and its alternatives to be thoroughly explored. Meanwhile it will be necessary to keep the AST 403 team together and engaged in limited design work. But with the later ISD a gap in the design loading of BAe Aircraft Group would begin to develop from about 1983/84 pending the launching of full development of the next generation aircraft in the mid-1980s; and sufficient resources would have to be allocated to maintain essential design capabilities meanwhile. The deferment will also exacerbate production loading problems within BAe already expected as Tornado work tails off in the mid to late 80's, though this situation would be substantially relieved, and the lead into AST 403 production made smoother, if there were follow-on purchases or export sales of Tornado.

HELICOPTERS

4. For the RAF's new utility helicopter (AST 404), an initial proposal was to rely on a foreign (probably US) purchase rather than participate in the development of an Anglo-French collaborative project; but following consideration of the RN's need for a Sea King Replacement, for which Anglo/Italian collaboration is an option, the feasibility is now being examined of meeting both the RN and RAF requirements in a single project. But the requirements are very distinct; the cost of meeting them in one basic design could be very high; and it is by no means certain that a single helicopter will be the eventual solution. The outcome will be critical for the future of Westlands design capability in both the short and long term. This is however an issue to be pursued in its own right. Studies will take some months to complete.

GUIDED MISSILES

5. BAe Dynamics Group will be the firm most affected; both development and production programmes will suffer and there will be a loss of job opportunities. However, a programme of Rapier improvements to Field Standard C, albeit to a reduced specification, will help to maintain the ground-launched GW side of their business. On the air-launched side, ways are under consideration of maintaining adequate design effort on both AST 1228 (the air-launched anti-radar missile) and the UK/FRG collaborative advanced short-range air-to-air missile (ASRAAM) while their future is clarified - the issues being for ASRAAM the timescale for in-service date, and for AST 1228 the nature of the requirement itself and the prospects of meeting it by collaboration or adoption of an overseas project. AST 1228 has been the central element in BAeD's future plans in the air-launched area, but ASRAAM may well prove to offer a more robust and stable base. This issue will be pursued with BAeD in the coming months.

SHIPBUILDING

6. The programmed reshaping would remove the planned growth in the RN programme (from 24,000 to 28,000 jobs by 1983) which has been assumed in British Shipbuilders' corporate planning.

7. The brunt would fall on the mixed and smaller yards (which build both warships and merchant ships) since

the measures reduce or defer much of their expected workload in the early years (various small vessels, support ships, destroyers and frigates). In particular, Scott Lithgow (Cartsburn Yard) and Cammell Laird would be hard hit in the continuing absence of alternative commercial work. At Scott Lithgow the deletion of an underwater research vessel could lead to early closure after the completion of the Seabed Operations Vessel (SOV) unless other work materialised. At Cammell Laird the early loss of a support tanker and a destroyer/frigate to follow existing destroyer work could also lead to closure unless it proved possible fairly soon to reinstate at least a support tanker, though even this might be only a short-term palliative. The prospect at Swan Hunter is less awkward in the short term; but from 1982 onwards there would be increasingly severe job losses unless civilian orders increase. One specialist warshipbuilder, Yarrows, would lose some 700 jobs during 1981 as a consequence of the reduction in the frigate programme.

8. The small yards at present most successful in competition for RN work - Hall Russell, Dunston, Ferguson, Appledore, Clelands, Brooke Marine, and James and Stone - would be hard hit. The current RN loading of some 2,000 jobs (out of a total of 3,700) at these yards could fall to something nearer 1,000, with widespread loss of jobs and even closure for some yards. Those at greatest risk are Hall Russell (Aberdeen), Fergusons (Clyde) and Clelands (Wallsend).

9. At a time of recession in merchant shipbuilding the wider implications of these measures for British Shipbuilders' future plans, including the effect on warship building capacity, will require interdepartmental study.

LAND SYSTEMS

10. With the abandonment of MBT 80 the optronics industry, in particular, could lose the best part of what would have been a £90M development programme over the next few years involving up to 150 design staff (MEL being the principal sufferer).

11. On the other hand, the decision to go ahead with Challenger will provide immediate production work and maintain our tank building capability at the ROFs and component manufacturers at least for some years. The military engine capability of Rolls Royce Motors will be sustained by Challenger and the development and production of MCV 80. The optronics industry could benefit from longer-term developments in the tank field.