

SECRET

PART 6

42-40

CONFIDENTIAL FILING

The Defence Budget
Defence Expenditure 1980-81, Contracts Memorandum

The Armyway of Service Women

U.K. Military Training Assistance Scheme
(UKMTAS) (Tabbed U.K. from Sales)

DEFENCE

PART 1 MAY 1977

PART 6 MAY 1978

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.5.81							
22.5.81							
25.6.81							
6.7.81							
9.7.81							
14.7.81							
30.6.81							
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PART 6 ends:-

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PART 7 begins:-

cc (81) 26th item 2 2.7.81

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 29 April 1980, columns 1174-1190 "Defence Estimates 1980"
2. House of Commons Hansard, 25 June 1981, columns 387-394 "Defence Programme"
3. Cmnd. 8288 The UK Defence Programme: The Way Forward, Published by HMSO, 25 June 1981

Signed Wayland Date 23 August 2011

PREM Records Team

CONFIDENTIAL

Defence



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~920 7022~~ 218 2111/3

MO 9

30th June 1981

Dear Chris,

You had a word with me following my letter of 22nd June about a defence briefing for members of the Opposition and asked about timing. I thought I should send you this further letter since you are presently away in Luxembourg.

Further enquiries have established that, if we are to go for a NATO briefing, which remains my Secretary of State's preference, we would have to defer it until after the summer recess since we could not get the right team together in July. Mr Nott concludes that the Prime Minister might best, therefore, offer one soon after Parliament re-assembles but could explain to Messrs Foot and Steel if she so desired, that a purely national briefing - by the Director General of Intelligence - could be arranged in July.

A further point has emerged which is that if we are to get the three Major NATO Commanders to do the briefing rather than the international military staff of NATO - and that again, is what my Secretary of State would wish to recommend - we might have to offer them a slightly wider audience, by including a number of Ministers besides the members of the Opposition, the Prime Minister and Mr Nott. The briefing could possibly also be extended to include members of the House of Commons Defence Committee but Mr Nott is inclined to doubt that that would be really desirable.

In short, my Secretary of State now strongly recommends that we should offer a NATO briefing in October, on a "Privy Councillor" basis and so as to include a number of senior Ministers.

*Yours ever
Brian*

(B M NORBURY)

C A Whitmore Esq

CONFIDENTIAL

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~3367828~~ 218 2111/3

MO 9

Mr has seen

25th June 1981

Dear Sir,

YAK

THE DEFENCE PROGRAMME

/ Further to my letter of 23rd June I enclose my Secretary of State's redraft of his Statement this afternoon.

The redraft takes account of a number of points put to us, and in particular, takes account of the discussion my Secretary of State had with the Chancellor of the Duchy of Lancaster last night, and has been significantly abbreviated.

I am sending copies of the redraft, with this letter, to Brian Fall (FCO), John Wiggins (HM Treasury), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Murdo MacLean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours ever.
Bur

(B M NORBURY)

C A Whitmore Esq

CONFIDENTIAL

25 June 81

Mr Speaker

The Government has reviewed the Defence Programme; and a full account of our conclusions is contained in a White Paper which will be available shortly in the Vote Office.

The Government intends to honour the NATO aim of 3% real growth in defence expenditure and has, exceptionally, taken a firm decision now to plan to implement the increase until 1985/86, a full four years forward - and two years beyond the published plans for public spending generally. This may mean that Defence absorbs an even greater share of our Gross Domestic Product; and whilst it will be necessary to curb several of our forward plans and aspirations, the additional funding should enable us to enhance our front-line capability above its present level in very many areas.

The House knows of our basic problems, which are not unique to Britain. We have a defence programme which is unbalanced and over-extended. Last year we suffered from severe cash problems; and similar difficulties are already emerging in the current year.

We cannot go on like this. We have no choice, in the longer term, but to move towards a better balance between the various components of our effort - front-line numbers, quantity and quality in equipment, and military and civilian support. And we must determine this balance in terms of real defence capability, rather than as the outcome of a debilitating argument over each Service's budgetary share.

We have looked first at the defence of the United Kingdom itself especially in its role as a crucial reinforcement base for NATO. For some time we have felt the need to give greater emphasis to our Reserve Forces. For the Territorial Army, whose readiness and efficiency were vividly shown in Exercise Crusader, I intend a progressive increase in numbers of some 16,000 men and women and there will also be an increase in training days from 38 to 42 a year. We will order new minesweepers for the Royal Naval Reserve as soon as resources permit; and we will expand the use of Royal Air Force Regiment reserves in airfield protection.

In UK air defence - a priority requirement - we will sustain all the programmes already in hand, including the Nimrod early warning system and the doubling of modern air-to-air missile stocks. As a new enhancement we will provide Sidewinder air-to-air missiles for a further 36 of our Hawk aircraft, making 72 Hawks in all available to supplement our fighter force; we will run on two Phantom squadrons instead of phasing them out as had earlier been planned when the air defence version of Tornado comes in; we will examine the possibility of switching 20 Tornados to the air defence rather than the strike version; and we will substantially increase the VC10 tanker fleet which multiplies our fighter force by prolonging patrol time and range. Around our coasts, we will increase our capability to counter enemy mining, and we have set aside funds for enhancing our defensive mining capacity, to help secure our ports and maritime routes.

I turn next to our major land/air contribution on the Continent of Europe. BAOR's manpower, which is above our Brussels Treaty commitment of 55,000 men, will return to that level. But we will retain in Germany our full present combat fighting strength of 8 brigades and our responsibility for the forward defence of a vital 65 kilometres of the Central Front.

We intend however to withdraw from Germany one divisional Headquarters and other supporting staff with a consequent reduction in the number of locally employed civilians; and this, together with other necessary economies, will enable us to move over the next 5 years towards a slightly smaller Regular Army of 135,000 trained men, 7,000 less than at present, but partly balanced by the increase in the Territorial Army.

Suggestions have been made, I know, that we should go for a much greater reduction in our troops in Germany. But quite apart from the fact that there is no-one else to perform our task of defending 65 Km of the Central Front, it would be much more expensive to bring them home, because we simply could not house or train them here without a massive new infrastructure programme. Only disbandment would relieve our budgetary pressures and we cannot prudently cut our army below a certain minimum level.

But the small reduction in regular army manpower which I propose will help us to afford, as is our intention, the very wide range of re-equipment projects now envisaged for BAOR. The scale or timing of some of the projects will be modified, partly to restrain costs but mainly to provide for a further increase in war stocks and ammunition, to improve the combat endurance, the staying power, of 1st British Corps, which will be substantially enhanced. We plan for instance to increase further the buy of Milan anti-tank missiles.

The Challenger tank will equip 4 armoured regiments. New night sights for missile systems and tanks will be introduced and improvements will be made both to the present Chieftains and in due course to Challenger. We will bring into service the 2nd Chinook helicopter squadron to enhance Army logistic support and mobility. We shall introduce the tracked version of the Rapier missile system and subject to final negotiations the TOW anti-tank missile launched from Lynx helicopters.

I am glad to announce we should shortly be signing, in Washington, an agreement with the US Government for the joint manufacture with the United States of the AV8B, the advanced Harrier. This has turned out to be an agile and effective aircraft, with a substantial weapon-carrying ability; and we plan to order 60 aircraft for close air support. Within the total Anglo-American programme of some 400 aircraft we are looking for a 40% share for British Aerospace, and a 75% share for Rolls Royce on the engine. There should be something like a billion pounds' worth of work for British industry, the bulk of it for export to the United States.

I have decided that we cannot afford early replacement of the Jaguar, though possibilities remain open for new combat aircraft in the longer term, perhaps through international collaboration. On the other hand, we must exploit our investment in Tornado - some £10,000 million at current prices. We will continue with the JP233 system for neutralising enemy airfields and we shall seek also to acquire new weapons to equip Tornado in an anti-armour role and for suppressing enemy air defences.

At sea, the Royal Navy will continue with the key task of providing a strategic nuclear force by the modernisation of the Polaris force with the Trident system. We have maintained one Polaris boat on station continuously for the past 12 years. One Trident submarine, invulnerable to any pre-emptive strike, will carry up to 128 independently-targetted warheads which can hold at risk targets over a vast area of the Soviet Union. No enhancement of our conventional forces could possibly prove of equal deterrent value. In a world where nuclear weapons cannot be disinvented, it is the United Kingdom's surest way of preserving peace.

But we must also keep strong the three conventional elements of power at sea. In maritime air, in addition to present plans, we will fit a further three Nimrods, making 34 in all, to the full Mark II equipment standard, which is as great a leap in technology over the Mark I as the Mark I was over the Shackleton. Armed with our Sting Ray torpedo the Mark II will have great striking power against submarines. We will proceed with a new stand-off anti-ship missile to be delivered by Buccaneers - which we will keep on for this task - or by Tornado. Subject to the satisfactory completion of contract negotiations, we intend to acquire British Aerospace's Sea Eagle anti-ship missile.

We will increase our fleet of nuclear-powered attack submarines, newly equipped with Sub-Harpoon - from the present twelve to seventeen; I have today confirmed the order with Vickers at Barrow at a cost of £177 million for the next boat. We will also proceed as fast as possible with a new and more effective class to replace our present ageing diesel-powered submarines; these should also have a market overseas. We will acquire a new heavyweight torpedo for all our boats, and are considering alternative British and American designs for this.

Overall our maritime air and submarine capability will be much enhanced.

As regards surface ships we will go ahead with all the very large orders - 20 new warships, to a value, with their weapons, of ~~about~~ £2000 million - already in hand in British shipyards, and shall be placing an order for a further Type 22 anti-submarine frigate at a cost of £125 million, which will sustain work at Yarrows on the Clyde. We are placing an order for five patrol craft with Hall Russell of Aberdeen for service in Hong Kong.

But I believe we must make changes here in a number of ways.

Firstly, if we want to build a reasonable number of new ships in the future, we must devise much cheaper and simpler designs than the Type 22 frigate. We must accelerate urgently, and I have provided funds in the programme for this, a new type of anti-submarine frigate, the Type 23 built with an eye to export as well as Royal Navy needs, for we have not sold a major British warship of Royal Navy design for over a decade. I intend to pursue as well as possibility of still more cost-effective, smaller, ships than the Type 23.

Secondly, we only maintain our surface fleet at its present full strength through a continuous programme of refits and major mid-life modernisations of older ships, requiring a huge and costly dockyard infrastructure. Typically it can now cost up to £70 million to modernise an old Leander frigate which is actually more than our target cost for the new Type 23.

If we are to be able to build new ships in our shipyards and fulfil other priority defence tasks, we simply cannot afford to sustain such a policy of refit and modernisation - or for that matter maritime air defence at the present level, where the planned forward investment in major equipment for the air defence of warships at sea has been about double that for the air defence of the United Kingdom itself.

It is for reasons like these that whilst we shall complete the new carrier ARK ROYAL, we intend to keep in service in the longer term only two of the ships of this class, with their heavy demands on supporting anti submarine air defence escorts. The older carrier HERMES will be phased out as soon as the second of the new carriers is in operation.

Overall we will try and hold the destroyer and frigate force declared to NATO at around 50 ships compared to 59 ships at present. This will be achieved by disposing early of older and more manpower-intensive ships, for example from the County, Rothesay and Leander classes, and timing their withdrawal so far as possible to avoid major refit or modernisation. We shall place some of these ships, without further modernisation, in the Standby squadron where they will still be available, though at longer notice, as part of our force declaration to NATO. There will be a consequential reduction of Royal Fleet Auxiliaries.

On present estimates the reduction in target numbers of the Royal Navy will be between 8000 and 10,000 men by the end of 1986, rather more than the reductions of 7000 in the Army. We will maintain the three Royal Marine Commandos since we place great value on their unique capability; but we will dispose of the two specialist amphibious ships rather earlier than planned.

In consultation with the US Secretary for Defense about these changes, I have indicated our wish to play an enhanced role alongside our allies, outside the boundaries of the NATO area. We envisage resuming the deployment of Naval task groups - centred sometimes around a carrier, sometimes around destroyers or frigates - for substantial periods on visits and exercises out of area. We have made specific provision in our programme for the extra costs of such deployment. We are continuing with our plans designating an Army field command to plan out of area contingency tasks; for providing an extra stockpile of equipment and giving our Hercules aircraft the equipment needed for a co-ordinated assault by parachute troops.

As regards support, the change in policy on refits which I have described earlier will mean that we cannot justify keeping a dockyard organisation of its present size. I regret to inform the House that the base and dockyard in Chatham will have to close in 1984; work at Portsmouth Dockyard will contract very severely, though the Naval base will be retained; and consideration will be given to alternative ways of fulfilling the Government's obligation to support the economy of Gibraltar if it is decided that the Dockyard work there cannot be kept up indefinitely. We shall consult closely with the Gibraltar Government about how best to deal with the situation.

Much more naval training will take place at sea, and there will be a reduction in shore-based naval establishments, stores and fuel depots. Overall civilian numbers in the Ministry of Defence will fall by between 15,000 and 20,000 as a result of all our measures. Our total workforce will in due course be significantly below 200,000. Redundancies will, I am afraid, be inescapable.

Mr Speaker I have described to the House the main thrust of what we propose - and the substantial enhancement of our frontline capability in very many areas, but with a major reduction in the supporting infrastructure of defence.

I am asking my rt hon Friend the Leader of the House to find time, as soon as possible, for a debate on all these issues. At that time I shall be able to explain more fully the background to these proposals. In conclusion, the Government has in accordance with its undertakings to the country, decided to provide the increased resources our defence demands by increasing spending by 3% in real terms for the next four years; and we have decided also to apply the extra funding in a revised programme which will enhance the combat endurance and the hitting power of our frontline forces in the decade to come.

SECRET

Defence

26

SECRETARY OF STATE FOR ENERGY
THATCHER HOUSE, SOUTH
MILLBANK LONDON SW1P 4JQ

01 211 6402

The Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

WRD
HML

25 June 1981

See 26

I have seen your top secret minute of 17 June to the Prime Minister on the procurement of SNM for the UK Defence programme. I think it is important to put to you some broader implications to your impending decision on the Destiny project affecting the civil nuclear enrichment programme. In brief the cancellation of Destiny would have a very serious effect on the economics of the next stage of BNFL's investment in centrifuge plant at Capenhurst.

Although Destiny was not originally part of BNFL's development plan for centrifuge enrichment, reduced domestic and overseas demand for enrichment and overcapacity to supply now mean that the Destiny programme is critical to the next stage in BNFL's investment. The new plant would use the same model of machine as Destiny, and would have a joint machine manufacturing programme. Destiny would have contributed to R and D costs on this new machine and would have brought major economies of scale, as it would add about a third to the total manufacturing programme. Without Destiny, BNFL estimate that the return on capital will be much less than the cost of money. The BNFL Board are reluctant to make the investment on that basis.

If BNFL were to decide not to proceed with their investment, this could pose serious questions for long term self sufficiency in enrichment for our civil nuclear power programme and for our continued membership of URENCO.

The cancellation of Destiny would also cause unemployment at Capenhurst. Other cutbacks there by BNFL will in any case soon lead to about 100 redundancies; these would increase to about 1000 if Destiny is cancelled.

I understand that BNFL are about to put a further proposal for the Destiny project to your officials. The proposal will contain some options on the way in which the project could be financed, thereby possibly making it easier to accommodate within

the Defence budget. The proposal will also include some ways in which Destiny might achieve savings in other parts of Defence nuclear spending. It will also point out the very real prospects of the cost of enrichment services from the US escalating sharply as American electricity prices push up their enrichment costs. I very much hope that BNFL's proposal will, on its commercial merits, persuade you that Destiny should go ahead rather than relying on US enrichment services.

If however, the proposal on its own does not convince you, then I hope you will be willing to take into account the wider national interest of the civil nuclear programme. There is a risk that you will end up paying more for HEU for the naval fuel programme if Destiny is cancelled, while we will be investing in a civil plant which on its own can at best give a marginal return. If you go ahead with Destiny, it seems that the national interest in both Defence and Civil nuclear fields could both be well served. Therefore I very much hope that you will consult me before reaching your decision.

Handwritten signature
Daw

D A R HOWELL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24th June 1981

B M Norbury Esq.
Private Secretary
Department of Defence

Handwritten initials: KJ, 25/6

Dear Brian,

With your letter of 23 June to Clive Whitmore you circulated copies of the draft of the Statement which Mr Nott will make tomorrow.

The Chancellor has seen the draft, and has asked me to let you know that he would be grateful if Mr Nott would amend the first sentence of the fourth paragraph to bring it into line with paragraph 2 of the White Paper. You will recall that Mr Nott accepted - David Omand's letter of 22 June - some amendments to an earlier version of paragraph 2 of the White Paper, including an amendment which made it clear that the Government's decision now was to plan to implement the 3 per cent aim up to 1985-86. Paragraph 4 of the Statement should similarly refer to plans.

Copies of this letter go to the other recipients of yours.

Yours sincerely

John Wiggins

A J WIGGINS
Private Secretary



Secretary of State for Industry

2.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

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24 June 1981

Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

John Nott

Prime Minister

JMW
24 vi

Thank you for your letter of 17 June on the difficulties you face in keeping defence spending within the cash limit for the current financial year.

2 I am pleased that Ministry of Defence officials have already discussed the problems with a number of trade associations and that further discussions - about the scope for action by industry itself - are planned. I agree that it would be right to refer to the 1981-82 difficulties in your forthcoming statement about the Defence Programme.

3 I appreciate the problems that arise when companies grant excessive wage settlements. Nevertheless, as for Rolls-Royce, which you highlighted in your letter, my understanding is that the company has not "just agreed wage increases" of the size you quote. The last settlement concluded by RR, which was effective in January 1981, was for a maximum increase of 7½ per cent. The company intends, subject to the Board's decision, to aim for a figure below this level in negotiations which will commence this August. It is the case that RR's total wage/salary costs rose by 32 per cent in 1980. However, this included productivity improvements of 10/25 per cent and a legal "fair wages" award of 10 per cent enforced on RR at Bristol.

4 I am copying this letter to the Prime Minister and the Chancellor of the Exchequer and to Sir Robert Armstrong.

Kevin Keene



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

The Rt. Hon. John Nott MP
 Secretary of State for Defence

24 June 1981

NBPA

Paul

John Nott

DEFENCE PROGRAMME - WHITE PAPER

I have seen Peter Carrington's minute to you of 22 June, in which he suggests an amendment to the reference to the Gibraltar dockyard in the draft White Paper.

Peter's suggested wording contains a reference to 'the Government's obligation to support the economy of Gibraltar'. In fact, as his minute to you of 16 June made clear, this obligation refers only to the current situation in which Spanish restrictions on the border make life difficult for Gibraltar. If these restrictions were lifted we would recognise no such obligation. I should, therefore, have preferred to see the reference to Gibraltar read as follows:-

'The Government has concluded that the Royal Dockyard at Chatham will have to close in 1984; and consideration will be given to alternative ways of fulfilling the Government's obligation to support the economy of Gibraltar as long as Spanish restrictions continue, if it is decided that the dockyard work there cannot be kept up indefinitely'. etc.

I understand, however, that the final printing has now gone beyond the point where minor amendment would be possible; but that the points will be made clear to the Government of Gibraltar that the UK commitment springs from the Spanish restrictions and that additional aid funds cannot be counted on. I understand also that the Question and Answer briefing prepared for use with your statement will also cover this issue satisfactorily from the Treasury standpoint.

I should emphasise that I am concerned the savings on the defence programme resulting from the closure of the Gibraltar dockyard should not be offset by additional aid expenditure. To avoid this it is essential that the extra

/aid mentioned



aid mentioned in paragraph 6 of Peter's minute to you of 5 June as being necessary to compensate Gibraltar for the loss of income from the dockyard be found from within the existing Aid Programme. Accordingly I am copying this letter to him.

A copy also goes to the Prime Minister.

A handwritten signature in dark ink, appearing to be "G. Howe", with a horizontal line underneath.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be "James Callaghan", with a horizontal line underneath.



SECRET

2993
24
Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon John Nott, MP
Secretary of State for Defence
Main Building
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LONDON SW1A 2HB

24 June 1981

NBA
Hms

Dear John,

Thank you for your letter of 19 June about redundancy compensation terms for service personnel affected by the new defence programme. I can see why you feel it necessary to continue the terms which were agreed for the 1975 rundown, and the political difficulties of a decision not to do so.

But it is a fact that redundancy compensation is a highly emotive subject at the moment, and there was considerable discussion before H Committee agreed a very modest improvement recently in the compensation terms for the NHS re-organisation. Michael Heseltine was particularly concerned about the risk of repercussions for local government staff and I know that Patrick Jenkin is still having difficulty in selling the agreed terms to the NHS interests. Mark Carlisle is also facing a major problem over redundancy terms for the planned rundown of the teacher force. So, the continuation of the generous 1975 terms for the Armed Forces - and particularly immediate pensions and associated lump sums for those still in their early 30s would create difficulties. So much as I understand your reasoning it will be necessary to have the views of our colleagues before a firm decision is taken. If you feel that something must be said at once about the redundancy terms you have in mind I hope you could confine it to a fairly general statement, with no suggestion that they will be related to those offered in 1975.

I am sending copies of this letter to those who received yours. I am also copying the correspondence to Michael Heseltine, Patrick Jenkin, Mark Carlisle, Humphrey Atkins, George Younger and Leon Brittan.

Yours ever
Christoph

SOAMES

SECRET

CONFIDENTIAL

file

2



10 DOWNING STREET

From the Private Secretary

23 June 1981

Defence Programme - Consultations

The Prime Minister has seen and taken note of the Defence Secretary's minute to her of 22 June on this subject.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), John Wiggins (HM Treasury), David Heyhoe (Chancellor of the Duchy of Lancaster's Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

David Omand, Esq.,
Ministry of Defence.

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~932 7022~~ 218 2111/3

MO 9

23rd June 1981

Dear Chris,

NRPM.

K

24/6

THE DEFENCE PROGRAMME

I attach a proof of the White Paper which, in the light of Cabinet's discussion on 18th June, and following his discussions this weekend with the US Secretary of Defense, my Secretary of State proposes to publish later this week.

I am sending copies of the proof, with this letter, to the Private Secretaries to the other Members of the Cabinet and the Chief Whip and the Chief Whip, Lords; and to David Wright (Cabinet Office).

Yours usw.

Brian Norbury

(B M NORBURY)

C A Whitmore Esq

CONFIDENTIAL



The United Kingdom Defence Programme: The Way Forward

*Presented to Parliament by the Secretary of State for Defence
by Command of Her Majesty June 1981*

LONDON
HER MAJESTY'S STATIONERY OFFICE
£1.70 net

Cmnd. 8288

The United Kingdom Defence Programme: The Way Forward

1. The first duty of any British Government is to safeguard our people in peace and freedom. In today's world that cannot be done without a major defence effort. The international scene is in several areas unsettled and even turbulent. Soviet military power, already massive, continues to grow in size, quality and reach, and the Soviet leaders continue to demonstrate their readiness to use it brutally. The North Atlantic Alliance remains vital to us, and neither its strength nor its cohesion can be maintained without our crucial contribution. This is at the top of the Government's priorities.

2. Our policy is translated into practice initially through decisions on resources. Britain already spends 5.2% of its gross domestic product on defence—one of the highest figures anywhere in the Alliance, even though we are not among the wealthiest members and continue to face sharp economic difficulties. The Government attaches such importance to its security responsibilities within the Alliance that defence expenditure is already 8% higher in real terms than three years ago. It was announced in March, and has recently been reaffirmed, that the defence budget for the next two years (1982/83 and 1983/84) will reflect further annual growth at 3%, in full implementation of the NATO aim. The Government has now firmly decided to plan to implement the aim in full for a further two years—1984/85 and 1985/86—and the programme will be shaped accordingly. This may well mean that defence will absorb a still higher share of our gross domestic product. Defence, like other programmes, will now be managed in cash terms: the intention will be provision for 1985/86 21% higher, in real terms, than actual expenditure in 1978/79. In a setting of economic difficulty, and given the Government's determination to hold down total public expenditure, there could be no clearer or more concrete demonstration of resolve to maintain our vital priorities and our Alliance contribution.

The Need for Change

3. The Government's appraisal of the defence programme therefore in no way rests on a desire to cut our defence effort. On the contrary, it reflects a firm resolve to establish how best to exploit a substantial increase, which will enable us to enhance our front-line capability in very many areas. Defence spending on the scale we have decided is a heavy burden on the British people, but one which in our judgement they are prepared to bear. It is then however all the more incumbent upon the

Government to ensure that resources are spent to the very best effect in terms of security. It has become clear that meeting this responsibility in the future calls for change in the defence programme. There are two main reasons for this.

4. First, even the increased resources we plan to allocate cannot adequately fund all the force structures and all the plans for their improvement we now have. One reason (not peculiar to Britain) is cost growth, especially in equipment. Our forces need to be equipped, operated, trained and sustained to the standards imposed by the mounting Soviet effort and the increasing sophistication of weapons. Our current force structure is however too large for us to meet this need within any resource allocation which our people can reasonably be asked to afford. The effects—at a time moreover when economic recession led to intensified activity in industry on defence work and so caused extra difficulties in managing the defence programme—were seen in 1980/81, when harsh measures to cut back activity and stop placing orders on industry still could not prevent a substantial overspend; and similar problems, which will call for urgent corrective action, are already emerging for 1981/82.

5. The second reason for change, partly related to the first, concerns balance within the programme. Technological advance is sharply changing the defence environment. The fast-growing power of modern weapons to find targets accurately and hit them hard at long ranges is increasing the vulnerability of major platforms such as aircraft and surface ships. To meet this, and indeed to exploit it, the balance of our investment between platforms and weapons needs to be altered so as to maximise real combat capability. We need to set, for the long term, a new force structure which will reflect in up-to-date terms the most cost-effective ways of serving the key purposes of our defence effort. The best way of enhancing the deterrent effect of our armed forces, for example in raising the nuclear threshold, is to give more resources to their hitting power and staying power in combat. This means that the structure we set must be one which we can afford to sustain with modern weapons and equipment, and with proper war stocks. This is less glamorous than maximising the number of large and costly platforms in our armoury, but it is far the better way of spending money for real security value. Moving in this direction will mean substantial and uncomfortable change in some fields. But the alternative, of keeping rigidly to past patterns, would be a recipe for overstretch, inadequacy and waste—it would leave us the certainty of attempting too much and achieving too little.

6. We cannot go on as we are. The Government has therefore taken a fresh and radical look at the defence programme. We have done this in terms of real defence output—the roles our forces undertake and how they should in future be carried out—and not in terms of organisation. It is increasingly essential that we tackle the business of defence this way, and manage it in terms of total capability rather than Service shares.

Britain's Defence Roles

7. We have now four main roles: an independent element of strategic and theatre nuclear forces committed to the Alliance; the direct defence of the United Kingdom homeland; a major land and air contribution on the European mainland; and a major maritime effort in the Eastern Atlantic and Channel. We also commit home-based forces to the Alliance for specialist reinforcement contingencies, particularly on NATO's European flanks. Finally, we exploit the flexibility of our forces beyond the NATO area so far as our resources permit, to meet both specific British responsibilities and the growing importance to the West of supporting our friends and contributing to world stability more widely.

8. There can be no question of abandoning our contribution in any of these roles, especially in face of a growing threat. The issue is not whether to undertake them in the future, but how best to do so from our growing resource allocation. Within this key objective, the review has taken nothing as exempt or sacrosanct. The rest of this White Paper sets out the Government's broad conclusions.

Nuclear Forces

9. We intend to maintain and modernise our present nuclear role in the Alliance. No other member could in practice replace us in this distinctive contribution. NATO collectively, and our main allies individually, have made clear that they place high value upon it.

10. We intend accordingly to proceed with our plans for Trident. Certain aspects of the programme are still being studied, but however these are resolved expenditure over the next few years will remain comparatively modest. Review of all the options confirms that Trident remains by far the best way—indeed the only cost-effective way—of modernising the crucial strategic element of our capability. In the Government's firm judgement, no alternative application of defence resources could approach this in real deterrent insurance. The operation of the strategic force will remain the Royal Navy's first and most vital task for Britain's security.

Defence of the Home Base

11. We cannot reduce our effort in direct defence of the United Kingdom homeland. Planned capability is in several respects already less than we should like. The crucial role this country plays in Alliance support, as a key forward base in emergency for land and air forces from across the Atlantic and as the main base for our own effort in Continental reinforcement and in maritime tasks, means that we must expect that the increasing reach and quality of Soviet conventional forces capable of direct attack on Britain would be exploited in war. We need to do more, not less, in this field.

12. In air defence, we will maintain all the major improvement plans already announced. In the mid-1980s the air defence version of Tornado (F2) will enter service and our airborne early warning capability will be transformed with the advent of the Nimrod in this role. Air defence ground radar and communications systems are being extensively modernised. Stocks of modern air-to-air missiles are to be more than doubled and surface-to-air missile cover improved.

13. It is however essential to provide more United Kingdom-based fighters. Two Phantom squadrons will be retained instead of being phased out as Tornado F2 comes in. For local air defence a further 36 (making 72 in all) of our Hawk advanced trainer aircraft will be equipped with Sidewinder air-to-air missiles. We are also considering whether to switch to the air defence configuration the last 20 Tornados planned in the strike version. A VC10 squadron is already planned to enhance our tanker force, which effectively multiplies our fighter force by prolonging patrol time and range, and we plan to modify additional VC10s for use as either transports or tankers, replacing the Victors if fatigue repairs become uneconomical. By 1986 the total force will have increased by a third.

14. We will continue to build up a balanced mine countermeasures force, and we will proceed with new minehunters. We will continue work on defensive mining, to establish and exploit the best ways (including methods of laying) to use this capability for the defence of our own shipping lanes and ports, and further afield.

15. The Government is determined to make more use of reserve forces. We now plan a further substantial expansion of the Territorial Army for use both at home and in Germany, where last year's Exercise CRUSADER vividly demonstrated its readiness and efficiency. We plan to increase strength progressively from 70,000 today to 86,000, and provision for training days will be increased from the present average of 38 a year to 42. We plan to acquire new minesweepers for the Royal Naval Reserve, though it will not be financially possible to place orders this year. The use of Royal Auxiliary Air Force Regiment squadrons for ground defence of airfields in the United Kingdom will be expanded.

The British Contribution on the Continent of Europe

16. The Government has considered with especial care the future of the large proportion of our land and air forces we maintain permanently in the Federal Republic of Germany, backed by a very extensive commitment for rapid reinforcement from the United Kingdom in emergency. Despite all the financial pressures on our defence effort, the Government has decided that this contribution is so important to the Alliance's military posture and its political cohesion that it must be maintained. The Central Region is the Alliance's heartland in Europe; the forward defence of the Federal Republic is the forward defence of Britain itself;

and the full fighting strength of First British Corps is needed to guard the vital 65-kilometre sector assigned to it. We will therefore stand by our Brussels Treaty commitment of land and air forces, and the figure of 55,000 troops which we have upheld under it for over 20 years now.

17. BAOR's manpower, which had been planned to continue to increase beyond the 55,000 level, will be held at that level. We propose to reorganise the main regular structure of the Corps from the present four armoured divisions each of two brigades to three armoured divisions each of three brigades; the overheads of the fourth stationed division will thus be saved. The total number of brigades in the Federal Republic will be sustained at eight; one of the nine regular brigades will be held normally in the United Kingdom, as will a new reserve division formed primarily from the Territorial Army and committed to the reinforcement of 1(BR) Corps. Our ability to reinforce BAOR rapidly will be substantially increased when the new Individual Reinforcement Plan comes into effect on 1 July 1981.

18. We will maintain the wide-ranging set of major projects we have in hand for progressive re-equipment of BAOR, including the Challenger tank, the new mechanised combat vehicle, the SP 70 self-propelled howitzer, the multiple-launch rocket system, the TOW helicopter-borne anti-tank missile, the new one-man Light Anti-Tank Weapon (LAW), improved night sights for missiles and tanks, and the Wavell system for rapid automated handling of tactical intelligence and other data. The scale or timing of some of the new equipment projects will need to be modified, partly to restrain total cost but also to provide room, in accordance with paragraph 5 above, for further enhancement of war stocks and ammunition to improve the combat endurance of 1(BR) Corps; in particular we plan to increase the buy of Milan anti-tank missiles. The planned buy of Challenger will be enough to equip four armoured regiments. There will be a programme of qualitative improvements both to the present Chieftain and in due course to Challenger. The key elements of the improvement programme for the Blowpipe air defence missile system will continue, but we will not proceed with the towed version of the quadruple launcher. We will however greatly strengthen battlegroup air defences by equipping three batteries with the tracked version of the Rapier missile system. The introduction of the big Chinook helicopter for rapid logistic support and troop movement will continue.

19. We intend to provide new and better aircraft with the unique vertical and short take-off and landing (V/STOL) capability which gives exceptional survivability and responsiveness in the support of forward troops. On the final conclusion of satisfactory terms of collaboration with the United States the new aircraft will be the AV8B development of the Harrier, produced jointly by McDonnell Douglas and British Aerospace, with Rolls-Royce engines. Operationally, the new aircraft will bring a big advance in manoeuvrability, range, endurance, and weapon-carrying ability; industrially, there will be a great deal

of work—worth perhaps a billion pounds at current rates—for British industry in orders for the United Kingdom and even larger orders for the United States. We envisage buying 60 AV8Bs.

20. Deployment of the Tornado strike aircraft in Germany will proceed as planned, and the JP 233 project for air-delivered weapons to neutralise enemy airfields by cratering has been confirmed. We shall seek subsequently to acquire further advanced weapons for attacking enemy armoured forces and suppressing air defences, to exploit Tornado's capability more fully. It is clear that we shall not be able to afford any direct and early replacement for the Jaguar force in Germany and at home. We are however continuing work and discussion with potential partners on future combat aircraft. Possibilities will include both advanced V/STOL and Tornado-related developments. We shall pay particular regard to collaborative opportunities and to export markets, as well as to the long-term capability of the British aircraft industry.

Maritime Tasks

21. As the Government's review work proceeded it became clear that the most complex and difficult issues concerned the future shape of Britain's maritime contribution. That such a contribution must continue, and on a major scale, is not in question. The importance of maritime tasks to Alliance security, our special skills and immense experience, and our existing assets all ensure this; so does our position as NATO's major European maritime power, situated crucially close to the Soviet Navy's long exit route to the open Atlantic. But we have to think hard about how we can most cost-effectively shape our contribution for the future, with account taken both of resource constraints and of technological change.

22. All the major weapons platforms of maritime warfare—aircraft, surface ships and submarines—have a continuing part to play, complementing one another. Their capabilities, and their costs, are however not changing symmetrically. The Government believes that a shift in emphasis is inescapable for a country like Britain which simply cannot afford to maintain large numbers of every type of platform at the highest standards which the adversary's developing capability requires. The power of maritime air systems and submarines in tactical offensive operations is especially apt and telling in our forward geographical situation. But if we are to maintain and improve these capabilities, we cannot at the same time sustain a surface fleet of the full present size, with its heavy overheads, and continue to equip it with ships of the costly sophistication needed for protection in independent operations against the most modern Soviet air-launched and sea-launched missiles and submarines. Nevertheless, there will remain a wide range of tasks in peace and war for which surface ships are uniquely suited; and we must therefore retain a large and versatile ocean-going surface fleet.

23. Our basic judgement accordingly is that for the future the most cost-effective maritime mix—the best-balanced operational contribution for our situation—will be one which continues to enhance our maritime-air and submarine effort, but accepts a reduction below current plans in the size of our surface fleet and the scale and sophistication of new ship-building, and breaks away from the practice of costly mid-life modernisation.

24. We have already in hand in British shipyards a major programme of ship orders worth, with their weapons, over two billion pounds and due to bring into service some 20 new surface warships over the next five years. All these orders will go ahead. But sustaining the fleet at its present size under our present practice requires in addition a massive and costly continuing programme of refit and modernisation, backed by a very extensive infra-structure. (Typically, modernising a Leander frigate can cost £70 million, which is more than our target cost for the new Type 23 design noted in paragraph 30 below.) A rather smaller but modern fleet with less heavy overheads will give better value for defence resources.

25. It is clear that the maritime patrol aircraft remains a highly effective instrument; that in the Nimrod, particularly with the extensive Mark II conversion, we have an exceptionally capable aircraft for the role; and that the very advanced Sting Ray light-weight torpedo will give it great striking power against submarines. We plan to increase the Nimrod fleet by completing and bringing into operation, with the full Mark II equipment, the three remaining Mark I airframes, making a total of 34 Mark II Nimrods. For attack on surface ships we shall provide a new air-launched guided missile of substantial range. Subject to the satisfactory completion of contract negotiations, we intend to order British Aerospace's Sea Eagle system. We intend to retain the Buccaneer as the carrier of this missile; the missile's own capability for location and attack will make it unnecessary to rely on the more advanced penetration capability of Tornado, which can thus be used in maximum numbers for other roles (though we do not exclude the possibility of its maritime use with Sea Eagle). The enhancements in the United Kingdom-based interceptor and tanker forces noted in paragraphs 12 and 13 above will be available also for maritime application. All this will mean a considerable enhancement of our offensive and defensive air-launched missile capability for protection of ships against surface or air attack.

26. Our most powerful vessels for maritime war are our nuclear-propelled attack submarines (SSNs), soon to be equipped with the anti-surface-ship guided missile Sub-Harpoon. There are 12 at present in service, and the fleet will build up further to 17. An order worth £177 million is now being placed for the next Trafalgar-class boat to be built by Vickers (Barrow). We intend also to proceed with the new class of diesel-powered submarines (SSKs)—which may have considerable export potential—and will if possible introduce these at the rate of one per year. Both

SSNs and SSKs will be equipped later in the 1980s with a new heavyweight torpedo of high performance; we are considering the choice of design.

27. The new carrier *Ark Royal* will be completed as planned, but we intend to keep in service in the long term only two of the three ships of this class. The older carrier *Hermes* will be phased out as soon as the second of the new ships is operational.

28. Final decisions have yet to be taken on whether to procure a new large anti-submarine helicopter to replace the *Sea King*. It is not clear whether such a project will in the end find a place in our defence programme, but meanwhile a programme of work continues at Westlands to explore both collaborative possibilities with Italy and potential civil application, which industry believes to have attractive commercial prospects.

29. We have at present 59 destroyers and frigates declared to NATO. We shall now seek to sustain a figure of about 50. The change will be made mainly by disposing early of older and more manpower-intensive ships, for example from among the *Rothsay* and *Leander* classes, and timing their withdrawal so far as possible to avoid refit or major modernisation. We will place some ships, without further modernisation, in the standby squadron, where they will still be available as part of our force declaration to NATO. There will be a reduction of four operational Royal Fleet Auxiliaries by 1985, in step with the contraction of the combat fleet.

30. We shall accelerate to the maximum possible extent the entry into service of anti-submarine frigates to a new design, the Type 23. This will be simpler and cheaper than the Type 22, and its characteristics will be framed with an eye to the export market as well as Royal Navy needs. Once the design is settled we will decide the scale and pace of follow-on orders in the light of resources available. Meanwhile another Type 22, the seventh, is being ordered from Yarrow on the Clyde at a cost of £125 million; further study is needed to determine whether there should be subsequent orders, and if so how many. There will be no more orders for Type 42 air defence destroyers after the seven now being built, and plans for major mid-life modernisation of those already acquired and for a successor type will be abandoned. The *Sting Ray* torpedo programme will provide powerful new anti-submarine weapons for our surface ships and their helicopters, as well as for the *Nimrods*.

31. Three Royal Marine Commandos will be maintained, as at present. The Government regards their special experience and versatility as of high value for tasks both in and beyond the NATO area. It had already been decided that likely needs did not warrant replacement of the specialist amphibious ships *Intrepid* and *Fearless*; and these ships will now be phased out earlier, in 1982 and 1984 respectively.

Beyond the NATO Area

32. As the Alliance collectively has acknowledged, changes in many areas of the world, together with growing Soviet military reach and readiness to exploit it directly or indirectly, make it increasingly necessary for NATO members to look to Western security concerns over a wider field than before, and not to assume that these concerns can be limited by the boundaries of the Treaty area. Britain's own needs, outlook and interests give her a special role and a special duty in efforts of this kind.
33. Military effort cannot be the sole instrument, but it has inevitably a part to play. The Government intends to sustain and where appropriate expand our activities by way of military assistance, advice, training, loan of personnel and provision of equipment to friendly countries whose security benefits from our help. But help in these ways needs increasingly to be backed by the ability of our own forces to act directly if our friends need us. Many elements of our Services have basic characteristics of flexibility and mobility which make them well suited for this without need for much extra expense or expansion. The Government intends to exploit them more fully, and to make plans and provision accordingly.
34. The Royal Navy has a particularly valuable role. For example, since the conflict broke out last year between Iran and Iraq a maritime presence has been maintained continuously in the Indian Ocean, with warships on rotation supported by fleet auxiliaries. We intend to resume from 1982 onwards the practice of sending a substantial naval task group on long detachment for visits and exercises in the South Atlantic, Caribbean, Indian Ocean or further east. We intend to make particular use of the new carriers, with Sea Harriers and helicopters, in out-of-area deployment. We will coordinate all these deployments and exercises as fruitfully as possible with the United States and other allies, as well as with local countries with whom we have close defence relations.
35. Measures will also be taken to enhance the out-of-area flexibility of our ground forces. We will implement plans for a modest extra stockpile of basic Army equipment held ready to support contingency deployments and exercises, and for the designation of Headquarters Eighth Field Force to plan and command any operations of this kind. Measures to increase the airlift capability of our Hercules force by fuselage-lengthening are already far advanced, and we have decided to increase its flexibility by fitting station-keeping radar equipment which will enable the aircraft to carry out the coordinated drop of a parachute assault force, even in poor weather. We now maintain two battalions fully trained for this role.
36. Our forces will also continue as necessary to sustain specific British responsibilities overseas, for example in Gibraltar, Cyprus, Belize and the Falkland Islands. The Hong Kong garrison will be expanded by one infantry battalion in accordance with our agreement with the Hong Kong Government.

Service Manpower

37. The men and women in the Services are themselves a defence resource of central importance; without them, everything else is wasted. We must recruit and retain the volunteers we need. This requires continuing commitment on the Government's part, and our decisions on Service pay have demonstrated that commitment in the most practical way. It also requires clear evidence of important and satisfying work properly supported; and the new directions of the defence programme are designed to ensure this.

38. If these objectives are to be achieved some reduction is necessary in manpower targets, reflecting changes in the front line. Royal Navy numbers required will be reduced by between about 8,000 to 10,000 by 1986, partly through the surface fleet contraction and partly through cutting out posts and establishments ashore and undertaking more training afloat. Over the same period Army numbers will be reduced by up to about 7,000 and Royal Air Force numbers by about 2,500. All these reductions will be made so far as possible through natural wastage and careful control of recruitment rates.

Support and Employment

39. It is essential, if we are to get the best value from the resources we spend on defence, that overheads of all kinds should be rigorously constrained. The new Ministerial structure in the Ministry of Defence will give added impetus to the drive to ensure this, with special responsibilities for ensuring that our procurement of materiel is efficient and economical and for reshaping the general infrastructure and support elements for the Services (including military and civilian staffs in headquarters) as tautly as possible to release maximum resources for front-line combat capability.

40. The measures summarised in earlier paragraphs will be directly reflected in altered demands in supporting areas. The full details need further working out; but the sharpest changes will inevitably be felt in support for the surface fleet. It will be impossible to sustain or justify a dockyard organisation of the present size, in view of the great reduction in refits and mid-life modernisations. The Government has concluded that the naval base and the Royal Dockyard at Chatham will have to close in 1984; and consideration will be given to alternative ways of fulfilling the Government's obligation to support the economy of Gibraltar if it is decided that the dockyard work there cannot be kept up indefinitely. This consideration will be undertaken in closest consultation with the Gibraltar Government. In addition, there will be a very sharp reduction in the scope and volume of dockyard work at Portsmouth. Within the reduced dockyard organisation as a whole the Government will take up the thrust of last year's Consultative Document in tauter and more accountable management and improvements in efficiency. We shall have to close a substantial number of naval stores and fuel depots, including those at Deptford, Invergordon, Llangennech, Pembroke Dock and Woolston.

41. There will also be overhead reductions and some closures in the Army and Royal Air Force support areas, though details have still to be settled. Plans for new communications aircraft have been deferred until the late 1980s. We shall seek economies in the organisation for training, including staff training, and some establishments will close.

42. At the same time the Government will seek to carry further our partnership with the private sector in the support area, especially where there are export opportunities. In particular, we plan to do as much as possible in this direction in respect of the Royal Ordnance Factories and certain of the research and development establishments. Fuller details of our intentions for the ROFs are being announced separately.

43. On 1 April 1979 the Ministry of Defence directly employed some 248,000 United Kingdom-based civilians. Cuts in functions and increased efficiency have already reduced the figure to some 228,000 by 1 June 1981. The measures outlined in paragraphs 40-41 above will result in a reduction of 15,000-20,000 United Kingdom-based civilian jobs, and together with other reductions envisaged in the support infrastructure should make it possible eventually to reduce numbers significantly below 200,000. Redundancies will be unavoidable, but the changes will be made in close consultation with the trade unions and wherever possible by natural wastage. Our defence effort in the long term will continue to depend crucially upon the commitment and skill of our civilian workforce in a wide and complex range of tasks.

44. The programme changes will also have a substantial effect upon employment in British industry. The precise impact must be for the firms themselves to assess and plan. More work will be generated in some fields; but job opportunities in a number of others, particularly surface warship building, will inevitably decline as compared with current levels. The total amount spent on procurement with British industry will continue to rise, but with a shift of emphasis towards the more advanced technologies rather than the older labour-intensive areas.

45. The key to jobs in the defence industries lies increasingly with exports. Though we have had much success, we have often been hampered by the sophistication and consequent cost of much of our equipment; for example, it is a decade since we last sold overseas a major new warship of Royal Navy design. Our own need for less expensive equipment to sustain our defence programme should now march alongside industry's desire for equipment more widely marketable. We intend to improve our arrangements for defence sales and to work for closer partnership with industry, by such measures as the re-shaping of the ROF organisation noted in paragraph 42 above and, more generally, by seeking the involvement of industry's own funds earlier in the research and development process to engage their full interest and responsibility.

The Way Forward

46. This White Paper has set out the Government's basic conclusions on tasks, force levels, equipment, personnel and support. A great deal of work however lies ahead in shaping the details and planning the methods and timing of implementing change; and modifications or further adjustments may prove necessary. We intend to consult fully and flexibly about all this, both with our allies and domestically. We shall explain and discuss the specific aspects of our plans through the processes of NATO's annual Force Planning Review system. We shall seek similarly to take careful account of the views of our employees, our suppliers and others affected by the new measures on how best within our central concept we can meet particular concerns.

47. In its review work the Government has confronted complex choices, with no easy or painless solutions available. To go on simply as before, or with all plans and aspirations unabated, is not an option; change is necessary. The Government has taken hard decisions. These reflect our resolve to give defence the resources Britain's security demands; but equal resolve to see that these resources, which the nation cannot spare without much penalty elsewhere, are put to work in accordance with realistic, unsentimental and up-to-date judgement of what will be most relevant and effective in future years.

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-938 7022 218 2111/3

MO 9

23rd June 1981

Dear Clive,

ms

Ann. Minister.

*Consult with W
NAX's copy statement?
JW
23rd*

THE DEFENCE PROGRAMME

I shall be circulating later today a copy of the proof of the White Paper my Secretary of State proposes to publish on Thursday.

/ Mr Nott has meantime asked me to send you a copy of his draft Parliamentary Statement for that day to which he is now putting the final touches. Perhaps you would let me know if the Prime Minister has any comments on it. Mr Nott recognises that it is rather long and has considered whether it might be shortened, but has concluded that that is impracticable given the need to make a coherent and definitive explanation of the Government's position so as to pre-empt further speculation in the interval between the Statement, and the subsequent Debate which he hopes it will be possible to arrange.

I am sending copies of the draft, with this letter, to Brian Fall (FCO), John Wiggins (HM Treasury), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Murdo MacLean (Chief Whip's Office) and David Wright (Cabinet Office).

*Yours truly,
Brian*

(B M NORBURY)

Mr Speaker

The first duty of any British Government is to safeguard our people in peace and freedom. In today's world peace is expensive - and becoming more so - but it is nowhere near as expensive as war.

The international scene is in several areas unsettled and even turbulent. Soviet military power, already massive, continues to grow in size, quality and reach, and the Soviet leaders continue to demonstrate their readiness to use it brutally. The North Atlantic Alliance remains vital to us, and neither its strength nor its cohesion can be maintained without our crucial contribution.

With this scene as background, the Government has reviewed the Defence Programme; and a full account of our conclusions is contained in a White Paper which will be available shortly in the Vote Office.

The Government intends to honour the NATO aim of 3% real growth in defence expenditure and has, exceptionally, taken a firm decision now to extend the increase until 1985/86, a full four years forward. This may mean that Defence absorbs an even greater share of our Gross Domestic Product; and whilst it will be necessary to curb several of our forward plans and aspirations, the additional funding should enable us to enhance our front-line capability above its present level in very many areas.

The House knows of our basic problems, which are not unique to Britain. The cost of defence equipment is rising sharply; our inventory of modern weapons, and of war reserves to sustain our forces, is out of balance with our weapon platforms; and our supporting infrastructure, despite much pruning, has not reduced in line with the present size of our front-line forces.

We have, as a result, a defence programme which is over-extended. By way of illustration, last year we suffered from severe cash problems; and similar difficulties are already emerging in the current year. Industry is maintaining a higher than normal rate of progress and billing on defence work - a rate faster than our cash forecasts have room for. If this situation is not corrected contracts may have to be re-negotiated and cash out-flow curbed.

We cannot go on like this. We have no choice, in the longer term, but to move towards a better balance between the various components of our effort - front-line numbers, quantity and quality in equipment, and military and civilian support. And we must determine this balance in terms of real defence capability, rather than as the outcome of a debilitating squabble over each Service's budgetary share.

We have looked first at the defence of the United Kingdom itself especially in its role as a crucial reinforcement base for NATO. For some time we have felt the need to give greater emphasis to our Reserve Forces. For the Territorial Army, whose readiness and efficiency were vividly shown in Exercise Crusader, I intend a progressive increase of some 16,000 men and women and there will also be an increase in man-training from 38 to 42 days a year.

We will order new minesweepers for the Royal Navy Reserve as soon as resources permit; and we will expand the use of RAF reserves in airfield protection.

In UK air defence we will sustain all the programmes already in hand. As a new enhancement we will provide Sidewinder air-to-air missiles for a further 36 of our Hawk aircraft, making 72 Hawks in all available to supplement fighter force; we will run on two Phantom squadrons instead of phasing them out as the air defence version of Tornado comes in; we will examine the possibility of switching 20 Tornados to the air defence rather than the strike version; and we will substantially increase the VC10 tanker fleet which multiplies our fighter force by prolonging patrol time and range. Around our coasts, we will increase our capability to counter enemy mining, and we have set aside funds for enhancing our protective mining capability, to help secure our ports and maritime routes against enemy warships.

I turn next to our major land/air contribution on the Continent of Europe. BAOR's manpower, which had been planned to rise above our Brussels Treaty commitment of 55,000 men, will return to that level. But we will retain in Germany our full present combat fighting strength of 8 brigades and our responsibility for the forward defence of a vital 65 kilometres of the Central Front. The forward defence of Germany is the forward defence of the United Kingdom itself; and, in realistic terms, there is no-one else to take our place.

We intend however to withdraw from Germany one divisional Headquarters and other supporting staff; and this, together with other necessary economies, will enable us to move towards a slightly smaller Regular Army of 135,000 men and women, 7,000 less than at present, but partly balanced by the 16,000 increase in the Territorial Army.

Only by this reduction in regular manpower can we afford to keep, as is our intention, the very wide range of re-equipment projects now envisaged for BAOR, including for example the TOW anti-tank missile launched from helicopters and new night sights for missile systems and tanks. The scale or timing of some of the projects will be modified, partly to restrain costs but mainly to provide for a further enhancement of war stocks and ammunition, to improve the combat endurance, the staying power, of 1st British Corps.

We plan for instance to increase the buy of Milan anti-tank missiles. The planned buy of Challenger will equip 4 armoured regiments. There will be a programme of qualitative improvements both to the present Chieftains and in due course to Challenger. We will bring into service as planned the 2nd Chinook helicopter squadron to enhance Army logistic support and mobility, and we shall greatly strengthen battle group air defences with the tracked version of the Rapier missile system.

I am glad to announce that we will be signing today, in Washington, an agreement for the joint manufacture with the United States of the AV8B, the advanced Harrier. This has turned out to be an agile and effective aircraft, with a substantial weapon-carrying ability; and we plan to order sixty aircraft for close air support. Of the total Anglo-American programme of some 400 aircraft 40% will be manufactured here, including 70% of the work on the Rolls Royce engine. There will be something like a billion pounds' worth of work for British industry, the bulk of it for export to the United States.

I have decided that we cannot afford early replacement of the Jaguar, though possibilities remain open for new combat aircraft in the longer term, perhaps through international collaboration. On the other hand, we must exploit our investment in Tornado - some £10 billion at current prices. We will continue with the JP233 system for neutralising enemy airfields by cratering, and we shall seek also to acquire also new weapons to equip Tornado in an anti-armour role and for suppressing enemy air defences.

At sea, the Royal Navy will continue with the key task of providing a strategic nuclear force by the modernisation of the Polaris force with the Trident system. One submarine - just a single boat on station; as we have had continuously for twelve years now, invulnerable against any pre-emptive strike by the Russians will be able in the Trident era to carry up to 128 independently-targetted warheads which can hold at risk targets over a vast area of the Soviet Union. This is a terrible force;

but precisely for that reason it is far the most cost-effective means of deterrence - in the world as it is, the strongest and surest force we can have for peace.

But we must also keep strong also the three conventional elements of power at sea - of maritime air, submarines and surface ships. All are essential. But some change in emphasis is needed. Operational effectiveness has increased in all three; so has cost. But the changes in cost have not been symmetrical.

In maritime air, in addition to present plans, we will fit a further three Nimrods making 34 in all, to the full Mark II equipment standard, which is as great a leap in technology over the Mark I as the Mark I was over the Shackleton. Armed with our very sophisticated Stingray torpedo the Mark II will have great striking power against submarines. We will proceed with a new stand-off anti-ship missile to be delivered by Buccaneers - which we will keep on for this task - or by Tornado. Subject to the satisfactory completion of contract negotiations, we intend to acquire British Aerospace's Sea Eagle missile.

We will increase our fleet of nuclear-powered attack submarines - from the present twelve to seventeen; I have today confirmed the order with Vickers at Barrow at a cost of £177 million for the next boat. We will also proceed as fast as possible with a new and more effective class to replace our present ageing diesel-powered submarines; these should also have a market overseas. We will acquire a new heavy-weight torpedo for all our boats, and are considering alternative British and American designs for this.

Overall our maritime air and submarine capability will be much enhanced.

As regards surface ships we will go ahead with all the very large orders - 20 new warships, to a value, with their weapons, of well over £2 billion - already in hand in British shipyards, and shall be placing an order for a further Type 22 anti-submarine frigate at a cost of £125 million, which will sustain work at Yarrows on the Clyde.

But I believe we must make changes here in a number of ways.

Firstly, if we want a reasonable number of new ships in the future, we must devise much cheaper and simpler designs than the Type 22. We must accelerate urgently, and I have provided extra funds in the programme for this, a new type of anti-submarine frigate, the Type 23, built with an eye to export as well as Royal Navy needs, for we have not sold a major British warship of Royal Navy design for over a decade. I intend to pursue also the possibility of still more cost-effective, similar ships than the Type 23.

Secondly, we only maintain our surface fleet at its present full strength through a continuous programme of refits and major mid-life modernisations of older ships, requiring a huge and costly dockyard infrastructure. Typically it can now cost up to £70 million to modernise an old Leander frigate which is actually more than our target cost for a new Type 23.

Where the planned forward investment in major equipment for the air defence at sea has been about double that for the air defence of the United Kingdom itself.

If we are to continue to build new ships and fulfil other priority defence tasks, we simply cannot afford to sustain such a policy of refit and modernisation - or for that matter of maritime air defence at the present level.

It is for reasons like these that whilst we shall complete the new carrier ARK ROYAL, we intend to keep in service in the longer term only two of the ships of this class, with their heavy demands on supporting escorts. The older carrier HERMES will be phased out as soon as the second of the new ships is in operation.

Overall we will try and hold the destroyer and frigate force declared to NATO at around 50 ships compared to 59 ships at present. This will be achieved by disposing early of older and more manpower-intensive ships, for example from the Rothesay and Leader classes, and timing their withdrawal so far as possible to avoid major refit or modernisation. We shall place some extra ships, without further modernisation, in the Standby squadron where they will still be available, though at longer notice, as part of our force declaration to NATO. There will be a consequential reduction of Royal Fleet Auxiliaries.

On present estimates the reduction in target numbers of the Royal Navy will be between 8000 and 10,000 men, rather more than the reductions of 7000 in the Army. We will maintain the Royal Marines at their present strength since we place great value in their unique capability; but we will dispose of the two specialist amphibious ships rather earlier than planned.

The change in policy on refits which I have just described will mean that we cannot justify keeping a dockyard organisation of its present size. I regret to inform the House that the base and dockyard in Chatham will have to close in 1984; work at Portsmouth Dockyard will contract very severely, though the Naval base will be retained; and we cannot count on sustaining indefinitely dockyard work in Gibraltar. We shall consult closely with the Gibraltar Government about how best to deal with the situation. Much more naval training will take place at sea, and there will be a reduction in shore-based naval establishments, stores and fuel depots. Overall civilian numbers in the Ministry of Defence will fall by some 15,000 to 20,000 as a result of all our measures, bringing our total workforce in due course significantly below 200,000. Some redundancies will, I am afraid, be inescapable.

In consultation with the US Secretary for Defense about these changes, I have indicated our wish to play an enhanced role alongside our allies, outside the boundaries of the NATO area. We envisage resuming the deployment of Naval task groups - centred sometimes around a carrier, sometimes around destroyers or frigates - for substantial periods on visits and exercises, out of area. We have made specific provision in our programme for the extra costs of such deployment. We are continuing with our plans to designate an Army field command for such operations; an extra stockpile of equipment and the conversion of Hercules aircraft for a co-ordinated assault drop of 2 Parachute Battalions, in this role.

Mr Speaker I have described to the House the main thrust of what we propose - and the substantial enhancement of our capability in many areas. There is much detail still to be worked out, and we intend, in doing this, to consult closely both with our Allies, in NATO's regular force planning process, and with all those at home, who are affected by the manner and timing of these changes especially our own employees and our suppliers in industry.

I am asking my rt hon Friend the Leader of the House to find time, as soon as possible, for a debate on all these issues. At that time I shall be able to explain more fully the background to these proposals, before seeking the support of my RH and HFs for the difficult decisions which we have had to take. In essence, however, we have decided to provide for defence the increased resources our security needs; and we have decided also to apply these resources in a new programme to produce the most effective and hard-hitting capability we possibly can, so as to strengthen the Alliance's deterrents purpose to help moresurely keep the peace which is our common aims.



FCS/81/82

SECRETARY OF STATE FOR DEFENCEDefence Programme: White Paper

1. I have seen your minute of 18 June to the Prime Minister, covering the draft of the White Paper you propose to publish towards the end of next week.
2. I am entirely content with the draft which presents your proposals very effectively and positively, subject to one point only. Paragraph 38 refers to the Gibraltar dockyard. I think we have agreed that there should be no public announcement of the consideration we are giving to closure of the dockyard until our two Departments have decided on alternative ways of fulfilling our 'support and sustain' commitment and we have consulted the Gibraltar Government. I would therefore prefer all mention of Gibraltar to be deleted from this paragraph. If, however, you judge a reference to be essential to soften the announcement of the closure of the dockyard at Chatham, I propose that the relevant sentence read: 'The Government has concluded that the Royal Dockyard at Chatham will have to close in 1984; and consideration will be given to alternative ways of fulfilling the Government's obligation to support the economy of Gibraltar if it is decided that the dockyard work there cannot be kept up indefinitely. This consideration will be undertaken in closest consultation with the Gibraltar Government.'
3. I am sending copies of this minute to the Prime Minister and the Chancellor of the Exchequer.

Foreign and Commonwealth Office
22 June 1981

(CARRINGTON)

SECRET

22



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-938 302X 218 2111/3

MO 9

22nd June 1981

Handwritten initials

Dear John,

DEFENCE PROGRAMME: WHITE PAPER

My Secretary of State has seen the Chancellor of the Exchequer's letter of the 19th June proposing four amendments to his draft White Paper. The Defence Secretary was grateful for these thoughts and will incorporate the amendments.

The Defence Secretary has also seen the minute of 22nd June from the Foreign and Commonwealth Secretary dealing with the subject of Gibraltar Dockyard. On reflection he does feel it essential that his White Paper contains some reference to Gibraltar - since the subject cannot be avoided - and he will, therefore, incorporate the form of words offered by the Foreign Secretary.

I am sending copies of this letter to Clive Whitmore (No 10) and Brian Fall (FCO).

Yours sincerely,

David Omand

(D B OMAND)

A J Wiggins Esq

SECRET

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-830 7022 218 2111/3

MO 9

22nd June 1981

Dear Clive,

Thank you for your letter of 8th June covering one the Prime Minister has received from the Leader of the Liberal Party.

My Secretary of State has considered what arrangements might best be made. He agrees that the offer for a briefing should be extended to the Leader of the Opposition as well as Mr Steel but, so that some of the more interesting (but very highly classified) material can be included he suggests that it should be given on a "Privy Councillor" basis which would mean that the Shadow Defence Spokesman, Mr Brynmor John, would have to be excluded. My Secretary of State has considered whether the Social Democratic Party should be involved (and invitations thus extended to Dr Owen and Mr Rodgers) but thinks that this would be wrong.

You have already decided that this is not the way to go.

On content my Secretary of State believes that the briefing should cover the threat from the Soviet Union and the Warsaw Pact worldwide and should concentrate on developments in recent years. It should be extensively illustrated (and would last between 30 and 40 minutes): the Prime Minister will recall that the previous briefing (to which Mr Steel refers) was given by a NATO team and he considers that the briefing should again be a NATO one if a good one can be arranged. CDS, or all the Chiefs of Staff, should attend.

On timing the various considerations may point to arranging the briefing after the Summer Recess but my Secretary of State would not rule out the offer of a date in July if the Prime Minister so desired.

The briefing could be held either at No 10 or in the Ministry of Defence.

C A Whitmore Esq

CONFIDENTIAL



If you could let me know the Prime Minister's wishes, my Secretary of State could set in hand arrangements accordingly. If you would like draft letters to Mr Foot and Mr Steel you will no doubt let me know.

Yours ever
Boris

(B M NORBURY)

Prime Minister.

Appeal that :-

Yes

a. the briefing should be on Foreign Council's terms (where possible Mr Chapman Jones).

b. it should be given by - NATO team, not a national one?

Do you wish the briefing :-

c. to be in July or the autumn.

d. to be given in No 10 or in the MoD?

July if possible

MOI?

AKW
Boris

File AH 21



10 DOWNING STREET

From the Principal Private Secretary

22 June 1981

Dear Brian,

DEFENCE PROGRAMME : WHITE PAPER

The Prime Minister has seen your Secretary of State's minute of 18 June 1981 with which he circulated the draft of the White Paper on the defence programme. She has also seen the Chancellor of the Exchequer's letter of 19 June to Mr Nott.

The Prime Minister is content with the amendments proposed by the Chancellor. She has no other comments on the draft White Paper and she is happy for your Secretary of State to go ahead and circulate it to Cabinet tomorrow or on Wednesday.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office) and John Wiggins (Treasury).

Yours ever,

Heri Whinn.

Brian Norbury Esq.,
Ministry of Defence.



20A
(2)

Prime Minister
So far so good

And

MO 9

PRIME MINISTER

DEFENCE PROGRAMME - CONSULTATIONS

We are over the American hurdle, and are on course for a Statement on Thursday. I had constructive talks in Washington over the weekend with Caspar Weinberger and his key policy and programmes staff. They understand and support what we are doing in defence although naturally they remain concerned that even with our increased resources our forward plans are being cut back (particularly the surface fleet).

2. There was no doubt of the admiration there is for our defence effort (and of the recognition of the burden it represents for us). Mr Weinberger was clearly very relieved on being told that we are responding in so positive a way to the NATO 3% aim, and our commitment to 1985/86 was clearly the major factor in defusing what was initially a very cautious and questioning approach on their part to our proposals; and in overcoming their very real fears, caused by an inexcusable amount of ill-disciplined lobbying and indiscretion, damaging to the country.

3. I took Mr Weinberger into my confidence over the changes we have in mind - as far as they are set out in the draft White Paper which you have seen. I had a good hearing. I had expected to be - and I was - pressed hard on the detail of our proposed changes to the surface fleet, particularly the number of destroyers and frigates which would be available in the mid-80s before our new Type 23's are available. I stressed the need to bring down the cost of our support infrastructure, particularly in the Dockyards, as a determining factor in our frigate numbers. I received warm support from Mr Weinberger who had spent years as Director of the Office of Management and Budget trying to close the Portsmouth (US) Navy Yard. He did not seek to dissuade me



from the thrust of my proposed changes - quite the reverse - although he sought and received the same assurance as I had given Cabinet that in drawing up definitive plans I would try to keep up the numbers of destroyers and frigates by running on older vessels and putting ships in the stand-by squadron rather than disposing of them entirely. We agreed that our officials should look at the detailed plans over the next few months, in advance of the normal NATO force-planning consultations in October and November.

4. Recognising the real financial difficulties I face over the next few years Mr Weinberger raised, without prompting, ways in which they might help; he mentioned Trident (where there is much to play for if we go for the D5 missile although this is not, of course, in his sole gift), the cash flow over payments for long lead items for C4 missiles, and the prospects for shared missile storage and preparation facilities on the Eastern seaboard. This is all encouraging (although very speculative) and we agreed that the Trident project team visiting Washington tomorrow, Tuesday, should vigorously pursue these possibilities.

5. On the rest of the programme there was understanding and acceptance of what we are doing in Germany, and for the defence of the UK base, and strong support for our proposals for activity outside the NATO area - particularly the use of the carriers in this role. They brought up Diego Garcia, where once again it was clear how much leverage this gives us.

6. I pressed them on the two-way street and advanced yet again the merits of what we have to offer. There is some sign of movement here, and it was confirmed that we have near certainty of a deal on AV8B on favourable terms.

7. My desire to make a very early Statement in order to end damaging speculation was welcomed, and we agreed that I should draw on the attached form of words in the House, and that the Americans for their part try to take the heat out of any debate on this in Washington by using the same formula. This will be most helpful to us.

SECRET



8. I meet Dr Luns on Tuesday evening, and Dr Apel on Wednesday afternoon. I will report further, but now see no real obstacle to the plan which I outlined to Cabinet.

9. I am copying this minute only to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Jw.

Ministry of Defence
22nd June 1981



ANNEX

The United States Secretary of Defense welcomes the decisions taken to increase still further the total UK defense effort, understands the basic thrust of the UK proposals for reshaping their program to make the most cost effective use of the resource effort, and will be working side by side with us on the process of deciding how best the proposals can be translated into detailed plans to sustain and enhance capability in Europe, the Atlantic, and further afield. We shall be discussing these matters informally together during the coming months.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 June 1981

The Rt. Hon. John Nott, MP.,
Secretary of State for Defence

Dear John *mt*

DEFENCE PROGRAMME: WHITE PAPER

I am grateful to you for showing me, with your minute of 18 June, a copy of your draft White Paper.

My officials have mentioned to yours one or two points of detail on the later sections of the draft. My main concern is with its first four paragraphs, on which I have four amendments to suggest.

First, it would I think be wrong to publish a White Paper which did not make it plain that the move to cash planning and management applies to your programme as to all others. This is nowhere stated in the present draft: indeed the penultimate sentence of paragraph 2 implies the opposite. I should be grateful if you would revise that sentence to read:-

✓ "Defence, like other programmes, will now be managed in cash terms: the aim will be provision for 1985-86 21 per cent higher, in real terms, than actual expenditure in 1978-79."

Secondly, it would I think strengthen the argument in the last sentence of paragraph 2 if you were to refer not only to current economic difficulties, but also to the Government's commitment to reduce total public expenditure. Perhaps the sentence should read:-

✓ "In a setting of economic difficulty, and given the Government's determination to hold down total public expenditure, there could be no clearer or more concrete demonstration ..."

Thirdly, while I fully recognise the nature of the decisions which Cabinet took about the resource assumptions up to 1985-86 on which you should plan, I question whether it is prudent to publish them in the terms of the last sentence on page 1 of your draft. No public expenditure decisions can be fully binding three and four years ahead, and to imply that those which we have just taken will be so binding would be to invite scepticism, and possible future embarrassment. The sentence in question ought I think to read:-

Prime Minister. 20

I must come to you that this was coming. The amendments proposed by the Chancellor have been pencilled on the back of the White Paper for your convenience.

Are you content with the Chancellor's proposed changes?

I am happy with the Chancellor's amendments. They are reasonable.



✓ "The Government has now firmly decided to plan to implement the aim in full for a further two years, 1984-85 and 1985-86: and the programme will be shaped accordingly."

For the same reason, the first sentence of paragraph 4 should read:-

✓ "First, even the increased resources we plan to allocate ..."

Copies of this letter go to the Prime Minister and Peter Carrington.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to be "G. Howe", written over a horizontal line.



10 DOWNING STREET

From the Private Secretary

19 June, 1981

BF 20-9-81

Dear Jonathan,

MOD Charges for Training and Assistance to Overseas
Governments

The Prime Minister has seen your letter to me of 15 June on this subject and has taken note of the efforts being made to render British military training assistance more attractive to potential customers. She is anxious that these efforts should be pressed forward energetically. I should be grateful therefore if you would let me have a report before the end of September of what has been achieved. Pending that report, the Prime Minister has decided that further Ministerial discussion is unnecessary.

I am sending copies of this letter to Francis Richards (FCO), Peter Jenkins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely
Nicholas Alexander

J D S Dawson, Esq
Ministry of Defence

CONFIDENTIAL

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Rme Arisla
Am

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 4/4

19th June 1981

mf *f.s.*
Dean Christopher

REDUNDANCY TERMS FOR SERVICE PERSONNEL

I agreed in Cabinet on Thursday that so far as was possible I would try to implement the new defence programme without a substantial Service redundancy scheme. I cannot exclude absolutely however the possibility that there may be some redundancies and I ought to be clear as to the terms which would be offered to those affected.

Unlike other public services, the Armed Forces have no standing redundancy terms written into their pension scheme. Terms suited to each redundancy situation have to be considered. It so happens, however, that the redundancy scheme agreed following the Labour Government's defence review in 1975 is still in use: its terms are set out at Annex A. In short, it provides for an immediate pension for those with twelve or more years' service (instead of the normal sixteen years for an officer and twenty-two for a serviceman), together with a special capital payment of up to eighteen months' pay in addition to the pension benefits. Those with less than twelve years' service are awarded any preserved benefits to which they are entitled and receive a special capital payment of between one and nineteen months' pay. Servicemen are still being compulsorily retired on these terms.

1

The Rt Hon The Lord Soames GCMG GCVO CH CBE

SECRET



The 1975 terms were devised with the following considerations in mind. Servicemen are induced to undertake and remain subject to the rigours of a Service career by a more or less firm expectation of continued employment (which is taken into account in fixing the appropriate level of the military salary); usually some measure of predictable progress through the ranks; and an adequate pension at the end of their career. All this amounts to an implied contract. Redundancy frustrates these expectations; the individual concerned loses not only his job but also his prospects, both of promotion and of a higher pension, and it was thought reasonable that these losses should be compensated. Further, those made redundant face practical problems, some of which are not shared to the same extent by civilians in a similar situation. Not only do they have to find alternative employment; most of them, who have been occupying service accommodation, must set up home for the first time in a new area and find new schools for their children without the benefit of any education allowance which they may have been receiving. Many of them will not have readily marketable skills and will not have had an opportunity to prepare themselves adequately for civilian life. As good employers we have an obligation to help ease these resettlement problems. Moreover after any rundown the Armed Forces must continue to attract and retain recruits of the highest quality; the handling of the redundancy must, therefore, preserve the reputation of the Services as fair and just employers and convince potential recruits that the Services still offer a good career.

All these considerations which were relevant in 1975 have equal force today. There is, however, a significant difference between the situation in 1975 and now. The level of unemployment is three times higher and is unlikely to fall in the near future. The period of unemployment which individual Servicemen can expect is, therefore, likely to be longer, and the hardship to

SECRET



themselves and their families correspondingly greater. I recognise that redundancy is currently affecting many in both the public and private sectors and that it would be inappropriate in the present climate to seek any improvement in the 1975 terms for the Armed Forces. But, for the reasons I have given, and also because there will be high political sensitivity about these redundancies, I am quite sure that I could not justify anything less. I am therefore proposing simply that these terms should continue to be applied to any redundancies should they arise from the present changes in the defence programme. The costs fall, of course, on Defence Votes.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and to Sir Robert Armstrong. As this point is likely to come up when I announce the new programme, I should be grateful for your agreement early next week.

*Yours ever
John*

John Nott

1975 REDUNDANCY TERMS FOR THE ARMED FORCESSPECIAL CAPITAL PAYMENTSOfficers

Officers with at least 13 years' qualifying service:

Uncompleted portion of career to normal retiring age				Special Capital Payment
5 years or more	...	...	...	18 months' pay
4 years	...	...	...	15 months' pay
3 years	...	...	...	11 months' pay
2 years	...	...	...	7 months' pay
1 year	...	...	...	3 months' pay

Officers with 12 but less than

13 years' qualifying service: 15 months' pay

Officers with less than 12 years' qualifying service:

Years of completed service				Special Capital Payment
11 years	...	...	...	19 months' pay
10 years	...	...	...	17 months' pay
9 years	...	...	...	15 months' pay
8 years	...	...	...	14 months' pay
7 years	...	...	...	12 months' pay
6 years	...	...	...	10 months' pay
5 years	...	...	...	9 months' pay
4 years	...	...	...	7 months' pay
3 years	...	...	...	5 months' pay
2 years	...	...	...	3 months' pay
1 year	...	...	...	1 months' pay

Other ranks

other ranks (a) Ratings with at least 16 years' qualifying service:

Period of uncompleted service				Special Capital Payment
5 years or more	...	...	...	18 months' pay
4 years	...	...	...	15 months' pay
3 years	...	...	...	11 months' pay
2 years	...	...	...	7 months' pay
1 year	...	...	...	3 months' pay

other ranks (b) Ratings with at least 12 but less than 16 years' qualifying service:

Years of completed service				Special Capital Payment
15 years	...	...	...	15 months' pay
14 years	...	...	...	15 months' pay
13 years	...	...	...	13 months' pay
12 years	...	...	...	13 months' pay

other ranks (c) Ratings with less than 12 years' qualifying service:

Years of completed service				Special Capital Payment
11 years	...	...	...	19 months' pay
10 years	...	...	...	17 months' pay
9 years	...	...	...	15 months' pay
8 years	...	...	...	14 months' pay
7 years	...	...	...	12 months' pay
6 years	...	...	...	10 months' pay
5 years	...	...	...	9 months' pay
4 years	...	...	...	7 months' pay
3 years	...	...	...	5 months' pay
2 years	...	...	...	3 months' pay
1 year	...	...	...	1 months' pay

PENSIONS AND TERMINAL GRANTS OF THREE TIMES THE ANNUAL RATE OF PENSION

- (a) If the normal qualifying period for payment of an immediate pension has been given (16 years reckonable service for an officer; 22 years for other ranks), the ordinary scheme benefits will be awarded.
- (b) If at least 12 years but less than 16 years (officers) or 22 years (other ranks) service has been given, immediate benefits will be awarded as a proportion of the 16 year rate for officers and the 22 year rate for other ranks.
- (c) In all other cases, the normal preserved benefits will be awarded, payable at age 60.

SECRET
AND PERSONAL



18A

(1)

Prime Minister

Content?

Ans

MO 9

PRIME MINISTER

DEFENCE PROGRAMME: WHITE PAPER

/ I attach the draft of the White Paper I would propose to publish towards the end of next week in the light of discussion in Cabinet today, and subject to any points which emerge during my discussion this coming weekend with Caspar Weinberger.

I should be very grateful if you, and Peter Carrington and Geoffrey Howe, to whom I am copying this minute and the draft, could let me know by first thing on Monday whether you would like to see any amendments made. I will, of course, put the draft to Cabinet for information on Tuesday or Wednesday of next week.

JW

Ministry of Defence

18th June 1981

SECRET
AND PERSONAL

D R A F T

18.6.81

THE UNITED KINGDOM DEFENCE PROGRAMME
- THE WAY AHEAD

1. The first duty of any British Government is to safeguard our people in peace and freedom. In today's world that cannot be done without a major defence effort. The international scene is in several areas unsettled and even turbulent. Soviet military power, already massive, continues to grow in size, quality and reach, and the Soviet leaders continue to demonstrate their readiness to use it brutally. The North Atlantic Alliance remains vital to us, and neither its strength nor its cohesion can be maintained without our crucial contribution. This is at the top of the Government's priorities.
2. Our policy is translated into practice initially through decisions on resources. Britain already spends 5.2% of its gross domestic product on defence - one of the highest figures anywhere in the Alliance, even though we are not among the wealthiest members and continue to face sharp economic difficulties. The Government attaches such importance to its security responsibilities within the Alliance that defence expenditure is already 8% higher in real terms than three years ago. It was announced in March, and has recently been reaffirmed, that the Defence Budget for the next two years (1982/83 and 1983/84) will reflect further annual growth at 3%, in full implementation of the NATO aim. The Government has now firmly decided ^{to plan to implement the aim in full} ~~that this full implementation will extend also~~ ^{the programme} for a further two years, 1984/85 and 1985/86, and ~~defence plans~~

Defence, like other programmes, will
will be shaped accordingly. This may well mean that defence
now be managed in cash terms; the aim will be provision for
will absorb a still higher share of our gross domestic product.
The 1985/86 figure will be 21% ^{higher} more, in real terms, than ^{actual}
^{expenditure} was spent in 1978/79. In a setting of economic difficulty and given
the government's determination to hold down total public expenditure,
there could be no clearer or more concrete demonstration of
resolve to maintain our vital priorities and our Alliance
contribution.

The Need for Change

3. The Government's appraisal of the defence programme therefore in no way rests on a desire to cut our defence effort. On the contrary, it reflects a firm resolve to establish how best to exploit a substantial increase in it. Defence spending on the scale we have decided is a heavy burden on the British people, but one which in our judgment they are prepared to bear. It is then however all the more incumbent upon the Government to ensure that resources are spent to the very best effect in terms of security. It has become clear that meeting this responsibility in the future calls for change in the defence programme. There are two main reasons for this.

4. Firstly, even the increased resources we are allocating cannot adequately fund all the force structures and all the plans for their improvement we now have. One reason (not peculiar to Britain) is cost growth, especially in equipment. But our particularly wide range of capabilities - wider than with any comparable NATO member - heightens the problem. Our forces need to be equipped, operated, trained and sustained to the standards imposed by the mounting Soviet effort and the increasing sophistication of weapons. Our current force structure is however too large for us to meet this need within any resource allocation which our people can reasonably be asked to afford. The effects, at a time moreover when economic recession led to intensified activity in industry on defence work and so caused extra difficulties in managing the defence programme, were seen in 1980/81, when harsh measures to cut back on activity and halt orders on industry still could not prevent a substantial overspend; and similar problems, which will call for urgent corrective action, are already emerging for 1981/82.

5. The second reason for change, partly related to the first, concerns balance within the programme. Technological advance is sharply changing the defence environment. The fast-growing power of modern weapons to find targets accurately and hit them hard at long ranges is increasing the vulnerability of major platforms like aircraft and surface ships. To meet this, and indeed to exploit it, the balance of our investment between platforms and weapons needs to be altered so as to maximise real combat capability. We need to set, for the long term, a new force structure which will reflect in up-to-date terms the most cost-effective ways of serving the key purposes of our defence effort. The best way of enhancing the deterrent effect of our armed forces, for example in raising the nuclear threshold, is to give more resources to their hitting power and staying power in combat. This means that the structure we set must be one which we can afford to sustain with modern weapons and equipment, and with proper war stocks. This is less glamorous than maximising the number of large and costly platforms in our armoury, but it is far the better way of spending money for real security value. Moving in this direction will mean substantial and uncomfortable change in some fields. But the alternative, of keeping rigidly to past patterns, would be a recipe for overstretch, inadequacy and waste - it would leave us the certainty of attempting too much and achieving too little.

6. We cannot go on as we are. The Government has therefore taken a fresh and radical look at the defence programme. We have done this in terms of real defence output - the roles our forces undertake and how they should in future be carried out - and not in terms of the Services as institutions. It is increasingly essential that we tackle the business of defence this way, and manage it in terms of total capability rather than Service shares.

Britain's Defence Roles

7. We have now four main roles - an independent element of strategic and theatre nuclear forces committed to the Alliance; the direct defence of the United Kingdom homeland; a major land and air contribution on the European mainland; and a major maritime effort in the Eastern Atlantic and Channel. We also commit home-based forces to the Alliance for specialist reinforcement contingencies, particularly on NATO's European flanks. Finally, we exploit the flexibility of our forces beyond the NATO area so far as our resources permit, to meet both specific British responsibilities and the growing importance to the West of supporting our friends and contributing to world stability more widely.

8. There can be no question of abandoning our contribution in any of these roles, especially in face of a growing threat. The issue is not whether to undertake them in the future, but how best to do so from our growing resource allocation. Within this key objective, the review has taken nothing as exempt or sacrosanct. The rest of this White Paper sets out the Government's broad conclusions.

Nuclear Forces

9. We intend to maintain and modernise our present nuclear role in the Alliance. No other member could in practice replace us in this distinctive contribution. NATO collectively and our main Allies individually have made clear that they place high value upon it.

10. We intend accordingly to proceed with our plans for Trident. Certain aspects of the programme are still being studied, but however these are resolved expenditure on it over the next few years will remain comparatively modest. Review of all the options confirms that Trident remains by far the best way - indeed the only cost-effective way - of modernising the crucial strategic element of our capability. In the Government's firm judgment, no alternative application of defence resources could approach this in real deterrent insurance. The operation of the strategic force will remain the Royal Navy's first and most vital task for Britain's security.

Defence of the Home Base

11. We cannot reduce our effort in direct defence of the United Kingdom homeland. Planned capability is in several respects already less than we would like. The crucial role this country plays in Alliance support, as a key forward base in emergency for land and air forces from across the Atlantic and as the main base for our own effort in Continental reinforcement and in maritime tasks, means that we must expect the increasing reach and quality of Soviet conventional forces capable of direct attack on Britain to be exploited in war. We need to do more, not less, in this field.

12. In air defence, the Government will maintain all the major improvement plans already announced. In the mid-1980s the air defence version of Tornado (F-2) will enter service and our

airborne early warning capability will be transformed with the advent of the Nimrod for this role. Air defence ground radar and communications systems are being extensively modernised. Stocks of modern air-to-air missiles are to be more than doubled and surface-to-air missile cover improved.

13. It is however essential to provide more UK-based fighters. Two Phantom squadrons will be retained instead of being phased out as Tornado F-2 comes in. For local air defence a further thirty-six (making seventy-two in all) of our Hawk advanced trainer aircraft will be equipped with Sidewinder air-to-air missiles. We are also considering whether to switch to the air defence configuration the last twenty Tornados planned in the strike version. A VC10 squadron is already planned to enhance our tanker force, which effectively multiplies our fighter force by prolonging patrol time and range.

and we plan to modify additional VC10s for use as either transports or tankers, replacing the Victors if fatigue repairs become uneconomical. By 1986 the total force will have increased by a third.

14. We will continue to build up a balanced mine-counter-measure flotilla, and we will proceed with new minehunters. We will continue work on defensive mining, to establish and exploit the best ways (including methods of laying) to use this capability either for the defence of our own shipping lanes and ports, and further afield.

15. The Government is determined to make more use of reserve forces. We now plan a further substantial expansion of the Territorial Army for use both at home and in Germany, where last year's Exercise CRUSADER vividly demonstrated its readiness and efficiency. Force strength will rise progressively from 74,000 to 86,000, and provision for training days will be increased from the present average of thirty-eight a year to forty-two. New minesweepers will be acquired for the Royal Naval Reserve, though it will not be financially possible to place orders until next year. The use of Royal Auxiliary Air Force Regiment Squadrons for ground defence of airfields in the United Kingdom will be expanded.

The British Contribution on the Continent of Europe

16. The Government has considered with especial care the future of the large proportion of our land and air forces we maintain permanently in the Federal Republic of Germany, backed by a very extensive commitment for rapid reinforcement from the United Kingdom in emergency. Despite all the financial pressures on our defence effort, the Government has decided that this contribution is so important to the Alliance's military posture and its political cohesion that it must be maintained. The Central Region is the Alliance's heartland in Europe; the forward defence of the Federal Republic is the forward defence of Britain itself; and the full fighting strength of First British Corps is needed to guard the vital 65-kilometre sector assigned to it. We will therefore stand by our Brussels Treaty commitment of land and air forces, and the figure of 55,000 troops which we have upheld under it for over twenty years now.

17. BAOR's manpower, which had been planned to continue to increase beyond the 55,000 level, will be held at that level. We propose to reorganise the main regular structure of the Corps from the present four armoured divisions each of two brigade equivalents to three armoured divisions each of three brigades; the overheads of the fourth stationed division will thus be saved. The total number of brigades in the Federal Republic will be sustained at eight; one of the total of nine regular brigades will be held normally in the UK, as will a new reserve division formed primarily from the Territorial Army and committed to the reinforcement of 1(BR) Corps. Our ability to reinforce BAOR rapidly will be substantially increased when the new Individual Reinforcement Plan comes into effect on 1 July 1981.

18. We will maintain the wide-ranging set of major projects we have in hand for progressive re-equipment of BAOR, including the Challenger tank, the new mechanised combat vehicle, the SP 70 self-propelled howitzer, the multiple-launch rocket system, the TOW helicopter-borne anti-tank missile, the new one-man Light Anti-Tank Weapon (LAW), improved night sights for missiles and artillery, and the Wavell system for rapid automated handling of tactical intelligence and other data. The scale or timing of some of the new equipment projects will need to be modified, partly to restrain total cost but to provide room, in accordance with paragraph 5 above for further enhancement of war stocks and ammunition to improve the combat endurance of 1st British Corps; in particular we plan to increase the buy of Milan anti-tank missiles. The planned buy of Challenger will be held at enough to equip four armoured regiments. There will be a programme of qualitative improvements both to the present Chieftains and in due course to Challenger. The key elements of the improvement programme for the Blowpipe air defence missile system will continue, but we shall not proceed with the towed quadruple launcher. We shall however greatly strengthen battlegroup air defences by equipping three batteries with the tracked version of the Rapier missile system. The introduction of the big Chinook helicopter for rapid logistic support and troop movement will continue.

19. We intend to provide new and better aircraft with the unique vertical and short take-off and landing (V/STOL) capability which gives exceptional survivability and responsiveness in the support of forward troops. Subject to the final conclusion of satisfactory terms of collaboration with the United States, the new aircraft will be the AV8B development of the Harrier, produced jointly by McDonnell Douglas and British Aerospace, with Rolls-Royce engines. Operationally, the new aircraft will bring a big advance in manoeuvrability, range or endurance, and weapon-carrying ability; industrially, there will be a great deal of work for British industry in orders for both the United Kingdom and the United States. We envisage buying up to sixty AV8Bs. Deployment of the Tornado strike aircraft in Germany will proceed as planned, and the JP 233 project for neutralising enemy airfields by cratering has been confirmed. We shall seek subsequently to acquire further advanced weapons for attacking enemy armoured forces and suppressing air defences, to exploit Tornado's capability more fully. It is clear that we shall not be able to afford any direct and early replacement for the Jaguar force in Germany and at home. We are however continuing work and discussion with potential partners on future combat aircraft. Possibilities will include both advanced V/STOL and Tornado - related developments. We shall pay particular regard to collaborative opportunities and to export markets, as well as to the long-term capability of the British aircraft industry.

Maritime Tasks

20. As the Government's review work proceeded it became clear that the most complex and difficult issues concerned the future shape of Britain's maritime contribution. That such a contribution must continue, and on a major scale, is not in question. The importance of maritime tasks in Alliance security, our special skills and immense experience, and our existing assets all ensure this; so does our position as NATO's major European maritime power, situated crucially close to the Soviet Navy's long exit route to the open Atlantic. But we have to think hard about how we can most cost-effectively shape our contribution for the future, with account taken both of resource constraints and of technological change.

21. All the major weapons platforms of maritime warfare - aircraft, surface ships and submarines - have a continuing part to play, complementing one another. But their capabilities, and their costs, are not changing symmetrically. The Government believes that a change in relative emphasis is inescapable for a country like Britain which simply cannot afford to maintain large numbers of every type of platform at the highest standards which the adversary's developing capability requires. We believe that the power of maritime air systems and submarines in tactical offensive operations is especially apt and telling in our forward geographical situation. But if we are to maintain and improve these, we cannot at the same time adequately sustain a surface fleet of the full present size and continue to equip it with ships of the costly sophistication ideally needed for protection in operations without United States Navy support against the most modern Soviet air-launched and sea-launched missiles and submarines. (The problem is broadly illustrated by the fact that the planned forward investment in major equipment for maritime air warfare has been about double that

for direct air defence of the United Kingdom). Nevertheless, there will remain a wide range of tasks in peace and war for which surface ships are uniquely suited; and we must therefore retain a large and versatile ocean-going surface fleet.

22. Our basic judgment accordingly is that for the future the most cost-effective maritime mix - the best-balanced operational contribution for our situation - will be one which continues to enhance our maritime-air and submarine effort, but accepts a reduction below current plans in the size of our surface fleet and the scale and sophistication of new ship-building, and breaks away from the practice of costly mid-life modernisations. Sustaining the fleet at its present size ^{under the} with/present policy/^{on refits} requires a massive and costly continuing programme of refit and modernisation, backed by a very extensive infrastructure. (Typically, modernising a Leander frigate costs £70M, which is more than our target figure for the new Type 23 design noted in paragraph 24 below.) A rather smaller but more modern fleet with less heavy overheads will give better value for defence resources.

23. It is clear that the maritime patrol aircraft remains a highly effective instrument; that in the Nimrod we have an exceptionally capable aircraft for the role; and that the very advanced Stingray lightweight torpedo will give it great striking power. We intend to increase the Nimrod fleet by completing and bringing into operation, with the full Mark II equipment, the three remaining Mark I airframes. For attack on surface ships we shall provide a new air-launched guided missile of substantial range. Subject to the satisfactory completion of contract negotiations on price, we intend to order British Aerospace's Sea Eagle system. We intend to retain the Buccaneer as the missile carrier; the missile's own capability

for location and attack would make it unnecessary to rely on the more advanced penetration capability of Tornado, which can thus be used in maximum numbers for other roles. The enhancements in the United Kingdom-based interceptor and tanker forces noted in paragraphs 12 and 13 above will be available also for maritime application.

24. Our most powerful vessels for maritime war are our nuclear-propelled attack submarines (SSNs). There are twelve at present in service. Though we have decided not to open a separate SSN building stream for the period when Vickers (Barrow) will be building the new Trident boats, the SSN fleet will increase to seventeen by 1990, and we are now placing the order with Vickers for SSN 16. We intend also to proceed with the new class of diesel-powered submarines (SSKs) and will if possible introduce these at the rate of one per year. Both SSNs and SSKs will be equipped later in the 1980s with a new advanced heavy-weight torpedo of high performance; the choice of design will be made soon.

25. The new carrier ARK ROYAL will be completed as planned, but we intend to keep in service in the long term only two of the three ships of this class; we shall seek to sell one of them. The older carrier HERMES will be phased out as soon as the second of the new ships is operational.

26. Final decisions have yet to be taken on whether to procure a new large anti-submarine helicopter to replace the Sea King. It is not clear whether such a project can in the end find a place in our defence programme, but meanwhile the exploration of collaborative possibilities with Italy continues and a programme of work at Westlands, which industry believes to have attractive

commercial prospects in the civil field, is being maintained.

27. The destroyer/frigate force, currently numbering fifty-nine, will contract over the next five years [~~to~~ to about forty]. This will be done mainly by disposing earlier than planned of older and more manpower-intensive ships, for example from among the County, Rothesay and Leander classes, and timing their withdrawal so far as possible to avoid refit or major modernisation. We shall however consider whether some of the surplus ships could with advantage be made available to Allies. There will be a reduction of four operational Royal Fleet Auxiliaries, in step with the contraction of the combat fleet.

28. We shall accelerate to the maximum possible extent the ordering and entry into service of anti-submarine frigates to a new design, the Type 23. This will be a simpler and cheaper ship than the Type 22, and its characteristics will be framed with an eye to the export market as well as Royal Navy needs. Meanwhile another Type 22 (the seventh) is being ordered immediately; further study is needed to determine whether there should be further orders, and if so how many. There will be no more orders for Type 42 air defence destroyers, and plans for major mid-life modernisation of those already acquired will be abandoned. The Stingray torpedo programme will provide the main anti-submarine weapons for our surface ships and their helicopters as well as the Nimrods.

29. Three Royal Marine Commandos will be maintained as at present. The Government regards their special experience and versatility as of high value for tasks both in and beyond the NATO area. It had already been decided that likely needs did not warrant replacement of the specialist amphibious ships INTREPID and FEARLESS; and these ships will now be phased out earlier, in 1982 and 1984 respectively. When necessary suitable shipping, such as roll-on/roll-off ferries, will be chartered.

Beyond the NATO Area

30. As the Alliance collectively has acknowledged, changes in many areas of the world, together with growing Soviet military reach and readiness to exploit it directly or indirectly, make it increasingly necessary for NATO members to look to Western security concerns over a wider field than before, and not to assume that these concerns can realistically be limited by the boundaries of the Treaty area. Britain's own needs, outlook and interests give her a special role and a special duty in efforts of this kind.

31. Military effort cannot be the sole instrument, but it has inevitably a part to play. The Government intends to sustain and where appropriate expand our activities by way of military assistance, advice, training, loan of personnel and provision of equipment to friendly countries whose security benefits from our help. But help in these ways needs increasingly to be backed by the ability of our own forces to act directly if our friends need us. Many elements of our Services have basic characteristics of flexibility and mobility which make them well suited for this without need for great extra expense or expansion. The Government intends to exploit them more fully, and to make plans and provision accordingly.

32. The Royal Navy has a particularly valuable role to play. For example, since the conflict broke out last year between Iran and Iraq a maritime presence has been maintained continuously in the Indian Ocean, with warships on rotation supported by fleet auxiliaries. We intend to resume from 1982 onwards the practice of sending a substantial naval task group each year on long detachment for visits and exercises in the South Atlantic, Caribbean, Indian Ocean

or further east. We intend to make particular use of the new carriers, with Sea Harriers and helicopters, in out-of-area deployment, and we are considering plans for Royal Marines elements. Deployments of Nimrod and other aircraft from time to time will be continued. We shall coordinate all these deployments and exercises as fruitfully as possible with the United States and other Allies, as well as with local countries with whom we have close defence relations.

33. Measures will also be taken to enhance the out-of-area flexibility of our ground forces. We will implement plans for a modest extra stockpile of basic Army equipment held ready to support contingency deployments and exercises, and for the designation of Headquarters Eighth Field Force to plan and command any operations of this kind. Measures to increase the airlift capability of our Hercules force by fuselage lengthening are already far advanced, and we have decided to increase its flexibility by fitting station-keeping radar equipment which will enable the aircraft to carry out the coordinated drop of a parachute assault force, even in poor weather. We now maintain two battalions fully trained for this role.

34. Our forces will also continue as necessary to sustain specific British responsibilities overseas, for example in Gibraltar, Cyprus, Belize and the Falkland Islands. The Hong Kong garrison will be expanded by one infantry battalion in accordance with our agreement with the Hong Kong Government.

Service Manpower

35. The men and women in the Services are the most important defence resource of all; without them, everything else is wasted. We must recruit and retain the volunteers we need. This requires proper pay and conditions, and the Government has demonstrated continuing commitment to these in the most practical way. It also requires clear evidence of important and satisfying work properly supported; and the new directions of the defence programme are designed to ensure this.

36. If these objectives are to be achieved some reduction is necessary in manpower targets, reflecting changes in the front line. Royal Navy numbers required will be reduced by about 10,000 by 1986, partly through the surface fleet contraction and partly through cutting out posts and establishments ashore and undertaking more training afloat. Over the same period Army numbers will be reduced by about 7,000 and Royal Air Force numbers by about 2,500. All these reductions will be made so far as possible through natural wastage and careful control of recruitment rates.

Support and Employment

37. It is essential, if we are to get the best value from the resources we spend on defence, that overheads of all kinds should be rigorously constrained. The new Ministerial structure in the Ministry of Defence will give added impetus to the drive to ensure this, with special responsibilities for making our procurement of materiel efficient and economical and in re-shaping the general infrastructure and support elements for the Services (including military and civilian staffs in headquarters) as tautly as possible to release maximum resources for the front-line combat capability.

38. The measures summarised in earlier paragraphs will be directly reflected in altered demands in supporting areas. The full details need further working out; but the sharpest changes will inevitably be felt in support for the Royal Navy's surface fleet. It will be impossible to sustain or justify a dockyard organisation of the present size, in view of the contraction in the fleet and the great reduction in refits and mid-life modernisations. The Government has concluded that the Royal Dockyard at Chatham will have to close in 1984; and it will be impracticable also to keep up indefinitely the dockyard work in Gibraltar, though we will consult closely with the Gibraltar Government on their special problems. In addition, there will be a very sharp cut-back in the scope and volume of dockyard work at Portsmouth, reducing jobs there from 7,000 to about 1,200. Within the reduced dockyard organisation as a whole the Government will take up the thrust of last year's Consultative Report in respect of tauter and more accountable management and improvements in efficiency; the idea of a trading fund will not be pursued. We shall have to close a substantial number of naval fuel stores and armaments depots, including those at Deptford, Invergordon, Llangennech, Pembroke Dock and Woolston.

39. There will also be overhead reductions and some closures in the Army and Royal Air Force support areas. Here again details have still to be settled.

40. At the same time the Government will seek to carry further the transfer of supporting tasks to the private sector. In particular, we plan to do as much as possible in this direction in respect of the Royal Ordnance Factories, and certain of the research and development establishments. Fuller details of our intentions are being given in separate announcements.

41. On 1 April 1979 the Ministry of Defence directly employed some 248,000 UK-based civilians. Cuts in functions and increased efficiency have already reduced the figure to some 228,000 by 1 June 1981, and the Ministry's present target is 200,000 by 1 April 1984. The measures outlined in paragraphs 38 and 39 above will result in a reduction of an estimated 16,000 UK-based civilian jobs, and will make a major contribution to meeting the 1984 target. The full effects of the programme changes as a whole should make it possible to reduce significantly below 200,000 after 1984. Substantial redundancies will be unavoidable, but the changes will be made in close consultation with the Trades Unions and wherever possible by natural wastage. Our defence effort in the long-term will continue to depend crucially upon the commitment and skill of our civilian work-force in a wide and complex range of tasks.

42. The measures will also have a substantial effect upon employment in British industry. The precise impact must be for the firms themselves to assess and plan. More work will be generated in some fields; but job opportunities in a number of others will inevitably decline over the next five years

as compared with current levels, and the labour-intensive warship-building industry will be hard hit. Overall, there must be some net loss.

The Way Ahead

43. This White Paper has set out the Government's basic conclusions on tasks, force levels, equipment, personnel and support. A great deal of work however lies ahead on shaping the details and planning the methods and timing of implementing change; and modifications or further adjustments may prove necessary. We intend to consult fully and flexibly about all this, both with our Allies and domestically. We shall explain and discuss the specific aspects of our plans through the processes of NATO's annual Force Planning Review system. We shall seek similarly to take careful account of the views of our employees, our suppliers and others affected by the new measures on how best within our central concept we can meet particular concerns.

44. In its review work the Government has confronted complex choices, with no easy or painless solutions available. To go on simply as before, or with all plans and aspirations unabated, is not an option; change is necessary. The Government has taken hard decisions. These reflect our resolve to give defence the resources Britain's security within the Alliance demands in difficult times; but equal resolve to see that these resources, which the nation cannot spare without much penalty elsewhere, are put to work in accordance with realistic, unsentimental and up-to-date judgment of what will be most relevant and effective for the future.



18

MO 9

PRIME MINISTER

I hope that this note, which I am copying only to Geoffrey Howe, may be helpful before tomorrow's Cabinet.

2. As you know I am most anxious to avoid a disagreement in Cabinet between Geoffrey and myself on the Defence Programme. I told Geoffrey more than a week ago that I felt it might be possible for me to compromise with him on a 3% volume increase until 1985/86, (as against Geoffrey's proposal of a volume increase until 1983/84 and my own proposal of an increase until 1987/88). In my judgement the package which Cabinet will consider is the absolute limit that the Party will stand and I still have to persuade the Americans this weekend that our Naval reductions should not be vigorously opposed (possibly by a direct message from Reagan to yourself) or Trident called into question.

3. My main difficulty - although there will, of course, be many - in presenting this package to the Party will be that a host of backbenchers who are relatively uninformed about the details of the Defence Debate could well emerge to express their astonishment that at a time of 2½M unemployment we should be creating redundancies in our Armed Services and widespread further unemployment within the public and private sectors. Many constituencies will be affected and I must try to avoid the coming together of strange alliances which might imperil our vote in any subsequent debate. The situation in the House will be very finely balanced.



4. Since my arrival here I have done everything possible to achieve the maximum savings for Geoffrey in what is a very difficult time for him, but he knows that my programme has been heavily over committed and that it is simply impossible to make further major savings in the next 3 or 4 years without effectively bringing our forces to a halt. The whole thrust of my proposals - which Geoffrey supports - is that we must reduce the huge overhead costs of defence, but this will cause short term additional pressures and cannot open a window until 1985/86.

5. My main concern is that confusion should be avoided by an argument about cash. It is impossible to discuss my programme at the present time in cash terms simply because my review has not been prepared on this basis nor is the 3% NATO aim related to cash. I am most anxious not to get involved in a disagreement with Geoffrey about this year's cash provision and the following years'. Such a difference would be bound to be inconclusive in the absence of the facts. I therefore hope very much that our discussion on this year's cash arrangements and the forward cash projections can be handled in bilaterals between Geoffrey and myself and that you can conclude the Cabinet meeting (albeit on a compromise 3% to 1985/86 volume figure) on the basis that the bilaterals should support rather than undermine the agreement on volume otherwise this will merely re-open the whole debate in what might prove impossible political circumstances.

6. I can assure Geoffrey that whereas we are heavily over committed in the next few years I have created the maximum room in the programme in the latter period of the 80s. But to achieve this objective I need



the package of measures proposed to Cabinet in toto, and I have to get them accepted by the Americans, the Party and through the House. The key to the argument is being seen to be planning on 3% real increases, at least up until 1985/86. If I cannot have this, and we were to follow the line in Geoffrey's paper I see nothing but escalating costs and insuperable political problems with the Party.

S.W.

Ministry of Defence

17th June 1981

Prime Minister



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-216 8000
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MO 9

I have told Mr Nott what your reaction to this was and, in particular, that it calls into question both the MoD's ability to ensure that defence contracts represent value for money and Mr Nott's argument that defence should have a general level of price inflation. He will not be surprised if you had to have on this tomorrow (though most members of Cabinet have not had copies of his letter and will therefore not know what it is all about).

THW
17/6

Dear Keith

As I mentioned to you last night, and as you will know from the discussions at OD last week on the Defence Programme, there are already indications that - without corrective action - there will be substantial overspending on the Defence Budget this year, mainly in the equipment area. Some of this will undoubtedly be the result of the over-programming which my current exercise is intended to put right in the longer term. But one important factor which is beginning to emerge clearly is that costs in the Defence Industries are exceeding those allowed for by the existing Cash Limit.

I told you of one particularly bad case that has come to light very recently: Rolls Royce, who have just agreed wage increases amounting to 29% for hourly paid workers, 18½% for monthly staff and 10% for senior staff. Even allowing for productivity improvements, these could give an increase in overall charging rates for our business of about 20%, compared with Cash Limit "allowance" of around 11%. Some further examples of increases in overhead rates and wage settlements which will affect this year's expenditure are at Annex.

The Defence Programme - even with a proportion of fixed price contracts - simply cannot stand the pressure of increases of this kind within the cash limit. My officials are discussing their

The Rt Hon Sir Keith Joseph Bt MP



implications with the Treasury. Even so I shall have no option but to look at ways of constraining our cash payments to a number of major firms this year. No doubt there will be howls but I am sure you will agree that I must take some action; I am planning to include some reference to this in the statement I shall be making about the Defence Programme towards the end of the month.

I am sending copies of this letter to the Prime Minister and to the Chancellor of the Exchequer, and to Sir Robert Armstrong.

John Nott
John

John Nott

ANNEX

EXAMPLES OF INCREASES IN OVERHEAD RATES (1981/82 ON 1980/81)
AND WAGE SETTLEMENTS FOR 1981/82

<u>Overhead Rates</u>	<u>Increases %</u>
Vickers (Engineering)	17
Vickers (Shipbuilding)	21
Hawker Siddeley Development Engineering (Farnworth)	41
Hawker Siddeley Development Engineering (Hatfield)	15
Paxman	53
Rolls Royce and Associates	13
<u>Wage Increases</u>	
McTaggart-Scott	16.6
Hawker Siddeley Development Engineering	20
MSDS	19
<u>Overheads and Wages Combined</u>	
David Brown Gear Industries	20-25
BAe Stevenage	20

Red. exp. chustan

Redundancies 17
Navy
Army.

Ref: A05100 94-5

Chief of Staff

SECRET

PRIME MINISTER

20 major work
£2000 -
BACKGROUND

The Defence Programme
(C(81) 31 and 33)

Dushayin - J.N. 59 - 39 (51) 39
36
25
24
10-12

The Secretary of State for Defence has circulated C(81) 31 to the Cabinet in accordance with the conclusions reached by OD at their meeting on 8th June. As agreed at that meeting he has discussed the presentation of the figures with the Chancellor of the Exchequer and these are set out in agreed terms in Appendix J to C(81) 31. The Cabinet is invited to choose between the Secretary of State for Defence's preferred option (defence line II) and the Chancellor of the Exchequer's proposals, as set out in Annex A to C(81) 31.

2. In C(81) 33 the Chancellor of the Exchequer deploys the same arguments he set out for OD on why the Defence Programme should be based on constant defence expenditure after the Survey Period, and within the Survey Period kept in line with the Command 8175 figures, subject to bearing its share of any further reductions in public expenditure upon which the Government may decide. He concedes that defence's Cmnd 8175 figures need not be reduced, provided that other colleagues are prepared to bear a proportionately greater share of any overall cuts which are agreed on for the Survey Period.

3. This discussion by the Cabinet provides an opportunity for non-OD Ministers to consider the implications of the Secretary of State for Defence's proposals in relation to their own departmental programme, as well as to form a view on the overall political balance of advantage. On this latter point it was recognised by OD that the Secretary of State for Defence's reshaping proposals in their slower version (line II) ought to be saleable to the Government's supporters and to Britain's allies. But it was argued that there was no possibility of selling the more severe proposals which must inevitably flow from the Chancellor of the Exchequer's alternative financial basis; and in particular that these would probably put the Trident programme at risk. You will wish to establish whether the Cabinet as a whole accept this political judgment.

1) Professionals go with it - CD next.
2) Option 2.

SECRET

4. If the Cabinet do for this reason accept what the Secretary of State for Defence proposes, there will be inevitable consequences for other fields of public expenditure and the future level of taxation. These implications cannot be quantified with any precision at this stage. The background to this whole problem will be much in the minds of the Cabinet following today's discussion on economic strategy.

5. In these circumstances, any Cabinet acceptance of the Secretary of State for Defence's proposals seems almost certain to need qualification. Even if the Chancellor of the Exchequer were content with the forward figures today, no-one could guarantee that they will not need looking at again in the light of changing circumstances both at home and abroad.

6. The Secretary of State for Defence's proposals give rise to a number of detailed issues which OD did not consider in detail. The Foreign and Commonwealth Secretary identified his share of these points in his minute to the Secretary of State for Defence of 5th June; they concern Belize, Gibraltar, Cyprus and the Falklands, and he has since underlined his worries about Gibraltar in his further minute to the Secretary of State for Defence of 16th June. The Secretary of State for Trade has since put down a marker concerning civil hydrography. This is a particularly difficult point, since when OD discussed the matter on 19th March, 1980 it was actually agreed to make a marginal increase to the Defence Budget to provide a coastal survey vessel to undertake civil hydrographic work. The Secretary of State for Defence's latest proposals appear to envisage keeping the money but giving up the commitment. There is no need for the Cabinet to discuss these points in detail; but it is important that the minutes should reflect the need to get them properly sorted out.

HANDLING

7. You will wish to ask the Secretary of State for Defence and the Chancellor of the Exchequer to introduce their papers. The points to establish in subsequent discussion are:-

- (a) Is it agreed that the Defence Programme needs radical reshaping to bring commitments into a proper relationship with resources?

SECRET

- (b) Is it agreed that the priorities in such a reshaping, and therefore the main victims, must be broadly as suggested by the Secretary of State for Defence?
- (c) As regards figures, are the Cabinet prepared to face the probable consequences, at home and abroad, of basing the reshaping on the expenditure line proposed by the Chancellor of the Exchequer?
- (d) If not, do they (as things now stand) accept the Secretary of State for Defence's recommendation that his "slow" alternative (defence line II) is to be preferred?
- (e) If so, is it agreed that the translation from volume to cash should take account of the relative price effect, whatever it may be? To that extent, therefore, there would be nothing sacred about the actual figures in the Secretary of State for Defence's line II, which illustratively assume a 2 per cent RPE.
- (f) Do the Secretary of State for Defence's proposals give rise to any particularly difficult regional problems? The major locations affected by proposed changes are set out in Appendix I of C(81) 31. The areas affected are predominantly in England.
- (g) Is it agreed that where particular proposals by the Secretary of State for Defence are unacceptable to interested colleagues (e. g. the Foreign and Commonwealth Secretary and the Secretary of State for Trade) they should be handled as follows? The complainant and the Secretary of State for Defence should seek to reach agreement whereby either the complaint is dropped or the cost of upholding it is balanced by a further cut elsewhere in the Defence Programme. If this proves impossible, OD should arbitrate. In no circumstances would the size of the Programme be increased. But pending decisions, if necessary in OD, no public mention should be made of cuts in these areas.

SECRET

- (h) Is it agreed that the Secretary of State for Defence should press ahead with consultations with Allies with the aim of making an announcement on Thursday, 25th June? Would the advantage of a longer period of consultation and deliberation be outweighed by the more prolonged period of uncertainty and the probable development of pressure groups?

CONCLUSION

8. Subject to the discussion, the Cabinet might be guided:-

- (i) to confirm OD's endorsement of the broad thrust of the Secretary of State for Defence's proposals set out in C(81) 31;
- (ii) to choose the second resource option as set out in Annex A and Appendix J to C(81) 31, as recommended by the Secretary of State for Defence, but subject to the RPE point at (e) above;
- (iii) to recognise that these decisions in relation to the Defence Programme will increase the pressure to make reductions in other fields of public expenditure, although this cannot be quantified at this stage;
- (iv) to recognise that there are a number of points of detail which the Secretary of State for Defence will need to discuss bilaterally with colleagues, as indicated in (g) above;
- (v) to note that the Secretary of State for Defence may have to announce the imposition of cash rationing on industry to curb this year's overspend;
- (vi) to recognise that, despite the desirability of establishing a firm core Defence Programme, no guarantee can possibly be given now that the future level of defence expenditure beyond the Survey Period may not need to be reconsidered at a future date in the light of developing economic and political circumstances.

(vii) Usl. to Cash
bilaterally
(viii) Redundancy

REA

(Robert Armstrong)

17th June, 1981



Defence Budget

200 16

NRP

Paul

FCS/81/78

SECRETARY OF STATE FOR DEFENCE

Defence Programme: Gibraltar

1. I understand that our officials have, as suggested in paragraph 12 of my minute of 5 June, discussed your proposals for closure of the Dockyard at Gibraltar during 1982. The proposal continues to cause me great difficulty. I can see the problem in seeking to justify maintaining the Dockyard at Gibraltar whilst closing Chatham and Portsmouth. But the policy of successive British Governments since 1969 has been:-

".... to support Gibraltar and to sustain its people As long as Spanish policy is one of intimidation and harrassment, we shall take all necessary steps to frustrate that policy and see the Gibraltarians through the difficulties they face."

Shutting down Gibraltar would look incompatible with this commitment. I agree with the Chief Whip (his minute of 11 June to the Prime Minister) that it would occasion additional criticism and add to the worries on our own side of the House.

2. The reaction in Gibraltar would be bound to be adverse. When a previous Administration contemplated closing the Dockyard in the late 1970s, the Chief Minister was warned in advance and knows of the rolling five year assumption on which it has been operated by your Department in recent years. If we fail to consult in advance and it looked as though we were renegeing on the commitment to 'support and sustain', Sir Joshua Hassan might well resign in protest and we could find ourselves with a constitutional crisis on our hands.

3. Substantial reductions in the Dockyard would in any circumstances be difficult to handle given the likely impact on Gibraltar's economy, Government finances and employment.

/And



And the political impact in the context of support against the 'Spanish siege' would be particularly important. We should have to find other funds to maintain economic activity. And it would be necessary immediately to release redundant Service installations to the Gibraltar Government without expecting payment.

4. I think it essential to reach agreement on these issues before taking decisions, let alone saying anything about cuts at the Gibraltar Dockyard. I hope therefore that you will agree to say nothing on the subject in your initial statement on the outcome of the Defence Review. The line should in my view be that the future of the Dockyard will be discussed with the Gibraltar Government bearing in mind our commitment to 'support and sustain'.

5. Sir Joshua Hassan will be in this country on 18-23 June. If any reference was to be made to Gibraltar in a statement before 24 June, it might well be desirable that you or I should see him in advance.

6. I am sending copies of this minute to our colleagues in OD, the Chief Whip and Sir Robert Armstrong.

16 June 1981

C
(CARRINGTON)

Foreign and Commonwealth Office

copied to Oman May 1987 CONFIDENTIAL

Follow up Action
to Mr. Smith & Oman



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~2207022~~ 218 2111/3

MO 24/4

15th June 1981 (1)

Prime Minister

Dear Michael,

As you will see Mr Nott is trying to do something to reduce these charges. Shall I ask for a progress report i, say, September? If the results seem insufficient, you would hold

MOD CHARGES FOR TRAINING AND ASSISTANCE TO OVERSEAS GOVERNMENTS

a ministerial decision?
yes not
And

In the light of your letter of 29th May, and subsequent discussion, Mr Nott has asked me to write to you forwarding a note on MOD's current charging policy for training and other military assistance. The note describes the basis and composition of our charges and mentions the existing arrangements for waiving or reducing charges in particular cases. This is a revised and slightly expanded version of a MOD Note provided for MISC 42, whose report was considered by Ministers early this year. Mr Nott has asked me to draw your attention to para 4 below and the various propositions affecting charges for military training assistance which he is considering.

There have been complaints from overseas Governments (both NATO and non-NATO) in recent years that our training and other assistance have become too expensive. There has also been a decline in the number of overseas students attending courses in this country (a reversal of the upward trend a few years ago). It is difficult to be sure of the reasons for this, since there have been special factors at work, such as the strength of the pound, a world-wide recession, tighter Defence Budgets in customer countries, and the cut-off, for different reasons, of training for Iran and Nigeria (formerly two of our largest customers).

Nevertheless, many traditional and potential customers perceive our charges to be high, and further sharp increases could encourage a fall-off in demand. We therefore need to consider our own interests carefully. The provision of military training and assistance, particularly to countries outside the NATO area, can be an effective way:

- of contributing to stability in parts of the world where we have a strategic or economic interest;

M O'D B Alexander Esq



- of demonstrating a degree of military involvement which is neither expensive nor implies major defence commitments, but which nevertheless is visible both locally and to the Eastern bloc;
- of gaining influence with the armed forces of Third World countries, and promoting the sale of British defence equipment.

Against this background, Mr Nott is considering a number of changes which should have the effect of making British military training assistance more attractive to those countries whom we wish to help in this way:

a. Loan Service Personnel. Officials are considering a new scheme for the provision of advice and training in-country, which would reduce the charge to the receiving Government quite considerably, but preserve HMG's ultimate control over the personnel. Some of the reduction in charge might be found by arranging for payment to be direct and in local currency by the receiving Government to the Servicemen on loan, which would relieve the latter of their income tax obligations to HMG.

b. Flexing of Charges. Mr Nott has decided that we should be prepared to abate our charges in certain cases where to do so would help secure important defence sales or serve defence policy objectives. This might be done by setting up a fund, perhaps financed partly from industry and partly from the Defence Budget, which would establish a defined capability to quote concessionary prices, whilst maintaining a discipline to keep costs down where assistance and training are not subsidised. A fund established thus might deny resources to other defence activities. Furthermore, we should have to be careful to co-ordinate this with the help given from the FCO's UKMTAS budget for wider political and foreign policy reasons.

c. Training Costs. It is clear from the attached note that our present charges for courses in this country recover well below our full costs and little more than the direct costs incurred in the majority of cases. There is considerable evidence that, where valid comparisons can be made, the cost of our training (to Defence Votes

CONFIDENTIAL



and the UK taxpayer) is significantly higher than that of our allies or that provided by the civilian sector in the UK. Mr Nott has, therefore, called for urgent action to reduce the cost of our training, and reductions would be reflected in the charges we levy on overseas students. Meanwhile, officials are scrutinizing the costs of individual courses to see whether some planned or possible reduction in the consumption of expensive items such as ammunition would justify a lower charge than that published for this year.

I am copying this letter to Francis Richards (FCO), Peter Jenkins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely
J D S Dawson

(J D S DAWSON)

DEFINITION OF COSTS AND DETAILS OF
COST ELEMENTS INCLUDED IN MOD CHARGES -- NOTE BY THE
MINISTRY OF DEFENCE

Definitions

1. The definitions of full and marginal costs promulgated by the Treasury are as follows -

a. Full Costs

"The assessment of full cost is intended to ascertain the level of charges to be made which, if they were to be recovered in full, would result in no profit and no loss on the total costs which have been borne on the Vote of the Department making the assessment, on any other Vote, or are appropriate as notional charges in respect of, eg interest on capital, superannuation, insurance, etc."

(Source: Government Accounting P16)

b. Marginal Costs

"Marginal costs are the amounts at any given level of activity by which the total costs are changed if the level is increased or decreased by one unit of output."

(Source: Treasury Guide to Fees and Charges
Annex A para 4)

Cost Elements included in MOD charges

2. At present the MOD charges full costs for loan service personnel, whether funded by the host country or the FCO, on the grounds that UK Servicemen seconded overseas represent a long term loss of trained manpower and that an increase in the size of the Services is required to meet the commitment. The standard elements of charge are as follows:

Pay

Pension and Gratuity Liability

ERNIC

Loan Service Pay

Separation Allowance (unaccompanied stations only)

Outfit Allowance

Clothing

LOA

Education Allowance

Disturbance, Subsistence, Removals and Storage charges

Movement costs

Unaccompanied Baggage

Postal Concession Charges)

Medical, Dental and Optical Facilities)

(where MOD provides)

Higher Formation Charges

* Loss of Interest on Working Capital (now 6%) (representing average delays in payment).

- The majority of these elements constitute payments to the individuals on loan.

3. From 1 April 1980 the following further elements have been included as part of the standard charge -

Entertainment Allowance

* Amortised Ground Training charges

* Amortised Flying Training charges

5% Treasury Contingency

In addition, the following elements are also charged separately where applicable -

Language Training and Awards

General Duty Flying Clothing

Flying Risk Insurance Premium Refund

4. For training carried out in the UK the MOD charges are pitched between marginal cost and full cost. The basic rate applicable to NATO students represents the direct running costs of a course per student head. This is a figure which broadly represents marginal costs, though it may exceed or fall below true marginal costs in particular instances. For non-NATO students a 30% enhancement is added to the basic rate in accordance with Government policy of moving towards a full cost charge. These rates are estimated to be approximately 40% of full costs for NATO, and 50% of full costs for non-NATO students. This enhancement makes a partial contribution to overheads.

5. For ground training the elements of cost making up the basic rate are as follows -

Pay, Pensions and Allowances of Instructional Staff

Consumable Stores (including ammunition)

Public Utilities

* Starred items introduced under pressure from the Exchequer and Audit Department and the Public Accounts Committee.

Maintenance of Instructional Equipment

* Loss of Interest on Working Capital (representing average delays in payment)

5% Contingency

6. For flying training the following additional elements are included in the charge -

Aircraft write off wastage

1st and 2nd line spares

3rd and 4th line spares

Labour costs of maintenance

Petrol, Oil and Lubricants (POL) - excluding duty

Third-party compensation (nominal)

Ground personnel (excl training costs)

Maintenance and operation of associated ground equipment

Aircrew

Aircraft Depreciation

Starter cartridges and braking parachutes

7. In both cases the following elements would need to be included to bring the present charges up to full costs:

Administrative Staff

High Formation Costs

Equipment Support

Depreciation of Buildings

Amortised Training Costs of Instructors

Interest on Capital

GENERAL

8. All costs are calculated by professionally qualified accountants on a standard accountancy basis.

REVENUE

9. Receipts by MOD in respect of training and LSP in 1981/2 are estimated at £60M. This is not 'profit'. It broadly covers costs, plus a small contribution towards MOD overheads. A reduction in these receipts without any compensating increase in the Defence Budget would require offsetting savings to be made.

EXISTING ARRANGEMENTS FOR WAIVER OR REDUCTION OF MOD CHARGES

10. The bulk of the training provided by the MOD is charged to recipient countries. However, the FCO funds some or all of the training provided for certain poorer countries under the UK Military Training Assistance Scheme (UKMTAS), for which provision is made annually on FCO Votes. In addition, the MOD has delegated authority from the Treasury to waive or reduce charges for training related to a specific defence sales contract (where the revenue to MOD Votes equals or exceeds the amount waived).

MINISTRY OF DEFENCE

June 1981

Defence Budget.



Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Telephone: Direct Line 01-212 0440
Switchboard 01-212 7676

David Young
Special Adviser

15th June, 1981

T. P. Lankester, Esq.,
Private Secretary,
10 Downing Street,
London, S.W.1.

J. H. Wilson

Dec 17th

12

17th

I thought that you might be interested to learn of the latest stage that our efforts to accelerate the sale of surplus Defence properties are taking and I am therefore enclosing a copy of my letter to Mr. Jaffray. If we can get this first transaction through, then I believe that it might well set the pattern for future sales.

I am afraid that progress is slow but persistence will win in the end.

Lanester
1/1/81



David Young
Special Adviser

Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Telephone: Direct Line 01-212 0440
Switchboard 01-212 7676

15th June, 1981

A. R. M. Jaffray, Esq.,
Deputy Under Secretary of State,
Ministry of Defence,
Main Building,
Whitehall,
London, S.W.1.

Mr A Jaffray,

I thought that you would like to know that I did have a word with my Institutional friends and that they are prepared to consider a proposition along the lines that we now sell a suitable parcel of properties and take a 3 - 7 year leaseback. We would have the opportunity of deciding when to get possession of the properties and the Institution would then take responsibility for the disposal of the properties and would share equally in any profit with us. The initial transaction could be of the order of £15 - £20 million.

The interest cost (which would be paid by way of rent) would be the equivalent of an appropriate gilt cost so that I believe that we could argue that the running cost would be no more expensive than any other form of Government Bond.

My office is endeavouring to arrange a meeting to take this further but I thought that you might like to know in advance the result of my approach.

I am copying this letter to Mr. Delafons.

Yours ever

David Young


 cc Home Affairs: -
 Civil Hydrographic requirements
 March 80.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

 TELEPHONE 01-218 9000
 DIRECT DIALLING 01-218 2111/3

MO 10/7/5

12th June 1981

Dear David.

Prime Minister (2)

CIVIL HYDROGRAPHY

Thank you for your letter of 11th June. I can well understand your concern. But the proposal in my OD paper - based on implementing changes as quickly as practicable - to reduce the size of the Surveying Flotilla is designed to produce a flotilla geared to the needs of the reduced Fleet. We have not yet worked out exactly how this reduction is to be achieved, but it is likely that the flotilla will eventually consist of 5 or 6 vessels compared with the existing 11.

I am sorry to have to tell you that as a result of these reductions the flotilla would be able to carry out only priority defence tasks. This would be inevitable, given the extreme pressures on the defence budget coupled with the priority we are according to the strategic deterrent, which will involve considerable survey work in preparation for Trident.

So far as can be judged, it will be possible to meet the civil hydrographic programme in full only until the end of this calendar year. Thereafter it would rapidly become impossible to undertake any purely civil work. This does not mean to say that the data



obtained from work carried out for defence purposes will not, as at present, continue to be of civil use; but you will realise that this is unlikely to be of assistance in areas important to merchant shipping but less important to defence, such as the unstable areas of the Southern North sea and the Dover Straits.

I am sorry to say, in addition, that the future of the Coastal Survey Vessel (CSV) which is planned to be built for civil hydrographic work is now thrown into question. My Department is, of course, prepared to continue to use its good offices to arrange for the vessel to be constructed on the basis that no extra cost falls on the defence budget. But I am afraid that, with the best will in the world, it would no longer be possible for my Department to man and run the vessel. This was always likely to have been difficult and would have been possible only at the expense of some other naval task. But unless I obtain the resources I could not justify disposing prematurely of naval CSVs (one or more of which are likely to be paid off without replacement over the next two or three years) and having to meet the costs of running a vessel on another Department's behalf. As it is, tenders have not yet been invited so that there is still time to review the case for the vessel.

I realise that this letter is not very satisfactory from your point of view: it all depends upon the resources I have available. I agree with you that it is important to work out where we go from here and I am content for the matter to be discussed by officials in ODO(S)(H). But until we know what resources Cabinet is prepared to devote to defence there is little we can do. *Perhaps you would like to draw this matter to Solomon Bilben's attention before next Thursday's Cabinet!*



I am copying this letter to the Prime Minister and to the other recipients of yours.

Yours ever
John

John Nott



From the
Parliamentary Under Secretary of State

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781
SWITCHBOARD 01 215 7877

Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

Romi Amster (2)

To note.

Paul

11 June 1981

mb

fg

Paul

Dear John,

Before departing for Scandinavia, John Biffen asked me to write to you about the outcome of the discussion in the Defence and Overseas Policy Committee last Monday when OD considered papers submitted on the Defence Programme (OD(81)29 and 31). In particular, he asked me to raise with you as a matter of urgency the possible implications for civil hydrography of the proposal in your paper, OD(81)29, to halve the hydrographic fleet by 1986.

You will recall that in her summing up at OD, the Prime Minister indicated that particular problems for other Ministers which arose from the Ministry of Defence proposals should be pursued with you bilaterally. You will not, I am sure, be surprised to learn that my Department is extremely concerned about the implications for the important civil programme which at present forms an integral part of the survey work carried out by the Hydrographer. I think there is a need urgently to establish clearly the details that lay behind the proposal to halve the Hydrographer's fleet so that a judgement can be made of the effect, if any, on the top priority civil requirements which I regard as being absolutely vital to preserve for the future. You will be aware of the acute political embarrassment which Government is already facing arising from continuing problems that we have met in trying to augment the resources which can be made available for the civil programme. The current contribution of the Hydrographer to this programme is vital, particularly in areas such as the southern North Sea and the Dover Straits where there are particular dangers to shipping arising from the shifting nature of the sea bed. This is but one example, but it is quite clear to me that if the continuing surveys in this area were put in jeopardy by your proposal then this could have the most serious consequences for shipping and safety of navigation in these areas so important for international trade. I am sure that Government would be very strongly criticised if it allowed a situation to develop where charts were not kept up-to-date. Moreover, the consequences of groundings and strandings in areas such as this, particularly if they were to involve tankers carrying noxious cargoes, could be monumental. I therefore think that we must consider most carefully the effect on



programmes such as this before Ministers take final decisions on the detail of the Defence Review.

I therefore hope you will agree that in the first instance officials should consider as a matter of urgency the detail of your proposal and the implications for the civil programme which may arise. It may be that this could be achieved through an early meeting of the Cabinet Office Working Group which is looking into the civil hydrographic requirements. My overriding concern, however, is to ensure an early dialogue between the interested parties so that Ministers collectively can have a full appreciation of the consequences of the decisions that they are being asked to make.

I am copying this letter to the Prime Minister, to OD colleagues, and to Sir Robert Armstrong.

*Yours,
David.*

LORD TREFGARNE

PRIME MINISTER

B/F 16-6-87
Deaves
for check on meeting
on 17/6.

Meeting with the Chancellor: 1430, Wednesday 10 June

I don't think the Chancellor has much to discuss tomorrow.
He may raise the following:

- (i) Lord Thorneycroft's letter to you on the business start-up scheme (Flag A). At Flag B is the Chancellor's statement last Friday on the concessions he has made.
- (ii) Defence discussion in OD. The Chancellor was no doubt disappointed at the general flavour of the discussion - which favoured not only Mr. Nott's proposed pattern of spending, but also one or other of his spending profiles. Of course, it may be a different story in Cabinet when the other big spending Ministers come in. If one or other of Mr. Nott's options has to be accepted, I would think the Chancellor would do well to agree 3 per cent per year up to 1987/88 rather than 3 per cent up to 1985/86 plus £200 million in each year. He can ill-afford the extra £200 million, which in effect will mean higher taxation in the period before the election. By contrast, the 3 per cent commitment for the further two years 1986/87 and 1987/88 is pretty theoretical at this stage. Having said this, it is clear that the Chancellor's public spending problems are frightening - see the paper at Flag C that you have already seen.

76 finally →

At Flag D is the revised version of the Chancellor's strategy paper. You said you would like to have a session with him and the Chief Secretary at Chequers on Sunday evening to go over it. Would it not be better to do this at No. 10 early next week? For example, we could do it late on Tuesday afternoon before the CBI dinner. !

? ~~~~~ .

/You told

9 June 1981

You told the Home Secretary early last month that you did not favour Mr. Heseltine's proposal to include rent deregulation in the housing legislation for the next session. You suggested to the Home Secretary that he should sort this out. I understand that Mr. Heseltine is still intent on including this measure, and that he is asking the Chancellor to help. In advance of Cabinet's discussion on Thursday on the legislative programme, you might indicate to the Chancellor your doubts about this. (He ^{may} ~~will~~ not be aware of the discussion which you have had with the Home Secretary.)

CONFIDENTIAL 72



10 DOWNING STREET

From the Principal Private Secretary

8 June, 1981.

Dear Brian,

The Defence Programme

The First Sea Lord came to see the Prime Minister this morning to discuss the proposed changes in the defence programme which OD were due to consider later in the day. Your Secretary of State was also present.

The First Sea Lord thanked the Prime Minister for the opportunity to put his views to her in a separate meeting from that which the Chiefs of Staff collectively had had with her the previous week. He wished to emphasise at the outset that he was not simply arguing a Naval case, but was genuinely trying to find the best way forward for the country's defences as a whole. The final decisions on the Defence Secretary's proposals had not yet been taken, but they would be reached very soon; and he wanted to bring his views to the attention of Ministers in an attempt to influence them in making their decisions, for he did not believe that the general thrust of the Defence Secretary's proposals was right.

He did not propose to say anything about the Soviet threat, with which the Prime Minister was already wholly familiar. The point he wished to emphasise most was the serious miscalculation which we would be making if we disregarded the deterrent effect of a major maritime capability in peacetime and even in the opening phases of hostilities. And, within that capability, it was the surface fleet which provided much of this deterrent effect, simply because it was visible. It was wrong to think of surface ships as having only the role of protecting convoys and as therefore being out of date. All the evidence of the past and of the present showed that surface ships had a much wider and more varied function than this. If we cut the surface fleet in the way the Defence Secretary was proposing, the UK "would be the only man in the squad who was in step". The Soviet Union was carrying out a major surface ship construction programme. So were many of our allies. The French, for example, were already exerting a world-wide influence by the deployment of their surface ships, and if the Royal Navy was cut in the way proposed, they would claim to be the new maritime leaders of Europe. This would surely be unattractive politically.

MM

The First Sea Lord went on to say that only one option had been seriously considered in the present review. How heavily the programme cuts were falling on the Royal Navy compared with the Army and the Royal Air Force was starkly brought out in the graph he showed the Prime Minister. He believed that other options should be explored before final decisions were taken. For example, before the Navy's front line was so severely reduced, all Headquarters and the Ministry of Defence in particular should be stringently reviewed to make the biggest possible cuts in their staffs. The Admiralty Board were already proposing to reduce the support structure of the Navy as much as possible in order to preserve the front line to the greatest possible extent: for example, they were considering changing radically the ratio of sea/shore service, even though this would give rise to difficult problems. Another area which deserved much closer examination than it had received so far was the size of our forces on the Central Front. Many of our European allies were going through defence reviews similar to our own, and there was thus never a better time than now to adjust the size of BAOR. If we did not grasp the nettle of the Brussels Treaty now, we never would. There were 2,000 UK-based civilians and 23,000 German civilians supporting BAOR, and surely some of these could be cut. Similarly, some of the 70,000 dependants in BAOR could be brought back to the UK.

Another option was to reduce the size of our specialist reinforcement forces. While he did not believe it would be right to cut the Air Force element or the units which were trained to reinforce North Norway, he thought that there should be a close scrutiny of the UK Mobile Force in the circumstances of today's financial stringency.

The First Sea Lord said that so far his professional advice and that of the Admiralty Board as a whole had not been accepted. But he had to emphasise that if the surface fleet was cut in the way proposed, this would, in his view, unbalance our entire defence capability, and once the ships had gone, we should probably not be able to recover this century. It would have much less of an unbalancing effect on our defence capability if the reductions were to fall more on some of the other programmes he had mentioned. He would like OD to know what these other options were before they took fundamental decisions, and he wondered whether the Prime Minister would consider whether a note setting out his views might be circulated to OD in time for their meeting later that day.

The Secretary of State for Defence said that the First Sea Lord was right in saying that he had required the Royal Navy to find much bigger savings than the Army and the RAF. One reason for this was that, for the purposes of the review, Trident had been included in the Naval programme, and its cost had not been split equally between the three services. As regards the other options which the First Sea Lord had mentioned, the pay of a German civilian working for BAOR was about £1,000 a year less than the pay of a soldier. If account was taken of the cost of accommodation and other support facilities such as families'

education, the disparity was even greater. It would therefore be much more expensive to replace German civilians, many of whom were doing vital military jobs, with British soldiers. Equally, it would cost much more to bring dependants back from BAOR to the UK where new facilities would have to be provided for them.

The Prime Minister said that she was grateful to the First Sea Lord for setting out his views so clearly. Time did not permit the circulation of a note to OD, but it would be proper for the Chief of Defence Staff, who would be present at OD, to give a full explanation of the First Sea Lord's position. She would be grateful if the First Sea Lord would make the necessary arrangements with the Chief of Defence Staff.

Yours ever,

Anne Whitlam.

B.M. Norbury, Esq.,
Ministry of Defence.



10 DOWNING STREET

Defence
SP
SUBJECT

From the Principal Private Secretary

8 June 1981

File AH

cc. Nottor sec.

B F 18-6-81

Dear Baron,

When the Prime Minister saw your Secretary of State this morning she mentioned the attached letter from Mr David Steel to him.

They agreed that a classified defence briefing should be offered to the Leader of the Opposition and Mr Steel, as the latter had asked. They also concluded the briefing should take place in the autumn, well after decisions arising from the present review of the defence programme had been taken and announced.

Before she replies to Mr Steel agreeing to his request, the Prime Minister would be grateful if Mr Nott would consider whether the briefing should be one given by the NATO authorities, as has been the case on occasion in the past, or by the Ministry of Defence.

Yours sincerely,

Alain White

Brian Norbury Esq.,
Ministry of Defence.

AH

Ref: B06220



9

PRIME MINISTER

The Defence Programme
(OD(81) 29 and 31)

BACKGROUND

The proposals in the Defence Secretary's paper OD(81) 29 were foreshadowed at your informal meeting with him and other colleagues on 18th May, and were the basis of your meeting with the Chiefs of Staff on 3rd June. They are the outcome of the radical review he has conducted internally in the Ministry of Defence. They call for crucial and controversial decisions. A special Cabinet meeting on the subject has been arranged for 17th June. Mr Nott then plans to announce the key decisions in July, after informing Allies.

? 2. The key issue is Mr Nott's request for either a 3 per cent annual increase in volume terms up to 1985/86 plus an average supplement of about £200 million a year specifically for Trident (the fast adjustment option) or a 3 per cent annual volume increase for two years longer i.e. to 1987/88 but no Trident supplement (the slow adjustment option). In return for either he offers major reductions in the planned programme, particularly as regards the surface fleet. These reductions would be more sudden and unpopular under the fast plan; hence the need for a supplement to protect Trident from being seen (wrongly) as the cause of the trouble.

3. The Chancellor of the Exchequer's paper OD(81) 31 naturally endorses the reductions strategy but opposes both options. He urges that 3 per cent growth (in real but cash - i.e. not volume - terms) should be continued only up to 1983/84, the end of the current PESC period. Some of his points would be disputed by Mr Nott on factual grounds (eg the assertion that the defence burden on national resources is now at a post-war peak).

4. The Foreign and Commonwealth Secretary's minute to Mr Nott of 5th June, copied round the Committee, objects on foreign policy grounds to some of the proposed reductions which concern Belize, Gibraltar, Cyprus and the Falklands. But he suggests discussing these relatively



minor problems bilaterally, rather than in Committee. The Ministry of Defence would be content with that procedure, on the basis that they would find offsetting savings for any such reductions which the Foreign and Commonwealth Office persuade them are impossible.

5. Another significant point of detail may be raised by the Secretary of State for Trade in relation to the proposal to halve the hydrographic fleet with loss of capability for both defence and civil surveys. When the Committee last discussed this subject on 19th March 1980 they reached the conclusion that any British Government had an important responsibility to ensure British waters remained safe for shipping. Cutting naval hydrography may therefore only mean that the Department of Trade have to be allocated equivalent resources from the Contingency Reserve.

cc(81)12
MFS
don

6. Three basic questions arise on Mr Nott's proposals.

- a. Are the resource assumptions set out in paragraph 6 of his Annex generally agreed?
- b. If so, are his plans for bringing the programme into line with these resources the right ones in terms of the national interest?
- c. Can these plans be successfully presented to the Government's supporters, to the general public and to NATO allies, particularly the United States?

7. Behind these issues lies a more fundamental problem. We think of ourselves as a military power comparable in weight to France and (nuclear weapons apart) Germany. We are at present spending on defence about as much, in absolute terms, as they are. But our GDP is only about 60 per cent of Germany's and 75 per cent of France's. We are therefore using over 5 per cent of ours, compared to the Germans' 3.3 per cent and the French 4 per cent. We face an unpleasant choice, over the years to come, between continuing to make much greater sacrifices than they or opting out of their league.



8. The major attraction of Mr Nott's proposals is that they offer the first real prospect for years of bringing defence plans into line with resources. "Overstretch" has been the bane of our military posture since the War. It will be worth breaking some eggs to get away from it at last - as after the initial shock both the Services and our Allies should come to appreciate. The choice of the surface fleet to bear the main brunt of cuts is of course controversial. But any alternative choice would probably be even more so.

9. The main snag about the proposals is the implicit damage to the Government's public expenditure strategy over the next three years. This may give rise to more serious heartsearching in Cabinet than at the present OD stage.

10. The main question mark over the proposals is their ambiguity about expenditure levels after the adjustment period (ie after 1985/86 or 1987/88). Paragraph 19 of the Annex is the key passage here. It talks of movement towards "figures somewhat closer" to those in column 1 (in paragraph 6 of the Annex). This could mean anything from figures just higher than column 1 to figures just lower than column 3. The difference is enormous - nearly £2 billion a year. The Ministry of Defence have been given no indication of what Mr Nott has in mind here. But any real approximation to column 1 (the constant-share-of-GDP line) would be bound to involve several years in which defence expenditure would actually fall in real terms.

11. The Secretary of State for Industry hopes to be present for this discussion if he can get back in time from the United States; if he cannot Mr Tebbit will be available to stand in. The Chief Secretary, Treasury will be present because of the public expenditure implications and you have also agreed to the Secretary of State for Employment's attendance. The Secretary of State for Defence will be accompanied by the Chief of the Defence Staff.

HANDLING

12. You will wish to ask the Secretary of State for Defence to introduce his paper and the Chancellor of the Exchequer to introduce OD(81) 31. The Foreign and Commonwealth Secretary may also have general points to make; he is likely, as with the Chiefs of Staff, to give Mr Nott broad support, despite his personal predilection for a blue water strategy.



13. You could then structure the subsequest discussion around the questions identified in paragraph 6 above. The points to establish are -

(a) Is the aim of radical restructuring and reductions generally agreed (subject to bilateral resolution of points of detail raised by Lord Carrington and any other colleagues, eg Mr Biffen)?

(b) If so, do the Committee accept Mr Nott's implicit recommendation that the smaller of the two Rhine Army cuts is to be preferred (paragraph 10.a of his covering paper)?

c. Further, and more significantly, do they agree with his implicit preference for slow adjustment (extending to 1987/88) rather than fast (ending two years earlier)?

d. If so, is it accepted that, despite Sir Geoffrey Howe's views, so major a restructuring could not be attempted without pre-empting the resources sought by Mr Nott up to 1987/88?

e. Is the Committee prepared to reach this decision ahead of this autumn's public expenditure review?

f. When the restructuring is over, is there a real prospect of holding defence to a constant share of GDP (albeit nearly 6 per cent)?

g. What are the professional views of the Chief of the Defence Staff? (You yourself have already heard these on 3rd June but you may wish him to repeat them for the benefit of the Committee. His opinion that only on the Central Front could the Allies lose a war in an afternoon seems particularly worth bringing out.)

h. What are the views of the Secretary of State for Industry on the industrial implications of the Secretary of State for Defence's proposals?

i. What are the views of the Secretary of State for Employment on the job losses involved both in the Services, the Civil Service and Industry?



j. If the general thrust of the Secretary of State for Defence's proposals is agreed, is the Foreign and Commonwealth Secretary content that they can be presented to our Allies, particularly the United States, along the lines proposed in paragraph 26 of OD(81) 29? It is relevant that in December 1974 the United Kingdom Defence Review proposals were presented to NATO on the same day that they were announced to Parliament, and that confidential bilateral discussions in Washington and Bonn had only taken place in the previous three weeks.

k. Does the Chancellor of the Duchy of Lancaster believe that these plans can be successfully presented to the Government's supporters and the general public? Is there a risk that they will precipitate a general debate about the necessity and desirability of replacing Polaris?

14. You may like to avoid any general discussion on the Trident programme by stressing that the Chiefs of Staff attach the highest military priority to preserving the strategic deterrent, and that the Government must stand firm on the decision to replace Polaris. It is not at present clear whether the replacement should be Trident I (as agreed with the Americans last year) or Trident II (which may prove necessary in the light of American decisions about their own programme which have not yet been taken). This may be something you will be advised to raise with President Reagan in the margins of the Ottawa Summit next month. But if it is raised at this OD discussion you need only note it as an issue which the Defence Secretary will if necessary bring forward for decision when the position is clearer.

CONCLUSION

15. Subject to points made in discussion you may like to remind the Committee of the sensitivity of the issues under consideration and to guide them to agree

i. to the proposals made by the Defence Secretary in paragraph 27 of OD(81) 29, including a preference for the slow adjustment option and for the smaller reduction in Rhine Army;



ii. that minor problems raised by the Foreign and Commonwealth Secretary, and perhaps others, should be resolved in bilateral discussion with the Defence Secretary, who should make further cuts to balance any modifications he agrees to in his present reduction proposals;

iii. that the Defence Secretary should circulate his proposals, in summary form, for the consideration of the Cabinet at their meeting on Wednesday, 17th June.

5th June 1981

A handwritten signature in blue ink, appearing to read 'R L Wade-Gery'.

R L WADE-GERY

c Sir Robert Armstrong



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FCS/81/70

M

SECRETARY OF STATE FOR DEFENCE

DEFENCE PROGRAMME

1. I have seen your Note of 3 June on the defence programme, and look forward to discussing it at the meeting of OD on 8 June.

2. Some detailed aspects of your proposals are, however, of concern to me and I felt it best to get in touch with you straight away since we may not have time to consider them on 8 June. The proposals I have in mind concern Belize, Gibraltar, Cyprus and the Falkland Islands, and are described in paragraph 12 of the Annex to your Note and (as regards the Falkland Islands) in paragraphs 5 of Appendix A.

3. As regards Belize, you will recall that no decision has been taken about our security commitment to Belize after independence pending the outcome of the current series of negotiations with Guatemala in the search for a permanent settlement of the dispute. These negotiations have proceeded well and it is possible that by the end of this month or the middle of next we will have signed a Treaty. But even if our efforts to obtain a Treaty are successful, we may not know until the end of August the extent to which it will be necessary to provide some kind of security guarantee for Belize after independence.

/4.



4. While, therefore, I think it entirely reasonable to plan on the withdrawal of the garrison from Belize by the end of 1982 at the latest, and of certain elements of that garrison perhaps before that date, it is too soon for us to be certain that our defence commitment in Belize will largely disappear by the end of this year. It is important to remember that premature publicity about our intentions could, because of reactions in Belize and Guatemala, make those intentions more difficult to translate into reality.

5. As for Gibraltar, the economy is heavily dependent on the defence establishments and their supporting services. The dockyard, which it is proposed to close, is the largest industrial undertaking in Gibraltar. Upwards of a thousand redundancies would be involved, raising unemployment from virtually zero to about 10%. With alternative employment unlikely to materialise, closure would reduce national income by perhaps 13% and throw the Gibraltar budget into chronic deficit. There would be bound to be a substantial knock-on effect on the commercial sector.

6. The Government is firmly committed to 'support and sustain' Gibraltar so long as Spanish restrictions remain in force. If the dockyard was closed, other ways of maintaining economic activity would consequently have to be found. In the short term, prospects for commercialising the dockyard seem poor. Substantial aid, probably including budgetary support, would be necessary. The pressure from Gibraltarians, relying on the commitment to 'support and sustain', which would be echoed by their supporters in this country, would be such that net British Government expenditure would have to be kept at much the same level as in the past through a higher level of aid in the mixture of defence spending and ODA grants. Meanwhile, the effect on prospects

/for



for getting the Spanish Government at long last to reopen the border would almost certainly be adverse. Closure of the dockyard would be seen in Spain, as well as in Gibraltar, as a major shift in policy, putting in question after twelve years of the current siège the determination of the British Government to support the Gibraltarians. The Spanish Government reaction could only too easily be to shelve any plans they may have to implement the Lisbon agreement and to wait for the pressure on the Gibraltarians to build up.

7. The proposal to transfer the airfield to civil administration causes me less problems. The initial assessment is that the civil administration could operate economically.

8. On Cyprus you acknowledge that the political situation precludes any large savings at present. I would see no major objection to some further reductions in the Services' presence in the Sovereign Base Areas (SBAs) but there can be no question of relinquishing any part of either SBA until there is a Cyprus settlement. And there is no prospect in present circumstances of renegotiating the 1960 Treaties in order to redraw SBA boundaries.

9. Finally, HMS Endurance, which plays a vital role in both political and defence terms in the Falkland Islands, their Dependencies and the British Antarctic Territory (BAT). Although we continue to seek a solution to the dispute with Argentina it cannot at present be said that a solution is in sight. HMG are committed to respecting the wishes of the Falkland Islanders, who do not find it easy to contemplate any degree of Argentine sovereignty, however nominal. Unless and until the dispute is settled, it will be important to maintain our normal presence in the area at the current level.

/Any



Any reduction would be interpreted by both the Islanders and the Argentines as a reduction in our commitment to the Islands and in our willingness to defend them, and would attract strong criticism from supporters of the Islanders in the United Kingdom.

*Paragraph 10 deleted and closed, 40 years,
under a FOI Exemption.*

*AWayland
23 August 2011*

11. The FCO accept that HMS Endurance is nearing the end of her normal working life. But if she is to be disposed of, it is essential not only that she should be replaced, but also that the replacement should be a vessel of similar type (ie an ice-breaker) for Antarctic work. If we were to attempt to effect the changeover of the Royal Marine Garrison on the Falkland Islands using a conventional warship (and this seems to be the only alternative if we rule out the use of air transport via Argentina) this would not escape Argentine attention and might well be interpreted as provocative.

12. Since these issues are not central elements in your package, I suggest that they should be pursued bilaterally between the FCO and the MOD, at official level in the first instance. I would hope that they could be resolved in time for your statement in Parliament at the beginning of July. If they have not been resolved by then, I hope there

/would



would be no question of referring to them in the statement. (HMS Endurance and Gibraltar both feature at present in Appendix G to your Note which summarises the list of measures to be announced).

13. I am sending copies of this minute to our colleagues in OD and Sir Robert Armstrong.

5 June 1981


(CARRINGTON)

Foreign and Commonwealth Office

CONFIDENTIAL

PRIME MINISTER

The attached letter from Mr David Steel asks you to repeat the classified defence briefing which you, as Leader of the Opposition, and he had in 1976.

His request raises difficulties which did not exist at the time of the last briefing. Mr Foot is now the Leader of the Opposition. Do you want him to have a classified defence briefing? If he was invited to such an occasion, would he accept? If he did not, would it be worth giving just Mr Steel a briefing?

And what about the SDP? Presumably they would have to be treated in the same way as the Liberals. No

If you do decide that there should be a briefing, it plainly should not take place until after the conclusion of the defence review and the announcement of the Government's decisions. This points to a briefing in the autumn.

Because of these snags, which raise issues of delicate political judgment, I have not sent Mr Steel's letter to Mr Nott's office for his advice. But you may like to have a word with him about it after your meeting with him and the First Sea Lord on Monday morning. You may also like to mention it to the Home Secretary and the Chief Whip when they are here at 10.45 on Monday.

→ *Steel*

JW

5 June 1981

CONFIDENTIAL

~~Defence Budget~~

PRIME MINISTER

DEFENCE PROGRAMME

When you saw the Chiefs of Staff on Wednesday, you told Admiral Leach that you would arrange a time for a separate meeting with him and the Secretary of State for Defence.

He and Mr Nott are coming to see you at 11.15 on Monday 8 June.

The attached folder contains Admiral Leach's personal minute of 18 May to you.

ML

5 June 1981

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MOD 6

Defence

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S E C R E T

FM WASHINGTON 041955Z JUN 81
TO PRIORITY F C O
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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HD/NAD
HD/DEFENCE D
PS
PS/LPS
PS/MR RIDLEY
PS/MR HURD

PS/PUS
MR DAY
MR URE
SIR A ACLAND
MR GILLMORE

cc N:10
Cabinet Office
MOD. 9vi

SUBJECT
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BR

10 DOWNING STREET

From the Private Secretary

3 June 1981

Kear Brian,

THE DEFENCE PROGRAMME

The Prime Minister held a meeting with the Chiefs of Staff this morning to discuss the defence programme. The Chief of the Defence Staff, the Chief of the General Staff, the Chief of the Naval Staff and the Chief of the Air Staff, as well as the Defence Secretary and the Foreign and Commonwealth Secretary, were present.

The Prime Minister said that she wanted to make it clear at the outset that press stories to the effect that she had been "furious" about the way the review of the defence programme had been conducted were quite unfounded. She had no idea where these accounts had come from. As far as she was concerned, the behaviour of the Chiefs of Staff throughout had been impeccable. She would ensure that her Press Secretary briefed the press accordingly after the present meeting.

After thanking the Prime Minister for seeing him and his colleagues, the Chief of the Defence Staff said that the meeting came at a critical time. The interest which the Prime Minister had taken in defence matters was much appreciated by the Armed Forces. Her recent visit to Ulster had given a considerable boost to the morale of those serving there. The Chiefs of Staff recognised that the Prime Minister would ensure that as much as the economy could stand would be allocated to defence. Nor were they insensitive to the needs of the economy. They knew the Prime Minister would stick to the commitments she had entered into publicly.

Nonetheless he and his colleagues had to say that the situation had deteriorated since they had last seen the Prime Minister in November 1980. The Soviet threat had increased. NATO had not succeeded in improving its position. The resolve of its members seemed, if anything, to have weakened. Pacifism was on the increase in some member countries. This was no time for Britain to be planning reductions.

A number of allies faced similar problems to ourselves. The Dutch, the Belgians and the Germans were all in the throes of defence reviews. The Canadians appeared to be planning changes

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to take account of Mr. Trudeau's wish to take initiatives in the North-South context. (Mr. Trudeau also seemed to have his own ideas on East-West relations). The United States, for their part, were planning increases in their defence budget. But they were also planning to change the thrust of their strategy, giving a higher priority to South West Asia and global considerations at the expense of Europe. To fail to coordinate these various reviews internationally would be most unwise. HMG had proposed at the end of the previous year that there should be a NATO-wide review. The proposal had been rebuffed. Perhaps attitudes would now be more receptive. Perhaps the Prime Minister could suggest at Ottawa that there should be a collective review of ways in which the major Western states could reshape their defence capabilities.

It would not of course be possible to await the outcome of a review initiated in July if the July deadline under which the Defence Secretary was at present working was maintained. However, this deadline was to some extent self-imposed. If the 3% annual increase could be extended for two years beyond the PESC period, i.e. until 1986, this would make it possible to postpone the major decisions while we consulted our allies. There would of course be no point in doing this unless it was considered that such consultation would be productive. For the moment it should be recognised that we, like a number of other countries, were making major changes in the direction of our military effort without any consultation whatever.

The Chief of the Air Staff recalled that he had outlined in November the consequences for our ability to meet our military commitments of a failure to provide adequate financial resources. The Defence Secretary had now laid it down that the resources which were available were to be focussed on the central region rather than on the North Atlantic. Given that a choice had to be made, this was the right one. The proposals being put to OD would enable the Royal Air Force to carry out its role in the years ahead and indeed to make some improvements in its air defence capability and to provide some compensation on the Naval air side for the run down in the surface capability. The main difficulties would be encountered in the next two to three years. Measures required in the short term to make the longer term programme possible might, for instance, temporarily place the operational standards of the Air Force at risk. The accelerated phase-out of Vulcan before the Cruise Missile and Tornado were available would mean a dip in our front line capability at a dangerous time. In the longer term, the only major problem was the lack of resources on the air combat side. The cost of a full Jaguar programme was admittedly excessive, but the requirement would have to be met in some way.

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The Prime Minister said that she would like to have a separate discussion with the Chief of the Naval Staff and the Defence Secretary at some convenient time. The Chief of the Naval Staff said he was grateful for this. He was in a rather different, and more difficult, position than that of his colleagues. He stressed that he appreciated the economic problems facing the country. He was entirely behind the Defence Secretary in his bid to secure as much money for the defence programme as the country could afford. It would be irresponsible of him to argue that the Navy should be preserved at the expense of the other services. At the same time it would be irresponsible to

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/ agree

agree that the majority of the savings should be found by the Navy. There were other options which had not yet been fully analysed. There should clearly be consultation with our allies. If the cuts which they made ran in the same direction as ours, the Alliance could find itself in deep trouble. There would be a real risk of decoupling. He was deeply concerned at the extent to which the Government seemed to be prepared to mortgage the future. A position might be created from which it would be impossible to recover.

The Chief of the General Staff said that he had little to add to the paper which the Defence Secretary proposed to submit to OD. The question was which of a limited number of options HMG chose. There were risks whatever one did. The choice was largely a matter of judgement. He agreed with the Defence Secretary that the Central Front was the decisive arena. Scenarios other than an outbreak of hostilities on the Central Front might be more likely. But only on the Central Front could the war be lost in an afternoon. Tinkering there would do more damage to the Alliance, and to the prospects of keeping the U.S. engaged in Europe, than action elsewhere. As regards more radical approaches, it would of course be best if NATO would start from scratch and consider, e.g. more specialisation. But the feasibility of such a review was doubtful. The need for a continental strategy had been established for centuries. Departures from it had been disastrous. A land force in Germany of three divisions and a TA division seemed to be the best answer.

The Foreign and Commonwealth Secretary said that he agreed with the Defence Secretary about the need for drastic decisions, unpalatable though these would be for the country and for the Conservative party. Deterrence was as much a matter of political will as of military capability. Keeping NATO going was more important than the question of precisely what it could do - always provided its military capability remained credible. In many ways the Defence Secretary's proposals went against what might seem militarily most effective. However, it was politically inconceivable that BAOR should be wound down. The only area where there was room for flexibility might be in seeking ways to put the decisions into effect less rapidly.

The proposal made by the Chief of the Defence Staff for consultation with our allies was logical and sensible. Unfortunately it seemed unlikely to work. NATO's machinery would not come up with decisions in the time available and indeed might find it difficult to come up with any agreement at all. We should have to take our own decisions as best we could and then try to sell them to the Federal Republic and the United States.

The Defence Secretary said he fully agreed with the Foreign and Commonwealth Secretary. There was no real choice about the direction he took. It would however be helpful if the 3% increase could be carried beyond the PESC period since this would enable us to phase the introduction of the new programme better. Even so there would be no time for consultation of the kind envisaged by the Chief of the Defence Staff. A major Alliance defence review

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would put the unity of the Alliance at risk and might be gravely destabilising. Nor could the Government now afford to postpone decisions. The morale of the Navy would, for instance, suffer from a continuation of the present uncertainty. The decisions should be taken and OD should determine how fast they would be implemented.

In the subsequent discussion, the following points were made:-

- (a) there would be advantage in having in future defence budgets a substantial central (or contingency) fund;
- (b) the decisions affecting the Royal Navy would be extremely difficult to sell within the country and to our allies. Particularly careful thought would have to be given to their presentation. It would be important that it should not appear that the conventional naval forces had been forced to carry the cost of Trident. There was a tendency to argue in this way because Trident was a maritime weapon. The allocation of resources between the three Services, once the cost of the strategic deterrent had been met, should be seen as having been determined on its merits. This sort of problem would be easier to handle in future if a "central fund" could be established;
- (c) although there might be difficulties with SACLANT, the United States Government would probably be prepared to accept the decisions under consideration. They would be anxious to see the Trident programme maintained in order to avoid a situation where France was the only European nuclear power. However, their acceptance should not be taken for granted. They had been given certain assurances at the time of the initial decision to purchase Trident I;
- (d) the handling of the decision in NATO would be of great importance. Even if it were decided that an initiative on consultation should not be taken in Ottawa it would be vital to keep NATO, and in particular the major NATO Commanders, fully in the picture;
- (e) the cuts proposed in our naval capability were of such magnitude that there would be no possibility of any flexibility being exercised in response to comments from NATO;
- (f) apart from their general impact, some of the proposed cuts would have immediate foreign policy effects. This was notably the case in regard to Gibraltar where the closure of the dockyard would have considerable consequences;
- (g) it was wrong to suppose that it would be possible to escape the present dilemmas by opting for less sophisticated equipment. The decision to abandon the Type 22 Frigate had been taken before the present review. The Type 23 Frigates might well cost as much as £70 million per copy.

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/Military

Military equipment was designed to meet an objective threat. To base procurement exclusively on financial considerations was to risk leaving oneself in the end without any effective military capability but having spent a great deal of money;

(h) this year's defence budget seemed destined to exceed the cash limit by as much as £500 million. The overrun was mostly on Air Force systems. It was pointed out that while the inflation factor for equipment in the cash limit was 11%, British Aerospace were expecting their overheads to go up by 18% and Rolls Royce by 22%.

The Prime Minister in conclusion said that everyone would, of course, like to spend more on defence. No-one wished to have to make choices. The Government would allocate as much as it could to defence. But choices would have to be made. The Cabinet had been unanimous in considering that the first priority had been to sustain morale in the Armed Forces by meeting the recommendations of the Review Body on Armed Forces Pay. The task now was to equip the Forces as well as possible in a period where costs were rising rapidly. It was doubtful whether the allies would agree to a "state of the Alliance" review. Such a review might result in some Member countries opting out of existing commitments. The decisions envisaged by the Defence Secretary could not be delayed. The requirement now was to take the decisions and then to sell them to the Alliance.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

Brian Norbury, Esq
Ministry of Defence

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THE RT. HON. DAVID STEEL, M.P.

PO. pps?
(pre-elec)



PS

HOUSE OF COMMONS
LONDON SW1A 0AA

3rd June 1981. R46

Dear Prime Minister,

You may recall that some time in late 1976 you and I accepted the invitation of the Prime Minister to attend a classified defence briefing with the Service chiefs, the Secretary of State for Defence and your then shadow spokesman Ian Gilmour.

I found the occasion very useful, and am a little surprised that there has been no repeat of this exercise in five years.

While it is the case that there are differing views on basic defence strategy between (and indeed within) the political Parties, I do think it would be useful to have occasional up-dates of this purely factual nature, in particular on Soviet deployment.

I wonder if you would consider such a briefing sometime this year?

Yours sincerely,

David Steel

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
The Prime Minister,
10 Downing St.,
London SW1.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~3027022~~ 218 2111/3

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2nd June 1981

Dear Chris,

DEFENCE PROGRAMME

My Secretary of State is bringing the Chiefs of Staff to see the Prime Minister tomorrow Wednesday 3rd June at 12 Noon so that they can let her have their views on his proposed re-shaping of the Defence Programme (and he will himself be coming to see the Prime Minister at 11.15 a.m).

My Secretary of State hopes to circulate a memorandum to OD tomorrow, but in advance of that, and in view of tomorrow's meeting he thought that it might be helpful for the Prime Minister to have a copy of his latest working draft which he will put into final form in the light of comments on it we are receiving at official level from the Treasury and the FCO. The Chiefs of Staff have a copy of this working draft and I think that it will be on its general basis that they will be speaking.

I am sending a copy of this letter and the draft paper to Brian Fall (FCO).

*Yours ever,
Brian*

(B M NORBURY)

C A Whitmore Esq

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D R A F T

OD(81)29

THE DEFENCE PROGRAMME

Note by the Secretary of State for Defence

1. We need to re-shape our defence programme, to provide within our growing spending on defence a force structure cost-effective for the future and capable of being sustained surely and adequately in the long haul. The Memorandum at Annex herewith explains the need for change, the options for its direction, and the industrial, employment and budgetary implications. This note summarises the key issues.

2. The central message is that we are at present trying to do too much, with the certainty of not doing it well enough. Now is the time to face radical adjustment, and to settle a stable and realistic long-run course. If we duck decisions now, they will confront us more acutely and in more difficult circumstances later.

The International Background

3. I need not recapitulate the facts of the Soviet military build-up. The Committee is well aware of its enormous scope, in numbers and increasingly in quality also. In face of this the US under President Reagan is clearly determined upon renewed effort; but this can do little to affect the situation - the widening gap between NATO and the Warsaw Pact in many aspects of capability - in the next few years. At the same time many of our European allies face sharp domestic political difficulties over defence. We cannot count on consistent resolve from them. But

the survival of NATO remains vital to us, and we must therefore be all the more wary of any action that might threaten its cohesion.

The Need for Change

4. The long-term plans to which the Services are currently working in the conventional field envisage some strengthening (though not enough) of UK base defence; the maintenance and limited enhancement of our front-line force declarations to NATO; and a small out-of-area capability. All this is very expensive. There is also the cost of Trident, especially if - as I suspect - it becomes clear that the sensible course will be to go for Trident II, at perhaps £1 billion more than our earlier estimate of £5 billion (already looking rather too low) for Trident I. Sustaining the whole of this programme, conventional and nuclear, would need at least £300M a year above current NATO aims for a 3% increase in real terms up to 1987/88. Even then I could not guarantee that rising equipment costs will not cause continuing and mounting difficulty. All experience points this way; so that even with such increased provision, going on as we are would simply postpone the day when we had to tackle the deep-seated problems of an overfull programme. And the problems are not just or mostly over the programme's affordability. Its pattern in operational terms needs to be changed. Present investment plans for equipment are unbalanced; too much is envisaged for costly platforms (ships, aircraft, tanks) and not enough on weapons to give the most effective striking power.

5. I therefore propose a radical change in the direction and structure of our programme. This will involve hard political decisions. But otherwise we shall be faced with a fudged compromise which sustains Service manpower and civilian employment at the expense of realistic operational capability for the future, plus repeated reruns of the past year's chaos in which short-term cash squeezes on a programme with no proper headroom lead to indiscriminate freezes on procurement, ships tied up in port, aircraft grounded, NATO exercise participation suddenly cancelled and stocks run down.

6. This was our experience in 1980/81, and even with these expedients we overspent our cash limit, though we managed to hold the amount to £110M. I must warn the Committee that similar difficulties are already indicated for 1981/82, where the first tentative estimates suggest that, without special action, the excess - essentially on equipment - could reach up to £500M. There is thus no realistic possibility of "repaying" the £110M and even without that, further drastic and unpopular measures may be needed to prevent overrunning cash limits. The impending review of those limits must be financed realistically and not as a squeeze on volume. I shall report further within the next few weeks on the prospect, and on the scope for and implications of corrective action. It is politically essential that any short-run measures be announced in the main July statement on programme changes, not deferred until the autumn in the quest for more exact figures.

7. The key long-term point, however, is that we have to break out of this kind of situation. We must both re-shape our programme to a more sustainable and relevant structure and assign, for the new structure, resource levels with sensible headroom to absorb inevitable cost growth and other such pressures. The Ministry of Defence has undoubtedly made errors in planning, for example perhaps in translating our manifesto aspirations into firm commitments, and thinking too much in volume rather than cash terms. But with a huge - excessive, as it turns out - proportion of resources already committed on sophisticated weapons systems with a long lead-time, quite small near-term changes at the margin have a drastic impact on morale and readiness, and on activity and employment in British manufacturing industry.

8. We must therefore restore greater stability to our long-term planning, with some margin for manoeuvre and for the unexpected. We need more flexibility between financial years, and a realistic assessment of defence cost movement against general inflation (the "relative price effect") when cash limits are set. We must also wring further substantial savings out of our overheads and support, for example in the R&D Establishments and in staffs, and I am determined to achieve this. But none of these things will meet the central problem. We have to tackle basic force structure; all else flows from that.

Operational Structure and Capability

9. We form part of the collective defence effort of NATO, but in

the international situation I have described it would be too dangerous (as well as politically impossible) to emasculate a major capability of our Services and accept an extreme degree of specialisation and therefore dependence on others. Britain has been a key bastion of freedom twice this century, and we cannot be wholly certain that the task will not fall to us again. We are moreover the crucial reinforcement base linking the United States to Europe, and we must keep balance in our forces to sustain this cardinal NATO role.

10. Against this background, I have examined a number of options for the size of the Army. We have to judge the best balance first between manpower and equipment, and then between platforms, weapons and war stocks. I am sure it is not quite right at present; our forces are becoming less well equipped than their adversaries, and than our partners such as the FRG. My Department has therefore costed:

- a. a reduction in our in place BAOR contribution from four armoured divisions to three (but still just maintaining the Brussels Treaty commitment of 55,000 men on the Continent, for the Central Front and keeping the present forward defence task) with an overall reduction in the Regular Army of about 9,000;
- b. a larger reduction in BAOR from four to two armoured divisions, involving an overall reduction in the Regular Army by about 13,000 and our withdrawal on the Central

Front into an effectively reserve role leaving our Allies to undertake the forward defence of our present 65 km frontage.

11. This latter alternative is initially more expensive than the former, since it would need a large works programme and substantial redundancy costs. In any event, with Northern Ireland, civil contingencies and the like I doubt whether we can risk so big a reduction in the Regular Army, even with the enhancement of the Territorial Army I envisage. I believe that the Foreign and Commonwealth Secretary shares my view that the second alternative might also severely damage Alliance cohesion in Europe. There is no certainty, nor much likelihood that any other nation could be found to take over our section of the front, and we would be seen as going back on the vital Alliance doctrine of forward defence. The Alliance would face immediate difficulties, and our own credibility in the eyes of our main allies would be shaken.

12. I have been pressed by my Naval advisers to examine the financial consequences of going still further and pulling out of BAOR on a much larger scale, so as to concentrate a higher proportion of our resources on our traditional maritime role. It would be possible to try and cost more radical possibilities in this direction, but for the reasons given above I simply do not believe that they could be coherent or viable options.

13. There is little scope for major change in the size, role and cost of the Royal Air Force (although forward plans must be pruned); indeed, I can see no way of doing as much as we should - not least because of the cost of Tornado - towards

the air defence of the United Kingdom, both for its own sake and as the European end of the reinforcement link with the United States.

14. It is necessary to look critically at Royal Navy tasks, particularly those of the surface fleet. I accept that this has a "deterrence by presence" role both in the NATO area and out of it. The new carriers (or more likely two of them) could be used valuably, probably alongside the United States, in "out of area" tasks where we need not shoulder quite the same degree of expense of seeking to protect them by a supporting fleet against long-range attack by the most sophisticated new Soviet forces in the Atlantic. We need "general purpose" frigates, though of a much cheaper kind than we are building now, for peacetime and out-of-area tasks.

15. Most importantly, however, we can no longer afford to sustain indefinitely the vastly expensive infrastructure for the refitting and modernisation of older destroyers and frigates (typically, mid-life modernisation of a Leander frigate costs around £70M). We must break out of this pattern and go for a smaller surface fleet. The pace at which we make the reduction, and the relative phasing between the disposal of older ships and the arrival of cheaper new ones, naturally raise crucial political questions.

16. The Naval Staff and I have divergent views on maritime priorities in a major war, both for the protection of convoys and for anti-submarine warfare in other settings. In the face of the increasingly long-range Soviet submarine and air launched missile

forces, I believe we should increasingly concentrate our ASW effort in the Atlantic on submarines and Nimrod maritime patrol aircraft, and switch from expensive frigates to much cheaper ships, with towed-array listening equipment but much less other equipment, in a smaller surface fleet. I need more time to take final decisions about a new ASW helicopter. This aside, the sharpest changes from existing plans will be in cutting back on surface shipbuilding (although orders for ships will continue), shortening the life of many of our older ships, and closing dockyards and other naval shore establishments (with more training at sea).

Views of the Chiefs of Staff

17. The Committee will wish to know how the Chiefs of Staff see matters. Briefly, they are at one in strongly deploring any reductions in force levels declared to the Alliance, at a time when Soviet military effort continues to grow unchecked; and such reductions they believe will weaken NATO's deterrent strategy and increase the dangers we face. If changes on the scale I postulate nevertheless are to be made, the Chief of the General Staff and the Chief of the Air Staff endorse the broad balance of the proposals; the Chief of the Naval Staff does not. The Chief of the Defence Staff would endorse it if our Brussels Treaty commitment is judged crucial to Alliance cohesion, but he is uneasy about such a judgement at a time of growing Soviet adventurism worldwide; he would prefer to reach conclusions only after thorough dialogue with our Allies.

The Way Ahead

18. The changes which I recommend to restore balance and affordability

to our forward programme for our forces are large, and a number of crucial decisions can be settled only when I know firmly what resources are to be available. There is room for disagreement over details. But there is no easier or cheaper way out of the problems. If we shirk action now, we shall drift into both degraded capability and unmanageable costs.

19. Many of the measures needed - above all in the Naval field - to make the major switch to a new programme are, by any standard, highly unpalatable. The annexed Memorandum and its Appendices, particularly Appendices A, G and I, bring out the most notable such features, but I would highlight the following:-

- a. The rundown of the surface fleet - mainly by scrapping or selling off ships much earlier than planned - would be rapid and extensive; for example, destroyers/frigates would drop from 59 to 38 in five years.
- b. Chatham and Gibraltar dockyards would be closed and Portsmouth very sharply contracted, all within the next three years.
- c. Over twenty other Naval establishments - depots and other shore stations throughout the country - would close, many of them fairly rapidly.
- d. Royal Navy numbers would be cut from 68,000 to 50,000 in five years, and eventually to 47,000 (i.e. by 30% overall). There would be about 6-7,000 RN redundancies. There would also be some - though fewer - Army redundancies, and several

unit disbandments. Recruiting to all three Services would be severely restricted, especially if retentions remained at their present high level.

- e. MOD civilians would be reduced by around a further 20,000 over and above the large reduction (nearly 50,000) to which we are already committed; there would be many redundancies.
- f. Jobs in defence industry might be reduced by some 20-30,000 overall, mainly in labour-intensive areas like shipbuilding rather than in newer technologies.

20. The above illustrative list is of course the pain-and-grief side. There would be on the other hand many positive features of the new programme, as the attachments show, and I am sure effective presentation in the round can be achieved. When I have agreement on resources I can build up the final package in as coherent a way as possible. But my colleagues should recognise the awkward aspects, since these will be the focus of criticism from particular interests.

Resources

21. Future resource allocation is cardinal to all the issues, in both political and programme terms. In brief, if my colleagues accept my recommendations and their implications as I have set them out, we could move progressively to a basis requiring long-run growth at significantly less than the full "NATO" 3%. There are however two main options for the pace at which we make the move; and their resource implications differ significantly.

22. The first option is to move without loss of momentum to implement the changes at the best practicable speed, accepting all the undoubted political difficulties in the interest of a firm and decisive move to the new stance. The implications of this, in terms for example of the timetable of contractions and closures, are those indicated in the Appendices to the Annex. As already explained I regard room for manoeuvre as essential, eg to sustain readiness and staying power, to maintain adequate activity levels in the Services and to ensure that the proposed changes, including the positive aspects, can be realistically funded. To achieve these aims, I should need to be assured of 3% real growth in the difficult early years (covering the main transition) up to 1985/86 inclusive; we have of course very recently confirmed the figures published on this basis for 1982/83 and 1983/84.

23. We must pay special regard to sustaining politically our Trident programme, to which we as a Government are so deeply committed. There is a risk that the wrath of all those aggrieved by measures like those in paragraph 19 above will focus very damagingly upon this. To avoid that, I regard it as politically essential that during the painful transition years to 1985/86 we should be seen to provide further funding (averaging perhaps £200M a year) as a special addition to the main 3% allocation, towards the cost of Trident.

24. My own preference would be to proceed on the above basis. If however colleagues believe that for one reason or another the pace of change would have to be moderated in some respects, I could seek limited adjustments without altering the long-term goals. These adjustments might, for example, accelerate the building of the new cheaper frigate (Type 23); enhance plans for building new

submarines; sustain a significant workload at Chatham and perhaps Gibraltar at least until the mid-eighties (though early major contraction at Portsmouth is inescapable); slow down/the premature disposal of existing frigates; and slow down accordingly the rundown of Royal Navy and civilian numbers, with redundancies much reduced. Such adjustments could not remove all the near-term political problems over particular aspects, but might ease their total impact enough for me to forego the "Trident" supplementary allocation. They would however delay major structural and overhead savings, and it would become essential to extend the assurance of 3% real growth to the full span of NATO's recent "roll-forward" of that aim - that is, to 1987/88.

25. I seek the views of colleagues on which implementation option should be followed. On either basis, I should of course continue to shape the structure of the programme prudently within the relevant resource allocation.

Next Steps

26. We must move ahead fast now. Expectation is high, and we must announce decisions before the recess (and moreover not on the eve of it). I would propose to explain our plans personally to my US and FRG counterparts, and arrange for NATO to be told through the Secretary-General, not more than a week before a statement in Parliament as early as possible in July. Neither the substance nor the political impact of our basic decisions would be helped by submitting our views to any special or long-drawn-out discussion process before announcement, and formal consultation with the

Alliance over the working out of details should be conducted as fully as possible during the autumn through the normal NATO planning cycle.

Decisions Needed

27. I invite the Committee -

- a. to endorse the need for a radical adjustment to our future defence programme, on the lines set out in the Annex and its Appendices;
- b. to indicate its preference between the two options for BAOR in paragraph 10 above;
- c. to indicate its preference on the pace of implementation of change, and to endorse the related forward resource allocations (paragraphs 21-25);
- d. to give me authority, within the broad concepts I have set out, to work out and implement a final programme;
- e. to note (paragraph 6) that we may again face highly embarrassing short-term cash problems in 1981/82; that I shall report further on these shortly; but that there is no possibility of "repaying" the 1980/81 overspend;
- f. to recognise that in all these immediate and longer-term circumstances separate Defence involvement in the PESC 3/5/7½% exercise could not conceivably throw up new choices of any political or operational realism;
- g. to agree that I should carry forward action and announcement on the pattern described in paragraph 26.

THE DEFENCE PROGRAMME

1. The defence programme needs to be revised, for two reasons. Firstly, the rapid advance of military technology, exploited by massive Soviet spending, calls for change in our priorities. Secondly, the latest Ministry of Defence Long Term Costing (LTC 81) has confirmed that even if the current programme were ideal in relation to the growing threat, it is overfull by any reasonable standard of what we can sustain. The force structure is too large for the means likely to be available.

2. The Government has already decided upon a successor system in the strategic nuclear deterrent role, and upon revived emphasis upon capability for out-of-area operations; and the need for better defence of our home base is plain. Any re-shaping of the programme must focus critically upon the two other major components of our current posture - our general maritime capabilities and our land/air capabilities on the Central Front. Even if the only problems defence faced were economic ones, a general dilution of quality or of quantity would not be tolerable. Equally, the financial problems cannot be solved simply by cutting out "waste"; in a Defence Budget of £12 billion there must always be scope for better value for money, but it is not possible to achieve an adequate match between the current force structure and likely resources in this way alone; change must be tackled at a deeper level.

3. It is important however to recognise that the need for change is not only or mainly a matter of mismatch between programme and resources. There is a strong operational case for change, especially as technological development affects the vulnerability of present systems. Present investment plans for equipment are unbalanced; too much is envisaged for costly weapons platforms (ships, aircraft, tanks) and not enough on modern weapons themselves to give the most effective striking power. A shift in the latter direction will improve real deterrence.

4. All these factors - operational, technical and financial - have played a part in a radical re-appraisal of the forward programme.

Basic Approach

5. Work was commissioned on the basis, for study, of a deliberately severe reduction in resource assumptions. Shaping a long-term defence programme raises an acute problem of uncertainty, since very large elements have to be committed ten years or more in advance - much further ahead than the precise defence budget can be forecast. But it makes no sense to pitch our planned force structure at the limits of what could be supported on the most optimistic projection. A basic structure needs to be set at a level which could - indeed must - be sustained through the inevitable shifts as budget allocations move from projection to

specific decision in cash terms. The basic structure must of course be accompanied by proper provision for logistic support, training, mobility and the like, since without these the forces will not have the readiness, staying power and standards of operational performance needed. These cannot safely be neglected. And recurrent arbitrary short-term measures like those which had to be taken last year as a result of cash problems - ships kept in harbour, aircraft grounded and so on - must be avoided.

6. The resource assumption set for study of basic structure was based on holding the share of GDP spent on defence through the 1980s at the present level (about 5.25%), on projections of GDP growth (at an average of 2% from 1983/84) and of defence inflation relative to general inflation (the "relative price effect") at 1%. The run of figures this produces is set out in Column 1 of the table below, alongside the run (Column 2) which results from the March Cmnd 8175 figures projected at NATO's 3% until 1985/86 - that is, without taking account of the newly agreed NATO "roll forward" of the 3% aim to 1987/88 - and 1% thereafter. For completeness, Column 3 shows what the current programme, unchanged, is estimated to cost, though the levelling off in the last five years is certainly unrealistic. Column 4 shows the incidence of Trident costs as estimated in LTC 81. (We already know that these are out of date in detail, but cannot yet give firmer figures.)

	<u>Constant</u> <u>GDP</u> <u>Share</u>	<u>Cmnd 8175 +</u> <u>NATO 3%</u> <u>until 1985/86</u> <u>then 1%</u>	<u>"Unchanged"</u> <u>defence</u> <u>programme</u> <u>(with Trident</u> <u>I, not II)</u>	<u>Trident I</u>
	(<u>£M at September 1980 prices</u>)			
1982/83	11,495	11,889	12,235	138
1983/84	11,605	12,247	12,604	179
1984/85	11,725	12,615	13,122	286
1985/86	11,845	12,993	13,457	447
1986/87	11,965	13,123	13,758	685
1987/88	12,085	13,254	13,785	729
1988/89	12,205	13,387	13,823	655
1989/90	12,325	13,521	13,757	546
1990/91	12,450	13,656	13,741	449
Nine-year total	107,700	116,685	120,282	4,114

7. The nuclear role is cardinal, and Trident must go on. It looks probable that it will be wise to switch to the Trident II system (which would be likely to slow down expenditure in the next few years although costing more overall). This is being explored non-committally with the Pentagon. A further report will be made separately in due course.

8. Direct defence of the UK base should not be cut; if anything more ought to be done. Some more Hawk trainers should be armed as supplementary fighters. There would be attractions in bringing Phantom interceptors home from Germany, but this is not straightforward. The size and role of the reserve forces, especially the Territorial Army, should be expanded.

9. As regards the Central Front, it would make a lot of sense in purely UK military terms to have a slimmer BAOR of perhaps 45,000, structured around two strong armoured divisions as a manoeuvre reserve for the Northern sector of the Central Region, with someone else taking over the forward frontage for which the United Kingdom is responsible; but the military and political difficulties in the Alliance would be formidable. If these difficulties mean sticking to the current role and the Brussels Treaty figure, it would be necessary to keep very tightly to an establishment of 55,000 (organised around three armoured divisions rather than four, to save overheads), and also to draw on BAOR more readily than hitherto customary, Northern Ireland aside, for contingencies elsewhere. On either option, if the Army is to be reasonably equipped its total manpower must be cut and from five to ten major units disbanded. An enlarged TA would make this slightly easier.

10. Bigger savings in the land/air field could be made only by cutting BAOR much more sharply, with still more major units disbanded and a still smaller Army left for all the varied calls made on it at home and abroad; and by taking more squadrons out of the Royal Air Force's front line. The NATO consequences would be very grave.

11. Substantial changes are inevitable in the structure of our general maritime contribution, though these will not be free from military and political difficulties in the Alliance. The top

-quality maritime effort, after the strategic deterrent and its protection, would be concentrated upon submarines and maritime air. There would be a smaller surface fleet, with fewer high-cost new ships, for peacetime and for periods of tension and general deterrence. This would imply being engaged in high-intensity operations against Soviet opposition only in circumstances where the US could provide the most sophisticated elements, for example in organic maritime air defence. It would be important however to exploit vigorously the flexibility of the surface fleet for deployment outside the NATO area.

12. Within a modified programme it will be all the more important to shed the Belize stationing task. In Gibraltar the dockyard would close and the airfield be transferred to civil running; further savings might be considered if Spain joins NATO. There should be a hard look at Cyprus, though the political difficulties prevent assuming large savings at present. Modest measures, as already identified, to improve the general out-of-area flexibility of UK ground forces should proceed.

13. Appendices A-C set out the main features of revised basic structures for each of the Service programmes, with alternatives for BAOR as indicated in paragraph 9 above. Appendices D-F compare "before" and "after" front lines; Appendix G lists the main specific decisions which would need to be faced this year;

Appendix H shows the effect on major equipment projects; and Appendix I notes some of the locations in the UK where effects would be particularly felt. All these Appendices at present offer broad indications; a good deal of adjustment is bound to be needed as particular elements are further developed and scrutinised in the processes of detailed programme planning.

Industry and Employment

14. In total an increasing real amount would still be spent on defence equipment. Some particular expectations would, however, be disappointed, and partly through a shift away from certain labour-intensive areas (most notably surface shipbuilding), partly through increased productivity and partly because of overseas purchases the estimated number of jobs directly sustained in British industry would fall by about 20,000-30,000 from the present 235,000. The drop would be less if defence sales increased.

15. Specific features would include these:

- a. The vast majority of major future equipment projects would remain, as Appendix I shows.
- b. In particular, the UK would proceed with AV8B (the UK/US improved Harrier purchase) and Sea Eagle (British Aerospace's air-launched anti-ship missile), but plans for a trilateral combat aircraft would be abandoned.

- c. Warship building would be hard hit, and some yards would have to close.
 - d. British Aerospace, Ferranti and Marconi would lose prospective work in maritime guided weapons and electronics.
 - e. Employment at Short's would suffer.
 - f. There seems no way of affording the Marconi heavyweight torpedo if the cost advantage of the US alternative proves anything like the £400M now suggested; but a UK/US bargain on torpedoes, possibly involving elements of our Stingray light-weight torpedo, would be sought.
 - g. The maritime helicopter to replace Sea King is a problem. The concept's place in the new programme is not firmly established and the cost is high. Given its importance to Westlands and the civil commercial prospects claimed for it may be desirable to sustain work into 1982 pending final decisions; but its long-term future must be a matter mainly for the Department of Industry and the market.
16. Defence employment would be hit in other areas also. Re-shaping the whole support base would be a complex affair and

it is impossible to identify all the details now; but likely changes would include these:

- a. As Appendix I illustrates, Gibraltar, Chatham and most of Portsmouth dockyards would close, as well as various other depots and installations.
- b. The in-house R&D base would be cut, reducing the number of establishments.
- c. Training courses and establishments and other support would be pruned rigorously.
- d. Including transfers from the public to the private sector (where, for example, as much as possible would be done in relation to the Royal Ordnance Factories) the number of MOD-employed UK-based civilians - already cut from 248,000 in 1979 to 231,000 now, and due to be 200,000 in 1984 - might come down eventually by about a further 20,000.
- e. Service recruitment would in most categories have to be sharply restrained.
- f. It would be impossible to avoid redundancies, both in the Services (where officer numbers, especially in staff and support posts, would reduce substantially) and among civilian employees; the

total redundancy in the Royal Navy would probably run to 6,000-7,000. All these would affect near-term costs.

Resources

17. The basic structure outlined in the Appendices was evolved from the severe study assumption of Column 1 of the table on page 4. But a shift from current planned allocations to Column 1 throughout offers no prospect of financing such a structure properly. Column 1 would on the most sanguine assumptions barely sustain the structure even when it settled down. Support and stocks (which ought to be enhanced) are very tight; some war stocks are now down to 4/5 days at intensive combat levels, far short of Warsaw Pact holdings. Moreover, current "raw" costings of the basic structure are undoubtedly understated. There is certain to be cost growth; and many extremely bold assumptions about the magnitude and (still more) the timing of overhead and support reductions have yet to be fully worked through, and some are sure to prove over-optimistic. To set long-term planning allocations at or near Column 1 would thus recreate in a year or two, at a lower level of defence, today's problem of a structure set at or over the extreme edge of what funding will just support. There is moreover no possibility at all that Column 1 could finance the new posture in the difficult early years where existing commitments give little room for manoeuvre, and where the complex shift to the new posture will itself impose transitional costs in redundancies and the like. Column 1 could

be even approached in 1982/83, for example, only by measures including arbitrary cuts in operational activity and training on a sweeping and indefensible scale, in effect bringing the Services almost to a halt.

18. At the other end of the spectrum, if changes of the kind and scale - extensive and undoubtedly painful - which the new structure envisages were regarded as politically intolerable, the likelihood is broadly that to sustain the present programme would mean restoring allocations above the pre-November 1980 level and carrying them forward on the "NATO" basis, producing a line of figures at least as high as Column 3 of the table in the first five years but with the 3% then carried further forward in line with the new NATO aim.

19. There is another course which would sustain both the United Kingdom's major commitment to a good defence effort and a move towards what the economy can afford. This would be to plan the forward defence programme on an intermediate basis, inescapably starting at or above Column 2 levels but with a long-term thrust coming gradually closer to Column 1. For the years 1982/83 and 1983/84 this would involve the allocation published in March, and recently confirmed, plus figures for 1984/85 and 1985/86 embodying 3% real growth. Special consideration of Trident costs would be necessary. Thereafter, the basic internal assumption for planning might be to move to a level producing, in the second five years, figures somewhat closer to Column 1, and absorbing Trident within them.

20. This would give continuing if modest real growth over the period, taken as a whole, though not in every later year. A programme to match it needs early and painful choices, which will individually attract heated criticism from one interest or another, and will add to the near-term unemployment problem. Nevertheless, the United Kingdom effort would remain in the round a creditable one by any standard of international comparison, and capable of effective and positive presentation.

21. Under any hypothesis it would be highly important, for the management of the transition to the new structure, to have some inter-year flexibility on the lines being discussed with the Treasury.

Ministry of Defence

June 1981

ROYAL NAVY

The Royal Navy's top priority task would remain the provision of the UK strategic nuclear force, initially with the present four submarines (SSBNs) equipped with CHEVALINE-improved Polaris and eventually, by the middle 1990s, with the new TRIDENT forces. Other naval units (eg minesweepers, submarines, and ASW frigates and helicopters) would continue to contribute as appropriate to protecting the deployment of the strategic force.

2. For general maritime warfare the Royal Navy would concentrate first upon the provision of a powerful submarine force to exploit our position on the flank of the Soviet Navy's main exit to the Atlantic. Our number of submarines (SSBNs apart) would fall from 28 now to 25 in 1991, but within the total the nuclear-powered boats would increase from 12 to 17 and some new diesel-powered boats would be built. An advanced new heavyweight torpedo would be provided, by means of purchase from the US (if possible in some deal involving elements of our own advanced lightweight anti-submarine torpedo STINGRAY).

3. There would be a sharp contraction in the total size of the surface fleet, though the proportion of newer ships would be higher and STINGRAY would go ahead. The main changes would be these:

a. The second new CVS (anti-submarine carrier) would be brought into service but not the third - ARK ROYAL, just launched - unless one or other of the first two ships could be disposed of abroad; and no more Sea Harriers would be bought.

b. The fleet of destroyers/frigates would be reduced from 59 now to 38 in 1986 and 36 in 1991 and reduce further thereafter. This would come about:

(i) by undertaking no more mid-life mid-life modernisations; and

(ii) by disposing earlier than planned of a considerable part of the present fleet. Six older destroyers (including BRISTOL) and twenty-seven older frigates (of which respectively two and seventeen were due to be kept beyond 1990) would be sold or scrapped, and three further frigates would be placed in reserve.

c. Early disposals would also include the ASW carrier HERMES and the amphibious assault ships FEARLESS and INTREPID. (This would bring forward to 1984 the date at which the Royal Marines are to lose their specialist amphibious landing capability.) The Royal Marines themselves would continue at about their present strength.

4. No more Type 42 (air-defence-optimised) ships would be ordered; planned improvements to their capability would be cut sharply; and there would be no move to a new type in this role. Only at most two more of the Type 22 (anti-submarine-optimised) ships would be ordered, and there would be a move to a smaller and simpler new ASW frigate, the Type 23, which would be designed with an eye to sales overseas.

5. The number of mine-counter-measure ships would rise slightly; that of fleet auxiliaries would be halved by 1991. The size of the hydrographic fleet would be halved and the ice-patrol ship ENDURANCE phased out in 1982.

6. The support organisation would need to be extensively reshaped to match the smaller surface fleet. Gibraltar dockyard would close by the end of 1982 and Chatham in 1984. Most of Portsmouth Dockyard would close by 1984. Up to fourteen stores or other depots elsewhere in the UK would be closed (see Appendix I).

7. Naval shore deployment and training capability would be sharply cut, with twelve fleet shore establishments eventually closed. In all the Royal Navy's manpower establishment would reduce from 69,000 now to 50,000 (entailing redundancies of about 1,500 officers and 5,000 ratings) by 1986, and to 47,000 by 1991. Civilian manpower would reduce from 68,000 now to 48,500 by 1986.

ARMY

The Army would contract somewhat in total size, but the main elements of plans to improve its equipment would be maintained, with some modifications, and war stocks would be enhanced. There would be a substantial expansion in the Territorial Army. A major peacetime deployment in the FRG would be maintained in one or other of two forms (paragraph 2 below). Modest measures would go ahead to improve flexibility for out-of-area operations.

2. Two options for BAOR have been costed:-

Option A. Keep current task (the forward-defence of 65 km frontage). Manpower to be held tightly to the Brussels Treaty 55,000 (as compared with the present establishment of 58,400). Organisation to be three regular armoured divisions (from which one brigade would be held in UK) plus a UK-based Territorial Army division, instead of the current four in-station regular armoured divisions of smaller size.

Option B. Give up forward-defence task and frontage, save for a "token" brigade group, and provide a BAOR of 45,000 stationed troops centred on a strong armoured force of two regular divisions as Northern Army Group reserve, plus a UK-based TA division.

3. The total Regular Army trained establishment, now some 142,300, would by 1988 be about 133,000 with Option A and 129,000 with Option B. Five major units would be disbanded in Option A and ten in Option B. Option B would be rather more expensive than Option A in the 1980s because of the costs of change, but would be up to £100M a year cheaper eventually.

4. The Territorial Army establishment would be increased from the present 74,000 to about 86,000 eventually.

5. One major Army equipment project (the Wavell data-handling system to help operational headquarters in 1 British Corps to deal rapidly with intelligence and other information) and some smaller projects would be abandoned. Various planned improvement programmes would be slowed down or reduced. The buy of the new Challenger tank would be held at one division's worth. There would be a substantial reduction in the buy of the new mechanised combat vehicle and many of the present FV432 vehicles would be run on to the end of the century. Extra Milan infantry anti-tank guided missiles would be bought (including more for the TA) and war stocks of most kinds of ammunition would be increased.

APPENDIX CROYAL AIR FORCE

The size of the Royal Air Force would be substantially maintained. There would be marked improvement in strike/attack capability (Tornado with advanced weapons), in airborne early warning, and in certain other aspects of maritime air effort and of UK air defence. Close air support capability would be improved in quality, but plans to rectify the prospective lack of air combat capability would be abandoned.

2. Overall, the RAF front line would decline from 649 aircraft to under 600 in 1983/84, and rise thereafter to 631 in 1986 and 662 by 1991. The Tornado programme (now deeply committed, and made very inflexible by the complex collaborative arrangements) would be kept, but the option would be held open of taking the last 20 aircraft in the interceptor rather than the strike version for use in UK air defence.

3. An extra 36 Hawk trainers would be armed as supplementary fighters for UK defence, but any replacement of the Bloodhound SAM system would be postponed well into the 1990s. An examination would be carried out of bringing back the two Phantom squadrons from Germany for UK defence, putting Wildenrath airfield on care and maintenance but preserving the option of forward detachment.

4. The last three Nimrod airframes would be brought into service in the maritime patrol role, and there would also be consideration of converting to this role the three Nimrods currently used on special duties (for which other aircraft might be adapted). The Sea Eagle anti-ship missile programme would remain. Buccaneers would be run on in the maritime role, so relieving the (more expensive) Tornado front-line.

5. The remaining Vulcans would be disbanded early, before Tornado replaces them, and the start of the Jaguar run-down brought forward. The direct Jaguar replacement (AST 403 - the Trilateral Combat Aircraft) would be abandoned and the lack of air combat capability against future Soviet fighters accepted. 60 Harrier AV8Bs would be produced in collaboration with the US. The JP233 anti-airfield weapon project would continue and new weapons for suppressing enemy air defences and for attack on armour would be bought.

6. To save money, over the next three years flying hours in most roles would be brought down close to the SHAPE minimum rate.

7. VC10s would be converted for use as tankers or transports and would progressively replace Victors in the former role. Replacement (eg by Jetstream) of present communications aircraft would be postponed until the later 1980s.

8. The RAF would cease to operate Gibraltar airfield.

SECRET

ROYAL NAVY

1 April 1981 1 April 1986 1 April 1991
 OPERATIONAL TOTAL OPERATIONAL TOTAL OPERATIONAL TOTAL

SHIPS

Nuclear Powered Strategic Ballistic Submarines (SSBNs)	2	4	3	4	2	4
Nuclear Powered Attack Submarines (SSNs)	8	12	13	16	13	17
Conventional Powered Attack Submarines (SSKs)	12	16	12	15	6	8
ASW Carriers (CVS)	1	2	1	2	2	2
Assault Ships (LPD)	1	2	0	0	0	0
Destroyers (DD)	10	13	10	14	11	14
Frigates (FF)	33	46	18	24	16	22
Mine Counter Measures Vessels (MCMV)	26	33	30	38	30	36
Hydrographic Survey vessels	6	11	4	5	3	5
Royal Fleet Auxiliary (RFAs)	13	15	9	10	6	7

AIRCRAFT

Sea Harrier	10		10		10
Sea King helicopter	32		32		32
Lynx helicopter	21		33		30
Wasp helicopter	23		2		2

WEAPONS STOCKS

TORPEDOES	3036		2315		3130
SEADART (Area air defence missile)	570		920		1295
EXOCET (Ship to ship missile)	111		222		200
SUB-HARPOON (Submarine launched anti- ship missile)	0		265		369

MANPOWER

RN(+ WRNS)	67976		50606		47444
ROYAL MARINES	7927		7883		7856
CIVILIAN	68654		48500		44200

ARMY

This table is based on Option A of Appendix B, and shows 3 Regular Divisions permanently based (less one brigade) in BAOR with 1 predominantly TA Division moving from the UK as a reinforcement for 1st British Corps. The first figure in each column for 1st British Corps shows the number of units or equipments in place; the second figure shows numbers reinforcing from the UK; the figures in brackets show TA units. The table excludes battalions in Berlin (3), Hong Kong (5), Cyprus (1) and Gibraltar (1), and ignores the current Belize deployment (1) from the UK.

	<u>1 April 1981</u>		<u>1 April 1986</u>		<u>1 April 1991</u>	
	<u>UK BASE</u>	<u>1(BR)Corps</u>	<u>UKBASE</u>	<u>1(BR)Corps</u>	<u>UK BASE</u>	<u>1(BR)Corps</u>
Armoured Regiments	1	9	1	11	1	11
Armoured Reconnaissance Regiments	2	4+1 (2)	2	2+1 (2)	2	2 (3)
Artillery Regiments	2	13+1 (2)	2	12+1 (3)	2	12+1(3)
Air Defence Regiments	2 Bty	2+1 (3)	2 Bty	2+1 (3)	2 Bty	2+1(3)
Engineer Regiments	3 (1)	6+1 (5)	3 (1)	6+1 (5)	3 (1)	6+1(5)
Infantry Battalions	27 (17)	14+4 (21)	26 (15)	13+6 (23)	24 (17)	13+6(23)
SAS	1	- (2)	1	- (2)	1	- (2)
Army Air Corps Squadrons	2	10+2	2	9+2 (1)	2	9+2 (1)

PRINCIPAL EQUIPMENTS - (for 1(BR)Corps)

Tanks	719	764	764
Field Artillery	261+82	261+82	275+82
Air Defence Weapons	178+203	191+203	191+203
Armoured Personnel Carriers	1106	1106	1074
Medium Range Anti- Tank Guided Weapons	386+351	564+357	564+357
Helicopters	135+24	120+42	120+42

MANPOWER

Regular Army	142300	136800	133000
TA	73660	80000	86400
Civilian	53075	50600	50600
BAOR Locally Engaged Civilians	23000	22000	22000

SECRET

APPENDIX F

AIRCRAFT	RAF		1 April 1986		1 April 1991	
	UK	RAFG	UK	RAFG	UK	RAFG
<u>Strike/Attack</u>						
Vulcan	53	-	-	-	-	-
Tornado GR1	-	-	44	72	28	84
Buccaneer	25	15	29	-	29	-
Jaguar	-	48	-	-	-	-
<u>Offensive Support</u>						
Harrier	28	36	24	36	36	36
Jaguar	33	-	30	-	12	-
<u>Air Defence</u>						
Phantom	80	20	80	-	34	-
Lightning	34	-	34	-	-	-
Tornado F2	-	-	15	-	130	-
Bloodhound SAM - (Launchers/Missiles)	48/85	48/96	108/216	-	108/216	-
Rapier Short range A/D (Launchers/Missiles)	16/480	32/960	16/480	32/960	16/560	32/960
<u>Maritime Patrol</u>						
Nimrod	32	-	34	-	34	-
Vulcan (Reconnaissance)	8	-	-	-	-	-
<u>Airborne Early Warning</u>						
	11 Shackletons to be replaced by 11 Nimrods by 1 April 1986					
<u>Air Transport</u>						
	No change (11 VC10s and 50 Hercules, all based in the UK: VC10s also tanker capable by 1986/87)					
<u>Support Helicopters</u>						
	57	13	58	23	54	23
<u>Air-to-Air Refuelling</u>						
Victor	19	-	19	-	11	-
VC10	-	-	8	-	16	-
<u>Reconnaissance</u>						
Canberra	22	-	-	-	-	-
Jaguar	12	12	12	12	12	-
Tornado	-	-	-	-	12	12
Nimrod R	3	-	3	-	3	-
<u>Search and Rescue Helicopters</u>						
	27	-	24	-	24	-
<u>WEAPONS</u>						
Air-to-Air Missiles	4686		5800		6800	
Air-to-Air Surface Missiles	296		446		446	
Conventional Bombs	12100		12100		12100	
Airfield Attack Weapons	-		1500		1500	
Defence Suppression	-		200		750	
Anti-Armour	27800		21600		22100	
Torpedoes	447		477		447	
<u>MANPOWER</u>						
Service	93500		91000		91000	
Civilian	28659		26400		26400	

NOTE: The figures include in UK totals the following current overseas deployments Harrier: 4 in Belize, Support Helicopters: 14 in Cyprus/Hong Kong.

APPENDIX GLIST OF THE MAJOR MEASURES WHICH HAVE BEEN IDENTIFIED FOR INCLUSION
IN THE MAJOR STATEMENT IN JULYNavy

1. Announce intention to limit new ASW carriers in service to two either by not bringing into service ARK ROYAL (launched by the Queen Mother on 2 June) or by selling one of the other two.
2. Dispose of HERMES carrier, which entered service in early 1960s, three/four years earlier than planned.
3. Dispose this year (several years earlier than planned) of three County Class guided-missile destroyers, two of which only entered service in 1970.
4. Dispose of the amphibious assault ships INTREPID (early in 1982) and FEARLESS (in 1984). They entered service in mid-1960s and had been planned to serve throughout 1980s.
5. Dispose between 1981 and 1985 of 13 Leander Class frigates which entered service in late 1960s (8 were modernised in 1970s) and which it had been intended to retain until 1990s.
6. Dispose this year of eight Rothesay Class frigates which entered service in early 1960s and which it had been intended to transfer to reserve with subsequent disposal in mid/late 1980s.
7. Dispose of the Ice Patrol Ship ENDURANCE in 1982. Implications for UK support of Falkland Islands.

8. Halve hydrographic fleet, with loss of capability of defence and civil surveys.

9. No modernisation of the latest class of air defence destroyers (TYPE 42), in service since late 1970s and seven still under construction. They will now be disposed of from early 1990s, much earlier than planned, and there will be no successor class.

10. Sharp drop in other planned future shipbuilding orders - frigates, submarines and support ships.

11. Close Chatham dockyard in 1984 and Gibraltar dockyard by 1982, and greatly reduce Portsmouth dockyard by 1984.

12. Close up to 14 naval oil fuel depots and stores and armament depots in the UK over the next few years.

13. Go for the US heavyweight torpedo instead of the Marconi option.

14. Make 1,500 naval officers and 5,000 ratings redundant by 1984/85; reduce total size of Navy by 17,000 by 1986.

15. Abandon ship-borne air defence modernisation plans and Contracts with British Aerospace, Marconi and Ferranti.

Army

1. Reduce size of Regular Army by over 9,000 by 1991 (on BAOR Option A)
2. Change structure and level of stationed forces in BAOR.
3. Increase size (up by 12,000 by 1991) and role of TA.
4. Scale down programme for new Armoured Personnel Carrier (MCV 80) - announced last year - affecting GKN and Rolls Royce Motors.
5. Cut back improvement programme for Blowpipe anti-air guided-missile, affecting Shorts(Belfast).
6. Defer by one year programme for new collaborative rocket launcher (MLRS).
7. Cancel Wavell battlefield communications system, affecting Plesseys.
8. Cancel Boxer (a new tri-Service crisis management communications system) affecting GEC.
9. Announce confirmation of plan to buy self-propelled Rapier, affecting BAe Dynamics.

Royal Air Force

1. Provisionally, reduce number of Tornado strike version by 20 and increase number of air defence version correspondingly.
2. Buy 60 AV8B improved Harrier in collaborative programme with US. Work for British Aerospace.
3. Acquire better weapons for Tornado and other aircraft.
4. Convert VC10s for dual-purpose tanker/transport role, thus improving UK air defence.
5. Convert three remaining Nimrods to Mk II standard, improving this element of anti-submarine capability.
6. Arm more Hawks for air defence of UK.
7. Abandon plans for Jaguar replacement (AST 403).
8. Make more use of RAF reserves for airfield defence.
9. Transfer Gibraltar airfield to civil operation.
10. Disband remaining Vulcan squadrons on 1st April 1982.
11. Defer for four years plans to acquire replacement communications aircraft (e.g. Jetstream).
12. Continue Sea Eagle air-launched anti-ship guided missile (BAe Dynamics).

Other

1. Confirm plans for improving out-of-area capability.
2. Privatise/re-structure ROFs.
3. Re-organise R&D Establishments, including privatisation and closure.

DEFENCE EQUIPMENT

- A. Major equipment programmes (other than strategic deterrent) which will continue largely as planned.

<u>Programme</u>	Costs (within period 1982/83- 1990/91)	£M September 1980 prices
Tornado GR 1 aircraft for strike, interdiction, counter-air and reconnaissance operations.	3200	
Tornado F2 air defence aircraft.	2300	
Rapier ground to air low level air defence missile (towed and self-propelled versions).*	1240	
Sting Ray lightweight torpedo (Launched from ships and aircraft).	800	
Sea Wolf shipborne close-range air defence missile system.	700	
Improved Harrier Short Take Off/ Vertical Landing offensive support aircraft.	650	
Nimrod MR2 long range maritime patrol aircraft for anti-submarine operations.	580	
Ptarmigan tactical trunk communications system for BAOR.	550	
SP 70 self-propelled artillery howitzer (including ammunition).	500	
Nimrod Airborne Early Warning aircraft.	450	
Lynx helicopter for anti-submarine and battlefield operations.	400	
JP 233 air launched airfield attack weapon.	380	

*some future elements of this programme are still in early definition stage.

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B. Programmes which will continue but with reductions in expenditure during the period.

	<u>Earlier planned costs</u>	<u>Revised programme costs</u>	£M September 1980 prices
Armoured personnel carrier for infantry (Mechanised Combat Vehicle 80)	850	300-400	
Sea Dart shipborne surface to air medium range air defence missile system and associated radars	920	380	
Challenger Main Battle Tank and tank improvement programme	800	650	
Nuclear powered fleet submarines	770	650	
Type 22 anti-submarine frigates	700	260	
Future heavyweight torpedo (revised programme assumes US alternative)	400	280	
Future Support Ships for the Fleet *	400	350	
New class of diesel- powered patrol submarines	350	250	
Proposed future class of Frigates (Type 23) *	300	200	

* Programmes still at an early stage in planning

C. Programme subject to further consideration

Replacement for the Sea King anti-submarine helicopter	650	500
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H-2

SECRET

D. Programme to be discontinued

AST 403 (replacement aircraft for Jaguar offensive support aircraft)

Cost

350

Notes

1. Criterion for major programmes is a planned spend of £300M or more over 1982/83 - 1990/91. The costs relate to these years.
2. Warship costs exclude the weapon systems fitted in the ships. (These systems appear separately in the table, where appropriate).

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APPENDIX I

DEFENCE PROGRAMME

MAJOR LOCATIONS AFFECTED BY PROPOSED CHANGES

A. SERVICE/CIVILIAN UNITS ETC

	<u>Civilian Staff</u>
	<u>Likely redundancies</u> (approx)
1. <u>Royal Navy</u>	
a. <u>Dockyards and RN Support Establishments</u>	
(i) Chatham area	4600
(ii) Portsmouth area	4200
(iii) South Wales	1050
(iv) Gibraltar	1100
b. <u>RN Training Establishments and Barracks</u>	

Based on the assumption of a substantial move towards ship-based training preliminary indications of job losses are:

	<u>Service</u>	<u>Civilian</u>
(i) London and Home Counties		
(a) within 12 months	90	20
(b) later	360	275
(ii) Portsmouth area		
(a) within 12 months	10	10
(b) later	1530	1050
(iii) W. Country		
(a) within 12 months	340	100
(b) later	300	310
(iv) Gibraltar	90	70
2. <u>Army</u>		

A number of major establishments will close in due course, as the UK training organisation and the Army's infrastructure contract.

For example, there are question marks over the Junior Leaders regiment at Dover and the Junior Soldiers unit at Taunton. Details of employment changes will depend on relocation of units from BAOR, expansion of the TA, the scope for using other surplus defence accommodation and putting units in the best place for their role (e.g. training, reinforcement).

3. RAF

Major changes:

		<u>Job losses</u>	
		<u>Service</u>	<u>Civilian</u>
a.	As soon as possible:		
	(i) Close Maintenance Unit, Kemble, Gloucestershire;	} 125 officers 750 airmen	470
	(ii) Close one RAF Hospital (not yet selected)		
	(iii) Cease to operate Gibraltar airfield.			123 (local)
b.	If so decided, withdraw Phantoms from RAF Wildenrath (to be put on care and maintenance) to a UK base in 1984/5.	} 125 officers 750 airmen	108 (local)

4. Other Units

Closure of the National Defence College at Latimer - within the year - will result in the loss of 80 civilian jobs. Further reductions - unquantifiable at present - are envisaged in Service medical facilities.

5. Service Redundancies

The Navy foresee redundancies of about 1500 officers and 5000 ratings between early 1982 and 1984/85. The Army would also need a redundancy scheme the size of which is not yet known. The RAF could manage without.

B. R & D ESTABLISHMENTS - PROPOSED CLOSURES

It has been assumed that the following Establishments would close and the sites be disposed of or transferred to industry:-

<u>Establishment</u>	<u>Location</u>
National Gas Turbine Establishment	Pyestock (near Farnborough, Hants)
Propellants, Explosives and Rocket Motor Establishment	Westcott (Aylesbury) and Waltham Abbey, Essex
Military Vehicles and Engineering Establishment	Chobham, Surrey and Christchurch, Dorset.
Royal Aircraft Establishment, Tunnel Site	Bedford
Admiralty Surface Weapons Establishment	Portsmouth, Hants

Overall reductions in Civil Service manpower at R&D Establishments total about 5,000. The prospects of industry's taking over continuing tasks and providing alternative employment cannot be assessed at this stage. Closures are assumed to take place in 1983/84 except at Portsmouth, which is assumed to close in 1986/87. Action on disposal or transfer would start well in advance at all Establishments.

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C. EMPLOYMENT IMPLICATIONS FOR INDUSTRY OF MEASURES LISTED IN APPENDIX G

<u>MEASURE</u>	<u>FIRM/LOCATION</u>	<u>CHANGE IN EMPLOYMENT</u> See Note (1)	<u>TIMING</u>
Abandon Sea Dart system improvements	BAe Dynamics Hatfield & Bristol	- 150	) from 1981/2
	Marconi Radar Leicester	- 1200	
	Ferranti Edinburgh	- 150	
Reduction in shipbuilding orders	Vickers Barrow	) Up to - 20000 in total	) from 1981/2
	Yarrow Clyde		
	Vosper Southampton		
	Swan-Hunter Newcastle		
	Cammell-Laird Birkenhead		
	Scott-Lithgow Clyde))
Buy US Heavy- weight Torpedo	Marconi Space and Defence Systems, Neston and Portsmouth	- 400	in 1981/2
	Marconi Avionics Basildon	- 3000	in 1986/7
Reduce orders of infantry combat vehicle (MCV 80)	GKN Wolverhampton/Telford	) Not yet identifiable.	) Not yet identifiable.
	Rolls Royce Shrewsbury		
	Vickers Newcastle		
Abandon Blowpipe Quadruple Towed Launcher	Shorts Belfast	- 120	1981/4
Cancel WAVELL (Army Automatic Data Processing system)	Plessey Liverpool	- 40	) Immediately - more in later years
	Plessey Weybridge	- 160	
Buy US penetrator for special tank ammunition (Depleted Uranium)	BNFL Preston	- 30 -.50	Immediately

SECRET

<u>MEASURE</u>	<u>FIRM/LOCATION</u>	<u>CHANGE IN EMPLOYMENT</u>	<u>TIMING</u>
Cancel BOXER (military communication system)	GEC Telecoms Coventry	Not yet known	from 1983/4
Reduce buy of CLANSMAN (Army tactical radio)	MSDS Hillend) Not yet known) from 1983/4
	MEL Crawley		
	Plessey Telford		
	Racal Wembley & Nottingham		
Defer SP70 self propelled gun by 1 year	ROF Nottingham	- 100	in 1984
Buy 60 Harrier	Bae Kingston) + 2-3000 at peak) in 1987
	Rolls Royce Bristol		
	(and other Equipment suppliers)		
Convert Nimrods to Mk II	Bae Woodford	+ 200 at peak	in 1983/4
Delete provision for AST 403	Bae Warton	-3000)at peak	Losses start in mid-80s
	Rolls Royce Bristol	-1000)in early	
	(and other Avionics Companies)	-1900)1990s	
Restructure ROFs	ROF Birtley) See Note (2).	
	Bishopton		
	Blackburn		
	Bridgewater		
	Chorley		
	Enfield		
	Glascoed		
	Leeds		
	Nottingham		
	Patricroft		
	Radway Green		
	Featherstone)(agency		
Powfoot)factories)			
London (HQ)			

- (1) Loss (= -) or gain/maintenance (= +) of jobs or job opportunities. Includes actual redundancies, and new job opportunities that will be foregone.
- (2) Depends on terms of restructuring/privatisation. Total workforce is 21,000. Likely timing is between 1981 and 1983.

29 May 1981

Defence Sales: Training Costs

Thank you for your letter of 11 May on this subject. I have shown it to the Prime Minister and it has given me the opportunity to reiterate yet again the importance the Prime Minister attaches to finding some way of reducing these costs.

MODBA

His Excellency Sir James Craig, K.C.M.G.

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10 DOWNING STREET

From the Private Secretary

29 May 1981

CF
Dear Brian,

Training Charges

The Prime Minister has seen the Defence Secretary's minute to the Foreign and Commonwealth Secretary of 22 May on this subject. She continues to hope that it will be possible to find some way of bringing our training charges more into line with those of our competitors. She assumes that close attention is being given to the possibility of changing the methods of calculating the costs.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office) John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely

Richard Alexander

Brian Norbury, Esq.,
Ministry of Defence

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Fixed for 1200, 3/6, with FLS but not HS. I have told him? might about the CBS's coming to OD.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~896 7022~~ 218 2111/3

*Wm
1/6*

MO 9

28th May 1981

BF

Dear Clive,

DEFENCE PROGRAMME

We spoke earlier about the meetings planned to consider the proposals my Secretary of State will be bringing forward shortly on the future shape of the defence programme. I understand that meetings of OD and the Cabinet are planned, respectively, for 8th and 17th June.

My Secretary of State would like to suggest to the Prime Minister that before the OD meeting, one day next week, he should bring the Chiefs of Staff to see her so that they may give the Prime Minister their views. My Secretary of State suggests that, diaries permitting, the Prime Minister might like to consider having one or two senior colleagues also present - the Foreign and Commonwealth Secretary and the Home Secretary and/or the Lord President.

My Secretary of State also wishes to recommend to the Prime Minister that the Chief of the Defence Staff should be invited to attend the OD meeting on 8th June.

I am sending a copy of this letter to David Wright (Cabinet Office).

*Yours truly,
Brown*

(B M NORBURY)

Prime Minister.

*You when the Chiefs of Staff - I should
come. Do you agree? ~~not~~ ask
Go to No 10 to
request.
(Incidentally I can see no
case at all for having
the Lord President there).*

*We can fit the Chiefs of Staff in next Wednesday.
Agree to see them then? Yes
I am not too happy about your having senior
colleagues (apart, of course, from Mr NOK) present when you see the
Chiefs of Staff. Their access is to you. In any case if the CBS
comes to OD - as I believe he should on 15's occasion - I see
even less reason for having Mr Whitaker and Lord Carrington with*

THM 29v.
C A Whitmore Esq

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Clive - to see (I think you have the Treasury tables)

Prime Minister



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-232 2232 218 2111/3

I think that you should be aware of what the Chancellor of the Exchequer is saying to the matter when OD is shown in the defence programme on 8 June.

MO 8

27th May 1981

KW
29.5.81

MOT
29.5.81

Pl
29.5.81

Dear John,

REAL DEFENCE EXPENDITURE

Play A. —

At the Prime Minister's meeting on 18th May on the Defence Programme the Chancellor of the Exchequer showed his colleagues a set of tables and graphs prepared by the Treasury. Having studied these my Secretary of State has asked me to write and say that he does not accept that the table of figures shows, as it claims to do, changes in real defence spending over the period since 1950 and he is concerned by what seems to be a unilateral Treasury move to change the definition of real spending. This is an important matter in terms of the UK's commitment to the NATO 3% aim and of presenting to the country the Government's achievements in increasing spending on defence.

The table used by the Chancellor gives deflated figures for defence spending to a constant price basis using the implied index of home costs rather than by the use of the deflators related specifically to defence which are available, have been agreed with the Treasury and have so far been the basis of the Government's published figures.

Since "real" changes measure relative purchasing power then they must surely be based wherever possible on making allowance for actual price changes. A volume series of figures as used in the Public Expenditure White Papers is a fair measure of real change and Mr Nott has asked me to point out that the defence chapters in both the 1980 and 1981 PEWPs referred to the volume figures as conforming to the NATO target of a 3% increase in real terms. Moreover if we were to acknowledge that an analysis in the way now proposed by the Treasury was a reflection of real growth and were to use a more up-to-date baseline than that of 1970 adopted in the

A J Wiggins Esq



Chancellor's table then (see table 4.12 of Cmmd 8175) we would be talking of planning for a 1.5% fall in real defence spending this year which would hardly square with what the Prime Minister has told the House of Commons only last week. Mr Nott therefore believes that a fair analysis of changes in real defence spending is represented by the table at Annex A to this minute (and which was published in Hansard on 7th April - col 249 - in answer to a Written Question from Winston Churchill MP) and he hopes that the Chancellor on reflection agrees.

This is not of course to say that Mr Nott is not concerned about changes in the relative cost of defence; indeed analysis of defence calls on national resources lies at the heart of his current review of the forward programme, but in his opinion this is best measured by looking at defence spending as a proportion of GDP. Figures for this are set out at Annex B; as you will see defence spending is not at present at a post-war peak and is in fact claiming a lower share of national resources than throughout the period from 1949 to 1968, although it is indisputable that the threat has greatly increased since that time.

I am copying this letter to Michael Alexander (No 10), Francis Richards (FCO), John Halliday (Home Office), Ian Ellison (Industry) and to David Wright (Cabinet Office)

Yours sincerely,

David Omand

(D B OMAND)

REAL DEFENCE EXPENDITURE 1950/51 TO 1983/84

	<u>Estimates</u> (i)	<u>£M (1980 Survey Prices)</u>	
		<u>Actual</u> (i)	<u>Planned</u> (iii)
1950/51	7316		
1951/52	9754		
1952/53	11147		
1953/54	11917		
1954/55	12176		
1955/56	11320		
1956/57	10868		
1957/58	9972		
1958/59	10012		
1959/60	9966		
1960/61	10304		
1961/62	10218		
1962/63	10417		
1963/64	10663		
1964/65		10516	
1965/66		10667	
1966/67		10730	
1967/68		10696	
1968/69		10170	
1969/70		9582	
1970/71		9542	
1971/72		9638	
1972/73		9515	
1973/74		9386	
1974/75		9010	
1975/76		9424	
1976/77		9250	
1977/78		9036	
1978/79		8972	
1979/80		9243	
1980/81		9750(ii)	
1981/82			9753
1982/83			10051
1983/84			10353

(i) The figures given for 1950/51 to 1963/64 are the original Defence Budget Estimates revalued to 1980 survey prices using deflators related specifically to defence. The figures for 1964/65 to 1979/80 are actual expenditure, at 1980 survey prices.

(ii) Provisional

(iii) Expenditure plans for 1981/82 to 1983/84 are those published in Cmnd 8179

DEFENCE EXPENDITURE AS A PERCENTAGE OF GDP(MP)

<u>Calendar Year</u>	<u>GDP(MP) %</u>
1949	6.3
1950	6.5
1951	7.9
1952	9.9
1953	10.0
1954	8.8
1955	8.2
1956	7.8
1957	7.1
1958	7.0
1959	6.6
1960	6.5
1961	6.3
1962	6.4
1963	6.2
1964	6.0
1965	5.9
1966	5.7
1967	5.7
1968	5.4
1969	5.0
1970	4.8
1971	5.0
1972	5.2
1973	4.8
1974	5.0
1975	5.0
1976	5.0
1977	4.8
1978	4.7
1979	4.8
1980	5.2

	<u>UK</u>	<u>France</u>	<u>Germany</u>
Defence Expenditure (1980) in million 1980 US Dollars	26,300	26,200	26,700
Defence expenditure as a proportion of GDP (1980)	5.2	3.4	3.3
<u>Army</u>			
Strength	167,000	320,000 (203,000 conscripts)	335,000 (176,000 conscripts)
Tanks	900	2,300	3,800
<u>Navy</u>			
Strength	73,000	70,000 (19,000 conscripts)	36,000 (11,000 conscripts)
Submarines	31	26	24
Major surface ships	65	48	17
<u>Air Force</u>			
Strength	90,000	103,000 (40,000 conscripts)	106,000 (38,000 conscripts)
Front line aircraft	420	450	440
Total <u>Regular</u> Forces	330,000	231,000	252,000

Sources: 1981 Statement on Defence Estimates (Cmd 8212)

IISS "Military Balance 1980-81"

Conclusions:

- Defence expenditures in 1980 roughly equal, but resulting burden on economy much higher for UK. On Mr Nott's proposals, Defence's share of GDP would rise to 6% by 1985-86.
- UK maintains smaller forces, but larger regular forces.
- UK/France/FRG maintain Air Forces of similar size.
- UK maintains smallest Land Forces but largest Naval forces.

Real¹ Defence² Expenditure 1950-83

£m

(1970=100)							
1950	1893	1959	2355	1968	2733	1977	2739
1951	2415	1960	2348	1969	2468	1978	2711
1952	2949	1961	2404	1970	2460	1979	2894
1953	3005	1962	2483	1971	2488	1980	3053 ^B
1954	2903	1963	2493	1972	2506	1981	3085 ^A
1955	2740	1964	2544	1973	2628	1982	3178 ^A
1956	2644	1965	2587	1974	2645	1983	3274 ^A
1957	2539	1966	2610	1975	2635		
1958	2392	1967	2778	1976	2789		

1. The deflator used is the implied index of total home costs.
Source: Economic Trends, Annual Supplement, 1981.
2. Defence is defined as total military defence.
Source: Table 9.4 of the National Income and Expenditure blue book, 1980, and various other issues.
3. Based on Cmnd 8175 out-turn figure, ie Provisional.
4. Based on Cmnd 8175 figures, assuming a 1% RPE.

Public Expenditure Trends

The table below illustrates the Cmnd 8175 expenditure figures for defence and some other major programmes and the percentage changes indicated over a four year period.

£m at 1980 Survey Prices

	1979-80	1983-84	% change '1983-84 on 1979-80
Defence	9294	10350	+ 11.4
Industry, energy, trade and employment	2929	2460	- 16
Roads and transport	2967	2670	- 10
Housing	4928	2230	- 55
Education etc	9236	8190	- 11.3

Public Expenditure in 1982-83 - Illustrative Cuts

The Public Expenditure White Paper (Cmd 8175) stated that public expenditure was higher than the Government would wish, and that this required the most serious attention during the forthcoming Survey. Treasury Ministers have yet to put proposals to their colleagues but the figures below illustrate the effect of 2½%, 5% and 7½% reductions in total spending if not only defence, but three other main programmes to which the Government has a comparable degree of commitment, were to be maintained at the Cmd 8175 levels which for defence implied 3% growth on the 1981-82 figure. These other commitments are to maintain the real value of pensions; to give priority to expenditure on maintenance of law and order; and to maintain expenditure on health services. The table shows that the percentage cuts on all other programmes would need to be some 4½%, 8½% and 13% to achieve the overall cuts mentioned above.

£m 1980 Survey Prices

	Provision for 1982-83	overall cut	2½%	5%	7½%
		necessary cut in non-exempted programmes	4.32%	8.64%	12.96%
Defence	10,050				
Law and order	2,440				
Health	8,110				
Retirement pensions	9,600				
Health and law and order in Scotland, Wales and NI	2,000				
Industry, energy and trade	1,690		- 73	- 146	- 219
Roads and transport	2,670		- 115	- 230	- 346
Housing	2,720		- 117	- 235	- 353
Education etc	8,360		- 361	- 722	-1083
other social security	12,000		- 518	-1037	-1555
Other	16,875		- 729	-1458	-2187
Total	76,525		-1913	-3828	-5743

CONFIDENTIAL

1 2
REAL DEFENCE EXPENDITURE 1950-83

£M

(1970=100)

1950	1893	1959	2355	1968	2733	1977	2739
1951	2415	1960	2348	1969	2468	1978	2711
1952	2949	1961	2404	1970	2460	1979	2894
1953	3005	1962	2483	1971	2488	1980	3053 ³
1954	2903	1963	2493	1972	2506	1981	3085 ⁴
1955	2740	1964	2544	1973	2628	1982	3246 ⁵
1956	2644	1965	2587	1974	2645	1983	3387 ⁵
1957	2539	1966	2610	1975	2635	1984	3550 ⁵
1958	2392	1967	2778	1976	2789	1985	3733 ⁵
						1986	3943 ⁵

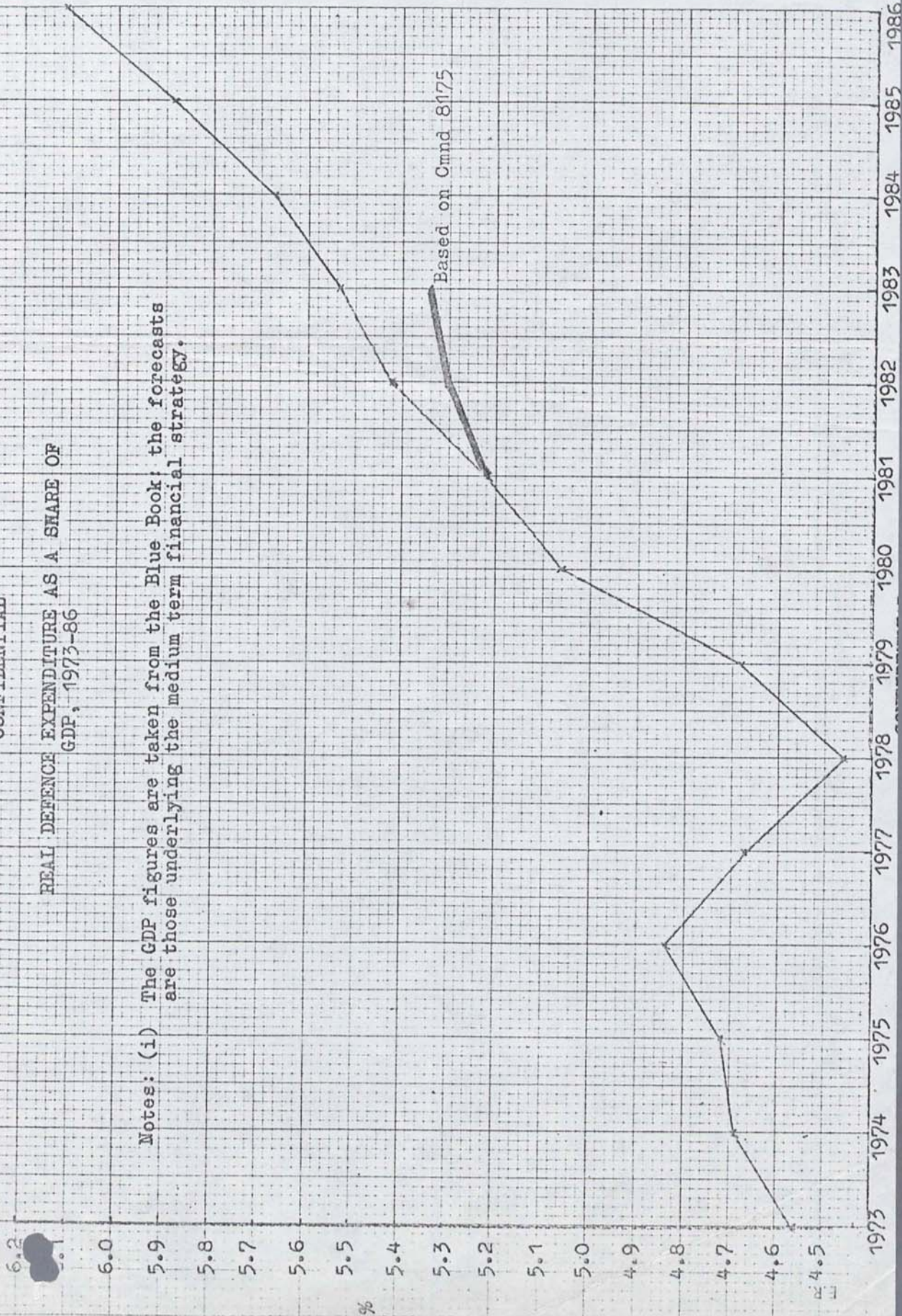
1. The deflator used is the implied index of total home costs.
Source: Economic Trends, Annual Supplement, 1981.
2. Defence is defined as total military defence.
Source: Table 9.4 of the National Income and Expenditure blue book, 1980, and various other issues.
3. Based on Cmnd 8175 out-turn figure, ie Provisional.
4. Based on Cmnd 8175 figures, assuming a 1% RPE.
5. Based on Cmnd 8175 figures, with 3% NATO growth extrapolated and assuming a 1% RPE plus Trident I costs.

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REAL DEFENCE EXPENDITURE AS A SHARE OF
GDP, 1973-86

Notes: (i) The GDP figures are taken from the Blue Book; the forecasts are those underlying the medium term financial strategy.

Based on Omnd 8175



£ billion
1970 prices

4.0
3.8
3.6
3.4
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2

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REAL DEFENCE EXPENDITURE 1950-86

E.R.

Based on Cmdr 8175

1950

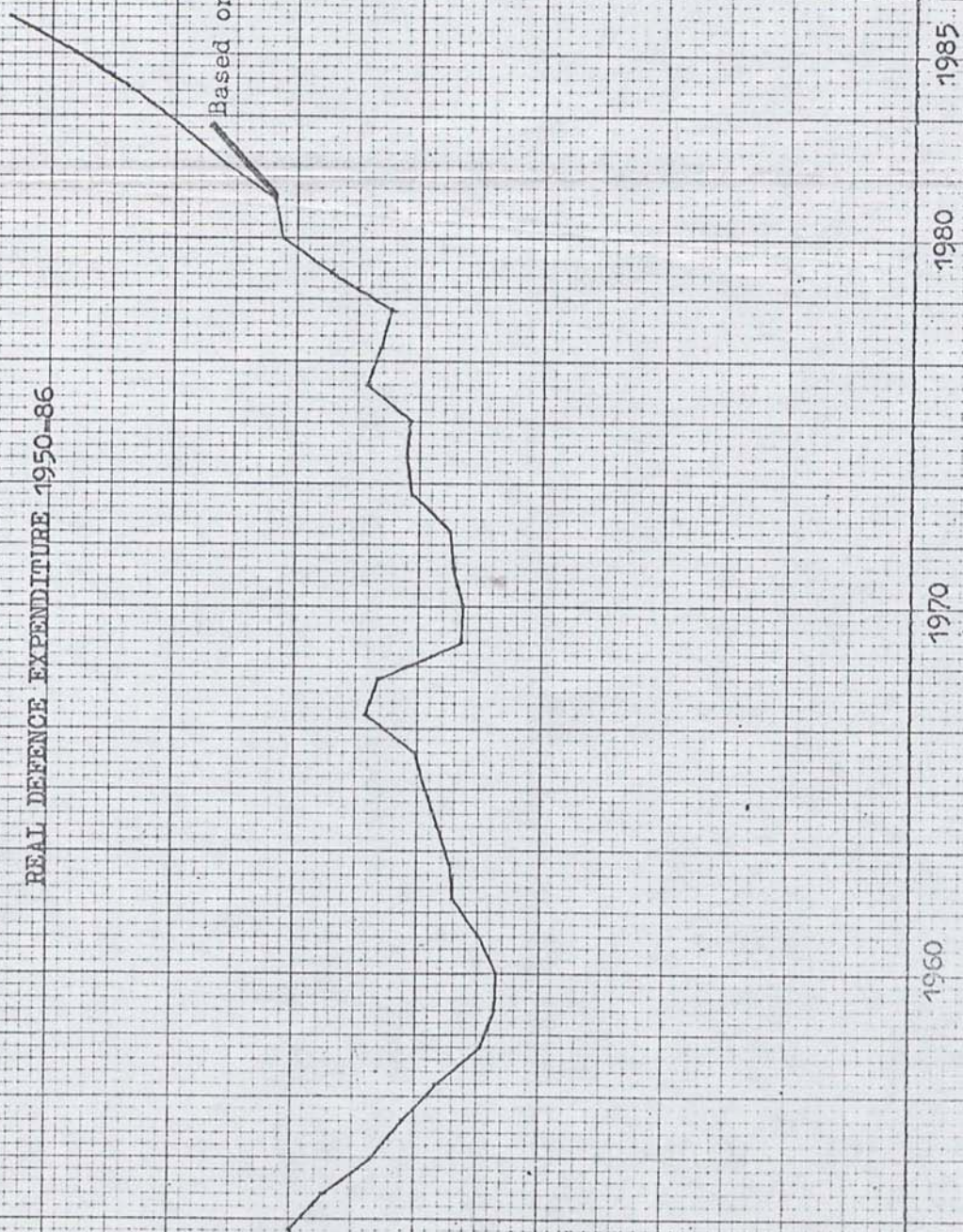
1960

1970

1980

1985

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Defence
File 106

✓ CF/White

10 DOWNING STREET

From the Private Secretary

26 May 1981

The Prime Minister has seen the Secretary of State for Defence's minute of 21 May about Service manning.

She is content that this should be handled as your Secretary of State proposes. She is, however, concerned to note Mr. Nott's comment about the MSC's response to plans for a YOP-type scheme for short periods of service in the Army, and she would be grateful to know more of what lies behind this problem. Perhaps Richard Dykes (Department of Employment), to whom I am copying this letter, could let us have a note on the point.

Copies also go to John Wiggins (H.M. Treasury) and David Heyhoe (Office of the Chancellor of the Duchy of Lancaster).

B. M. Norbury, Esq.,
Ministry of Defence.

M. A. PATTISON



Prime Minister

(2)

MO 24/4

FOREIGN AND COMMONWEALTH SECRETARY

Have we looked at their methods of calculating?

You will want to see this minute but also Sir J. Craig's letter attached. We must keep pressing the P.M. on this issue. I think 27/5

TRAINING CHARGES

Thank you for your minute of 15th April.

2. As you say, our policy is to charge for foreign training as near full costs as the market will bear. My department has been criticised by the PAC in the past for failing adequately to recover costs. Despite increases in charges, we are still charging non-NATO students only about 50% of our full costs, and NATO students a rather less proportion. Our revenue overall covers little more than the extra costs of providing the training. If we find that our charges are, nonetheless, uncompetitive, it must be because the real costs of our training are relatively high (because of the strength of sterling, for example) or because competitors subsidise more than we do. If we want to make MOD training more competitive, thus attracting more custom and fostering bilateral relationships which might otherwise be at risk, our charges must either be subsidised further or we must cut costs. No additional funds are currently available for subsidies: as you say, your UKMTAS provision has not been increased in real terms. And to cut costs takes time, although we are now embarked on a thorough search for economies in the training organisation, which should in due course have an impact on charges.
3. That said, I accept that the present level of charges has caused the complaints that you describe. Canada, Norway



and the Netherlands are of course NATO countries and for most types of training there is a favourable NATO basis of charge applying to all NATO countries. In the light of representation and of evidence that defence relations may be placed at risk, I am considering how a more flexible approach to charging might be implemented, both for training courses and Loan Service Personnel, where there is a clear defence policy interest, including defence sales; and on which the Prime Minister has commented most recently in her Private Secretary's letter of 6th May. One possibility is that we should offer discounts in return for increases in the numbers of overseas trainees placed on courses with spare capacity; another is to offer "package deals" covering both equipment sales and training. Certainly, we need to be more commercial and less rigid in our outlook; but, equally, more hard-headed about the customers we can influence to buy British defence equipment. And coupled with this, we must make a more determined effort to "sell" MOD training overall - emphasising the unique quality (and therefore value for money) of British training - and to direct it within the allocation of places available to the customers from whom we can derive most benefit. I cannot promise comfort for the countries who complain about our charges, but we shall certainly consider each case very carefully.

4. Finally, you mentioned the increases in charges in the current financial year. I am afraid we must make these to keep pace with inflation and to take account of other changes in our costs. You recognise we need to generate our revenue - our financial position demands this - but I agree we must be sensitive to what the market will bear, and also to the way in which our charges are explained to our customers. This applies naturally



both to training and also to LSP charges. In respect of the UKMTAS programme of aided training, I believe your officials are in touch with mine about the possibility of arranging that the increases in charges will not affect the amount of training that can be paid for from your UKMTAS budget. There is a practical difficulty in that the cost of consumables such as ammunition, which account for a high proportion of some charges, has risen a great deal more than either you or we have been allowed in our cash limits. But I hope that our officials, in consultation with the Treasury if necessary, may be able to devise a constructive solution.

5. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

50

Ministry of Defence

22nd May 1981

RESTRICTED



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7023~~ 218 2111/3

Defence Done
(CAW)
22/5/81

MO 16

22nd May 1981

Dear Chris,

SERVICE MANNING 1981/82

I mentioned to you this morning on the telephone that an error had unfortunately crept into my Secretary of State's minute of 21st May on Service Manning 1981/82. I should be grateful if you would emend the phrase in brackets in line 4 of paragraph 5 to read "(two-thirds down on last year)". I apologise for the error.

I am copying this letter to Richard Tolkien (HM Treasury), Richard Dykes (Employment) and David Heyhoe (Paymaster General's Office).

Yours sincerely,
Jonathan Dawson

(J D S DAWSON)

C A Whitmore Esq

RESTRICTED



MO 16

PRIME MINISTERSERVICE MANNING 1981/82

A point that did not emerge in this week's Defence Debate, but of which you should know, is that the manning of the Army is improving rapidly because the number of soldiers leaving is the lowest since the Army became all volunteers in 1962. The rates of those leaving early, at their own request, have dropped by 40% compared even with 1980/81 and, similarly, the normal run-out has gone down by 30%. This is good news because overstretch is eased; we have a higher proportion of trained and experienced men: and we have more capacity for training the Territorial Army and giving continuation training to the Regular Army.

2. But with a much lower outflow, we are having to cut our earlier recruiting targets in order to avoid overspending significantly above cash limits. Our previous plan was to recruit 9,500 Adult and Young Soldiers and 9,000 Juniors for 1981/82 (which was below our original Estimates provision). We shall now have to reduce the 1981/82 intake of Adult and Young Soldiers to 4,500 and that of Juniors to 8,500 (the latter being the number we are already committed to take).

3. Territorial Army strengths are also going up beyond our cash limits provision. This growth is encouraging; but we are also having to restrain it so that we do not overspend.

1. Mr Whitlam ^{11/11} 22/11
2. Prime Minister

Content with Mr Nott's
proposed handling of
the recruitment position?

NAJ 22/11

Yes - but please ask
why MSC is being
so unhelpful. not.



4. Both the RAF and the RN are imposing sizeable cuts in Servicemen recruiting (60% for the former; 20% for the latter) for much the same reasons.

5. I do not propose to make any announcements about these restrictions although in particular the proposed cut in the figure of adult and young soldiers to be recruited this year (~~one~~^{two}-thirds down on last year) may provoke substantial criticism - particularly amongst defence enthusiasts. I would propose to explain the position on the basis of paragraphs 1 and 2 above. In my July statement I still hope to be able to announce a defence response to the understandable interest throughout the Party and the country about youth unemployment, with my plans for a YOP-type scheme for short periods of service in the Army, and an expanded intake of apprentices in MOD establishments - the MSC response has been unhelpful but I have not given up and it is still my intention to find other ways of achieving the same objectives.

6. I am copying this minute for information to the Chancellor of the Exchequer, the Secretary of State for Employment and the Paymaster General.

FN

Ministry of Defence

21st May 1981

Prime Minister.

NW unexpected
decidedly unexpected.

AW

GR 220

UNCLASSIFIED

FM WASHINGTON 191610Z MAY 81

TO PRIORITY FCO

TELEGRAM NUMBER 1547 OF 19 MAY

INFO PRIORITY MODUK ROUTINE UKDEL NATO

US PRESS COVERAGE OF BRITISH DEFENCE SPENDING PROPOSALS

1. THE NEW YORK TIMES, WALL STREET JOURNAL AND THE BALTIMORE SUN ALL REPORT FAIRLY PROMINENTLY THE ANNOUNCEMENT BY HMG OF PLANS TO CUT DEFENCE SPENDING PROPOSALS BY THE EQUIVALENT OF 2 POINT 2 BILLION OVER THE NEXT 10 YEARS AND THE DISMISSAL BY THE PRIME MINISTER OF THE MINISTER FOR THE NAVY. THE ARTICLES SAY THAT THE CUTS TO THE NAVY, WHICH WOULD HAVE THE EFFECT OF HALVING THE NUMBER OF MAJOR SURFACE COMBATANTS, WOULD BE LIKELY TO CAUSE ANXIETY IN THE UNITED STATES AND THE NORTH ATLANTIC ALLIANCE. AMERICAN OFFICIALS ARE QUOTED AS SAYING THAT THE US NAVY WOULD BE UNABLE TO TAKE UP THE SLACK IN THE EASTERN ATLANTIC. THE ARTICLES ALSO HIGHLIGHT THE PROPOSAL TO DISBAND THE ROYAL MARINES AND TO REDUCE BY 2-3,000 MEN THE BRITISH ARMY OF THE RHINE. ACCORDING TO AN ARTICLE IN THE WALL STREET JOURNAL QUOTE DESPITE THE APPARENT PERSONAL REGARD THAT HAS EMERGED BETWEEN MRS THATCHER AND PRESIDENT REAGAN, THE PROPOSED CUTS COULD ALSO CAUSE SOME STRAINS BETWEEN THE TWO GOVERNMENTS AS MR REAGAN'S PUSH TO INCREASE DEFENCE SPENDING FACES CONTINUED RESISTANCE IN EUROPE UNQUOTE .

HENDERSON

LIMITED
 NAD
 DEF. D
 ACDD
 NEWS. D
 PUSD
 PS
 PS/HPS
 PS/MR RIDLEY
 PS/MR HURD

PS/PUS
 SIR E YOUNG
 MR DAY
 SIR A ALLAN
 MR URG
 MR GILLMORE
 CABINET OFFICE

COPIES SENT TO
 No. 10 DOWNING STREET

THIS TELEGRAM
 WAS NOT
 ADVANCED

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

SECRET AND PERSONAL

- 2 -

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

/this

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 Ship-builders. 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.

NOTE FOR THE RECORD

✓
MAD

No. 10 Press Office issued on behalf of the Prime Minister at midnight on May 18 the following statement:-

"The Prime Minister has this evening seen Mr. Keith Speed, M.P., P.U.S. for the Royal Navy, and asked him to place his office at her disposal. He has accordingly done so. The Prime Minister thanked him for his services to the Government during the past two years."

The background is that after the preliminary discussion of the Defence Review with the Prime Minister and other Ministers, Mr. Nott was in touch with Mr. Speed who declined to resign. The Prime Minister then arranged to see him late last night, at which meeting he was sacked. There is no point in mincing words about it: this is a dismissal.

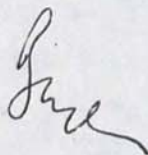
The Prime Minister met Mr. Speed for half an hour and, as he has indicated on the radio, it was not an acrimonious meeting. His dismissal has to be seen in the context of his speech on Friday - a speech which he should have cleared with the Secretary of State for Defence. He did not do so. This is taken as a mark of disloyalty to John Nott, who is in full agreement with the Prime Minister's actions. It is expected that Mr. Nott will speak twice in today's defence debate. In the meantime, he has asked Lord Trenchard to oversee Navy affairs following Mr. Speed's dismissal. The Prime Minister has not yet turned her mind to a replacement for Mr. Speed.

/After

After the Prime Minister's meeting with Ministers on the Defence Review, No. 10 Press Office issued the following guidance:

"The meeting discussed the defence programme this evening for which they had a list of options for containing the programme within 3 per cent real increase NATO guidelines set out in the Public Expenditure White Paper.

Ministers asked the Secretary of State for Defence to bring forward recommendations to his Cabinet colleagues shortly, taking account of the considerations explained in his foreword to the White Paper and the UK's obligations, treaty and otherwise, to our allies, with a view to making an announcement to Parliament in July."



B. INGHAM

19 May, 1981

SECRET AND PERSONAL

2



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 9

18th May 1981

file.
Dear Clerk,

Thank you for your letter of 15th May, which I have shown to the Secretary of State and the First Sea Lord.

The Secretary of State has undertaken to the First Sea Lord that he would forward to the Prime Minister the enclosed further minute, dated 18th May, from Sir Henry Leach. Mr Nott suggests that the Prime Minister might like to make this available to colleagues at the meeting at 6.30pm this evening.

*Yours most
B M Norbury*

(B M NORBURY)

C A Whitmore Esq

SECRET AND PERSONAL



No. 1500/40

MT.

18th May 1981

Prime Minister

Copy to: Secretary of State for Defence

THE DEFENCE PROGRAMME

1. I note with regret but understanding that the tightness of your programme precludes your seeing me personally as requested. I am confident however that you will at least spare two minutes to read this note from the professional Head of the Navy before you and your Cabinet colleagues consider a proposition substantially to dismantle that Navy.

2. It is proposed to cut the Naval budget by more than £7½Bn over the next 9 years. This is 62% of the total reduction contemplated for Defence and a quarter of the Naval budget. If implemented it would by 1983 cut our Anti-Submarine Warfare Carriers by one third; by 1991 the Destroyer/Frigate Force, the Survey Flotilla and the Fleet Auxiliaries would be halved and our Anti-Air Warfare and Mining capabilities abandoned; Naval manpower would be reduced to the lowest level for 100 years: 20,000 uniformed personnel would go, 24,000 civilians and there would be 80,000 job losses in industry; Gibraltar, Chatham and most of Portsmouth Dockyards would close as would 10 Supply Depots and 12 Naval Establishments.

3. The proposal has been devised ad hoc in two months. It has been neither validated nor studied in depth. No alternative options have been considered. It has all been done in a rush. Such unbalanced devastation of our overall Defence capability is unprecedented; it must cause serious doubts concerning United States reactions in the context of your own conventional assurances and successful negotiation of the TRIDENT project so important to our country.

4. We are on the brink of a historic decision. War seldom takes the expected form and a strong maritime capability provides flexibility for the unforeseen. If you erode it to the extent envisaged I believe you will undesirably foreclose your future options and prejudice our National Security.

d.

First Sea Lord

18 May 1981

NGK.

I told the Secretary to the First Sea Lord that the Home Ministry had seen and read Admiral Leach's minute.

KW

18.5.81

Hydrographer.

EARLY DAY MOTION

Tabled by the Chairman of the Defence Committee
plus the Officers

That this House commends the Government's
intention to implement the Armed Forces Pay
Review Body recommendations but would view
with gravest concern any diminution in our
Nation's defence capability, bearing in mind
the increasing threat from Warsaw Pact
countries and the terms of the Conservative
Party's election manifesto.

18 May 1981

PART 5 ends:-

PM meeting record with S/S Debra 12/5/87

PART 6 begins:-

Early Day Action 18/5/87