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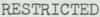
Signed OMaylane

Date 9 August 2012

PREM Records Team

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Down Teny,

DEFENCE DEBATE THURSDAY 1st JULY

DM Division have been consulted about the detailed defence orders which are to be announced by my Secretary of State in his speech opening the Defence Debate on Thursday. Detailed discussions are proceeding but **DM** did suggest that the Chief Secretary be given an opportunity to cast an eye over the speech as a whole - and I therefore attach a copy of the draft which we are working on at the present.

I am copying this for information to John Coles (No 10), Brian Fall (FCO), John Kerr (HM Treasury) and to David Wright (Cabinet Office).

Jons em,

(D B OMAND)

T F Mathews Esq

DO JUN 1982 0016 The first duty of any British Government is to safeguard our people in peace and freedom. These were the opening words of the White Paper on defence policy last year. That duty rests on three defence commitments. First, the maintenance of a credible strategic nuclear capability to deter nuclear blackmail by our enemies and my hon Friend the Minister of State will say more about this in the second day's Debate on Monday. Second, the collective security provided through our contribution to NATO of strong naval, army and air forces for the defence of the West; and third, a force structure, within the NATO framework, which has the balance and flexibility to enable us to respond to a challenge to British interests at home or abroad.

The events of the past few weeks have concentrated all our attention on the third commitment - namely our ability to respond in defence of uniquely British interests, although our determination to resist aggression will have strengthened the whole deterrence strategy of the West.

In these past few weeks we have seen British power projected over 8,000 miles into the South Atlantic in order to restore the rights and freedom of British citizens.

During those weeks a Task Force of over 100 ships, aircraft and 27,000 men has been assembled and dispatched successfully. Our Armed Forces have conducted themselves at every stage with great gallantry under intense attack and in the most hostile climatic conditions. A major amphibious landing has been successfully conducted. A major and decisive land battle has been fought against greater odds on some of the most inhospitable terrain.

Incidents of individual courage, initiative, and also compassion on the part of our forces have been shown at every level and at every stage of the operation. I pay my tribute from this despatch box to the men and women of all three Armed Services, including the Royal Marine Commandos, and to the Royal Fleet Auxiliary, the Royal Maritime Auxiliary Service, the Merchant Marine and to the many military and civilian personnel who provided support for the Task Force. A special place in our thoughts will remain for them and most particularly for those who were injured, and for the families and friends of those who gave their lives that others could be free.
Thanksgiving Service_7

The dedication of the members of the Task Force was matched by the achievements of all those who were involved in the mounting of the operation and in sustaining it. I must single out for a special mention the Royal Navy: putting Fleet to sea in such a short time and sustaining it over such a long distance into the South Atlantic is a remarkable achievement. The many essential refuellings and transfer of men and supplies at sea in often appalling weather required seamanship of the highest order. Despite all the difficulties the

supply chain was maintained, and is still being maintained and when the history books come to write about the operation I believe that this achievement by the Royal Navy will have a special place.

Great ingenuity and adaptiveness was shown throughout.

The Ministry of Defence and the defence industries were tested to a degree not experienced since the Korean War. Supplies of equipment and spares had to be increased far beyond levels previously planned. And equipment already in service had to be put to completely new operational uses, necessitating conversions and modifications of many kinds.

Our forces in the South Atlantic were for the most part equipped with weapons, and with ships and aircraft which had been optimised under successive governments for battle under very different circumstances. But the quality of our men and equipment on sea, on land and in the air was amply proved.

Let me give a few examples. Twenty eight of our 32 Sea Harriers were deployed to the area and they achieved 32 confirmed kills without a single loss in air to air combat. There were in excess of 2000 operational sorties - and one of the most remarkable features of the whole operation was the 90% availability of all aircraft embarked. Argentine aircraft, on the other hand, - and we appear to have destroyed over 90 of them - were dogged by unserviceability, lack of spares, and salt water problems, which were largely alien to us. It shows that numbers count - but professionalism, quality, serviceability and skill count even more.

The first order that I intend to place following the Falklands crisis is for new Sea Harriers. All 7 Sea Harriers lost will be replaced - and I intend to fund out of the existing programme rather than out of replacement funds a further 7 Sea Harriers, making an immediate new order of 14 in all for BAe.

The crisis showed that flexibility and adaptability and the imaginative use of national resources were crucial to the success of our operation; particularly notable was the extensive use made of air to air refuelling. 7 Hercules and 13 Nimrods have already been adapted for it, and this will greatly enhance our capability. Hercules regularly made, and are still making, 25 hour, 8,000 mile round trips from Ascension to drop supplies to the task group around the Falkland Islands.

Nimrods flew over 110 maritime surveillance sorties - including regular air to air refuelled flights of 19 hours to the Falkland Islands area.

RN and RAF Harriers were flown to Ascension direct on a 9 hour air to air refuelled mission and then - almost miraculously - 4 were flown non-stop to the deck of HMS HERMES, another 9 hour flight.

The performance of the Victor tanker force was outstanding and more Vulcans and Hercules are being converted to the tanker role. We will be devoting increased resources to air flight refuelling as a major force multiplier - it will be particularly valuable in the UK air defence extending our ability to maintain combat air patrols over the North Sea for long periods and, in addition it gives us the ability to extend dramatically the flexibility and scope of the projection of our air power. The first VC10 tanker for the RAF had its maiden flight a few days ago.

One notable feature of the Falklands campaign was the enormous contribution made by shipping taken up from Britain's merchant fleet and their Merchant Navy crews. At peak over 50 vessels were involved. Sadly they took a share of the damage too, particularly with the tragic loss of the ATLANTIC CONVEYOR. This campaign has proved beyond a shadow of doubt, that necessary modifications such as fitting helicopter platforms and at sea refuelling facilities can be made quickly and efficiently. And from the container ships not only did helicopters successfully carry out limited operations but Sea Harriers made several sorties in the vertical take-off mode.

As part of the studies we are now making of the lessons of the campaign, we shall be taking a special look at such use of civil resources in wartime. Apart from shipping, we shall also look again at possible wartime roles for civil aircraft, helicopters and land vehicles of one kind or another. We shall be thinking about whether it would make sense for some modifications to be made in peacetime and about possible contingency arrangements for fitting weapons and other equipment to some of the platforms. The Ministry of Defence does not claim to have any monopoly of good ideas in this field and I hope that both organisations and individuals will come forward with their own suggestions - a point I made when identifying the importance of this area in Chapter 2 of the Defence White Paper on the section on the Use of National Resources (written, of course, before the Falkland Islands demonstrated the fundamental importance).

During the whole Falklands operation, our helicopters, ASW and Commando Sea Kings, Chinook, Wessex, Lynx and Wasp, Gazelle and Scout all performed magnificently.

They flew round the clock in all weathers to provide ASW support for the Task Force, carrying out surveillance and reconnaissance on land and carrying troops, stores supplies and men. The assault helicopters were most successful in the ground attack role.

Our experience during operations in the South Atlantic have demonstrated quite clearly that helicopter support is vital in the land battle. It is difficult to see a situation in which there could ever be too many helicopters available to our forces. The Chinook helicopter due to come into service in Germany this year in particular proved very useful with its substantial load-carrying ability.

I intend to authorise immediately the placing of new orders for helicopters to replace losses during operations and also to strengthen our reserve holdings where necessary. We recently ordered five Sea Kings; this order will be increased to 16, 8 in the ASW and 8 in the Commando carrier modes. In addition we shall purchase Lynx and Gazelle, and we shall replace all three Chinooks lost in the Atlantic Conveyer. These and other equipment orders which I am announcing today will of course be subject to satisfactory terms of contract, including price, and we shall be looking to industry to play their part in this

At this point I should also like to tell the House that I have decided that we should not proceed with the plan to withdraw HMS ENDURANCE from service, and she will continue to be available to deploy to the Antartic.

I shall return to the Falklands crisis later in my speech but I must first touch on other matters.

Mr Speaker - when I published the Statement on Defence
Estimates last week I said that it would serve partly as a
reminder and also as a tribute to the vast majority of our Armed
Forces who are now engaged elsewhere than in the Falklands. Their
tasks may not have attracted the headlines in the last few weeks
but their work has been no less important.

Regrettably, the internal security situation in Northern Ireland still requires the presence of substantial numbers of Servicemen. They continue to play a vital part in support of the Royal Ulster Constabulary in containing terrorist attacks, and bringing their perpetrators to justice. Their task is frequently dangerous, and disagreeable. But their presence is an essential part of our efforts to ensure that the people of Northern Ireland can be freed from the fear of terrorist violence.

Further afield, our forces in Hong Kong, Cyprus and Belize continue to contribute to the maintenance of peace.

Our relations with countries in many parts of the world are also strengthened by the military assistance that our Armed Forces are able to provide. Their professionalism and technical skills are rightly held in high regard. This year Service personnel are on loan to no less than 30 foreign Governments.

This aspect of the work of our Forces attracts little public interest but it is nonetheless very important not least in the contribution it makes to helping such a large number of states in so many parts of the world maintain peace and stability.

But it is to our NATO contribution that I must devote the major part of my remarks today since the main threat to the security of the United Kingdom remains the nuclear and conventional forces of the Soviet Union and Warsaw Pact.

In last year's White Paper we stated that "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 and RAF(G) is needed to guard the vital 65Km sector assigned to it."

I make no apology for reiterating those words in full; none is required given the realities of the threat. Those who argue the case for renegotiation of the Brussels treaty, the further reduction of our continental commitments, or our withdrawal, ignore three elements in our current strategy.

First the straight military fact that there is no adequate substitute for in-place forces. None of our allies is ready to fill the gap: they are already committed and extended to forward defence. A reduction in our commitment would not strengthen the security of the United Kingdom, it would weaken it. Exercise Crusader proved that our reinforcement plans do work. But it also demonstrated that there are finite limits to the size of reinforcements that we could sensibly hope to deploy in the warning time available. Given the problems of warning time, surprise attack and the problems of reinforcement there is no military substitute for strong, ready and in-place forces.

But our contribution is not just military - its political significance is equally important. What lessons would the Soviets draw from any reduction in our commitment, despite events in Afghanistan and Poland and in advance of any MBFR agreement? Similarly what effect would it have on the perceptions of our Allies, not least the Americans, who expect - and quite reasonably so - to see the Europeans as committed to the forward defence of Europe as they are themselves. The US maintain 200,000 army personel in Germany, as against our 55,000. Isolationism may be dormant in the US; can we be sure it is extinct?

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Finally the financial arguments for a further withdrawal of our forces from Germany are very dubious indeed. It would cost us far more in the short and medium term to bring back our forces, to house them, to create training areas and all the necessary support and infrastructure than it would to maintain them in Germany.

Additional resources would not, therefore, be created for deployment in other capabilities - rather the reverse. Nor could we afford to disband elements of our army. The planned size of 135,000 for the Army is the minimum needed to meet our peacetime and wartime commitments. By maintaining a strong land/air capability in Germany we are pursuing the wisest military, political and financial course.

But we must ensure that our forces on the Central Front are structured in such a way as to produce the most balanced, effective and powerful deterrent to a potential aggressor. This will be achieved by the reorganisation of BAOR into three larger and more powerful in-place Divisions. The new structure, which will be complete by the middle of next year will provide the Corps Commander with the flexibility and balance necessary to fight the immediate tactical battle, if necessary in a short warning scenario. It will also produce a credible Corps reserve.

Since the government took office, as the Statement on the Defence Estimates makes clear, we have transformed the capability of our land forces on the Central Front. The number of manned tanks has increased by over one quarter in the past 3 years and a ninth armoured regiment has been formed. I can now announce that the introduction of Challenger in the mid 1980s will permit two additional armoured regiments the 10th and 11th to be formed and the provision of a full complement of Chieftain tanks as a war maintenance reserve.

We have made important improvements to our anti-armour capability. Our anti-tank helicopter Lynx and TOW has entered service this year. By the mid-80s we expect to have doubled our numbers of anti-tank helicopters and to have increased sixfold the numbers of associated helicopter-borne ATGW. Milan - with extra missiles - has been deployed in considerable numbers; the new man-portable LAW 80 will enter service by the mid-1980s.

At my request the General Staff have recently been studying the role that infantry are likely to play in the battle of the 1990s. For I am anxious that in all our defence planning, particularly in the procurement field with its long lead times, we should look forward to concepts of operations a decade from now when electronic and missile technology will have taken another leap forward. We see a role for the infantry in both the framework attrition battle. for which they will require transport from one position to another, and for the armoured infantry who will need to operate and keep pace with the tank formations for which they will require more heavily armoured vehicles than we now possess with intrinsic firepower. In a relatively small Army like ours, we cannot afford to divide into mechanised infantry and non-mechanised regiments; we need as I said ealier forces that are both mobile and flexible to offset the greater numbers of the Warsaw Pact. We are, therefore, looking at a new mix of vehicles for our mechanised infantry in the 90s, including MCV 80 derivative and alternative vehicles. particular we have to bear in mind that the sheer weight of conventional fire power to be expected in the initial battle requires all our forward infantry to be protected by the latest armour, as well as the mobility to fight in depth.

Our forward <u>air defence</u> capability needs enhancement. It will be increased by the entry into service over the next couple of years of SP Rapier. Sufficient have been ordered to equip three batteries. The delivery of the Blindfire Rapier missile system to 1(BR) Corps for the towed version has been completed. A programme of enhancements is in hand. Blowpipe is fully deployed in BAOR; some improvements have already been introduced and a further extensive programme is in hand.

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I have been talking of our land capability on the Central Front in Germany. To deter at all it must look and actually be modern and effective; but I am no less concerned at our "Second Line" army and the reserves. The balance of strength - and the quality of equipment as between 1 British Corps and the rest of the British Army is a vital issue.

We must defend the UK base, not just as the unsinkable aircraft carrier of the Alliance but also as the principal source of US and UK reserve forces for the Continent itself. The increase in the size of the TA: the formation of a new Home Defence Force; three additional Royal Auxiliary Air Force Regiment Squadrons for the ground defence of operational airfields; and the formation of a new re-inforcing division, 2 Division, here at home, with its HQ in York have all been announced in the past year. I should also remind the House that we have recently announced tenders for the first batch of a new class of minesweeper for the RNR.

By looking afresh at the mix of armoured requirements for the mechanised infantry in Germany we are hoping to free resources for the provision of more armoured personnel carriers and vehicles for the re-inforcing battalions. On current plans a number of naval Wessex 5 helicopters may become surplus to requirements - as new Sea Kings 4s are delivered to the Royal Navy over the next few years. These plans will need to be re-considered in the light of our Falklands experience, but if they are confirmed, I intend to examine the use of one squadron of Wessex here in the United Kingdom in support of the predominately TA reinforcing division. We will examine whether they might be flown by pilots of the Royal Auxiliary Air Force thereby giving the RAF reservists a flying role again.

I come now to the RAF. We station 12 squadrons in Germany as part of NATO's 2 Tactical Air Force. Our Squadrons carry out a number of roles, including attack, reconnaissance close aid support and air defence of 1(BR) Corps, and RAF base areas. They are an essential part of the forward defence of the Alliance - but they also provide a crucial contribution to the defence of these islands. Enemy air forces will be attacked early and well forward so facilitating in depth defence of the UK home base. And our own defence is integrated into the Airborne Early Warning system and ground/air defence of the Alliance.

As to air defence of the UK the Government recognises the need to do more, as we made clear in Cmnd 8288. As possibly the single most important priority area, we intend to provide a much improved and resilient air defence system. The improvements will include the introduction of the air defence variant of the Tornado greatly enhanced by air to air refuelling, the entry into service of the Nimrod Airborne Early Warning Aircraft (which will form part of the NATO AEW Mixed Force), and the modernisation of the United Kingdom air defence ground environment. The net result of these improvements will be to enhance NATO's overall air defence capability, as well as the long overdue upgrading of UK air defence itself.

Turning now to aircraft, we have already announced the decision to enter a collaborative agreement with the US for the joint development and production of the AV8B - the advanced Harrier. We intend to acquire 60 aircraft for the Royal Air Force. The RAF Harriers lost in the Falklands will be replaced by additional Harriers in due course. The virtues of the existing Harrier GR3 have been amply demonstrated in operations in the South Atlantic. The GR3s were equipped successfully with Sidewinder and now have an air combat capability to add to their principal ground attack weapons. There can be no doubt that our decision to retain a V/STOL capability to the turn of the century by the acquisition of the advanced Harrier with much increased range and payload has been fully vindicated. We are pressing ahead with the contractual arrangements to implement that decision and I expect that orders for some initial production items will be placed and work begun on them by the end of this year.

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Meanwhile work continues on the Tornado programme which will result in the re-equipment of about half the RAF's front line. Authorisation has just been given to the UK element of the Fifth Batch of Tornado production aircraft which will complete the RAF's order for 220 GR1 aircraft and will carry its F2 order to the 70 mark.

I come now to our maritime/air capability. I have already mentioned the astonishing 19 hour maritime reconnaissance missions conducted by our Nimrods during the Falklands crisis. The adaptability of the Nimrod airframe - and its advance electronics and radar capability makes it a quite remarkable aircraft and if I could find the funds I would dearly like to re-open the Nimrod production line, as a major defence and sales priority.

In the past few weeks we have been fitting another missile. the Harpoon, to the Nimrod maritime reconnaissance fleet. will provide the Nimrod with the ability to tackle surface vessel targets outside the range of enemy fighters without relying on support from other fast jet aircraft. The Harpoon, coupled with the Nimrod MR2s Searchwater radar will enable surface ships to be identified and attacked at ranges, of the order of 70 miles, more than double range of Exocet. This does not of course affect our decision to purchase the Sea Eagle anti-ship missile for use by the Buccaneer, Sea Harrier and possibly the Tornado GR1 - giving the RN and RAF a formidable anti-ship capability - indeed only last week I opened the new Sea Eagle facilities at BAe Hatfield - but this more advanced missile - even than Harpoon - was simply not available in time for recent operations. We will retain Harpoon on the Nimrods, at least until Sea Eagle enters service. And we are equipping some of our submarines with Sub-Harpoon - giving them an anti-ship missile capability, as well as the new underwater guided weapon, the heavyweight torpedoes, which we have allocated very substantial funds in the past year.

Rt Hon and hon members will note in the Statement of the Defence Estimates a section on the maritime balance. It shows a narrowing of the gap between the Soviet and NATO fleets. But I should emphasise that should the Soviet surface fleet ever venture out into the North Atlantic, it will meet a formidable anti-ship missile capability based on our Tornado, Buccaneer and Nimrod aircraft - and the land based maritime aircraft of the United States. To judge the maritime balance accurately it is necessary to take into account NATO's geographical advantage in attacking the Soviet fleet with land-based aircraft.

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Mr Speaker, before I come to maritime affairs, I must at this stage talk about money.

Some of the comment in recent weeks has been conducted as if we could somehow enhance our defences yet farther, within the 3% target, either by robbing one capability or NATO role to pay for another, or by re-organising our procurement processes. There will always be some savings to be made from greater efficiency - and we have introduced new procedures throughout the MOD this year - but to suggest that there is some crock of gold which will finance new defence capabilities is quite frankly nonsense.

The Labour Party pretend that all our problems would disappear if we cancelled Trident. That is changing the facts to suit the argument. Trident has an opportunity cost, as does everything else we buy - but for its cost Trident represents the single greatest strengthening that we could make to deterrence and hence to our future security.

The NATO aim of real increases in defence spending of 3% per annum, is barely enough to keep pace with the rising real costs of equipment - certainly when set against the massive Soviet military build-up which continues to grow in size, quality and reach. On average we believe that equipment is rising in real terms at between 6% and 11% per annum. I have described in Chapter 4 of the White Paper the efforts we are making to control this cost escalation.

But I do not think that it can be suggested that any of the capabilities that I have so far described can be safely reduced or eliminated. If we gave up one capability - to shelter under the protection of our allies - what happens if we find ourselves on our own again, as we have in the past few weeks. If Great Britain ever abandons a balanced mix of forces - Navy, Army, Air Force, we will ultimately be reliant on someone else for a key part of our defence - and ultimately we will be vulnerable to someone else's blackmail.

As I have already announced the equipment losses during the Falklands campaign will be replaced - not necessarily on a like for like basis - out of monies in addition to the 3% commitment, and the same applies to the cost of any garrison although it is too early to say what this will comprise. But leaving aside these Falklands costs we have to shape the defence programme within the planned level of resources, where the Government is of course committed to implement in full until 1985/86 the NATO aim of annual increases in real terms of 3% in defence expenditure. The programme which I announced last year can be accommodated, including Trident, within those resources, but without more money above the 3% increase there can be no new programmes.

I have taken note of one Motion on the Order Paper signed by a number of my rt hon and hon friends, which urges a significant increase in defence expenditure in real terms over and above the cost of the Falkland Islands expedition and garrison.

Of course the Government will be considering in the annual public expenditure survey whether more can be made available for defence. As Secretary of State for Defence I shall certainly ask for it. But I would be failing in my duty if I were to propose a new defence programme - based on additions to our existing capability either before we had studied the lessons - so far only dimly perceived - of the Falklands, or before I had the cash to pay for it. That way lies chaos.

I turn now to naval affairs, and by any historical standard the ships of the Task Force and its aircraft performed a magnificent feat of arms. The Argentine Fleet was largely bottled up throughout the conflict in port or in home waters by our nuclear submarines: and our destroyers and frigates in the front-line showed great courage in ensuring that the landing at San Carlos beachhead was achieved with such success. In such dangerously exposed conditions we could not have expected to achieve this objective without losses and damage to our ships.

Repair work to the damaged ships will be undertaken as a matter of urgency; and our aim will be to bring them back as soon as possible. In the immediate future there will be a great deal of additional work to be done, repairing battle and weather damage and equally important catching up with the normal programme of repairs, dockings, and maintenance periods disrupted by the Falklands crisis. It is not yet possible to assess precisely the extent of the task, or how it will affect the rate at which we move towards a naval operating and maintaining base, which remains the intention for Portsmouth, but I can say that no further compulsory redundancy notices will be issued at Portsmouth before 1st January 1983, and those 180 redundancy notices already issued before 2nd April will also for the time being be withdrawn.

We should be in a position by early in the New Year to announce a firm plan which I recognise everyone wants to have, concerning the rate of manpower reduction at Portsmouth. The planned expansion of Devonport and Rosyth will continue.

I have considered whether there are any grounds for retaining the hold which was put on redundancy notices at Chatham. Our conclusion however is that the work required on the surface fleet in the short term as a result of recent operations can be accommodated at the other dockyards including Portsmouth, where many of the ships affected are based. / We have made no secret of the fact that to concentrate to SSN refitting programme at Devonport, and later at Rosyth is not without some risks, but I can confirm that it remains our assessment that such a programme

The manpower plans of the Royal Navy too will, of course, need to be reviewed in the context of decisions on ships and equipment and the consequential effect on naval shore posts.

This review will take a little time to complete, and will need to cover recruitment plans and the scale and phasing of redundancy, taking account also of our studies in depth on the Falklands' campaign.

Mr Speaker,

A study of the conflict in the South Atlantic - and the lessons of it - will necessarily take some time.

We shall be taking the views of the operational commanders at all levels who took part in the campaign. There is naturally keen Parliamentary and public interest in this exercise. It would be wrong, however, for us to rush forward in the next few weeks with any preliminary statement of our conclusions. There are a number of aspects, such as the effectiveness of individual weapon systems, which will remain operationally sensitive for some time, and others which require considerable research and analysis before the facts can be established and the right conclusions drawn.

I will publish a White Paper on these conclusions and what those conclusions imply for the future towards the end of the year.

Chatham has a nuclear submarine refitting load to complete but whilst we have looked again at the future nuclear workload in view of the proven importance of the SSN fleet, it is with regret that I must confirm our previous plans for the closure of Chatham dockyard and naval base by April 1984. This will also allow for the transfer of specialist staff from Chatham to Devonport to be resumed, which is necessary for the build up of capacity there.

Gibraltar Dockyard may take some of the less complex work arising from the South Atlantic operation but there are no plans to reverse the decision for it to close next year. In discussing its possible future commercial operation with the Gibraltar Government we have indicated - and they have welcomed - the possibility of a continued naval workload. These continuing discussions will also take account of the further delay in the lifting of Spanish restrictions.

I hope that these decisions will remove some of the uncertainty, which I know has been a great concern to the Dockyard staff.

We shall be considering therefore, the ship replacement programme further over the next few months, but, in the meantime, I have decided to order within the already planned programme, another Type 22 - ASW frigate - the ninth of its class. I also intend to retain the County Class destroyers FIFE and GLAMORGAN and the Type 22 destroyer BRISTOL, which were planned for early disposal by the mid-1980s.

It will not be easy in the next few years to sustain frigate numbers because of the losses suffered in hostilities. But we shall press ahead as rapidly as we can with the current construction programme bringing forward all existing plans as fast as possible. As the House will know, HMS ILLUSTRIOUS and HMS BRAZEN were both accepted recently ahead of their planned schedule.

Looking to the future I am glad to inform the House that I have recently endorsed the general configuration for the Type 23 frigate and that we are now ready to undertake detailed development work. We shall shortly be placing a design contract with Yarrow Shipbuilders Ltd and Y-ARD will also provide a competing design. We intend to move ahead as fast as possible with this detailed design work whilst being flexible enough to take full account of any lessons to be learned from operations in the South Atlantic. I hope that the first order will be in 1984. Our aim is eventually to achieve an order rate of 3 new Type 23's per year - and this is provided for in our forward financial plans.

I can now tell the House something more about the roles and broad characteristics of the Type 23. We need a warship fully able to conduct anti-submarine warfare operations in the harsh and operationally difficult environment of the North Atlantic. As our recent operational experience has shown, it must also possess a good general purpose capability suited to operations outside the NATO area.

The Type 23 is therefore planned to be equipped with the most advanced hull-mounted and towed array sonars for detecting submarines. Its armaments are planned to include two separate launchers for a Sea Wolf point defence missile system incorporating the latest improvements now under development; an anti-ship missile capability, self-defence torpedo capability against submarine attack and a light gun. For quietness to maximise detection ranges on her sonar her main propulsion will be diesel electric, supplemented by two of the new Spey marine gas turbines for high speed boost.

To prosecute its sonar contacts the Type 23 will be equipped to carry a new medium anti-submarine helicopter - the replacement for our current Sea Kings.

Whilst it will be larger than the Sea King the new helicopter will be very much more agile, enabling it to operate safely from small ships in foul weather. It will carry advanced sonics - in this respect it will have some of the characteristics of the Nimrod and other systems which, together with the Stingray torpedo, will make it a formidable ASW system. It will provide for the first time a capability in one helicopter both to detect and kill enemy submarines. The helicopter will be developed in collaboration with Italy. Good progress has been made with the Italian Government - I discussed the project with my Italian colleague as recently as this Tuesday - and I expect that a joint contract will be signed early next year. Commercial and military versions of the helicopter are also planned to keep down unit costs.

The House will know the importance which I attach to increasing the submarine Flotilla. With its long endurance, speed and modern sonars, the SSN is a vital part of our armoury of weapons for dealing with the threat posed by the Soviet submarine fleet. The SSNs neutralised the whole of the Argentine fleet. Four nuclear hunter-killer submarines - SSNs - are currently building. We plan to order another - SSN 17 - later this financial year with a further order - SSN 18 - following in 1983/84 in order to meet our aim of achieving a force level of 17 later in the decade.

If resources permit we also hope to place an order for a further SSN 19 before work starts on the Trident submarines.

To complement our nuclear-powered submarine Fleet we need a successor to the current very successful Oberon Class of conventially-powered boats. Quieter than the SSNs, they are particularly difficult to detect; and are in many ways superior to SSMs in shallower waters.

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Work on the new Type 2400 Class is now well advanced; I am glad to inform the House that we are now going out to tender for the first of this new class, with a view to placing an order next year. This is a major step forward in an important field and I am sure that the House will welcome it.

I come next to the issue of HMS INVINCIBLE. The House is aware of the characteristically generous offer from the Prime Minister of Australia for us not to consider ourselves under obligation to sell the ship should the Falklands operation mean that we wished instead to retain her. We shall be having discussions with the Australian Government on this matter over the next few weeks and I hope to make a full statement on the subject in due course thereafter.

Any future hostilities in the NATO area are likely to take place in a completely different air defence environment; and with the entry into service of the Nimrod AEW aircraft later in the decade we shall have a highly advanced system at our disposal in the North Atlantic. But it would be a significant enhancement of our capability if we had airborne early warning radar on our carriers. We are therefore as an interim measure fitting a maritime search radar - modified significantly to give it a new AEW role - in Sea King helicopters for deployment to the South Atlantic in order to respond to our immediate AEW needs. For the longer term we are conducting urgent studied into the overal need for shipborne AEW.

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I have referred already to financial constraints. There is nothing I should like more than to be able to provide more resources for the Armed Services particularly so that they could perform an even greater out of area role on behalf of the Alliance - including through the maintenance of a larger Navy. But resources are limited and in my judgement we would be mistaken to reduce our submarine and maritime air capability in order to switch resources to the surface fleet.

I have noted the criticisms of the Labour opposition about the reducing number of frigates but the facts are that we are spending £½bn more in real terms on the conventional naval programme than the previous Government in the year before we took office. We will still be spending more on the conventional navy, at the peak of Trident expenditure than when the Labour Party was in power. The Royal Navy this year, without Trident, takes a larger share of the Defence Budget than it did 3 years ago and a much larger share than in the 1950s.

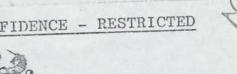
Mr Speaker - The Statement on the Defence Estimates which I present to Parliament today represents, in the same form and covering the same period as its predecessors, the defence programmes and the activities of our Armed Forces in the period leading up to the beginning of this Financial Year. I believe that the continuity of these Statements is important, and has proved of value to Parliament over many years: - that the Statement contains the names of ships tragically lost or of matters overtaken in the events of the past few weeks does not negate its value particularly with reference to the main threat to the United Kingdom from the Soviet Union.

It was I believe, in accordance with the general mood of the House that publication of the Statement was delayed at the outset of the Falklands crisis. Our debate today therefore takes place several weeks later than is normal.

In the intervening period our Armed Forces have been engaged in one of the most brilliantly conducted military operations of recent times.

By their bravery and by their skill, by their heroism and by their sacrifice, they have restored the liberty and rights of the Falkland Islanders. In so doing, they have demonstrated the principles for which we as a nation stand, and for which we are prepared to fight. Let those who might seek to attack our freedom, and that of the Western Alliance, be warned. Our defences are strong and we will strive to make them stronger in future years.

MANAGEMENT IN CONFIDENCE - RESTRICTED





10 DOWNING STREET

From the Private Secretary

30 June 1982

Thank you for your letter of 28 June about the decision to move the Joint Services staff course from Latimer to Greenwich, and to dispose of the present site at Latimer.

The Prime Minister is now content for this decision to be announced, and agrees that Mr. Wiggin may answer a Written Question on the subject as soon as can be arranged. She is content with the draft Question and Answer attached to your letter.

.W. F. S. RICKETT

D.T. Piper, Esq., Ministry of Defence. 15/7

Lord Hill-NORTON 2/7

23 June 1982

I enclose a letter the Prime Minister has received from Lord Hidl-Norton. He complains that the fact sheet on the Royal Navy produced by your Department is an amalgam of half truths and selective quotation, designed to mislead. He also has some complaints about statements made by your Secretary of State in the House on 11 March and 7 April. He is clearly inclined to raise this matter during the forthcoming defence debates in the Lords, but says he will defer this pending a reply to his letter.

I should be grateful for a draft reply for the Prime Minister to send to Lord Hill-Norton as soon as possible.

WR

Derek Piper Esq Ministry of Defence



10 DOWNING STREET PRIME MINISTER

Here is a letter from
Lord Hill-Norton who complains
that the fact sheet on the Royal
Navy produced by the Ministry of
Defence is an amalgum of half truths
and selective quotation, designed
to mislead. He also complains
about statements made by the
Defence Secretary in the House on
11 March and 7 April. He is
clearly inclined to raise this
matter during the forthcoming
defence debates in the Lords, but
says he will defer this pending
a reply to his letter.

We will let you have a draft reply as soon as possible.

Ln

23 June 1982

23 June 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 22 June.

I will place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

WR

Admiral of the Fleet The Lord Hill-Norton GCB.

Admiral of the Fleet The Lord Hill-Norton G.C.B. **NUTFIELD RIDGE 3309** KING'S MILL HOUSE. SOUTH NUTFIELD. REDHILL, SURREY, RHI 5NG The Rt. Hon. Mrs. Thatcher, M.P., 10 Downing Street. London. S.W.1. 22nd June, 1982 123.6 Prime Miguelia. Two matters have recently come to my notice in the course of research aimed at securing a change in the Defence Policy set out in Command 8288, to which I believe you would wish to give your personal attention. The first involves the issue by the Defence Secretary to junior Defence Ministers and Conservative Members of Parliament of a 'hand-out' on your Government's policy for the future of the Royal Navy. Many correspondents advise me that this has been used in the constituencies, as the basis for answering letters expressing widespread alarm at what was proposed. I attach a copy at Annex A, in case you have not seen it. The statements contained in this document are a tendentious amalgam of half truths and selective quotation out of context, designed, quite deliberately, to mislead by concealing the truth. I attach at Annex B some purely factual comments, under the same headings, which make this assertion unassailable. I am bound to say that this is a most regrettable departure from the high standards we have all come to expect from a Government under your inspiring leadership, and I should be surprised if you did not share my view. Worse, I fear, is to follow. On 11th March, 1982 Mr. Nott said in the House "But it is not right to say that if we had not had Trident the naval programme would have been different. That does not follow logically. It is financed by the defence programme" (Commons Hansard Col. 984). This is, quite simply, not true. Quite apart from the debatable question of whether the Trident costs falling on the Navy Vote altered the money available for other naval purposes or not, it is an undeniable fact that the SSN programme would quite certainly have been "different". The House, in short, was deliberately misled by a mis-statement of fact. On 7th April, 1982 Mr. Nott said in the House ".... but we cannot be criticised for cutting back the conventional Navy, when it is far larger today than it was when we took office, and so it will be in the late 1980s." (Commons Hansard Col. 1050). The third paragraph of Annex B shows this to be untrue. The circumstances make it clear that it was said deliberately, and was expressly designed to mislead both the House and the Nation. I find this quite unacceptable Parliamentary behaviour by a Secretary of State and Privy Councillor, and I should again be surprised if you did not share my view.

POLITICAL HANDOUT BY THE DEFENCE SECRETARY

THE ROYAL NAVY

Naval Budget

Talk of running down the Navy is nonsense. This financial year we will be spending \pounds^1_2 bn more in real terms on the Navy than was spent in the year before we came to office. As to the future we will <u>still</u> be spending more on the conventional Navy, even when expenditure on modernising the strategic deterrent is at its peak, than we were in 1978/79.

Ship numbers

There will be more major ships and submarines operational in 1985 than there are today. A massive modernisation programme for the fleet is in hand. The principal threat to our peace and freedom will continue to come from the Soviet Union and we will be increasing the numbers of our nuclear submarines - which will be the main strike threat to the Soviet fleet - from 12 to 17.

Recent Orders

Last year we placed naval orders with British Shipbuilders to the value of over £400M. In the past few months we have decided to order the Heavy-weight Torpedo, improve Sea Wolf and procure Sea Eagle. A further Type 22 frigate was ordered in February and last month we invited tenders for a further nuclear submarine and 4 minesweepers. The total programme for torpedo procurement alone amounts to more than £2,000M.

Carriers

It was made absolutely clear in the White Paper on the Defence Programme (Cmnd 8288) that 2 carriers will be kept in service. ILLUSTRIOUS will join the fleet later this year and the construction of ARK ROYAL is progressing satisfactorily.

THE ROYAL NAVY

(Factual Comment on the Political Handout)

Naval Budget

There can be no certainty about what we may be able to spend on the conventional Navy in the future but an indication of the Navy's financial cutback is that today its budget represents about 28% of the total Defence budget whereas by the end of the decade, if the proposals in Command 8288 are unchanged, it will have fallen by several percentage points. Furthermore the cost of ships and weapons (the life blood of the Navy) rises faster than the rate of general inflation; thus exacerbating the problem towards the end of the decade.

Ship Numbers

The term "operational" is open to several definitions and by being selective in dates and semantics substantially different interpretations can be placed on the figures.

But, leaving aside these nuances, in terms of the total number of major warships in the conventional Fleet, we are facing a steady decline. When the present Government took office we had a total of 98 major warships (that is frigates and above and submarines other than Polaris). By April 1982 this was down to 86 and current plans show a further decline by the end of the decade. The 17 nuclear submarines for which credit is claimed were in the programme inherited from the previous Labour Government. It follows that the statement made by the Secretary of State in the House of Commons on 7th April, 1982 (Official Report Co. 1050) that "We cannot be criticised for cutting back the conventional Navy, when it is far larger today than it was when we entered office, and it will be in the late 1980s" is not true.

The handout also refers to the "massive modernisation" programme. Certainly new ships are entering service but, as explained below, almost overwhelmingly this is the result of orders placed by the last Government. The planned numbers of carriers, destroyers/frigates, nuclear submarines, Sea Harriers, Royal Marines Commando Groups, assault helicopters and Royal Fleet Auxiliaries are all less than those inherited from the previous Administration. Air defence capability has been particularly hit by the decision to abandon the third carrier and its Sea Harrier air group, the termination of the Type 42 destroyer programme, its planned improved successor class and the Sea Dart improvements, and the planned premature disposal of HMS BRISTOL and County Class guided missile destroyers. Furthermore the decision to abandon mid-life modernisation will result in increasing obsolescence in the surface flotillas' weapon systems, and the sharply reduced Royal dockyard capacity will make it very difficult to implement improvements to capability in the future.

Recent Orders

The shipbuilding figures in the handout are highly selective. Of the 27 major warships that have entered service since April 1979, or will enter service over the next 5 years, only 4 (2 Type 22 frigates and 2 nuclear submarines) have been ordered by the present government. Furthermore this government has so far placed orders which average only about half the value per year achieved by its predecessor.

Carriers

The handout adds nothing to Command 8288. The facts are that in May 1979 there were 2 carriers (HERMES and BULWARK) in service, 1 (INVINCIBLE) on sea trials and 2 (ILLUSTRIOUS and ARK ROYAL) building. Future plans were based on maintaining 3 carriers in service (INVINCIBLE, ILLUSTRIOUS and ARK ROYAL) with the option of keeping a fourth (HERMES). This Government has disposed of BULWARK prematurely, announced the sale of INVINCIBLE to Australia, and decided to pay off HERMES in 1985 (when ARK ROYAL enters service); their plans are to keep only 2 carriers in service. With only two carriers there would be only 1 immediately available for a significant proportion of the time. If 3 carriers were retained in service, with one of them always in refit or reserve, 2 would always be operational and the third could be brought forward in an emergency. (The wisdom of this option is being underlined now as ILLUSTRIOUS is currently being brought forward early from the builders in order to be available for service in the South Atlantic to supplement HERMES and INVINCIBLE):



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PM/82/48

PRIME MINISTER

Primi Ministr.

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The Defence Programme

- 1. John Nott minuted to you on 16 June about the action which now needs to be taken on the Defence Programme in the aftermath of the Falklands operations. I have also seen Geoffrey Howe's minute of 18 June.
- 2. Broadly speaking, I agree with John Nott's approach. I am sure we must make good our losses in the way that our experience in the Falklands suggests would be most appropriate. There is also the continuing need to maintain forces in the South Atlantic to be thought about, and paid for. But our existing commitments in defence as stated in Cmd 8288 can not be changed without raising and answering fundamental questions about our national security priorities and the proper distribution of national efforts within NATO. We also need to take advantage of the favourable turn in public opinion which the demonstrable achievement in the Falklands has generated toward defence.
- 3. It follows, as John Nott argues, that we must find additional resources over and above those which we are already devoting to defence to cover Falklands replacement and garrison costs. This will entail increases beyond the NATO 3% target the government is already committed to. I agree that this extra expenditure should be shown as a separate item in the Public Expenditure White Paper, to allay any suspicions of sleight of hand. I also agree that we must make an announcement about our intentions soon.
- 4. I am copying this minute to the Home Secretary, the Chancellor of the Exchequer, the Defence Secretary, the Paymaster General and Sir Robert Armstrong.

(FRANCIS PYM)

10 DOWNING STREET

22 June 1982

THE DEFENCE PROGRAMME

The Prime Minister had a word this morning with your Secretary of State and the Chancellor of the Exchequer about the terms of your Secretary of State's remarks to the press following the publication of the Defence White Paper this afternoon.

After discussion the Prime Minister said that it was agreed that your Secretary of State might speak as follows:-

"All the equipment lost in the Falklands conflict will be replaced - not necessarily on a like for like basis - and these costs together with the costs of the Falklands campaign and of any future garrison will be met by the Government out of monies which will be in addition to the 3% annual rate of real growth. We will be considering this replacement programme in the next few months with a view to placing major orders by the end of the year - some may be earlier."

I am sending copies of this letter to John Kerr and Terry Mathews (HM Treasury) and David Wright (Cabinet Office).

M. C. SCHOLAR

David Omand, Esq., Ministry of Defence

From the Private Secretary

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M Nott's original



version Mcs 21/6/82

WITH

THE COMPLIMENTS OF THE PRIVATE SECRETARY

MINISTRY OF DEFENCE, WHITEHALL

Telephone: 01-218 9000

01 218

The Government reaffirms its commitment to plan to implement in full the 3% per annum real growth in defence spending required to meet the NATO target, which now runs to 1988. This represents the minimum level of expenditure to meet the main threat to the United Kingdom.

In addition

Separately from the 3% growth commitment, the Government undertakes to fund additionally over the coming years all the extraord other direct and indirect defence costs of the Falklands emergency, including the cost of the new equipment which was required for the campaign, the full replacement of all equipment and other material lost or consumed, the costs of any garrison required after repossession, together with the costs of any adjustments to existing defence policy in the dockyard and other areas which follow directly from the Falklands campaign. A running estimate of these costs will be published so that it is separately identified and kept up to date.

TEXT PROPOSED BY MR. NOTT

I will therefore aim at the publication of a White Paper in the late Autumn when there has been more time to study all the facts. In the meantime I will announce new orders for equipment in Parliament next week.

All the equipment lost in the Falklands conflict will be replaced - not necessarily on a like for like basis - and these costs together with the whole cost of the Falklands campaign and of any future garrison will be met by the Government out of new money which will be an addition to the 3% annual rate of real growth. We will be considering this replacement programme in the next few months with a view to placing major orders by the end of the year - some may be earlier.

extra

to the extent necessary

TEXT OF PROPOSED CONFIDENTIAL SIDE LETTER BETWEEN THE TREASURY AND THE MINISTRY OF DEFENCE

The cash limit for 1982-83 (which already allows for an increase larger than the NATO 3% commitment) will be increased in due course to allow for the costs of the Falklands campaign. How much this increase will need to be cannot be determined yet. We shall not know for some time how much additional expenditure will fall in the present year. Nor do we know at this very early stage in the year whether there will be any shortfall in already budgeted expenditure which could be used to absorb some of the additional expenditure arising from the Falklands operation. Supplementary Estimates will be presented to Parliament in the Autumn.

The cash limit for 1982/83 (which already allows for an increase in line with the NATO 3% commitment) will be increased in due course to allow for the costs of the Falklands campaign. How much this increase will need to be cannot be determined yet. We shall not know for some time how much additional expenditure will fall in the present year. Nor do we know at this very early stage in the year whether there will be any shortfall in already budgeted expenditure which could be used to absorb some of the additional expenditure arising from the Falklands operation.

The same considerations also apply to the years after 1982/83, but levels of expenditure already agreed will be increased to take account, as necessary, of expenditure which would not have arisen but for the Falklands operation.

ALLEX D

COMPROMISE FORMULA: REVISED TREASURY VERSION

The Government reaffirms its commitment to plan to implement in full the 3% per annum real growth in defence spending required to meet the NATO target.

The cash limit for 1982-83 (which already allows for an increase larger than the NATO 3% commitment) will be increased in dust course as a result of the Falklands campaign. How much this increase will need to be cannot be determined yet. We shall not know for some time how much additional expenditure will fall in the present year. Nor do we know at this very early stage in the year whether there will be any shortfall in already budgeted expenditure which could be used to absorb some of the additional expenditure arising from the Falklands operation. Supplementary Estimates will be presented to Parliament in the Autumn.

Cash provisions made for the defence programme in 1983-84 and later years are provisional as stated in Cmnd 8494. These provisions are due to be reviewed this Autumn in the light of the NATO commitment the economic circumstances and prospects at the time and all other relevant factors. One of these factors to be taken into account is the longer term costs of the Falklands operation which include the necessary replacement of all equipment and other material lost or consumed, and the cost of any garrison that may be required after repossession.

The Government is considering the lessons of the Falklands campaign and its implications for existing defence policy in the dockyard and other areas. Any adjustments from the Falkland compaign and their first and their first and their first and their first and the Falklands costs will be published and kept up to date. 7

PERSONAL AND CONFIDENTIAL



PA

Treasury Chambers, Parliament Street, SWIP 3AG

21 June 1982

David Omand Esq Private Secretary to the Secretary of State for Defence

Dew David,

THE DEFENCE PROGRAMME

Having seen the formula drafted by Clive Whitmore following Friday's meeting, and subsequent versions produced by officials today, the Chancellor has asked that your Secretary of State be shown the attached further draft, with which he would be entirely content.

A copy of this letter, and the draft, goes to Clive Whitmore.

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J D KERR



The Government reaffirms its commitment to plan to implement in full the 3% per annum real growth in defence spending required to meet the NATO target.

The cash limit for 1982-83 (which already allows for an increase larger than the NATO 3% commitment) will be increased in due course to allow for the costs of the Falklands campaign. How much this increase will need to be cannot be determined yet. We shall not know for some time how much additional expenditure will fall in the present year. Nor do we know at this very early stage in the year whether there will be any shortfall in already budgeted expenditure which could be used to absorb some of the additional expenditure arising from the Falklands operation. Supplementary Estimates will be presented to Parliament in the Autumn.

Cash provisions made for the defence programme in 1983-84 and later years are provisional as stated in Cmnd 8494, and are due to be reviewed this Autumn. They will then be revised in the light of the NATO commitment, the economic circumstances and prospects at the time, and all other relevant factors, which must now include the longer term costs of the Falklands operation, i.e. the necessary replacement of all equipment and other material lost or consumed, and the cost of any garrison that may be required.

The Government is considering the lessons of the Falklands campaign and its implications for existing defence policy in the dockyard and other areas. Any adjustments resulting from this consideration will be announced in due course. [A running estimate of the Falklands costs will be published and kept up to date.]



MO 21/2/27

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01 380 36 21 21 11/3

21st June 1982

Prime Minister

For discussion at the

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PUBLICATION OF DEFENCE WHITE PAPER

You will wish to know that it is now our intention of publish the Statement on the Defence Estimates at 1600 hours tomorrow, Tuesday 22nd June, at which time the Defence Secretary will, following tradition, meet the press.

The Defence Secretary has asked me to let you see the attached draft of a statement which he intends to make to the press tomorrow afternoon. He intends to follow the same line when he meets the Conservative Party Defence Committee at 1800 hours in the House of Commons. The last paragraph of this statement is relevant to the consideration which is currently being given to the Defence Secretary's minute of 16th June to the Prime Minister.

I am copying this minute and enclosure to Brian Fall (FCO), John Kerr (HM Treasury) and to David Wright (Cabinet Office).

(D B OMAND)

C A Whitmore Esq

CONFIDENTIAL

STATEMENT BY SECRETARY OF STATE ON PUBLICATION OF THE SDE

The security of the United Kingdom rests on three commitments. First, the maintenance of a credible strategic nuclear capability to deter nuclear blackmail by our enemies. Second, the collective security provided by NATO through our contribution of strong conventional forces for the defence of the West; and third, a conventional force structure, within the NATO framework, which is sufficiently balanced and flexible to enable us to respond independently to any challenge to British interests at home and abroad.

The preservation of the security of the United Kingdom is an expensive business; it cannot be done on the cheap, or we will be forced to pay the greater price of war.

The events of the past few weeks have concentrated all our attention on the third commitment - namely our ability to respond independently in defence of uniquely British interests, although our determination to resist aggression will have strengthened the whole deterrence strategy of the West.

The speed with which we were able to despatch a large and powerful task force to the South Atlantic is a tribute to the professionalism, preparedness and flexibility of our Armed Forces and of the civilian staff who support them. It is also visible

evidence that our force structure is adaptable enough to permit an effective and timely response to developments outside the NATO area. It has been a dramatic success.

But the next challenge to British interests may come elsewhere; it may require a different mix of forces. Within the overall financial resources which the nation decides to devote to defence we must maintain a balance between an effective maritime/air and land/air capability, with reserves of men, weapons and combat stocks to back it up. Policy making in Defence will always consist of a decision about priorities and balance between weapon platforms and weapons themselves, between numbers of men and equipment and between one defence capability and another. We can only enhance one capability at the expense of another - unless, of course, the nation decides to spend more.

Our splendid successes in the South Atlantic must not obscure the fact that the main threat to the United Kingdom is from the nuclear and conventional forces of the Soviet Union and her allies. For more than 30 years ... NATO has been the prime concern of British Governments.

To remind ourselves of this simple fact is a duty made no less urgent by our admiration, and concentration on the continuing engagement of our forces in the South Atlantic at this time.

The publication of the Statement on the Defence Estimates - rightly delayed at the outset of the Falklands crisis - will serve partly as a reminder, and also as a tribute, to the vast majority of our armed forces who are now engaged elsewhere - our Army and Air Force in Germany, our Forces in Northern Ireland, Hong Kong, Belize, Cyprus and Gibraltar.

The Statement was completed before the Argentine invasion of the Falkland Islands. It is presented to Parliament as a description of the events of the decisions and events of the preceding year and of the activities and programmes in progress in the period leading up to March. It is not intended primarily as a statement of policy - for the Way Forward in Defence policy was outlined in Command 8288 last July. I remain confident in the general conclusions of that Review but some parts of it will have to be reviewed, for instance the future of Invincible, manpower numbers in the forces and in Portsmouth dockyard; ship losses in the Falklands are not of course reflected in the text.

But, in general terms, this Statement re-affirms our commitment to modernise our nuclear and conventional forces in Chapters I and II. It describes the strategic balance in Chapter III and discusses other topical issues in the remaining Chapters, including the use of civilian assets. All these matters are not less relevant as a result of events in the past 12 weeks.

As to what lessons can be learned from the Falklands conflict, we should not rush into premature conclusions based on the dimly perceived lessons of the past few weeks. It is the first engagement of its kind since the 2nd World War and we owe it to ourselves and to our Allies to study the facts in depth. If changes are appropriate to the policy of Command 8288, then they will be made after mature study and reflection. Defence policy evolves with experience.

I will, therefore, aim at the publication of a White Paper in the late autumn when there has been more time to study all the facts. In the meantime I will announce new orders for equipment in Parliament next week.

All the equipment lost in the Falklands conflict will be replaced - not necessarily on a like for like basis - and these costs together with the whole costs of the Falklands campaign and of any future garrison will be met by the Government out of money which will be in addition to the 3% annual rate of real growth. We will be considering this replacement programme in the next few months with a view to placing major orders by the end of the year - some may be earlier.

FROM: J E HANSFORD 17 June 1982 Seen

1. SIR ANTHONY RAWLINSON

2. CHANCEL OR

Chief Secretary
inancial Secretary
conomic Secretary
linister of State (C)
linister of State (R)
Sir Douglas Wass
Sir Kenneth Couzens
Ar Barratt
Ar Littler
Ar Mountfield
Mr Carey
Mr Ridley
Mr Wilson o/r

THE DEFENCE PROGRAMME

You asked for further advice on Mr Nott's minute of 16 June, and a draft minute which would be sent to the PM before the weekend.

- 2. I attach at Annex A a critique of the main points. As often, the Defence Secretary's minute is discursive, and contains a number of statements, assertions and proposals. But the central object is simple: to secure the promise of a series of blank cheques to meet any current or future expenditure that can be attributed to the Falklands.
- 3. Mr Nott has obviously recognised the tactical advantages to him of securing immediate decisions on defence budgetary additions:-
 - (a) he wants decisions to be taken against a background of emotion and euphoria;
 - (b) he does not want defence provision to have to compete with other public expenditure claims;
 - (c) he does not want defence decisions to have to take account of the Government's wider economy strategy;
 - (d) once his carte blanche has been secured, military planning can proceed unfettered by any budgetary financial or economic constraints;
 - (e) immediate decisions on "Falklands" provision will leave the Defence Secretary free to pursue his other PES bids (totalling over £3000m in cash over the three years) at a later date;
 - (f) a decision now to augment the 1982-83 cash limit would enable MOD to raise their rate of spend accordingly, and to pursue end-year flexibility in case all the cash could not be consumed.
- 4. The Treasury's interest is clearly the reverse: to secure careful and proper consideration of all expenditure bids, and in particular:-

- 6. There are more political dimensions than Mr Nott refers to. The most important would be the wider repercussions of large additions to defence expenditure: for other, more visible, expenditure programmes and for the headroom for tax cuts. The economy will soon return to the headlines, where its presentation will be more
- 7. Moreover, the cost of the Falklands could well rebound on the Government when current enthusiasm for the military operation and victory dies down. £500m represents roughly a third of a million. pounds for each Falkland inhabitant. The public may find such a price acceptable at present, but would be unwilling to tolerable a similar commitment each year in the future. If the costs of all Mr Nott's Falklands proposals over the next 10 years were taken into account the total spend would be over £1.8 billion, or £1m per islander.
- 8. A number of difficult and complicated questions military, political, financial, economic - are involved. A great deal of the information currently available is unreliable or inadequate. Time is needed to collect and refine that information, and to assess its implications; considered decisions will then be possible.
- 9. A draft minute to the Prime Minister commenting on Mr Nott's note is attached.

J 在 HANSFORD

THE DEFENCE PROGRAMME

Mr Nott's minute of 16 June contains a number of related themes and proposals. These are discussed below.

- 2. (paragraph 1) the Defence White Paper should be published on 22 June with a short preface dealing with the Falklands and their aftermath. This course seems acceptable. But all the focus will then be on the preface; the terms in which it is drafted will be crucial.
- 3. (paragraphs 2-4) the 3% NATO real growth target should be maintained, and the principle of additional funding for Falklands costs announced now. The 1982-83 defence budget already provides for real growth of over 3.6% over 1981-82. The MOD have already made bids in the 1982 Survey for additions of £500m in 1983-84 and £1000m + thereafter. Very large sums of money are at issue.
- 4. All defence expenditure, whether on civilian pay, stationery or the Falklands, counts towards the NATO 3% target. Any additional defence provision will not only increase overachievement of the NATO target. It will also boost the baseline on which future years' growth will be calculated.
- 5. Just as all defence expenditure counts towards the NATO target, it all has to be funded like any other form of public expenditure. Decisions on future defence provision ought to be consistent with the government's economic strategy. It has been difficult enough to accommodate plans for 3% real growth in defence expenditure when GDP has been in decline. Larger additions will cause larger problems. There will inevitably be consequences in terms of reductions in other programmes, or increases in levels of taxation, or both.
- 6. Some presentational aspects of future levels of defence provision (Mr Nott refers to the 1983 PEWP) can be considered later.

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- 7. (paragraphs 3 and 7) the replacement of equipment lost or consumed during the campaign. There is no doubt that many stocks and stores will need to be replenished. It will also be necessary to make good capital losses. But careful consideration will need to be given to cost-effectiveness in new procurement. For example, we understand MOD are planning to replace the 3 RAF Harrier GR3 lost with the more modern mark of GR5; this seems sensible, but it would represent significant capability enhancement over simple replacement.
- The policy regarding surface ships is more complicated. Two air defence destroyers (Type 42s) and two frigates (Type 21) were lost. Mr Nott is proposing to order instead four of the superior Type 22 frigates. Mr Nott has not proved his case for ordering four Type 22s, in the light of future operational requirements and public expenditure constraints. Nor has he attempted an economic justification of the timing of the orders. It may be reasonable for Mr Nott to announce soon that ships previously earmarked for diposal will be kept on to replace those lost; that orders for more Type 22s will be announced shortly; and that those orders along with the development of the Type 23 will mean that new and better ships will - as soon as possible - more than make up for the ships lost. But it is not reasonable to announce how many ships will be ordered, nor when, until the Treasury is satisfied that the proposals make economic sense.
- 9. (paragraphs 5 and 7)-the retention of HMS Invincible.

 HMS Invincible may or may not have a role to play in the future

 UK defence posture. That role however would not be Falklands

 defence (because Port Stanley airfield is available). The cost

 of retaining Invincible should not be claimed as a Falklands

 addition.
- 10. (paragraphs 6-7) the need for further study of the lessons /learnt

learnt from the conflict. This is the most indisputable of Mr Nott's proposals; it is the line he has been taking publicly, and which seems to have been accepted. It follows therefore that decisions on future military capabilities and force structures should not be taken before those studies have been undertaken; still less, should budgetary commitments be made.

- 11. (paragraph 5) the unreliability at this stage of any cost figures. The inaccuracy of present estimates is indisputable for the cash cost in 1982-83, for garrison costs, or for equipment replacement costs. The assessments that have been made are rough and incomplete; firmer information is needed before decisions can be contemplated.
- 12. The order of cost in 1982-83 of £500m quoted by Mr Nott is consistent with figures that MOD officials have aired informally (so it is very rough). But there are indications (notably the payments accelerated into 1981-82, a low spend in the first two months of this financial year, and the MOD's internal forecasts) that the current cash limit might be capable of absorbing a large portion of the £500m. The Defence Secretary's minute makes no reference to the current prospects for his cash limit; nor to the fact that it already provides for more than 3.6% real growth this year.
- 13. The equipment replacement figure of £250m quoted by
 Mr Nott cannot be verified. To it must be added the future
 costs of maintaining a garrison on the Falklands. MOD have
 assessed the capital cost of this at £300m and the running costs
 at £100-150m per annum; we have reservations over both the
 validity of that estimate and the size of garrison it implies.



Treasury Chambers, Parliament Street, SW1P 3AG

PRIME MINISTER

THE DEFENCE PROGRAMME

I have seen John Nott's minute of 16 June to you. I well understand the problems which he outlined. I am very ready to give them urgent and sympathetic consideration. But I really don't think the approach he suggests is quite right.

- 2. As he indicates, it would involve our committing ourselves in principle now to substantial additional public expenditure on defence on the basis of information still unreliable and incomplete about costs incurred and replacements needed; before the lessons of the Falklands operation for our defence strategy have been properly appraised; and at a time when other bids from both the defence and civil programmes for large additional expenditure in the next two or three years are giving cause for considerable concern.
- 3. Our economic strategy depends on a tight grip on public expenditure. Without that, we shall fuel inflation and risk tax increases. The lesson of current events in France is highly pertinent.
- 4. John's proposals would require at least an extra \$700 million over the next three years in addition to \$500 million in the current year, and on top of the additional bids he has already made in the public expenditure Survey for \$3,200 million in cash over the same period to provide for 3 per cent real growth in defence expenditure. There are further costs to come, as yet unquantified, for the future protection of the Falklands (the garrison alone is said to require \$300 million capital expenditure and \$150 million

SECRET a year running costs) and the adjustments to defence policy which might emerge from the studies set in hand. This huge additional bill - more than £1 billion a year on average - would mean a major deflection from the economic policies we are currently and rightly pursuing. 6. Nor am I convinced that all this additional expenditure is necessary. We need a thorough and detailed examination before additional commitments can be undertaken. And I think we need to pay particular attention to the following points:-The NATO 3 per cent growth target already strains our resources. It must be seen in proper perspective. It applies to the total defence expenditure of member countries: everything counts, whether or not it is directly related to meeting the Soviet threat. Other countries, notably the US, legitimately count expenditure on non-NATO areas as part of their Defence Budget, and against the 3 per cent target. There is no need for us to disregard expenditure on the Falklands for the purposes of the target. (b) There must be a strong case for containing within the annual 3 per cent increment which we plan to achieve as much as we can of the expenditure on new equipment of enhanced capability. All of it benefits NATO. The need to replace equipment lost in battle is regrettable, but the cost of replacing it is in principle no different from that of the cost of replacing equipment lost accidentally, for which no bonus would be claimed or given. (d) The scale of the Falklands losses may merit special treatment. But the replacement programme must SECRET



surely be considered against future need rather than past capability. For example, there is clearly a question about the vulnerability of surface ships. It was voiced in Cmnd 8288. The recent operation has confirmed those doubts. Can it really be right to replace the four sunk warships with four frigate of a design which it had previously been decided should be replaced by a new anti-submarine design framed with an eye to the export market?

- 7. The replacement package calls for careful and detailed study before we commit ourselves, even in principle, to any significant part of it. The decisions should not be taken piecemeal, but as part of a plan aimed at the threats of the future, not the battles of the past. This applies to the proposed retention of HMS Invincible. The maritime strategy outlined in Cmnd 8288 required only two ships of this class. If all three are now to be retained, and nothing given up, that amounts to a major increase in the maritime content of the defence programme. The costs of retaining HMS Invincible, if that is indeed now thought right, can hardly be treated as part of the costs of the Falklands operation.
- 8. In short, there are two separate issues here.
- 9. First, we have to assess what changes are needed in the defence programme in the light of the Falklands operation. The replacement package needs to be properly assessed and substantiated, the lessons of the Falklands thoroughly appraised, consequential adjustments to the defence programme identified.
- 10. Second, when this has been done, we need to assess the costs of the changes needed, and to decide to what extent they can be funded within existing planned provisions for the defence budget, and what if any additions are inescapable. These additions should be reviewed in an orderly and efficient way in the context of the public expenditure Survey, and considered against other proposals



for public expenditure so that we can take a sensible and considered decision about relative priorities and about the things we have to set aside or postpone. To rush into premature and piecemeal decisions, involving such substantial sums of money, before they have been adequately appraised and quantified, and the need firmly established and weighed would be bad economics, bad management and in my view bad politics too.

- 11. There is one other matter on which urgent consideration is needed. Substantial additional costs have arisen from the Falklands operation in the current year. These need to be fully quantified so that whatever adjustment may be needed to the defence cash limit for the year can be properly determined. Not least because some hundreds of millions of this year's defence spending was brought forward into 1981/82, to avoid a corresponding underspend on that year's (increased) cash limit, there is some headroom within the existing defence cash limit. This ought to be taken up first. The existing cash limit already provides for real growth well in excess of the 3 per cent NATO target. It should be possible for any increase to be substantially less than the Falklands costs arising this year.
- 12. I am of course fully conscious of the problem which John may face in the forthcoming Debates. But it would be wrong to jump, for reasons of short-term tactical advantage, to decisions which might subsequently seem strategically short-sighted, in military, economic, and political terms. And I believe that the Party well understands the need for a careful appraisal of the lessons of the Falklands, and for the Debates to be used to sound opinion rather than announce instant reactions.
- 13. I look forward to seeing the additional preface to the Defence White Paper which John proposes to publish next week. I should also like to see, in draft, the proposed statement of his general approach, which will, I hope, reflect the considerations outlined in this minute.



14. I am sending copies of this minute to the other recipients of his.

[Approved by the Chancellow and signed in his absence.]

G.H.

17 June 1982



PRIME MINISTER

Cabinet, Thursday 17 June: Defence White Paper

Mr. Nott is anxious that there should not be a protracted discussion in Cabinet tomorrow about the pros and cons of the decision which you and he reached this morning to publish the Defence White Paper next Tuesday, 22 June and to have the Defence Debate the following week. He believes that the best prospect of avoiding such a discussion tomorrow would be for you, rather than him, to tell Cabinet what has been agreed.

If you are content to do this, you may like to raise the matter under Parliamentary Affairs and to say simply that you, the Defence Secretary, the Leader of the House and the Chief Whip have all considered the question of the publication of the Defence White Paper and that you have decided that it should appear on Tuesday 22 June and that the Defence Debate should take place on Wednesday 30 June and Thursday 1 July.

thu.

16 June 1982

Defence Engly

The Parer

DEFENCE WHITE PAPER

My rt hon Friend the Secretary of State for Defence, reflecting, I believe, the general wish on all sides in the House, has already said that the Defence White Paper - though substantially complete - would not be published until the crisis in the Falkland Islands was over. My rt hon Friend now hopes to publish the White Paper in the next few weeks.

Sw

SECRET

W NOW is anxwes to discuss with your and his anxwes for my man for the Chamaller of the Exchange. Breame of the minimum of the production of his began with large and of his began when he would have to be the Defence programme has been your po to New York

KW

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PRIME MINISTER

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With military victory in the Falkland Islands achieved, we must expect the policy and budgetary issues to take centre stage. Already there is heavy pressure to know our plans for replacing the ships and other equipment we have lost and whether changes in our defence policy are planned. We cannot afford to be on the defensive about this. I do not propose a new Defence White Paper. The Lord President, the Chief Whip and I believe that the present White Paper should be published with a short preface. I understand that the Lord President has mentioned to you that I wish to publish next Tuesday 22nd June. We also see no way of avoiding at least four debates on defence before the House rises, including three on the Services. So, we must start thinking about what we are going to say now.

2. First we must reply to those critics who have been arguing that our defence policy has been wrong. It is absolutely clear to me that events in the South Atlantic must not be allowed to obscure the fact that the principal threat to our security remains the Soviet Union and its Warsaw Pact allies. It was this threat—with NATO remaining the major bastion of our defence—that the programme set out in Cmnd 8288, together with our commitment to the NATO 3% aim, was designed to meet. I am convinced that the framework of that programme and the 3% growth aim remain an essential foundation stone for further planning. We shall of course need to analyse the lessons of the Falklands operation (and we must be ready to disclose the results publicly, possibly in a subsidiary White Paper in the late autumn), and within the framework of Cmnd 8288 we may well need to make adjustments to our policy.



- 3. Against this background, I have no doubt that our first priority must be to make good the material losses we have suffered in the Falklands campaign. These are considerable. We have already lost ships and aircraft through enemy action or accident and there may be more. We have also consumed a considerable proportion of our ammunition, missile and other stocks. Replacement will take time: the lead times for some major equipments is long and elsewhere industrial capacity may not permit early recovery. Costs will therefore extend over a number of years. We shall have to consider in detail how replacement is best effected in some cases direct replacements are not available; but I believe we must decide now and announce our decision before the summer recess that in principle we shall seek to make good all the equipment lost or consumed as soon as possible.
- 4. It is also clear to me that these replacements and all the other defence consequential costs of the campaign including the costs of the equipment we have acquired, partly from the USA, and of the garrison which we shall have to maintain after repossession must be funded by additions to the Defence Budget over and above the 3% a year real growth required to meet the NATO target (which now runs to 1988). We cannot afford to spend less on the main threat. Still less can we be seen to be robbing our capability for defending the United Kingdom to pay for the Falklands operation and its consequences. Any hint of this would put us in deep trouble with our allies and our supporters. I believe that we must be ready to accept and announce the principle of additional funding now. Otherwise the criticism that we are paying for the Falklands by cutting our basic defence effort and



capability cannot be rebutted - and it must be shown as a separate item in the Public Expenditure White Paper so that we are seen not to rob our main capability to pay for the Falklands.

- It is impossible at this stage to make anything approaching an accurate estimate of what the extra costs might be. Costs in the current year, which will include the cost of the operation itself. could ultimately be of the order of £500m; we must be ready to announce an addition to the defence cash limit when a figure has been worked out. Very rough calculations I have had done for subsequent years suggest that the additions quantifiable at 4 June might be in the region of £250m in 1983/84 (average 1981/82 prices) reducing thereafter. These figures cover the cost of the operations and equipment specially acquired for them; replacement of ships, aircraft, ammunition etc. lost or consumed; the running-on of INVINCIBLE. But these figures do not cover the cost of protecting the Islands in the future. Further costs will emerge later, but cannot be quantified at present. I will circulate separately a table giving more detail of costs assessed so far and possible additional commitments.
- 6. In the light of the Falklands conflict we shall undoubtedly need to enhance our military capabilities in a number of ways. It will take time to work out the military implications in their full detail. But I believe that we must announce an initial package of specific measures without delay. The Falklands operation has brought the importance of defence and the danger of neglecting our security to the forefront of public and Parliamentary debate. A statement of general principles about additional funding of the operation and its consequences will not be enough to match the mood of our supporters and public opinion.
- 7. The detail of an initial package needs to be considered further. But the outlines are already clear to me. I am sure that our intention on INVINCIBLE must be announced, subject to consultation with the Australians, and that I should refer to my plans for accelerating the frigate construction programme.



But in addition I am sure that I must announce a first batch of replacement orders which I propose initially should comprise 4 Type 22 frigates to replace the 4 ships lost, and replacement of Harriers and helicopters. Immediate orders will do something to hold the rapidly deteriorating employment situation in the shipyards. I shall need to give an assurance that we will maintain Frigate Destroyer numbers at the (reduced, Cmnd 8288) figure of 50 by withdrawing a number of older ships from the disposal list, pending delivery of the new Type 22s. I must also announce our intention to go ahead with orders to replace stocks especially of missiles and ammunition consumed during the operation. Further replacement orders will be needed, but these can be announced later.

- 8. To sum up, I believe that we must announce in the first Defence Debate that we shall in principle replace as soon as possible all equipment and other material lost or consumed in the campaign; and that the costs of this and other costs which are consequential on the campaign, including a continuing garrison, will be met by additional allocations over and above the 3% growth commitment. I must also announce a first batch of decisions, as indicated in the preceding paragraphs. I do not think that anything less than this would be politically sustainable. It would allow me to plan the defence programme on a coherent basis in order to restore our capability and lead to a more detailed statement of the lessons of the Falklands in the Autumn.
- 9. I seek agreement in principle to this approach. Subject to this, I will consider in more detail the terms in which a statement of our general approach might be framed and circulate a draft.
- 10. I am sending copies of this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Paymaster General and to Sir Robert Armstrong.

J.N.

RESTRICTED





A.J.C. f

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

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MO 8

11th June 1982

Dear heon

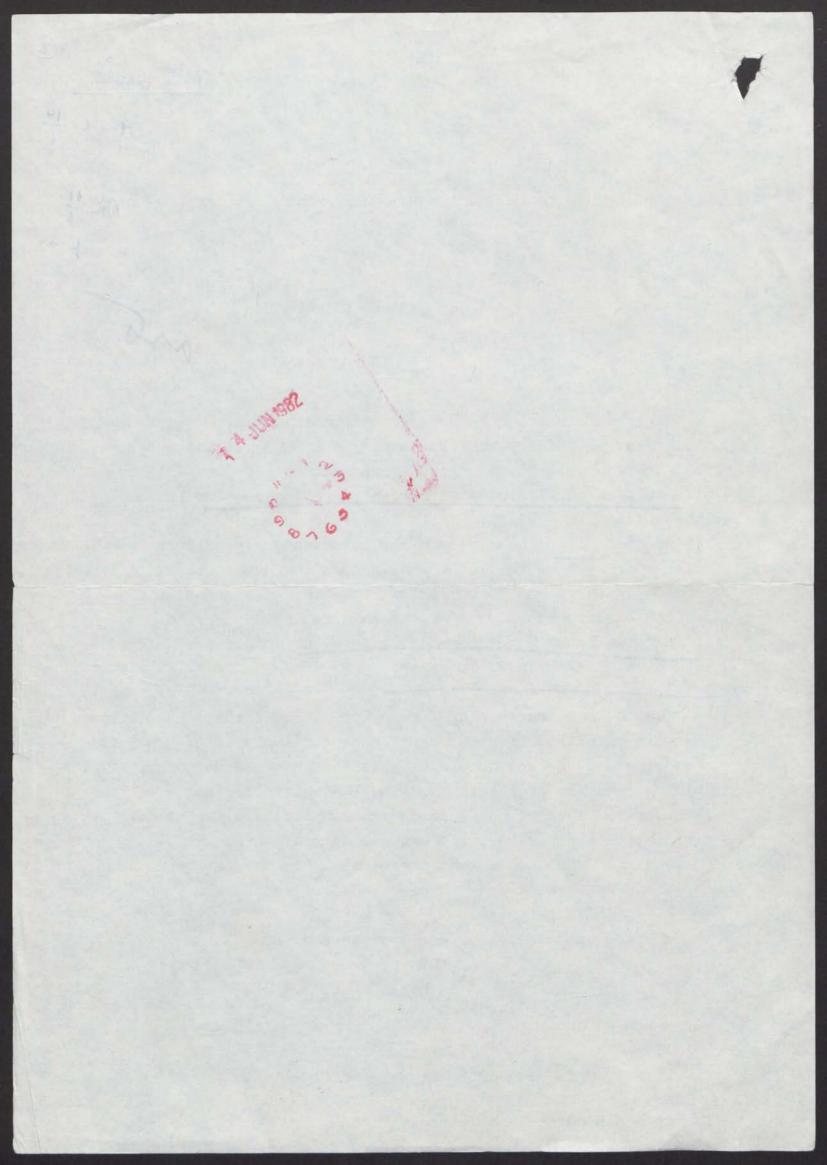
Pt 7

When OD discussed my paper on flexibility in the financial management of defence on 27th January (OD(82)3) it was agreed that there should be an urgent examination of the possibility of some form of flexibility between years in time for possible introduction in 1982/83. While it was accepted that any scheme need not be confined solely to defence expenditure - and it may well be that other colleagues could also benefit from a degree of end-year flexibility - our discussion in OD and the requirement for an urgent examination was very much against the background of problems peculiar to defence which I set out at length in my OD paper.

Now - some four months later - you propose that the urgent OD remit resulting from the particular difficulties of managing the defence programme should be subsumed into a wider study arising from the proposals in Michael Heseltine's letter of 29th April. This is not good enough. My officials will take part in the wider study, but until OD decides otherwise, I believe that you should report separately on the particular case of defence - that is what OD required four months ago.

Copies of this letter go to members of OD.

John Nott



Sefence

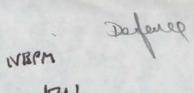
PRIME MINISTER

PARLIAMENTARY AFFAIRS

The business has been prepared on a normal basis, leaving Falkland Islands matters to be accommodated as and when necessary. You might possibly want to say a word about prospects for emergency powers legislation, and about the frequency of reports to the House on developments.

I understand that the Conservative Backbench Defence Committee is expressing considerable unhappiness about the prospect of publication of the Defence White Paper next week, in the absence of significant changes in the light of the Falkland Islands situation. The Chief Whip may mention this to you when you see him tonight. Alternatively, it might get raised in Cabinet.

MAD





NW

FCS/82/60

SECRETARY OF STATE FOR DEFENCE

Statement on the Defence Estimates

- 1. Thank you for sending me a copy of your minute of 14 April to the Prime Minister.
- 2. I agree that an additional note on the lines you propose would be desirable and I am content with the draft attached to your minute.
- 3. I am copying this minute to the Prime Minister, the members of the Cabinet and to Sir Robert Armstrong.

Foreign and Commonwealth Office

(FRANCIS PYM)

16 April 1982

FLE

Defence

16 April, 1982

STATEMENT ON THE DEFENCE ESTIMATES

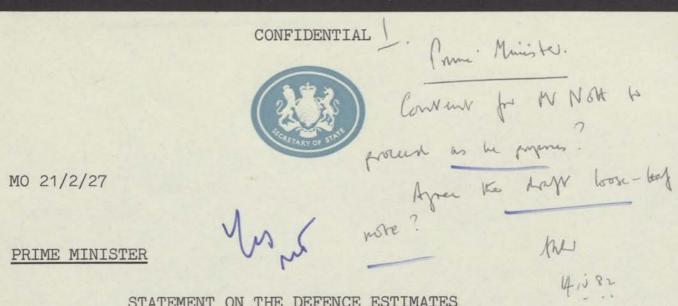
The Prime Minister has seen the Defence Secretary's minute of 14 April and is content for a loose-leaf note on the lines of the draft attached to Mr Nott's minute to be included in the forthcoming Statement on the Defence Estimates. She agrees to a publication date of 28 April.

I am sending copies of this letter to the Private Secretaries to the other members of the Cabinet, and to David Wright (Cabinet Office).

FIRE IS A RESIDENCE FOR

D Omand, Esq Ministry of Defence

BRC



STATEMENT ON THE DEFENCE ESTIMATES

We agreed in Cabinet on 6th April that we would proceed with the printing of the Statement on the Defence Estimates, amended to give further emphasis to our capability for intervention outside the NATO area; but that we would defer a decision on the timing of publication.

- We also agreed that we should present the Statement as a document prepared before the Falklands invasion and that its publication should therefore take place as soon as possible. The type-setting of the Statement is now complete, and printing will begin early next week. The earliest we can publish is the 28th April, and I believe that we should be ready to release the White Paper on that date. Any delay will make it all the more difficult to present the Statement as having been produced prior to the Argentinian invasion, although a final decision on the release date can be taken as late as 23rd April.
- I believe, however, that our public presentation would be 3. improved if an additional (loose-leaf) note were inserted as a foreword to the Statement. A draft text is attached. This explains that the Statement was finalised before the Argentinian invasion, and makes clear that events in the South Atlantic have demonstrated the flexibility of our Armed Forces but they in no way detract from the importance of the Government's plans for our future nuclear and conventional force structure.

CONFIDENTIAL



- 4. I should be grateful for your agreement to the inclusion of the loose-leaf note in the Statement on the Defence Estimates for 1982, and to a likely publication date of 28th April. Because of printing deadlines, if we are to be ready for publication on 28th April, therefore, I shall need your agreement by Friday 16th April.
- 5. I am copying this minute to the members of the Cabinet and to Sir Robert Armstrong.

En

Ministry of Defence

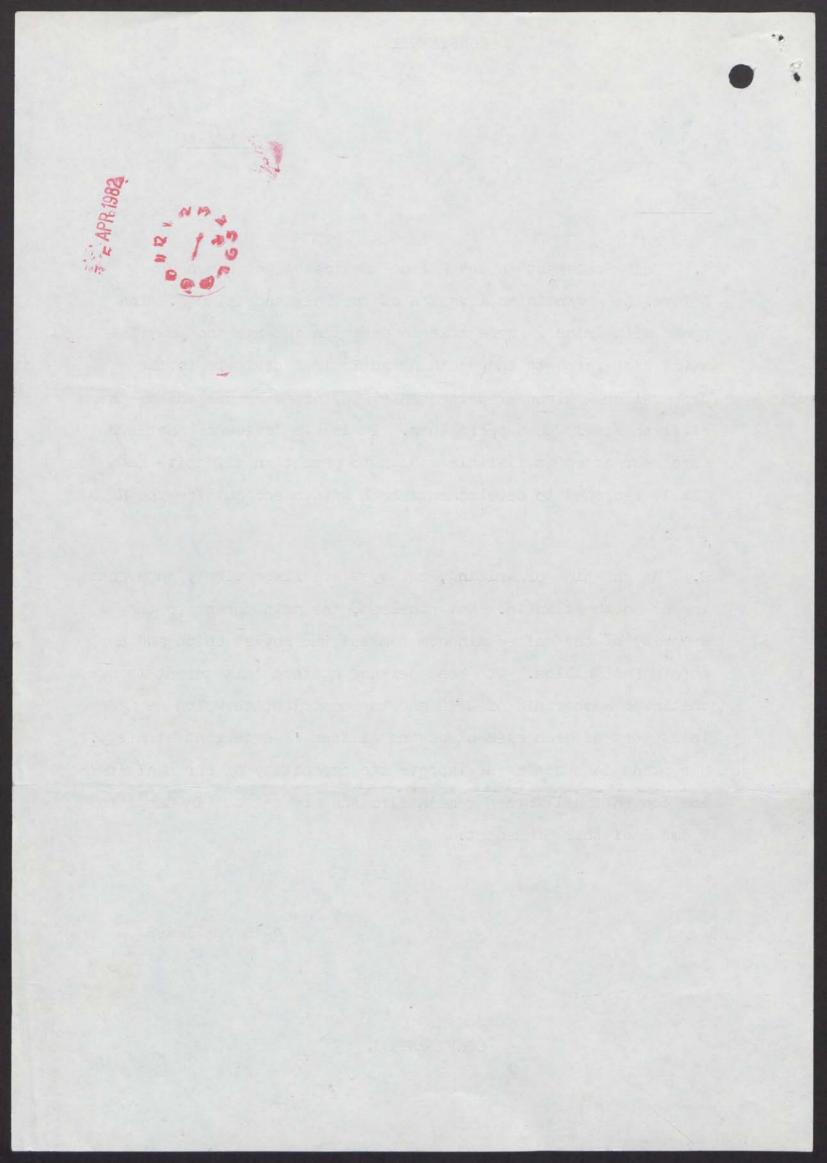
14th April 1982

ANNEX A

FOREWORD

- 1. This Statement on the Defence Estimates was drawn up before the Argentinian invasion of the Falkland Islands. The speed with which we were able to despatch a large and powerful naval task force to the South Atlantic is a tribute to the professionalism and preparedness of our Armed Forces and of the civilian staff who support them. It is also evidence that our force structure is flexible enough to permit an effective and timely response to developments both within and outside the NATO area.
- 2. At the time of writing, our eyes are fixed firmly on events in the South Atlantic. Nevertheless, the main threat to the security of the United Kingdom remains the Soviet Union and her Warsaw Pact allies. The best defence against this threat is our continued membership of NATO and the contribution which we make in support of each element of the Alliance's deterrent strategy. Our plans to sustain and improve the capability of our nuclear and conventional forces remain firm and are set out in Chapters 1 and 2 of this Statement.

14th April 1982



Delque



MO 5/21 MO 9 MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-3830XX822 218 2111/3

6th April 1982

Dear Clive, 14

At Cabinet this morning, in the course of the item on the Falkland Islands, there was discussion of the effects of Government policy on the future naval programme. My Secretary of State gave various information and figures which could be used to refute allegations that the Government was ruining the Navy. He agreed that he would circulate to his colleagues suitable material with the aid of which they could refute such allegations. I now attach a series of points which Ministers could make in this connection, together with the lines of figures and background information. Mr Nott is particularly anxious that Cabinet members should be aware of the figures for naval expenditure as a percentage of total defence expenditure. These provide the key for the statement that this financial year we will be spending £½bn more in real terms than when the Government came to office. It will also be seen that the amount spent on the Navy in real terms has increased by over 50% since 1950/51. The Navy also takes up a greater proportion of the defence budget than it did then. Although the amount spent on the conventional naval programme will decline from a peak in 1983/84 of £4108m to £3789m in 1991/92, at no point will the amount spent be less, at constant prices, than the figure for 1978/79. I am sure I do not need to emphasise that these figures are based on our current LTC assumptions.

I am copying this letter to Private Secretaries to all Cabinet Members and to David Wright.

Your ever

(N H R EVANS)

THE ROYAL NAVY

Naval Budget

Talk of running down the Navy is nonsense. This financial year we will be spending £½ bn more in real terms on the Navy than was spent in the year before we came to office. As to the future we will still be spending more on the conventional Navy, even when expenditure on modernising the strategic deterrent is at its peak, than we were in 1978/79.

Ship numbers

There will be more major ships and submarines operational in 1995, then there are taday. A magazine medamigation programme

There will be more major ships and submarines operational in 1985 than there are today. A massive modernisation programme for the fleet is in hand. The principal threat to our peace and freedom will continue to come from the Soviet Union and we will be increasing the numbers of our nuclear submarines - which will be the main strike threat to the Soviet fleet - from 12 to 17.

Recent Orders

Last year we placed naval orders with British Shipbuilders to the value of over £400M. In the past few months we have decided to order the Heavyweight Torpedo, improve Sea Wolf and procure Sea Eagle. A further Type 22 frigate was ordered in February and last month we invited tenders for a further nuclear submarine and 4 minesweepers. The total programme for torpedo procurement alone amounts to more than £2,000M.

Carriers

It was made absolutely clear in the White Paper on the Defence Programme (Cmnd 8288) that 2 carriers will be kept in service. ILLUSTRIOUS will join the fleet later this year and the construction of ARK ROYAL is progressing satisfactorily.

NAVAL EXPENDITURE AS % OF TOTAL DEFENCE EXPENDITURE

	1950/1	1960/1	1970/1	1978/9	1982/3
1. Defence Budget	10257	14448	13342	12883	14091
2. Naval Budget	2564	3612	3602	3607	4047
3. (2) as % of (1)	25	25	27	28	28

Notes: (1) Figures based on Estimates, not outturn.

- (2) All figures at constant 82/3 prices.
- (3) 1982/3 figures excludes Trident.

THE ROYAL NAVY PROGRAMME BACKGROUND .

major programme of new warship construction. Older and more manpower-intensive warships will be phased out during the next few years and will make way for the new types of destroyers and frigates now entering service or under construction. The surface Fleet will be smaller; but its new ships will be of advanced design and fitted with technologically sophisticated weapons and sensors. Later in the decade we shall be embarking on a construction programme for a simpler and cheaper type of anti-submarine frigate.

Last June we announced the order of a further Broadsword class (Type 22) frigate the seventh in the series - and in February this year we ordered the eighth. We will keep under review the need for more ships of this type. progress we are making towards the next generation of frigate - the Type 23 reflects our policy of replacing ships rather than undertaking mid-life modernisation. Feasibility studies are well under way, and we expect to finalise the broad design characteristics later this year. A good deal of work remains to be done, but our aim is to place the first order by the middle of the decade. The build-up of the Sheffield class (Type 42) destroyer force is also well in hand; it will increase to a total of 14 later in the decade. We expect the second ASW carrier, HMS Illustrious, to join the Fleet later this year and HMS Invincible to be handed over to Australia next year. The construction of the third, HMS Ark Royal, is progressing satisfactorily. The Sea Harrier programme is well advanced. The Sea King Mk 5 entered front-line service last year. Joint studies with Italy on a collaborative successor to the Sea King are proceeding well, and a final decision is expected later this year.

As to the defence of the United Kingdom base, the modernisation of the mine countermeasures force is well under way. The new Hunt class is entering service, and feasibility studies have begun into a new and simpler type of minehunter, due to enter service towards the end of the decade. In February we announced our intention of ordering later this year the first batch of a new class of minesweepers for the Royal Naval Reserve.

In the field of anti-submarine warfare, we attach particular importance to increasing the size of the nuclear-powered submarine force as rapidly as resources will permit. We have already explained our plans for the submarine-launched strategic deterrent. We announced the order for the sixteenth nuclear-powered fleet submarine last year and expect to be placing a further order soon. Design and development work on the new class of conventional submarine to replace the Oberon class is well advanced.

As to weapons systems, shortly after taking office we authorised full development and production of the Sting Ray lightweight torpedo, which is now undergoing trials with a view to entering service in the coming year. We are also bringing into service the air-launched anti-ship missile, Sea Skua, and the submarine-launched Sub-Harpoon. Our capability will be further improved by the decision announced recently to acquire a new heavyweight torpedo manufactured by Marconi. The effectiveness of the Sea Wolf air defence missile system is being upgraded. Advanced new towed sonars will be entering service shortly, and our communications will benefit greatly from the launching of new satellites ordered last year.

Major Programmes authorised for Full

Development or Production since May 1979

Eastern Atlantic

New Patrol Submarine

Heavyweight Torpedo

Sea Wolf Improvements

Seabed Operations Vessel

Sting Ray Torpedo

Electronic Support Measures for Submarines

Sea Eagle Anti-Ship Missile

Skynet IV Communications Satellite

Central Front

Challenger and Main Battle Tank Improvements (including Thermal Imaging)
Tracked Rapier

Asence

Ref. A08038

PRIME MINISTER

Statement on the Defence Estimates 1982

(C(82)9)

BACKGROUND

The draft Statement on the Defence Estimates (SDE) was briefly considered at OD on 1st April and generally welcomed.

- 2. The Secretary of State for Defence has taken account of the only two comments made then: he has removed Table 2.2. from Part 2, and he has revised the section on problems outside the NATO area, which is now to be found in paragraphs 229-235.
- 3. You will also see that the Secretary of State for Defence has included the most recent assessment of the numbers of Russian SS20 missiles deployed within range of targets in Europe (paragraph 303).
- 4. The Secretary of State for Defence will be tabling (at Cabinet) some amendments to the draft Statement designed to take account of the Falkland Islands crisis.

HANDLING

- 5. The <u>Secretary of State for Defence</u> should be invited to introduce the draft SDE. You will wish to ask whether any member of the Cabinet has any points, and in particular whether the <u>Foreign and Commonwealth Secretary</u> is content with the treatment of "out-of-area" problems in Chapter 2.
- Pour will also wish to consider the date of publication, at present still planned for 28th April, in the light of the Falkland Islands crisis. There is an obvious difficulty about publishing a document of this sort if we are still in the middle of a crisis. The present draft says virtually nothing relevant to the Falklands problem, but clearly it would be premature to attempt any drafting to cover the crisis until the crisis has been resolved. You will wish to ask the Secretary of State for Defence and the Foreign and Commonwealth Secretary and the Lord President to give their views on timing. You may feel that it would be right to go ahead with early publication and make it clear at the time that the document had been drafted before the crisis broke.

CONCLUSION

7. You will wish to record the Cabinet's approval of the Statement on the Defence Estimates 1982; and their decision on when it should be published.

ROBERT ARMSTRONG

5th April, 1982

Defence

Ref. A07965

PRIME MINISTER

Statement on the Defence Estimates 1982

(OD(82) 16)

BACKGROUND

Although the paper does not say so, the planned publication date of the Statement on the Defence Estimates (SDE) is 28th April.

- 2. The SDE 1982 follows much the same form of the two previous Defence White Papers, except that the normal Statement of Policy in Chapter 1 is replaced by a chapter on Nuclear Forces which includes a shortened version of the Defence Open Government Document on the Trident II decision. As last year there are a number of free standing essays between the chapters. In the present typescript these essays have a "frame" round them. This year's SDE is somewhat shorter than last year's and is expected to cost £8.50 instead of £10.00: since most copies go to official purchasers, this is a small but welcome saving to the public purse.
- 3. In the absence abroad of the Secretary of State for Industry, the Minister of State for Industry, Mr. Lamont, has been invited. The Foreign and Commonwealth Secretary will be abroad. The Secretary of State for Defence has not asked if he might bring the Chief of the Defence Staff or other Chiefs of Staff: they did not attend this time last year.

HANDLING

- 4. The <u>Secretary of State for Defence</u> should be invited to introduce the draft SDE. You might then direct the Committee's discussion towards the following points:
 - (a) Is the Lord Privy Seal content with the passages covering arms control in Chapters 1 and 2, and with the essay on arms control and security? On a point of detail, the draft says in paragraph 303 that the numbers of Russian SS20 missiles deployed within range of targets in Europe increased last year from 120 to 190. The most recent JIC assessment (JIC(82)(N) 25, dated 26th March 1982) gives a figure of 207, an increase of 27 launchers over the last three months.

Fearles,

(b)

- The Lord Privy Seal should also be asked to comment on the treatment of problems outside the NATO area. Last year a whole chapter was devoted to this subject, but in this draft there is little more than the passage from paragraph 229 to paragraph 233. A good deal was also said on this topic in the Secretary of State for Defence's White Paper Cmnd 8288 published last June. The Secretary of State for Defence might be asked to comment on progress made towards implementing the measures announced then such as the extra stockpile of basic army equipment ready to support deployments and exercises outside the NATO area.
- (c) The Chief Secretary, Treasury, should be invited to comment on the section on the defence budget in Chapter 5 and on the presentation of the statistics in the volume on statistics (Volume 2). He may well query Table 2.2 which compares the figures for the defence budget announced in the 1981 Public Expenditure Survey (Cmnd 8494) in constant price terms with previous plans. The table is at Annex. It will be seen that, while the figure shown for 1982-83 against the 1981 Public Expenditure Survey line, £13,147 million, is 3 per cent greater than the figure for 1981-82 shown against the 1980 Public Expenditure Survey line, the figure of £13,469 million shown for 1983-84 is only 2.5 per cent higher than £13,147 million and the figure of £13,792 million for 1984-85 is only 2.4 per cent higher than £13,469 million. Thus informed readers of this table will see a discrepancy between these figures and the statement in paragraph 505, which has been agreed with the Treasury, of the Government's decision to plan to implement in full the NATO aim of a 3 per cent annual real increase in defence expenditure, up to and including 1985-86. Treasury Ministers will argue that public expenditure as a whole is now managed in cash rather than volume terms and thus it is inappropriate to include a table which attempts to translate the agreed cash figure into volume figures. You yourself have recently criticised the "artificial concept of real terms" in relation to Department of Education and Science expenditure

Mags -

(Mr. Scholar's letter of 16th March). The Secretary of State for Defence is likely to argue that the omission of this table will be noticed since a similar table has appeared in previous Defence White Papers. He is also likely to say that if he is asked why the figures in the table do not show 3 per cent growth in 1983-84 and 1984-85, he should say that, as recognised in the Public Expenditure White Paper (Cmnd 8494), the figures for the later years are provisional. You will recall that the wording on defence in the Public Expenditure White Paper was agreed only with great difficulty. The underlying problem will have to be addressed in this year's Public Expenditure Survey, and it would seem premature to canvass now the possibility that the 3 per cent growth rate may not be achieved in 1983-84 and 1984-85. If a consensus cannot be reached in the Committee or bilaterally between the Secretary of State for Defence and the Chief Secretary, the problem will have to be considered at the Cabinet which discusses the SDE.

- (d) You will wish to ask the <u>Secretary of State for Defence</u> whether he is now content with the cash provision for the defence programme in 1982-83, following the OD discussion in January and his further discussions with defence contractors on which he minuted you on 15th March. The Chief Secretary minuted on 23rd March to say that he hopes, in the light of current trends in cash payments, that the Secretary of State for Defence will be able to say that the difficulty has disappeared.
- (e) Of the four "essays", perhaps the most interesting is the essay on "Use of National Resources" which deals with two rather different matters, the use of national resources in a crisis and the use for defence purposes of equipment which industry already manufactures for civil purposes. You should ask the Home Secretary and the Minister of State for Industry if they are content. You should also ask the Minister of State for Industry if he is content with Chapter 4 on Defence Equipment, including its reference to the need for increased specialisation in NATO and the possible consequences for the defence industries in this country.

(f) You might also ask the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster if they have any comments on the sections dealing with service personnel and pay (Chapter 2) and Government efficiency (Chapter 5).

CONCLUSION

5. The Committee might be guided to the conclusion that the Secretary of State for Defence should be invited to circulate the draft Statement on the Defence Estimates 1982, amended as necessary in the light of discussion, for consideration by the Cabinet on 6th April. Members of the Committee may have minor comments on the draft which they do not want to discuss: since time for circulation of the draft to the Cabinet is short, it will be helpful if any comments beyond those raised in discussion were sent to the Ministry of Defence by close of business on 1st April.

1 101

ROBERT ARMSTRONG

31st March, 1982

ANNEX

Defence budget: comparison of Cmnd. 3494 expenditure plans with previous plans and with the 1982-83 Estimates LE 2.2 at LTC '82 prices ()				£ million	
	1980-81	1981—82	1982-83	1983-84	1984-85
1979 Public Expenditure Survey (Cmnd. 7841)	12,589	13,016	13,456	13,852	
1980 Public Expenditure Survey (Cmnd. 8175)		12,764	13,205	13,600	• .
1981 Public Expenditure Survey (Cmnd. 8494)2			13.147	13,469	13,792
 Average 1981—82 prices expected when the 1982 long term costings were To arrive at the Defence budget at 1982—83 Estimates prices and the carnecessary to make adjustments as follows: 		r 1983—84 an	d 1984–85 a	s given In Cm	nd.8494it
			1982-83	1983-84	1984-85
					1001 00
Additions for assumed price increases (a)			941	1,829	2,657

(a) Based on the public sector cash planning factors published in Cmnd. 8+14.



10 DOWNING STREET

From the Private Secretary

31 March, 1982.

Statement on the Defence Estimates 1982

The Prime Minister has been studying your Secretary of State's memorandum OD82/16, to which was attached the draft of the statement on the defence estimates 1982.

The Prime Minister is doubtful about the wisdom of including in the Defence White Paper a table on the lines of Table 2.2 which gives comparisons in constant prices of defence expenditure totals in successive public expenditure White Papers. She has commented that the inclusion of this table puts in question the primacy of cash planning, and that the Government wishes to get away from constant prices comparison, since this was always an artificial concept.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

David Omand, Esq., Ministry of Defence.

CONFIDENTIAL

B

PRIME MINISTER

Statement on the Defence Estimates 1982

Leon Brittan's office have been on to me about table 2.2 in the draft Defence White Paper (at Flag A) which is for discussion at OD on Thursday.

Leon Brittan believes that the inclusion of this table, which gives comparisons in constant prices in real terms between defence expenditure totals in successive White Papers, is inconsistent with the move to cash planning, in precisely the way which the education figures were - and which led you to comment on Sir Keith Joseph's letter of 12 March (Flag B).

Leon Brittan further argues that inclusion of this table in its present form will lead the reader to infer that defence expenditure is planned to rise (from £13.147 billion in 1982/3

Leon Brittan further argues that inclusion of this table in its present form will lead the reader to infer that defence expenditure is planned to rise (from £13.147 billion in 1982/3 to £13.792 billion in 1984/85) slower than the 3% annual average NATO target). On this ground alone, therefore, he thinks it would be better omitted.

He wonders whether you would be prepared to authorise me to write to Defence on the lines of my letter to Education (Flag C). Agree this? If this approach is not accepted by Mr. Nott before Thursday, Leon Brittan will wish to raise the matter at OD. I understand that if he cannot secure the omission of the table, as a fall-back he will go for its inclusion on a "cost terms" basis - i.e. with the prices deflated by the GDP deflator.

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Defence budget: comperison of Cmnd. 3494 expenditure plans with previous plans and with

the 1982-83 Estimates					£ million	
FABLE 22 at LTC '82 prices V	198081	1981-82	1982-83	1983-84	1984-85	
	12.589	13,016	13,466	13,852		
1979 Public Expenditure Survey (Cmnd. 7841)		12,764	13,205	13,600		
1980 Public Expenditure Survey (Cmnd. 8175)	•	0	13.147	13,469	13,792	

Average 1981-82 prices expected when the 1982 long term costings were prepared.

To arrive at the Defence budget at 1982-83 Estimates prices and the cash figures for 1983-84 and 1984-85 as given in Cmnd. \$494 it is necessary to make adjustments as follows:

y to make adjustments as the same as the s	1982-83	1983-84	1984-85
Additions for assumed price increases (a)	941	1,829	2,657
Cmnd. 8474 cash provision	14,088	15,298	16,449

(a) Based on the public sector cash planning factors published in Cmnd. 8494.

(The Defence budget total of £14,088 million for 1982-83 includes £13,953 million provision on Defence votes plus £135 million other expenditure attributed to the Defence budget. The Supply Estimates incorporate a £3 million increase in attributed expenditure which yields the Defence budget total of £14,091 million shown in other tables,)

Table 2.3 Defence budget and related expenditure

						£million
	197778	1978-79	1979-80	198081	1981-82	1982-83
Defence budget	6,328.9	6,918.8	8,557.7	10,784.5	12,273.8	14,090.6
Military aid to oversess countries	2.4	2.3	13.6	6.9	11.4	14.9
Accommodation (maintenance and rental) Stationery and printing3. Home publicity Civil superannuation Computers and telecommunications Rates Services by Exchaquer and Audit Services by Paymaster General's Office Services by Treasury Soilcitor Valuation Services by Inland Revenue Various other Services	36.5 29.6 3.8 116.7 13.1 49.9 1.3	47.8 28.7 4.7 153.9 14.7 58.7 1.2	41.9 32.7 8.6 181.5 14.4 64.3 1.4	60.1 10.7 208.3 77.9 1.7 3.2	66.0 7.5 248.8 — 92.7 2.6 1.6 2.0 0.1 0.2	62.6 7.2 254.1 119.2 2.7 1.6 2.3 0.1 0.3
Less cost of Metsorological services in Defence budget	-20.5	-24.0	-28.9	-36.5	-34.2	-36,7
Other adjustments	-6.2	-5.2	-4.2	-4.2	-4.2	+14.8
Defence expenditure (NATO definition) ⁵	6,558.4	7,203.7	8,885.3	11,112.6	12,668.3	14,533.7
Accounting adjustments	15.7	9.1	-		-	
Defence expenditure (National Accounts definition)	6,574.1	7,212.8	8,885.3	11,112.6	12,668.3	14,553.7

1. The figures given in the table are based on the Supply Estimates and reflect the price levels of Supply Estimates for the years in question.

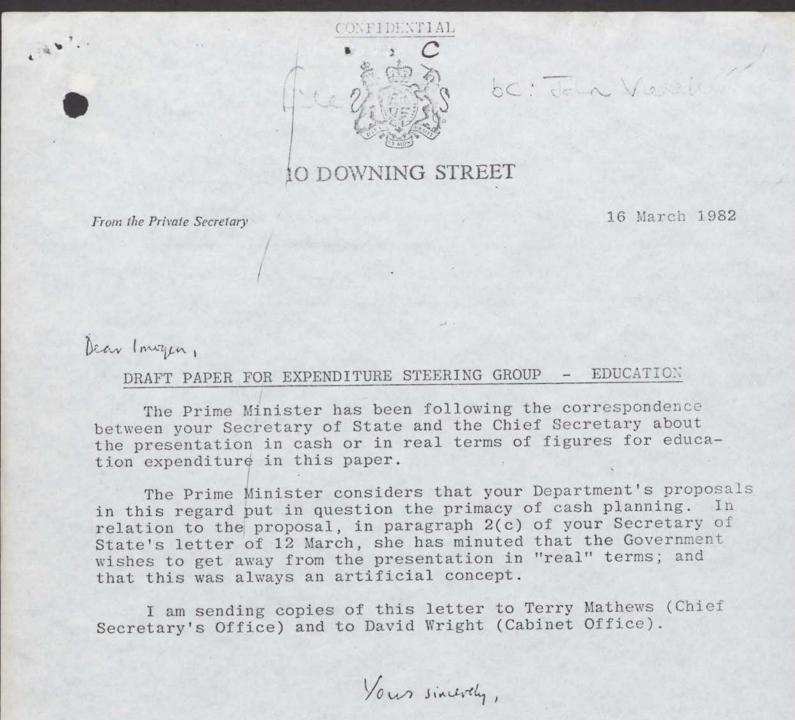
2. These are the Defence portion of services performed by certain government departments for government generally.

3. These items are included in the Defence budget after 1979-80.

4. Prior to 1981-82 included under 'Various other services'.

5. The Defence budget figures have to be adjusted as shown to meet the standard NATO definition of defence expenditure.

CONFIDENTIAL DEPARTMENT OF EDUCATION AND SCIENCE ELIZABETH HOUSE, YORK ROAD, LONDON SEI 7PH TELEPHONE 01-928 9222 FROM THE SECRETARY OF STATE The Rt Hon Leon Brittan QC MP Chief Secretary HM Treasury Whitehall London SW1 Secretary DRAFT PAPER FOR EXPENDITURE STEERING GROUP - EDUCATION When we spoke last night we agreed that officials should try to reach agreement today about amendments to this paper. I made it clear that I was not disputing the primacy of cash planning and you said that you would ask Treasury officials to look again at the drafting and figures so as to meet me part of the way. I understand that at a meeting this morning officials came close to agreement on amendments to the paper which would have (a) emphasised still more strongly than in paragraph 4 of the previous draft the primacy of cash, (b) inserted a new table in cash before the present table in paragraph 7 and (c) substituted for that table another showing the implications in real terms (on specified assumptions about pay and prices) for each sub-programme of the cash table not in 2 but by index numbers, ie 1980-81 = 100, 1982-83 = 96.1, 1983-84 = 92.8. I shall be grateful if you will let me know by mid-day on Monday that you can agree to this so that we can circulate the paper in time for Friday's meeting of ESGE. Otherwise I shall have to agree to the postponement of the meeting. This would mean a loss of momentum in following up the Public Expenditure Paper. Over most of the education programme our policy calls for contraction which will not come about by itself and will not be brought about unless the detailed practical implications are clearly explained and driven homein gooto local authorities. They have co-operated with successive governments in their plans for educational spending, and I would not wish to damage the machiner which has served us well for several years. 4 I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong. Yours concerny mogen Wis (Approved by the Secretary of State and signed in his absence) CONFIDENTIAL



Michael Scholar

Mrs. Imogen Wilde, Department of Education and Science. 10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

DEFENCE EXPENDITURE 1982-83

I have shown the Prime Minister your minute A07884 of 23 March 1982 about defence expenditure in 1982-83, and she agrees that it should be left to the Defence Secretary and the Chief Secretary to settle, if possible, the reconciliation of the defence programme for next year with the agreed cash limit.

tall.

24 March 1982

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Prime Minister (2)

Rus 23/3

Treasury Chambers, Parliament Street, SWIP 3AG

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

23 March 1982

DEFENCE EXPENDITURE 1982-83

I have seen your minute of 15 March to the Prime Minister.

The use of cash profiles with defence firms sounds an interesting and useful development which will, I hope, continue to mitigate your cash flow problems in the future.

Your earlier concern about 1981-82 led to an increase in your cash limit of £300m. I now understand that this problem has turned into the threat of a substantial underspend. In order to avert this your Department has taken special measures to bring forward into the current year expenditure which would otherwise have fallen in 1982-83. This indicates that there is considerable end-year flexibility in the present system.

These measures must also diminish the prospect of the "programme gap" in 1982-83 (reported in OD(82)2). This gap threatened an excess over the cash provision for that year, which was increased in the light of the concern you had expressed last November. OD(82)1st Meeting invited you to report further how the 1982-83 defence programme was to be reconciled with the cash provision. I think that OD would wish to know, before they consider the 1982 Statement on Defence Estimates on 1 April, what is your latest assessment of the 1982-83 position. Let us hope you will be able to say that the difficulty has disappeared.

We can certainly discuss the general question of end-year flexibility if you wish. But the benefit to programme managers has to be weighed against the complication and weakening of expenditure control, and the increase in public expenditure which would be entailed, which we should prefer to avoid. Any general discussion would need to take into account the extent to which your wish for end-year flexibility may now have been met by the measures which your Department have been able to take within the present system.

I am sending copies of this letter to the Prime Minister, other Members of OD and Sir Robert Armstrong.

LEON BRITTAN

2 3 MAR 1982

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Ref. A07896

PRIME MINISTER

Defence Expenditure

At the meeting of OD on 27 January I was asked to clarify some of the figures for the defence programme included in OD(82) 2 and OD(82) 4.

2. My minute of 2 December 1981 put on record the basis on which agreement had been reached on the figures to be included for defence expenditure in 1982-83, 1983-84 and 1984-85. The following table sets out the 1981 Public Expenditure White Paper (Cmnd 8175) figures, as revalued, and projected for 1984-85, the increases and reductions agreed in November and the resulting provision:

		1982-83	1983-84	1984-85
		£m	£m	£m
1)	White Paper (Cmnd 8175)			
	revalued and projected for			
	1984-85 (1983-84 total carried			
	forward and revalued by 5%)	13624	14881	15625
2)	Changes agreed before			
	20 October (3% real growth)			+ 480
3)	Agreed increases			
	a. Carry-through of extra			
	costs of 1981 armed			
	forces' pay award	+ 85	+ 88	+ 92
	b. Change in Royal Ordnance			
	Factories net borrowing	+ 19	+ 4	- 8
	c. Other	+ 375	+ 325	+ 250
4)	Net changes agreed in November			
	(Serial 3)	+ 379	+ 417	+ 334
5)	Agreed provision*	14103	15298¢	16439¢

^{*} The agreed provision shown in the last line of the above table is the same as shown in para 2 of OD(82) 4.

 $[\]phi$ The figures for 1983-84 and 1984-85 are provisional.

- 3. As the Secretary of State for Defence explained in OD(82) 2, the excess of the defence costings above the agreed provision was caused principally by changed expectations about industrial performance on equipment contracts since last summer and the effect of movements in defence prices.
- 4. The cash required to fund the equipment programme is derived in the first instance from the aggregation of the sums required for individual projects. Historical experience has shown that although the estimates for individual projects are the best that can be achieved at the time, in aggregate they tend to overstate the totality of the funds required. There are various reasons for this, but the principal factor is industrial shortfall. In order to correct the estimating, a "block adjustment" is made to the aggregated figure. Throughout the 1970s this adjustment was set at a high level and generally not high enough, as evidenced by successive underspends. In the current recession civil work has fallen off, and contractors have concentrated more on defence work. When the defence programme for 1982-83 was constructed last year, a moderate level of adjustment was applied to the aggregated figure. With the continuing recession it is now clear that even this was too high.
- 5. This meant that, when the 1982-83 programme was recosted in the autumn during the preparation of Estimates, it was £500 million higher (at 1981-82 prices) than expected. A further £500 million excess (at 1981-82 prices) materialised in the autumn, because 1981-82 defence prices were higher than expected. Implementation of savings measures as in OD(82) 2, together with the cash additions agreed last November, enabled these amounts to be accommodated: the Secretary of State for Defence proposed, and the Defence and Oversea Committee agreed, measures to reduce the defence programme, which he assessed would leave it about £170 million (at 1981-82 prices) above the provision for 1982-83 compared with the initial excess of £1335 million.
- 6. The Ministry of Defence has further work in hand on the reconciliation of the programme with the agreed cash limit, and is in touch with the principal defence equipment suppliers about their claims for 1982-83.
- 7. I am sending copies of this minute to all members of OD and to the Chief Secretary, Treasury.

 Robert Augusting

ROBERT ARMSTRONG

Ref. A07884

MR WHITMORE

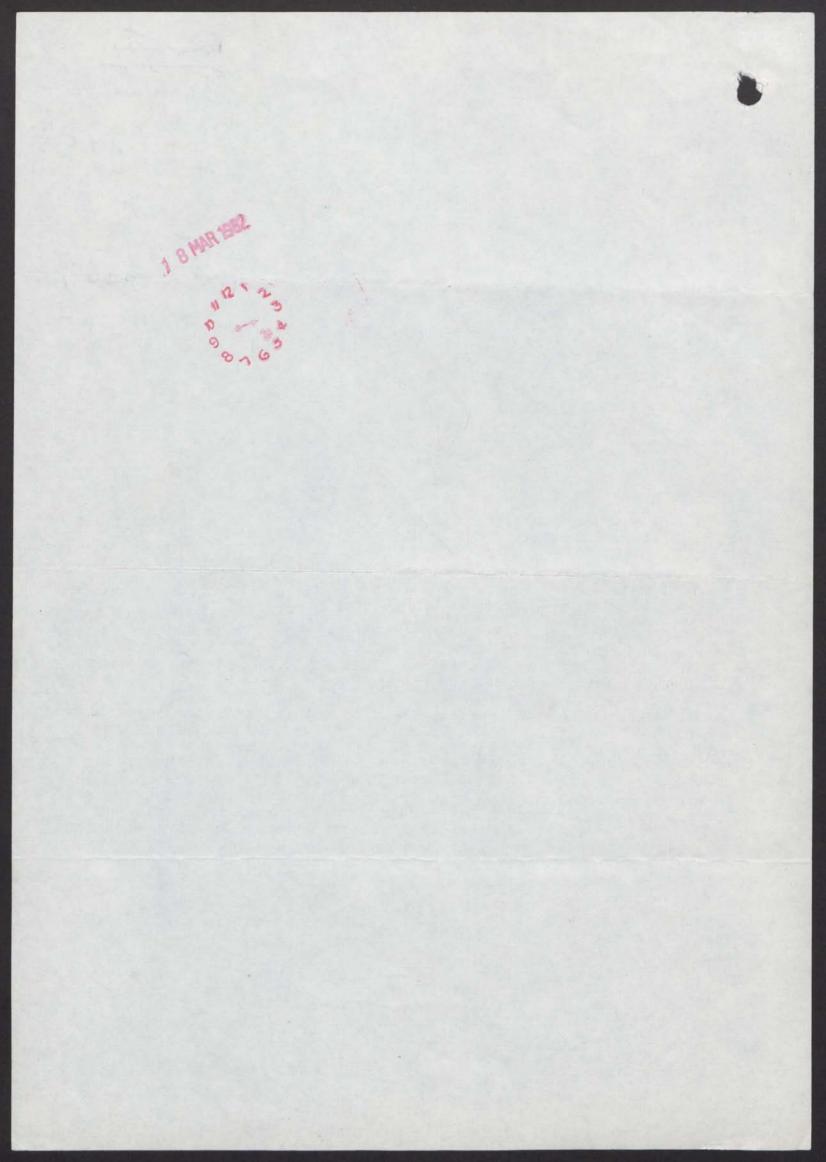
The Secretary of State for Defence's minute of 15 March to the Prime Minister partly fulfils the remit to him from OD on 27 January. It does not fulfil the remit to him to report further on how his programme for 1982-83 is to be reconciled with the agreed cash limit.

- 2. I understand that the Chief Secretary, Treasury intends to write to the Secretary of State for Defence to propose that the issue be settled before the Defence White Paper comes to OD on 1 April. The Chief Secretary is likely to point out that the Ministry of Defence are able to make good use of the flexibility afforded by the existing system in order to reduce the possibility that the defence budget in 1981-82 will be underspent. The Ministry of Defence are bringing forward some expenditure from 1982-83 to 1981-82, and this should mitigate, if not eliminate entirely, the problem for 1982-83. Thus it seems likely that it should be possible to contain the present defence programme within the agreed cash limit.
- 3. There was also a remit from OD to me to clarify some of the figures which were used for the defence programme included in the papers which were before the meeting on 27 January. A note to this effect has now been agreed with the Treasury and the Ministry of Defence, and I am circulating it to members of OD; the Prime Minister's copy is attached.
- 4. I do not think that the Prime Minister need intervene in the correspondence, at any rate at this stage.

ROBERT ARMSTRONG

23 March 1982

CONFIDENCIAL Treasury Chambers, Parliament Street, SWIP BAG Rt Hon John Nott MP Secretary of State Ministry of Defence Main Building Whitehall 18 March 1982 London SW1A 2HB MILITARY ASSISTANCE AND TRAINING CHARGES Thank you for sending Geoffrey Howe a copy of your minute to the Prime Minister of 1 March. I am in general content with the arrangements which you are proposing to set up. We shall of course need to ensure that the Parliamentary accounting proprieties are observed, that the day-to-day arrangements for financial control of these two funds are adequate and that their use is monitored. The aim should be that the sales subsidy should pay for itself in terms of economic benefit as far as possible. My officials are in touch with yours on these points. My other concern relates to the effect this additional expenditure will have on the Defence Budget in 1982-83. In January your memorandum OD(82)2 reported that for the Estimates year the planned defence programme exceeded the agreed cash provision by over £170m at 1981-82 prices. OD was informed that serious cuts in equipment purchases would be necessary to close this gap, and invited you to report further on how the programme should be reconciled with the agreed cash limit. Your military assistance proposals would appear to have the effect of increasing the programme gap by a further £10m. Nevertheless, I note your assurance that the necessary cash will be found from within current provision. I am copying this letter to the Prime Minister and other Members of OD. LEON BRITTAN CONFIDENTIAL



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Prime Minister 2 Prime Minister 2 Prime Minister 2

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PRIME MINISTER

DEFENCE EXPENDITURE 1982/83

My colleagues will wish to know how our cash control reforms are proceeding in the Ministry of Defence with particular reference to their likely impact on our suppliers in 1982/83. In my paper to OD on 27th January (OD(82)3) I argued for more flexibility in the cash limit system and I pointed out the problems of containing a long lead programme of £6.0bn within a precise annual cash limit given the vagaries of the economy and the immense complexity of the programmes themselves. The Cabinet will be considering this subject shortly. But in the meantime I should explain the further action which we have taken with the defence suppliers.

- 2. I am basing discussions with the defence equipment suppliers on the system of "cash profiles" which has been developed successfully over the past year. The profiles are global forecasts by each contractor of the cash demands they are likely to make on our Liverpool bill payment office during the course of the year. Thirtynine of our main suppliers submit these profiles, which cover some £3.2bn of our equipment expenditure. In the current year they have proved to be a valuable cross check upon the Department's internal forecasts of cash flow and, in addition, a very effective means of engaging our suppliers in detailed discussion about ways of reducing the cash flow problems associated with recession which we have encountered in our equipment programme.
- 3. In 1982/83 I plan to develop further the use of these profiles. Profiles for 1982/83 are now being sent in by industry. During the next month the Department will be analysing and assessing them against the level of business we can afford within the defence cash limit. When our latest cash flow forecasts are available, we shall have as good a measure as we can expect before the year begins of



the cash flow prospect for 1982/83 and we shall be ready to discuss with individual suppliers, on the basis of their own figurework and our analyses, whatever problems are apparent and what corrective action should be taken. If, as I envisage, these discussions take place in May and June, we shall be engaging industry in these matters at a significantly earlier stage than we were able to do in the current year.

- 4. My officials have had several meetings with the Trade Associations representing the main defence equipment suppliers over the past year and have explained this approach. I cannot yet measure precisely the effect of these further steps. But I am confident that the message about the need to contain expenditure within cash limits overriding in many cases contractual commitments entered into several years ago, has got across to industry and that there will be a readiness on the part of our main suppliers to co-operate in solving difficulties as indeed there has been this past year. But I would emphasise that this new system is not and cannot be an exact science which is why it must be complemented by a proper system for allowing flexibility between years.
- 5. I shall report further to the Committee if further development requires it.
- 6. I am sending copies of this minute to the members of OD and to Sir Robert Armstrong.

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Ministry of Defence 15th March 1982 The state of the s



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SECRETARY OF STATE FOR DEFENCE

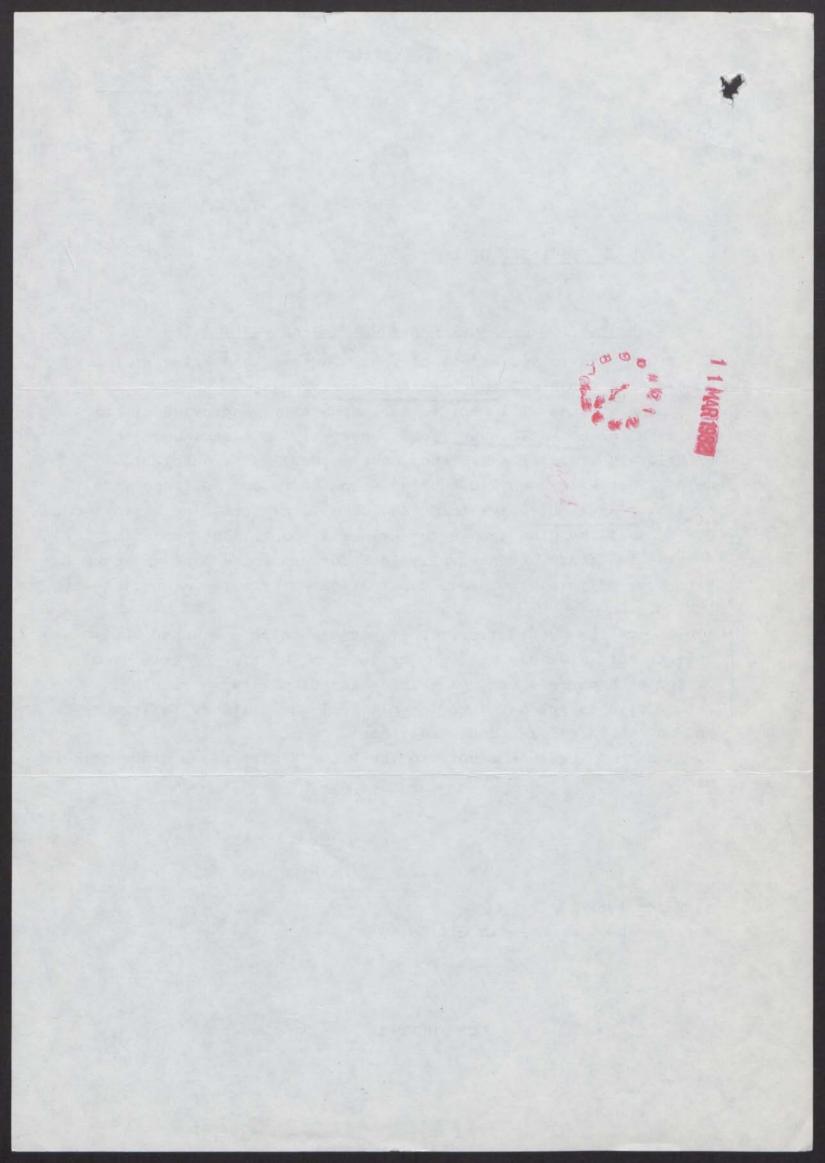
Military Assistance and MOD Training Charges

- I was glad to see a copy of your minute to the Prime Minister MO 5/4 of 1 March. I welcome these arrangements.
- The new funds will improve our capability to provide military training for non-NATO countries, especially in cases where the UK Military Training Assistance Scheme (UKMTAS) is unable to help. They will also add substance to the recommendations made in last year's OD review (MISC 42) of military training assistance.
- 3. We shall be glad to see the criteria you will be employing for the two funds and naturally look forward to keeping in touch with your officials to avoid duplication of effort or conflict with UKMTAS.
- 4. I hope that your efforts to reduce training costs and apply charges more flexibly will go far to stem the tide of criticism of the high current cost of charges for UK military training. We can also expect a return in political and military influence and in the sales of defence equipment.
- 5. I am copying this minute to the Prime Minister and other members of OD.

(CARRINGTON)

11 March 1982 Foreign and Commonwealth Office

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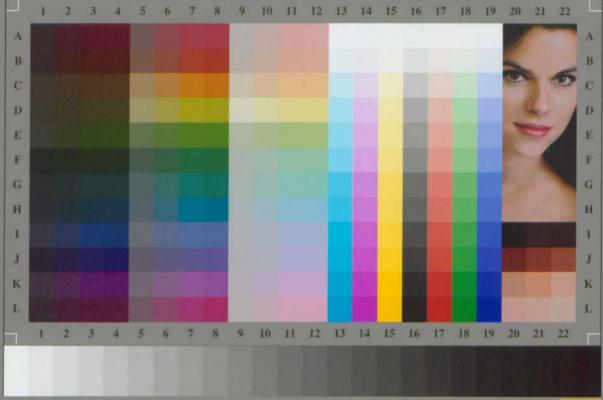
PART 7 ends:-

can to pm of 12/2/82.

PART 8 begins:-

s/s MOD to PM of 1/3/82.





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