

PREM 19/2073

PART 12 42.45

~~SECRET~~

Confidential Filing

The Defence Budget.  
Military Assistance Scheme  
(UKTMAS).

DEFENCE

Part 1: May 1979

Part 12: March 1986

1987  
(1986) Defence Estimates in attached folder).

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>14.3.86</del>							
<del>16.3.86</del>							
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<del>8.5.87</del>							
PREM 19/2073							
ENDS							

Folder contains Statement on the  
Defence Estimates 1986 Parts 1 & 2.

PART 12 ends:-

CDP to MAD 8/5/87

PART 13 begins:-

CDP to PM 10/7/87



## Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES.

Reference: CC (86) 14<sup>th</sup> Conclusion, Minute 3

Date: 10 April 1986

Signed Wayland Date 23 July 2015

**PREM Records Team**

## Published Papers

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

1. Cmnd. 9763-1: Statement on the Defence Estimates  
1986. [HMSO ISBN 0 10 197630 5]
2. Cmnd. 9763-11: Statement on the Defence Estimates  
1986 – Defence Statistics [HMSO ISBN 0 10 197631 3]
3. Cmnd. 101- 11: Statement on the Defence Estimates  
1987 – Defence Statistics [HMSO ISBN 0 10 101013 3]

Signed Wayland Date 23 July 2015

**PREM Records Team**



MO 21/2/32

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~3300332X~~ 218 2111/3

M. Addison  
CFC  
CDP  
11/5

8th May 1987

CF  
Conrad I have a  
copy of the attached  
pl.

Dear Conrad,

1987 STATEMENT ON THE DEFENCE ESTIMATES

On 5th May I wrote to you and to the Private Secretaries to Ministers in charge of Departments, enclosing copies of the 1987 Statement on the Defence Estimates, together with some background briefing material. We have taken another look at the figures given in paragraph 3 of the 'Bull Points' brief and revised them to exclude the current year's defence budget since, on reflection, it is incorrect to claim that this year's money has already been 'spent'.

I attach a revised version of this paragraph which I am also sending to the recipients of my earlier letter.

(I C F ANDREWS)  
Private Secretary

C D Powell Esq  
10 Downing Street



B - CONVENTIONAL STRENGTH

3. Has taken the lion's share of increased spending:

- Excluding nuclear strategic forces and Falklands costs, by the end of the last complete financial year we had spent, in real terms since 1978-79, some £16 billion more on conventional defence than if spending had continued at 1978-79 levels.

- In cash terms 95% of the increase in the budget between 1978-79 and 1986-87 has gone to improving conventional defence.





Dr. Fed. de

BUDGET

PT 12

E - CONVENTIONAL STRATEGY

3. Has taken the lion's share of increased spending  
- Excluding nuclear strategic forces and Balkan costs,  
by the end of the last complete financial year we had  
spent 1,500 million more than 1978-79, some 615 billion more  
in conventional defence than 41 million had consisted of  
1978-79 level.  
- Increase of 92% of the increase in the budget between  
1978-79 and 1987-88 has gone to improving conventional  
defence.

6



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~2307822~~ 218 2111/3

MO 8

6th May 1987

Prime Minister <sup>2</sup>

*W*

You wanted to see the line  
Mr Younger is taking on the adequacy  
of defence resources.

Dear David,

*DLV*

DEFENCE EXPENDITURE

*attached. 6/5.*

I enclose, as requested in your letter last night, material on which - notwithstanding the seriousness of the situation my Secretary of State described - he proposes to draw as necessary, in answer to questions, at his press conference this afternoon to launch the Defence White Paper.

I am copying this to Alex Allan and Jill Rutter in the Treasury.

*Yours sincerely,  
John Howe.*

(J F HOWE)  
Private Secretary

David Norgrove Esq  
10 Downing Street

1. Defence has done well since 1979. A substantial platform of annual provision has been built up and on conventional forces we have spent some £16bn more in real terms than would have been the case if expenditure had remained at its 1978/79 level. The Government has honoured its promises as regards Service pay and has embarked on major equipment programmes for all 3 Services. The Trident programme is going well and to cost. Thus the Government is making a major contribution to Western Defence through the provision of both nuclear and conventional forces. It ill behoves others to criticise our stewardship and even with the ending of the period of real growth I am confident we will be able to maintain our main defence roles though some difficult choices on priorities are only to be expected. The need for careful timing of commitments and some hard decisions has been acknowledged. Resources are kept under regular review in the light of defence priorities, expenditure trends, forward commitments, foreign exchange rates and actual expenditure in year. The needs of defence are considered each year in the Autumn review of public expenditure, and agreement then reached on the resources to be provided in the light of the latest information on all factors.

If Questions Asked About The Independent Article On 6th May

2. I have seen some speculation in today's press about a gap of £8bn over 10 years. This sort of story is quite common at this time of year when our Long Term Costing is being done. There always



is a gap between the total of all the things we would like to do, and the funds available; there always are difficult judgements to be made at the margin. I cannot confirm the £8bn figure, but if it were true it would represent some 4% of the likely defence resources over the period. This is no more than you would expect at this stage of the exercise. I repeat what I said last year: our intention is to continue the main lines of the defence policy we have been pursuing and no major change in roles or commitments is contemplated.

*This seems to confirm the £8bn figure - an odd thing to do.*





MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone: 01-218 2218 (Direct Dialling)  
 01-218 9000 (Switchboard)

MINISTER OF STATE FOR  
 THE ARMED FORCES

6 May 1987

*Handwritten:* K/S  
 COS 7/5

*Dear Colleague.*

... I enclose a copy of the 1987 edition of our booklet "British Defence Policy". Its purpose, like last year's, is to provide an easily readable, but still comprehensive, account of Britain's defence policy, which will complement the much more detailed two-volume Statement on the Defence Estimates 1987 published to-day.

The booklet will be sent free of charge to anyone who is interested. If you require additional copies, these can be obtained from Mr W R Crawford, Defence Public Relations Staff, Room 0370, Ministry of Defence Main Building, London SW1A 2HB (telephone: 01-218-2125).

*Handwritten signature:* Yours etc.  
 J.S.

JOHN STANLEY

SUBJECT  
COMASTER

BM2BEP

5

10 DOWNING STREET

LONDON SW1A 2AA

5 May 1987

*From the Private Secretary*

## DEFENCE EXPENDITURE

The Prime Minister this evening discussed with your Secretary of State, the Chancellor of the Exchequer and the Chief Secretary what might be said about pressures on the defence programme during the coming weeks if there is an Election.

Your Secretary of State explained that a number of academics, the House of Commons Defence Committee and others were now drawing attention to a gap between the content of the defence programme and the resources provided for it. A substantial gap did indeed exist. Officials in the Ministry of Defence had identified four "baskets" of possible savings measures. The first two baskets of measures, though painful and difficult, had become unavoidable. The third and fourth baskets were most unlikely to be acceptable to the Government. It would certainly be necessary to carry out a thorough scrutiny of the programme during the course of the next Long Term Costings exercise.

The Chancellor acknowledged that there would probably be a need for some increase in the provision for defence. However, some of the savings included in the third and fourth baskets should prove to be acceptable, and Treasury officials had identified others, outside any of the baskets, amounting to around £200m a year which were certainly worth pursuing.

The Prime Minister drew attention to the huge waste which had been incurred in the procurement of a range of weapons, and to the need to take a firm grip on military R & D.

In further discussion, your Secretary of State said he would instruct his officials to cease work on the third and fourth baskets. Increased funding to meet a shortfall would be a matter for discussion in the Public Expenditure Survey. Whilst accepting that increased funding would be a matter for discussion in the survey, the Chancellor said that individual items from the third and fourth baskets would also need to be discussed then, together with the other possible savings identified by the Treasury.



It was agreed that during an Election campaign the Government would be able to point to its excellent record on defence, and to say that increased expenditure provision would be a matter for discussion in the usual way in the Public Expenditure Survey. Your Secretary of State undertook to circulate to the Prime Minister and to Treasury Ministers the words he would be using tomorrow on this at the time of publication of the Defence White Paper.

I am copying this letter to Alex Allan (HM Treasury).

(DAVID NORGROVE)

John Howe, Esq.,  
Ministry of Defence



MO 21/2/32

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~83312000~~ 218 2111/3

5th May 1987

CC PL  
(letter only)

CD 415

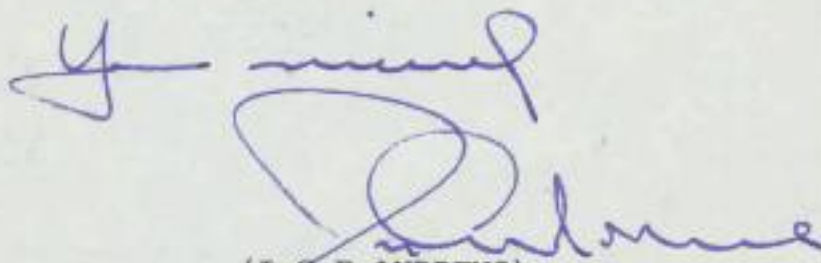
Dear Charles,

PUBLICATION OF THE STATEMENT ON THE DEFENCE ESTIMATES

The 1987 Statement on the Defence Estimates is to be published at 1430 on Wednesday 6th May. Copies of Volumes I and II of the Statement are enclosed, together with a note describing the highlights of this year's White Paper and some defensive briefing material.

In folder  
attached

I am sending copies of this letter, together with the attachments, to the Private Secretaries to all Ministers in Charge of Departments and to Trevor Woolley.

  
(I. C. F. ANDREWS)  
Private Secretary

Charles Powell Esq  
No 10 Downing Street



PRIME MINISTER

DEFENCE

You are meeting the Chancellor, the Chief Secretary and Mr Younger on Tuesday evening to discuss defence spending.

The 1986 Long-Term Costing Exercise at about this time last year came up with the result that the programme would require £4-500 million a year more than was allocated to it in the public expenditure plans. The need for tough decisions was recognised. It is harsh to say so, but I am told that Mr Younger refused to face up to them. Some reductions were made, but for the most part MOD convinced themselves that something would turn up (lower oil prices, higher exchange rate or whatever).

The scale of the funding shortfall was not revealed during the 1986 Public Expenditure Survey. MOD made only the usual noises about the difficulties they faced.

The 1987 Long-Term Costing Exercise showed a shortfall put at £900 million rising to more than £1 billion. The Ministry of Defence recognised that savings would have to be made and identified groups of savings which were placed in "baskets" in order of difficulty. Ministers decided that the first two baskets of savings could be accepted, but that the other two baskets would be too visible and too damaging. Acceptance of the first two baskets of savings reduced the shortfall to the following:

	<u>£m</u>		
	<u>1988/89</u>	<u>1989/88</u>	<u>1990/91</u>
	400	450	550

Mr Younger approached the Chief Secretary about this shortfall and officials have been holding discussions. Treasury

officials identified individual savings from the third and fourth baskets which they believed should be tolerable. With these and other savings, Treasury officials believed MoD could get by without extra resources. (Having seen the savings proposed I think Treasury officials were unrealistic).

Mr Younger convinced the Chief Secretary that he had to have extra resources and that this had to be agreed now, otherwise politically very difficult cuts would have to begin now, and knowledge of MOD's difficulties would quickly reach the ears of the Defence Select Committee and others, including through instructions which have soon to be given to the military to prepare returns to the annual NATO questionnaire. Mr Younger also felt he could not responsibly allow instructions to be given for procurement and other expenditure which assumed greater resources than had already been allocated to MoD.

The latest position is that the Chief Secretary has offered increases as follows:

<u>1988/89</u>	<u>1989/90</u>	<u>£m</u> <u>1990/91</u>
250	300	300

Mr Younger insists that he needs

350	500	550
-----	-----	-----

which is the shortfall in the first table above with £50 million transferred from the first to the second year of the new PESC period.

(In addition, Mr. Younger may bid in the Public Expenditure Survey for compensation for the fact that the GDP deflators published in the FSBR were higher than those assumed in the public expenditure plans. This further bid would be worth

200	300	300 )
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The question for decision at your meeting is whether the Treasury have given enough to enable Mr. Younger and the Government to maintain the credibility of the defence plans through to the Autumn PES discussions and perhaps through an election campaign.

I find it impossible to believe that for lack of £100m in 1988-89 out of a total budget of £19 billion Mr. Younger will now feel it necessary to begin to make politically difficult cuts. That consideration can be dismissed out of hand. (In any case I understand that the cost of the APPRB awards is £30m a year less than MOD had budgeted for).

The question then is whether the Select Committee or others will be able to argue successfully that MOD does not have the resources to pay for its programme. But the ability to rebut such arguments will not be helped by a private agreement between Mr. Younger and the Treasury. It will only be helped if the extra resources are announced, which would, among other things, cause difficulty with colleagues during the Public Expenditure Survey itself, as well as undermining the credibility of the public expenditure plans published in January.

I recommend strongly that you should turn down any request from Mr. Younger for more money at this stage. His remaining bids can be discussed in PES.

If pressed on a lack of resources during an election campaign or otherwise, Ministers could say that the Government's commitment to effective, strong defence is not in doubt, and that if it were to appear that our commitments could not be met within existing resources that would be a matter for discussion in the Public Expenditure Survey in the usual way.

The Treasury have been most generous, perhaps too generous even with an election in prospect. Mr. Younger's reluctance to tackle the necessary decisions (or tell his colleagues), and no doubt the thought that the approach of an election

would strengthen MOD's hands, should not predispose towards generosity. Mr. Younger has in any case already been given almost all he has asked for.

---

*DRN*

D R NORGROVE

1 May 1987



CC/PC



MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-930 7022

MO 20/17/6

6th April 1987

eDP 7/4

Dec Charles,

DEFENCE WHITE PAPER

Further to your exchange of letters with Ian Andrews on 2nd/3rd April about amendments to the Defence White Paper to take account of the outcome of the Prime Minister's visit to Moscow, we have, following consultation between the Cabinet Office, the Foreign and Commonwealth Office and the Ministry of Defence, made one further change. In the last sentence of paragraph 208, the statement that "the Soviet Union's position on SRINF is unclear" might now read slightly oddly alongside the Prime Minister's statement in the House on 2nd April, and we have amended that sentence to read "The Soviet Union has not accepted that the West shall have the right to match Soviet SRINF systems but has merely indicated willingness to freeze missiles in Europe ...".

I am copying this letter to Lyn Parker in the Foreign and Commonwealth Office and to Trevor Woolley in the Cabinet Office.

Yours sincerely,  
 John Howe

(J F HOWE)  
 Private Secretary

Charles Powell Esq  
 10 Downing Street

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BM

10 DOWNING STREET

*From the Private Secretary*

3 April 1987

DEFENCE WHITE PAPER

Thank you for your letter of 3 April proposing some amendments to the Defence White paper. I think that the Prime Minister would be satisfied with these.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

(C.D. Powell)

Ian Andrews, Esq.,  
Ministry of Defence

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AL



MO 8V

MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-930 7022

3 April 1987

*Dear Paula,*

DEFENCE WHITE PAPER *with copy*

Thank you for your letter of 2nd April to John Howe. The amendment you propose to paragraph 207 has now been incorporated into the final version of the SDE.

We spoke earlier today about the changes arising out of the Prime Minister's visit to Moscow. We are proposing, with the Foreign and Commonwealth Secretary's agreement, to amend paragraph 116 as shown in the attached Annex. A number of small changes have also been made to the Soviet essay to reflect the Foreign and Commonwealth Secretary's views. Finally, a new paragraph has been added to Chapter 2, with the agreement of Foreign and Commonwealth Office officials, together with an additional sentence to paragraph 201.

I should be grateful to know whether the Prime Minister is content with these amendments.

I am sending a copy of this letter to Lyn Parker (Foreign and Commonwealth Office) and to Trevor Woolley.

*[Signature]*  
*[Signature]*  
 (I C F ANDREWS)  
 Private Secretary

Charles Powell Esq  
 10 Downing Street



ANNEX

AMENDMENTS MADE TO SDE:87

1. Para 116 to read:

"last July; and, most significantly, in the spring of this year the Prime Minister and Foreign Secretary paid an important visit to Moscow - the first official Prime Ministerial visit since 1975. This was a constructive and valuable visit, during which the Prime Minister and Mr Gorbachev were able to discuss their differences frankly and establish a firmer basis for cooperation both between the United Kingdom and the Soviet Union and between East and West".

2. Add to end of para 201:

"Similar priorities were identified during the Prime Minister's visit to Moscow this spring (see paragraph 210)."

3. Insert new paragraph and sub-heading, as follows :

"Prime Minister's Visit to Moscow

210. During the Prime Minister's visit to Moscow this spring, she agreed with Mr Gorbachev that priority should be given to an agreement on INF, with strict verification, constraints on shorter-range systems, and immediate follow-on negotiations to deal more fully with shorter-range systems. The two leaders also agreed that priority should be given to negotiating a ban on all chemical weapons; and that there should be early negotiations

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on reductions in conventional forces. The Prime Minister expressed her support for a 50% reduction in US and Soviet strategic nuclear weapons. It was clear from the talks that the two sides agreed that progress on arms control required a step-by-step approach, with clearly identified priorities, and that there was broad agreement on those priorities. The Prime Minister made clear that she was hopeful that a satisfactory agreement on INF could be reached by the end of this year".

3. Amend Soviet essay as follows:

- a. Para 10, first line on page 4:delete "we cannot ignore" and substitute: "it is difficult to ignore."
- b. Para 11, delete full stop between last two sentences and substitute colon.
- c. Para 12, first sentence to read: "Even Mr Gorbachev has testified ...."
- d. Para 15, first sentence to read: "Soviet leaders have not yet been ...."
- e. Para 16, penultimate sentence to read:"Or that it would not attempt ...."

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ff v  
ck

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

2 April 1987

Defence White Paper

I have one further suggestion for an amendment to the Defence White Paper, which concerns paragraph 207 and the sentence beginning "In February of this year ...". I think that the following sentence should read "The United Kingdom has welcomed this step and we hope that the remaining issues, including verification, will be addressed constructively."

There will be other amendments required to take account of the outcome of the Prime Minister's visit to Moscow. But my understanding from this morning's discussion in Cabinet was that you will in any case be revising the passages concerned. I should be grateful for an opportunity to see them before they are finalised.

(CHARLES POWELL)

John Howe, Esq.,  
Ministry of Defence.

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GE



copy  
copy

Prime Minister

CDP 1/4.1?

Ref. A087/904

PRIME MINISTER

Cabinet (2 April): Statement on the Defence Estimates 1987  
(C(87) 5)

## CONCLUSION

Subject to discussion, the Cabinet might be guided to:

- a. approve the Statement on the Defence Estimates 1987;
- b. agree that it should be presented to Parliament on 6 May.

## BACKGROUND

2. The Secretary of State for Defence has amended the draft Statement to take account of the points made at the meeting of the Defence and Oversea Policy Committee (OD) on 18 March (OD(87) 1st Meeting) and of other amendments passed separately. The substantive amendments are:

- a. the opening paragraph of the Statement has been recast - Mr Andrew's letter of 24 March to Mr Powell - to play down the emphasis on Reykjavik and to introduce a reference to the Stockholm Agreement on confidence-and security-building measures;
- b. the passage on arms control has been updated (paragraph 207 and 208) to include mention of the recent Soviet move over long-range intermediate-range nuclear forces (INF) and to stress the need for an INF agreement to

take account of the imbalance in shorter-range systems (along the lines of your recent statements on the subject in the House of Commons);

c. the Secretary of State for Transport's proposed amendments, discussed at the OD meeting, to the section on merchant shipping (immediately following paragraph 408) have been accepted in full;

d. slightly more prominence has been given to the role of the Ulster Defence Regiment (paragraph 414);

e. the passage on defence R & D has been amended, in line with discussion at OD, to eliminate the implication that R & D expenditure will not diminish (paragraph 522).

In addition, the passage on the defence budget (paragraphs 601-3) has been revised to reflect the higher inflation factor forecast in the Financial Statement and Budget Report. The text still refers to a real decline of roughly 5 per cent for the three years from 1986-87; but instead of stating that planned provision for 1989-90 is "broadly level in real terms with that in 1988-89", it now predicts the decline "broadly levelling out in 1989-90". You may wish to confirm, for the record, that the Chancellor of the Exchequer is content.

3. OD on 18 March discussed whether the shorter popular version of Volume One of the Statement should be published free of charge. The Committee agreed that, subject to further checking on the views expressed by the House of Commons Defence Committee (HCDC) on last year's popular version, it should again be free of charge. The Secretary of State for Defence has reported - Mr Andrews's letter of 24 March - that the HCDC welcomed the popular version "which has been... issued free of charge"; and that they subsequently expressed the hope that "the principle of a low cost version has now been established". In



the light of this, the Secretary of State for Defence proposes to publish the popular version free of charge. It could be argued that the HCDC have stopped short of full-blown endorsement of the principle of free (as opposed to low cost) publication. But they have not hinted that free publication is improper. The Cabinet may therefore feel that the way is clear to publish the popular version free of charge.

#### HANDLING

4. You will wish to invite the Secretary of State for Defence to introduce the Statement. Points to be established are:

- a. Is the Cabinet content with the text?
- b. To what extent, if at all, does the text need to be revised in the light of your visit to Moscow?
- c. Is there any objection to publishing the popular version free of charge, taking into account the views of the HCDC?
- d. Is there any objection to the proposed date of presenting this year's Statement to Parliament (6 May)?

RA

ROBERT ARMSTRONG

26 March 1987



101

1986 was an eventful year in the field of international security. September saw the signature of the first major arms control agreement since 1979: on confidence-and security-building measures in Europe. In October, the radical proposals discussed at the meeting in Reykjavik between President Reagan and Mr Gorbachev gave a new stimulus to the debate that was already taking place about the best means of providing for Western security in the years ahead, and, in particular, focussed renewed attention on the role of nuclear weapons in NATO strategy.

Delete heading "Reykjavik Summit" before paragraph 205.

207

A major stumbling-block to agreement on reductions in both INF and strategic systems was, however, Soviet insistence on a linkage to SDI research programmes, as a condition for agreement. The Soviet Union sought severe new constraints on the SDI, while the scope of its own activities in this area remained still unacknowledged. President Reagan made clear that he was not prepared to accept such constraints, although he would agree to the extension of the withdrawal period of the ABM Treaty for up to ten years while reductions in strategic weapons took place. The Soviet side also sought to impose a new linkage to agreement on nuclear testing issues. Because of Soviet insistence on these linkages - even as regards INF, which the Soviet Union had previously stated could be settled independently - it was not possible to reach agreement. In February of this year, in the face of Western refusal to accept this <sup>U.S. offer</sup> linkage, the Soviet Union finally accepted the United States' offer to negotiate a separate agreement on INF. The

United Kingdom <sup>has</sup> welcomed this step, and we hope that the Soviet Union will address the remaining issues constructively, including verification, with be addressed constructively.

208

One particular issue that remained unresolved at Reykjavik was the question of constraints on shorter-range INF missiles (SRINF) (of 150 km to 1,000 km range). It had long been part of NATO's position that any INF agreement would need to include adequate constraints on Soviet Scaleboard (SS-22) and SS-23 SRINF missiles which could otherwise undercut an INF agreement on Cruise, Pershing 2 and SS-20 missiles. It is also important that an INF agreement is followed by negotiations aimed at addressing the imbalance in SRINF forces, and at dealing further with LRINF. We are discussing with our allies how this should be handled. The Soviet Union's position on SRINF is unclear, although it has indicated willingness to freeze missiles in Europe with ranges below 1,000 km and thereafter to discuss reductions below present numbers.

Delete heading "Development in 1987" and replace by "SDI" before paragraph 215.

Delete paragraph 216 (on linkage between INF negotiations and the SDI).

414

The Army's commitment to countering the terrorist threat in Northern Ireland in support of the Royal Ulster Constabulary (RUC) remains undiminished, the other two Services continuing to provide support as required. Since the Services became actively involved in Northern Ireland in 1969 the nature of the task has changed, and the level of violence, which peaked in 1972, has declined considerably. This is reflected by the drop in the



numbers of Regular Army personnel present in the Province, from a peak of some 22,000 in the early 1970s to the current level of just over 10,000 including ten Regular infantry battalions. The Ulster Defence Regiment (UDR), which with its 6,500 personnel has continued to improve its professionalism and capability, contributes a substantial proportion of the high level of support to the RUC that the Army still provides. Sadly, the cost in human lives remains high. Twelve soldiers, including eight members of the UDR, were killed in 1986, bringing the total since 1969 to 545. Another 55 were injured. The dedication and bravery of all the members of the armed forces in the face of this toll of human lives is demonstrated by the fact that, during 1986, 120 gallantry awards were made, including three Military Medals, two George Medals and 17 Queen's Gallantry Medals.

601

The defence budget for 1987-88 is £18,782 million. Apart from minor adjustments, this is unchanged from the cash provision announced in the 1986 Public Expenditure White Paper. The budget includes provision of £257 million for Falklands costs, compared with £435 million in 1986-87. Similarly, the defence budget for 1988-89 also remains as agreed last year at £18,980 million. Planned provision for 1989-90 is some £19,470 million, an increase of approximately £490 million over the previous year.

603

On current inflation assumptions, and taking into account the latest forecast of spending in 1986-87, the defence budget is expected to decline by some 5 per cent in real terms over the 1986 public expenditure survey period, broadly levelling out in 1989-90. This decline will be partially offset by falling Falklands costs. Nevertheless, as explained in last year's



Statement, the ending of the commitment to maintain real growth inevitably means that difficult choices have to be made between relative priorities in our forward plans. Moreover, the cash demands of the committed programme must determine the rate at which new commitments can be accepted, within<sup>the</sup> agreed resources. That said, given the real growth achieved from 1978-79 to 1985-86, from which we continue to benefit substantially, and despite the current decline, we can maintain our<sup>main</sup> defence roles though it will remain important to exercise restraint and vigorously to pursue good management and improvements in output.



MO 21/2/32V



MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-930 7022

24th March 1987

*Copy to Mr. [unclear]*  
*[unclear]*

*Dear Charles,*

*[unclear]*

DEFENCE WHITE PAPER

In your letter of 16th March to John Howe (not copied elsewhere), you said that the Prime Minister was unhappy about the positive reference to Reykjavik in the first paragraph of the draft SDE. I understand that this was not discussed at the meeting of OD on 18th March.

The Defence Secretary believes that some reference to Reykjavik needs to be made at this point since so much of what followed, including Camp David, flowed from it. He proposes, however, to reduce its impact by amending paragraph 101 to read as follows:

"1986 was an eventful year in the field of international security. September saw the signature of the first major arms control agreement since 1979: on Confidence- and Security-Building Measures in Europe. In October, the radical proposals discussed at the meeting in Reykjavik between President Reagan and Mr Gorbachev gave a new stimulus to the debate that was already taking place about the best means of providing for Western security in the years ahead, and, in particular, focused renewed attention on the role of nuclear weapons in NATO strategy."

In addition he proposes to delete the heading, 'Reykjavik Summit' before paragraph 205 in Chapter 2. I hope that these amendments will satisfy the Prime Minister's concern.

On a separate matter, OD agreed to the publication once again this year of a popular version of the Statement, subject to a further check on the views expressed by the HCDC on the version published in 1986. The relevant extract from the Committee's report on last year's Statement (HC 399 of Session 1985-86, paragraph 114) reads in full:

Charles Powell Esq  
 No 10 Downing Street





'Following the recommendation of our predecessors in 1980 that in view of the likelihood that the cost of the two volumes [of SDE] would be prohibitively expensive for many the Ministry of Defence should consider publishing a low cost summary version, we welcome the 'popular version' of the White Paper which has been produced this year and issued free of charge. In producing any summary version of the White Paper, a choice has to be made between an 'easier', glossy publication and a low cost document which is a vade-mecum of facts and figures; this year the Ministry has chosen the former course. We hope that the principle of a low cost version has now been established; we will reconsider the format after publication of the next SDE.'

In view of the Committee's endorsement of last year's popular version, which was issued free, and of its repetition this year, Mr Younger intends to proceed with publication to coincide with that of the SDE.

I am sending copies of this letter to the Private Secretaries of other members of OD and to Trevor Woolley.

(I. C. F. ANDREWS)  
Private Secretary



Defence: Budget PT 12

CONFIDENTIAL



*J v  
c/c*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

25 March 1987

DEFENCE WHITE PAPER

Thank you for your letter of 24 March proposing some drafting amendments to the Defence White Paper. The Prime Minister is content with these.

She also agrees that Mr. Younger should proceed with publication of the popular version to coincide with that of the White Paper itself.

(CHARLES POWELL)

Ian Andrews, Esq.,  
Ministry of Defence.

*rc*

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1250

3

FROM : S A ROBSON  
DATE : 24 MARCH 1987

1. MR F E R BUTLER
2. CHIEF SECRETARY

c.c. Ms Seammen  
Mr Hansford  
Mr F Martin  
Mr Evans

pa

DEFENCE EXPENDITURE

This submission is an interim report on the work we have done since Mr Younger approached you about his problems with defence expenditure. It seeks your endorsement for the line we should take in further discussions.

2. The submission covers the following :

- (a) the problem as seen by the Ministry of Defence (MOD);
- (b) how they got into this position;
- (c) how to deal with the problem;
- (d) the way forward.

A. The Problem

3. MOD see great difficulty in keeping their spending with the PES baseline. The problem is not 1987-88. It is 1988-89 and the following years. Sir Clive Whitmore says they ideally want an extra £450-500 million a year for five years starting in 1988-89. He sees this ideal as unrealistic and would settle for this amount in each of 1988-89, 1989-90 and 1990-91. Officials lower down the line seem ready to settle for this amount in each of 1988-89 and 1989-90.

4. If the Treasury will not provide extra money, MOD say they will have to take a series of painful decisions to cut expenditure



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which will inevitably become public knowledge. MOD argue that this will be politically damaging in the run up to an Election. It will undermine the Government's image as the party best identified with defence of the realm. It will also make it easier for the Opposition to argue that conventional defence capability is being sacrificed to meet the cost of Trident.

5. MOD recognise that many of the decisions to cut defence spending in 1988-89 and later years will not require early public announcement. The main ways they see public awareness of cuts spreading are :

(a) evidence to the Select Committee on Defence. The Select Committee are already very sceptical about the "adequacy" of the defence budget. The Committee will take further oral evidence in May after the publication of the Statement of the Defence Estimates. MOD say they will be unable to answer the Committee with sufficient "confidence" to prevent it getting a pretty clear impression of what has happened. The Committee will reflect this in the report it will publish in the run up to the annual two day defence debate in the House;

(b) MOD answers to the annual NATO questionnaire on defence spending. MOD say that, however, the answers are phrased, it will be clear to NATO what is happening and, once NATO knows, its public knowledge. MOD have to instruct their officials in May how to fill in the questionnaire. It goes to NATO in September and would leak thereafter. Any delay in making the return to NATO would lead NATO to smell a rat;

(c) impact on Service activity. Servicemen will see less training, boats tied up in port, less rounds being fired etc. They will talk and the press will get to know. MOD emphasise that this would not be the generals manipulating the press, but rather men lower down the line speaking as they would find.

6. In these circumstances MOD claim they want to more cash to avoid cuts and tide things over until after an Election. Beyond that, MOD officials see a defence review as pretty well inevitable. This would lead to either a reduction in defence commitments to bring spending down, or to additional money for the defence budget to pay for the commitments.

7. Mr Younger himself seems less convinced than his officials about an early defence review. He fears it would lead to accusations that the Government fought the Election on a false prospectus. Even he accepts, however, that there will need to be a "process of adjustment" after the Election.

B. How did this position arise?

8. Two possible explanations. First, financial mismanagement by MOD. Second, a deliberate decision to hit the Treasury in the run up to an Election. I suspect the answer is a bit of both - they chose the route of mismanagement comforted by the thought we would find it hard to resist them if they ended up strapped for cash.

9. In analytical terms, the story starts with MOD's long term costing (LTC) in 1986 (LTC 86). The LTC is an annual exercise in planning the defence programme. It covers ten forward years. The first three years are meant to be constrained by the PES baseline. The remaining years are meant to be constrained by an MOD assumption, such as spending in these years being constant in real terms.



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10. Unfortunately MOD did not respect these constraints in LTC 86 (which was "completed" about 9 months ago). The story at this point becomes rather complex but is worth recording. During LTC 86, MOD did make some cuts in this programme. But they did not make enough. At the end of LTC 86 MOD's defence programme was in excess of their budget by (£ million) :

<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
200	534	440	381

11. These figures were basically at 1985-86 prices. At the end of each year's LTC MOD take an overall view (called a "cash assessment") of certain factors affecting the cash cost of their programme. The most important of these factors are future service and civilian pay increases, oil prices, \$ and DM exchange rates, carry forward between financial years, slippage and the introduction of Levene's payments regime.

12. MOD say that, at the end of LTC 86, they convinced themselves that these factors would be so favourable that the above constant price excesses would reduce the excesses to (£ million) :

<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
96	365	98

13. On this basis they decided they need make no more cuts in their programme i.e. they put LTC 86 to bed on the basis of planned overspending coupled with what, at least with the benefit of hindsight and probably of foresight, were optimistic assumptions on the factor described in the previous paragraph. They also hoped they might do better in 1986 PES than in the event they did.

14. By the end of 1986 MOD were in the middle of LTC 87 and were preparing for the 1987 Estimates. The risks they had taken at the end of LTC 86 had crystalised. The above excesses had become (£ million) :

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<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
591	1109	1065	993

The programme had grown in volume terms even above the LTC 86 excesses. The assumptions on cash flow factors, notably the extent of slippage in the programme, had been found badly adrift. The mismanagement chickens had come home to roost.

15. In the 1987 Estimates exercise MOD did implement savings to get the 1987-88 figures within the PES provision (after allowing for some £200 million of anticipated carry forward from 1986-87). These savings had some impact on later years so that, after the Estimates exercise, they had excesses of (£ million) :

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
909	928	1021

C. How to deal with the problem

16. MOD had three options :

- cuts in the programme;
- the possibility that the cash assessment factors could this time be realistically expected to work in their favour;
- more money from the Treasury.

They have opted for a combination of all three.

17. On cuts, MOD have identified programme cuts which, if implemented in full, would get rid of all the excesses. These cuts are presented in four "baskets" (B1 to B4) in ascending order of "pain and grief". Whitmore considers B1 and B2 could be implemented, although the military are objecting to some of the measures involved. These two baskets would reduce the above excesses to (£ million) :



SECRET

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
355	379	462

18. At the same time MOD have found some "essential additions" of £46 million in 1988-89 rising to £66 million in 1990-91. These take the remaining excess to (£ million) :

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
401	443	528

19. At present MOD will go no further as regards the cuts. The further cuts in B3 and B4 which would remove these remaining excesses are considered by MOD to be politically, industrially and military, unacceptable. Mr Younger is said to have described them as "a nuclear bomb".

*Mr. Younger  
is unlikely  
to go  
into this  
SAL  
15*

20. MOD consequently turned their attention to the cash factors to see if they offer salvation. They do provide some help in 1988-89 from anticipated carry forward from 1987-88. This reduces the 1988-89 excess to £365 million. But the cash assessment raises the 1989-90 excess to some £750 million, as no carry forward out of 1988-89 is anticipated.

21. So the MOD turned to their third alternative - the Treasury.

D. The way forward

22. As already mentioned, this is, at best, a sorry tale of mismanagement. MOD would argue that they have been straining loyally to carry out the Government's defence policy dispute being given inadequate money to do the job. At first blush this may engender sympathy but it does not explain why a year ago they chose to fly on a wing and a prayer rather than exposing the issue during the 1986 PES discussion. The suspicion must be that they thought they would get a worse reception than they might now.

23. Where do we go? The answer is that we need to look at the savings in B3 and B4 which MOD have so far set their face against. And at savings they have never considered in any of their baskets.

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On the former, MOD categorise savings into the 4 baskets but there is no reason to take all of a basket or none of it. The savings are a continuum in terms of pain and grief. There is no sharp qualitative difference between the different baskets.

24. We have therefore gone over with them the savings in baskets B3 and B4. They acknowledge that certain of these could be implemented without great political problems. At this point they tend to shift the argument from the essentially political pitch (i.e. the aim of muddling through until after an Election) to rather grander, if imprecise, statements about damaging "the balance" and "cohesion" of the defence effort.

25. In my view we should not allow ourselves to be distracted in this way. We should see this as an exercise to get past the Election and leading into an early post Election defence review. Indeed, if we let up the pressure too much, Mr Younger would probably seek to avoid a defence review. This is not in the Treasury interest. At the heart of the problem lies a failure to get our defence commitments into line with our economic strength. A post-Election defence review is the only way to tackle this.

26. For this reason we have focused attention primarily on 1988-89 and partly on 1989-90. We cannot leave 1988-89 unresolved much longer. As time goes by the scope for savings in that year rapidly diminishes. The programme gets increasingly firm as more and more commitments are entered into. As regards 1989-90, some of the same process is at work. We also need to bear in mind that it will take some months after an Election to set up, conduct and implement a defence review. So we cannot ignore 1989-90 entirely.

27. We have therefore sought to identify those items in B3 and B4 which could be implemented without great political difficulty and which would reduce the budgetary problems in these two years. These are set out in Annex A. You need not read this in detail. The items we have identified total (£ million) :



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1988-89

137

1989-90

164

1990-91

213

This leaves an excess of £229 million in 1988-89 and £586 million in 1989-90.

28. We went on to identify savings which do not appear in MOD's lists. These are in Annex B. They could provide up to another £200 million in 1988-89 and in 1989-90, taking the remaining excess down to virtually zero and £380 million respectively.

29. I would not claim these savings are painless. The issue is whether, individually or collectively, they do real political damage. My present view is that they do not, although I am still awaiting further information from MOD on certain NATO aspects. I will report further when this is available.

30. The problem may also be eased by further carry forward from 1986-87. The above sums assume carry forward of £500 million from 1986-87 into 1987-88. If, as seems possible, the figures were greater, the increment would flow through into additional carry forward from 1987-88 to 1988-89. We will have a better view on carry forward by April 2 or 3.

31. MOD are very keen to progress the discussion quickly. This is partly for good managerial reasons - their people have to know their forward budgets. But the issue is not critical as to a few days.

32. We need some further discussions at official level before you see Mr Younger. In these I believe our line needs to be :

- (a) we are now satisfied that MOD took a quite unreasonable financial risk in the way they finished LTC 86. MOD Ministers should have sought the views of Treasury Ministers at that time rather than proceeding



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unilaterally. Whatever the outcome of the present discussions we are not prepared to let them operate in this way in future. The Treasury must be more deeply and formally involved in their LTC process;

- (b) the only long term solution is a defence review after the Election. It is a precondition of any settlement that both parties accept this. In addition the Treasury must be fully involved in the review and it must be driven by the need to relate defence expenditure to the UK's economic strength, not by the ambitions of the military;
- (c) on the prospectus they have laid before us, we do not accept that B3 and B4 need be rejected in their entirety. There are many individual savings in these packages which can form part of their response to their problem without causing great political problems;
- (d) we still await material from them on certain NATO implications. And we need to see a forecast of carry forward in 1987-88 in early April.
- (e) in advance of that, our present view is that they can get some £150 million out of B3 and B4 in 1988-89. Coupled with a realistic view on armed forces allowances and surplus land disposal, a robust attitude to efficiency and some slippage on Trident which does not damage the deterrent, they can manage 1988-89. There will remain

SECRET

a residual excess in 1989-90. This can be tackled via the post Election defence review.

33. I doubt if we will actually settle on this basis. There is, rightly at this stage, a negotiating element in the above. We need to push more pressure on MOD. There are clear signs of a lack of realism in high quarters. Two examples. First, despite his problems, Mr Younger had told his senior civilian officials that he still wants to buy 8 AWACs, not 6. These 2 AWACs alone would mean finding £180-185 million over the next 8 years on top of all the above excesses and may explain why their bids of £450-550 million a year look so high.

34. Second, Mr Younger's officials have pressed us to accept a first package of changes in armed forces allowances which actually adds some £3 million to expenditure despite internal MOD reports pointing to savings of £50 million. We need to get more reality into MOD.

35. That said our savings will probably prove too demanding for Mr Younger. In addition his officials may yet seek to move the goalposts by increasing their bids in the light of the rather higher inflation forecasts in the FSBR.

36. Subject to your comments, we will take the above line in the next round of discussions and report back to you.

Mr. Norgrove  
They  
have done  
this. We  
should  
say 'look  
again  
during PLS'  
at 1989-90  
& 1990-91  
SAR  
1-5

SAR

S A ROBSON



Serial	Description	87/8	88/9	89/90	90/1	91/2	Reason for inclusion
<u>I. Basket 3</u>							
<u>Navy</u>							
2087	Defer NIS Q&A 1yr	0	-0.8	-1.9	-1.4	-0.7	
3078	Delete Advanced Sea Mine	0	-4.2	-5.2	-6.2	-3.8	)High risk development of )questionable value )compared to more flexible )surface vessels or submarines
3017	Delete New Minelaying System	-0.1	-0.1	-0.1	-1.3	-3.0	
3061	Fire Fighting Training Unit - defer 2yrs	-1.3	-2.6	-0.7	1.8	2.0	
3003	Reduce overtime (BB2) by further 2%	0	-0.7	-0.7	0	0	Alternative facilities exist
2097	Reduce SCOT provision by 5M 88/89	0	-5.0	2.5	2.5	0	Temporary measure with limited operational penalty
2121	Orange Crop delete MLU	0	-0.6	-6.1	-7.0	-6.0	Reduces investment in aging equipment
3083	Lynx - delete replacement radar	-0.7	-3.6	-3.8	-14.2	-15.9	Reduces flexibility of ASV operations but preserves general capability
3084	Lynx - delete CTS	0	-6.3	-9.3	-8.7	-2.1	- spent film on development
3015	Reduce overtime (BB1) by further 10%	0	-0.6	0	0	0	
3016	Reduce overtime (BB2) by further 10%	0	-3.6	0	0	0	
9033	Defer Aviation Support Ship further 6 months	0	0	-3.4	-16.4	2.0	Marginal operational impact
9033	Defer AMRAAM 1yr						
9034	Defer SHAR MLU 1yr						
		-2.1	-28.1	-28.7	50.9	27.5	

Army

3201	Defer NIS Q&A 1yr	0	-0.6	-1.0	-1.0	-0.5	
3202	Disband TA Bands/ Medical Orderlies from 88	-0.4	-0.9	-0.9	-0.9	-0.9	Tolerable if no other TA measures taken. New Jersey medical company will offset to some extent.
3204	Future MBT - buy off shelf	0	-1.0	-3.5	-2.5	-5.0	Not essential UK Technology and doubt that UK can sustain FMBT capability
3206	Defer Chieftain AVRE 2 yrs	-0.5	-1.0	-4.0	-9.6	+0.8	Painful measure, but limited duration preserves capability
3209	Delete Multi Role Mortor Fuze	-0.2	-0.3	-0	-0	-4.4	
3210	Delete SSGCE for Chieftain	0	-3.0	-6.0	-6.7	-7.0	
3211	Defer Skynet D/E 2 yrs	0	-1.3	-6.1	-20.6	1.5	Realism <i>Can get stability. You might be realistic</i>
3213	Cash Limit Training Ammo	0	-5.0	-5.0	0	0	Limited Duration only
3214	Works - reduce by 2%	0	-8.0	0	0	0	Limited Duration only
3215	Defer Ptarmigan 3A 4yrs	-0.4	-6.0	-9.0	-5.0	4.0	Painful, but preserves eventual op capability
3218	Delete AFV TDPs	0	-3.9	-1.8	-1.5	-0.9	Not essential defence technology
3219	Defer DPWES 3yrs	-0.7	-4.5	-9.2	-10.2	-5.1	
		-2.2	-35.5	-46.5	-58.0	-17.5	

*but this  
being taken*

*Can get stability. You might be realistic*



RAF

3301	Defer NIS Q&A lyr	-0.2	-4.0	-10.4	-8.1	-4.4	
3302	Secondary Surveillance Radar cancel 50% of buy	0	-0.5	-1.9	-0.7	0	
3303	Defer SKYNET D/E 2yrs	0	-0.6	-2.9	-9.7	0.7	Realism
3306	Reduce Hercules AE by 5	0	-2.2	-3.5	-4.2	-4.2	
3307	Defer Tristar tanker conversion lyr	0	-6.7	0.5	-23.1	6.1	Increased risk, but preserves capability
3308	Defer AMRAAM lyr	-0.3	-4.7	-8.9	-6.8	-4.8	
3310	Delete ECM Update for Jaguar/Buccaneer	-4.0	-6.3	-6.3	-0.5	0	Aging Asset
3312	Defer SRA 1238 lyr	2.2	-10.8	-12.0	-24.4	-1.0	Marginal deferment in controversial requirement
3315	Procure LRSOM off shelf	-3.0	-11.0	-11.0	-5.0	-12.0	
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
		-5.3	-46.8	-56.4	-82.5	-19.6	

Others

3401	Reduce R&D equipment	0	-3.0	3.0	0	0	Minor slippage
3402	Reduce Vote 4 equipment	0	-2.0	2.0	0	0	Minor slippage
3404	cash limit IT to LTC 86	0	-1.0	-1.0	-2.0	-2.0	Maintains existing level of provision
3501	Reduce DGITS New systems	0	-0.8	-0.8	-0.8	0	
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
			-6.8	-6.8	-2.8	-2.0	

II. BASKET 4

Navy

3081	Golightly - delete	-0.9	-1.8	-1.4	0	0	Alternative means of meeting requirement exists
9026	SDMS - procure off shelf						No need for UK to maintain national capability when US alternative exists
9025	Reduce provision for CACS	0	-2.0	1.0	1.0		Should be possible without prejudicing current procurement of CACS 1+5, <i>1 msc. PDS for type 22. In service</i>

Army

4204	Disband UOTCs	0	-3.1	-3.0	-3.4	-3.7	implied benefits largely due to existing scholarships and bursaries
4208	Cancel rapid Bridge demolition	0	-1.0	-1.6	-3.5	-4.9	
3217 (Old)	MLRS III Buy off shelf	0	-8.9	-10.9	-10.3	-13.5	Preserves capability without cost of development

RAF

Other

4408	Delete logistic Vehicle Research	-0.2	-0.2	0	0	0	
4415	Delete RARDE Initiations research	0	-0.4	-0.4	-0.5	0	
4417	Delete Gun Steels research	0	-0.4	-0.4	-0.4	0	
4418	Delete B Vehicle trials	0	-0.5	-0.5	-0.5	0	
4501	Cancel CHOTS	0	-1.0	-7.7	-1.7	-1.5	Expensive of questionable IT benefit
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
		-1.1	-19.3	-24.9	-19.3	-23.6	

TOTAL BASKETS 3 and 4

-10.7 -136.5 -163.3 -213.5 -90.2

*Ship. dealiership*

*def net.*

*NTA*

*1 NFA time to make a decision*





Defence Estate

~~-20m~~

-20m

-

-

- Faster disposals of surplus land and property (Freeman initiative) without allowing reallocation to new works

*Speculative. mainly 1981*

Service Training

-37m

-37m

-37m

-37m

-37m

Assumed 2% efficiency saving on £1850 million pa spent on AF training

SDIPO

0

-0.6m

-0.6m

-0.6m

-0.6m

Close SDI Participation Office in MOD during 1987-88 transferring residual functions to relevant existing divisions.

*in  
civilian  
manpower* } *target*  
*DESO*

-130.1

-222.7

-212.7

-224.7

-208.6

3

3

3

3

*- happened.*



CONFIDENTIAL

*ccpc.*



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-83607825 218 2111/3

MO 21/2/32V

24th March 1987

*CSP.*

*Did you see this  
one?*

*Secret*

*Dear Richard*

STATEMENT ON THE DEFENCE ESTIMATES 1987

Mr Younger has seen your Secretary of State's letter of 13th March and he is content to accept the amendments proposed by Mr Moore to the passages on merchant shipping in the 1987 Statement on the Defence Estimates. These will be incorporated in the revised draft which will shortly be circulated to all members of the Cabinet.

I am sending copies of this letter to the Private Secretaries to other members of OD and to Trevor Woolley.

*[Handwritten signature]*

(I C F ANDREWS)  
Private Secretary

Richard Allan Esq  
PS/Secretary of State for Transport

CONFIDENTIAL

Defence Budget PT12





CCPC  
①

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 21/2/32V

24th March 1987

Prime Minister  
Concern with proposed  
amendment?

And with intention to  
propose with the popular  
version? CDP 24/13

DEFENCE WHITE PAPER

In your letter of 16th March to John Howe (not copied elsewhere), you said that the Prime Minister was unhappy about the positive reference to Reykjavik in the first paragraph of the draft SDE. I understand that this was not discussed at the meeting of OD on 18th March.

The Defence Secretary believes that some reference to Reykjavik needs to be made at this point since so much of what followed, including Camp David, flowed from it. He proposes, however, to reduce its impact by amending paragraph 101 to read as follows:

"1986 was an eventful year in the field of international security. September saw the signature of the first major arms control agreement since 1979: on Confidence- and Security-Building Measures in Europe. In October, the radical proposals discussed at the meeting in Reykjavik between President Reagan and Mr Gorbachev gave a new stimulus to the debate that was already taking place about the best means of providing for Western security in the years ahead, and, in particular, focused renewed attention on the role of nuclear weapons in NATO strategy."

In addition he proposes to delete the heading, 'Reykjavik Summit' before paragraph 205 in Chapter 2. I hope that these amendments will satisfy the Prime Minister's concern.

On a separate matter, OD agreed to the publication once again this year of a popular version of the Statement, subject to a further check on the views expressed by the HCDC on the version published in 1986. The relevant extract from the Committee's report on last year's Statement (HC 399 of Session 1985-86, paragraph 114) reads in full:

Charles Powell Esq  
No 10 Downing Street



'Following the recommendation of our predecessors in 1980 that in view of the likelihood that the cost of the two volumes [of SDE] would be prohibitively expensive for many the Ministry of Defence should consider publishing a low cost summary version, we welcome the 'popular version' of the White Paper which has been produced this year and issued free of charge. In producing any summary version of the White Paper, a choice has to be made between an 'easier', glossy publication and a low cost document which is a vade-mecum of facts and figures; this year the Ministry has chosen the former course. We hope that the principle of a low cost version has now been established; we will reconsider the format after publication of the next SDE.'

In view of the Committee's endorsement of last year's popular version, which was issued free, and of its repetition this year, Mr Younger intends to proceed with publication to coincide with that of the SDE.

I am sending copies of this letter to the Private Secretaries of other members of OD and to Trevor Woolley.

(I. C. F. ANDREWS)  
Private Secretary



DEFENCE



BUDGET

PT 12



PRIME MINISTER

OD: DEFENCE WHITE PAPER

You saw the White Paper itself at the weekend and were generally well content. I have suggested to the Defence Secretary that the paper should not open with Reykjavik.

The Cabinet Office brief deals with a number of detailed points but raises no serious problems.

Points which you will want to deal with are:

- compliment the Defence Secretary on a good White paper
- the need to update the section on arms control to bring the passages on the INF negotiations into line with your statement in the House
- what is said about the future course of defence spending (601-3). This is likely to be picked on by the Opposition to allege that the government is being forced to run down our conventional defences
- the Defence Secretary's intention to issue free of charge a shorter, popular version of the White Paper. This again may be seized on by the Opposition to charge that the Government are making party propaganda at public expense.

C.D.P.

P.S. Please also see  
Transport Secretary's  
views.

(C. D. POWELL)

17 March 1987



Prime Minister

STATEMENT ON THE DEFENCE ESTIMATES 1987

I shall not be able to attend the meeting of the Defence and Oversea Policy Committee next Wednesday, when the Memorandum by the Secretary of State for Defence on the Statement on the Defence Estimates 1987 is to be considered. I am therefore writing to give my views on the section on merchant shipping in the Statement which follows paragraph 408.

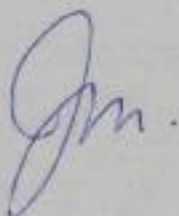
I believe this is the first year in which the section in the Estimates on the role of the Merchant Navy in time of tension and war has gone wider than the role of merchant vessels in direct support of the Armed Services and covers the civil defence aspect of supplying the civilian population in time of war. This may well create a precedent for future statements, not only for similar or more extensive cover of merchant shipping but also for the inclusion of other civil defence matters. However, I think what George proposes in the draft is right: the public anxieties about possible consequences of the decline of the Merchant Fleet do not respect departmental responsibility closely. Indeed, over one quarter of the recent debate on the Royal Navy was about the Merchant Navy.

I have two drafting suggestions on the merchant shipping section. Paragraph 4 of this section deals with the wider defence use of merchant shipping. I should prefer to see it amended on the lines of the attached draft, to bring out more clearly exactly what we have proposed the NATO study should cover.

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A reference has recently been added in the following paragraph 5 to the expansion of the Royal Naval Reserve to include former members of the Royal Fleet Auxiliary Service. There has been no consultation with me or my Department about the relevance of this step to the need for adequate trained and experienced crews to man merchant ships in crisis or war. Given the retirement age for RFA seafarers of sixty, that relevance could be negligible. I should prefer to see the reference deleted.

I am copying this letter to the other members of O(D) and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'Jm.', is centered on the page.

JOHN MOORE

March 1987

CONFIDENTIAL



REVISED PARAGRAPH 4

4. The previous paragraph relates only to the merchant shipping that is of direct concern to the Ministry of Defence : the shipping required by our armed forces for European reinforcement and operational support of the Royal Navy. In time of war, NATO nations would pool merchant ships not needed for national defence or coastal shipping purposes, and vessels required for trans-Atlantic reinforcement and civil supply would be drawn from this pool. Because of concern about the possible effect of the decline of NATO's merchant fleets on such needs of the Alliance, the Government has taken the initiative in pressing for a NATO-wide study to be made of the ability of the Alliance to meet its needs for merchant shipping in time of emergency or war. NATO is considering this proposal.

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

16 March, 1987.

DEFENCE WHITE PAPER

The Prime Minister read key parts of the draft Defence White Paper over the weekend. I deduce that she was in general well content with it, particularly with the essay on the Soviet threat. One small point which you might try to correct before Wednesday's discussion if possible: she is clearly unhappy with having a reference to Reykjavik, and a positive one at that, in the very first paragraph. Would it not be possible to devise some other opening: perhaps start with Camp David?

C.D. Powell

John Howe, Esq.,  
Ministry of Defence.

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JDBAWV

be. P.C.

file



cc 6/28



CONFIDENTIAL

B. 0103

PRIME MINISTER

cc Sir Robert Armstrong

Statement on the Defence Estimates 1987  
OD Meeting at 11.00am on Wednesday 18 March


CONCLUSION

Subject to discussion, the Committee might be guided to agree that the draft Statement on the Defence Estimates, amended to take account of any points agreed in discussion, should as arranged be circulated to the Cabinet for consideration on 2 April and, subject to Cabinet agreement, be published on 12 May.

BACKGROUND

2. The draft Statement is similar in structure to previous editions. It again comprises six chapters, the first three dealing with policy issues, including as last year a separate chapter on arms control; and the last three describing the role and equipment of the armed forces and their activities over the past year, defence procurement (including research and development) and the management of defence resources. In his covering memorandum (OD(87)3) the Defence Secretary points out that nuclear issues are treated more fully than last year, in the wake of Reykjavik and in the light of the revived debate on Trident. As in previous years, the chapters of the draft are interspersed with well argued essays, which will be printed in colour to stand out in the text. They cover a wide range of interesting subjects, including whether the nature of the Soviet Union is changing (end of Chapter One), Chemical

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Weapons in arms control and confidence building measures (in Chapter Two), nuclear weapons in NATO strategy (end of Chapter Two), conventional defence improvements, the American pillar and out of area operations (Chapter Three) and many more. The published version will also contain a number of photographs, following last year's successful experiment. The second volume of the Statement, covering statistics, has been circulated separately as OD(87)4.

**ATTENDANCE**

3. All members of the Committee should be present. The Secretary of State for Northern Ireland has been invited to attend. *And CDS.*

**HANDLING**

4. You should invite the Defence Secretary to introduce the draft Statement and then invite general comments, particularly from the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. Thereafter, discussion should cover the following major aspects:-

a. Presentation

The Statement is a public relations opportunity which should be grasped. You have stressed - Mr Powell's letter of 6 March to the Defence Secretary's Private Secretary - the importance of making it presentationally attractive. Has the introduction of essays on specific topics, highlighted in colour, and photographs been well received? (Defence Secretary) The order in which the various subjects are covered and the balance among them seem on the whole to be right. Do they present the Government's defence policy to best advantage? (Lord President, Chancellor of the Duchy) The Defence Secretary is planning, as he undertook a



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year ago, to issue a shorter, popular version (Volume I only) simultaneously with the Statement. How will this be structured? Which points will be highlighted? He wants to issue it free, unlike the Statement which will cost £5. Will this bring accusations that government resources are being used in a party interest?

b. Treatment of the Soviet Union

The Defence Secretary refers to doubts in this country about the genuineness of the Soviet threat, especially in the light of recent Soviet initiatives on arms control. The scale and nature of the Soviet threat, which are the real reasons for our defence effort, need to be kept in the public eye, in language which avoids charges of exaggeration. Your visit to Moscow places a premium on careful presentation. (There will be time to adjust the wording on your return.) The Essay "70 Years On: A Country or a Cause", which follows Chapter One, draws attention to the Soviet Union's formidable military capability and seeks dispassionately to analyse Soviet attitudes and motives. The impression it leaves is that it would be rash on the evidence of Gorbachev's policies so far to assume significant changes for the better in Soviet aims and ambitions. Does this essay strike the right balance? (Defence Secretary, Foreign Secretary)

c. Treatment of the United States

The Defence Secretary refers also to questioning in this country of the United States (nuclear) presence in Europe. The Essay on the American Pillar in Chapter Three seeks to counter this, by demonstrating Europe's need for the US military presence. Does it make the most convincing case possible? (Foreign Secretary, Chancellor of the Duchy) The

  
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brief reference to HMG's control over use of US assets at bases in the United Kingdom (paragraph 10) reflects the position you have taken in the House since the US raid on Libya.

d. Nuclear Deterrence

You wished there to be an essay on the importance and validity of nuclear deterrence. The Essay "Nuclear Weapons and NATO Strategy", following Chapter Two, was designed for this purpose; the case for nuclear deterrence is summarised also in paragraph 113 of Chapter 1. Does the essay make the case persuasively? Is the tone correctly pitched when set against recent developments on arms control? (Foreign Secretary, Chancellor of the Duchy)

Another essay "The Minimum Deterrent", following Chapter Four, rehearses the reasons for a British deterrent and for choosing Trident, along similar lines to the recent Ministry of Defence Open Government Document (87/01). Does the essay deal adequately with the matter? (Defence Secretary, Foreign Secretary)

e. Arms Control

As the Defence Secretary warns, the text of Chapter 2 will need last minute amendment, to reflect developments, notably your visit to Moscow and, if possible, the meeting between the Soviet and United States Foreign Ministers in mid-April. Is the tone correctly judged? (Foreign Secretary)

Paragraph 208 will need revision to reflect the Government's position on the inclusion of shorter range systems in an INF agreement, and the need for follow on negotiations, bearing in mind your answers in the House on 10 March. And paragraph 216, which briefly mentions Gorbachev's delinking of SDI from INF, ought to point out that this was a response

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to Western firmness and consistency. The Defence and Foreign Secretaries should comment.

f. Defence Budget

The paragraphs (601-3) on future defence expenditure will be scrutinised carefully, not least by our NATO partners. Last year's Statement said (paragraph 503) that the value of the defence budget in real terms would decrease by about 6 per cent over the three years from 1986-87; and that "some difficult decisions will have to be taken". This year's draft says that there will be "an expected real decline of about 5 per cent in defence expenditure by 1988-89 compared with 1986-87" (paragraph 603), and that "planned provision for 1989-90 is broadly level in real terms with that in 1988-89" (paragraph 601). Would it not be better to run the two points together? And does the revised figure (from 6 per cent to 5 per cent) mean that the problems for the defence budget have eased? (Chancellor of the Exchequer, Defence Secretary) Paragraph 603 also states that "difficult choices have to be made between relative priorities in our forward plans." This is very similar to last year's wording and reflects subsequent statements by the Defence Secretary.

g. Defence R&D

Last year's E(A) decision to constrain defence R&D expenditure was confirmed by E(RD) earlier in the year. The Defence Secretary is clearing separately with E(RD) the passage (paragraphs 521-3) on this subject. Are the Secretary of State for Trade and Industry and the Chancellor of the Exchequer content?



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h. Merchant Shipping

When last year's Statement was being considered by OD, the passage on merchant shipping provoked much discussion. The issue of the decline in the merchant fleet and its effect on defence capability was subsequently pursued in E(A) and the outcome is summarised in this year's Statement (box at the foot of paragraph 408 in Chapter 4). The Transport Secretary, who cannot be present, may comment in writing. Is the matter covered properly?

C L G MALLABY

13 March 1987



CCB/KSP  
✓

PRIME MINISTER

DEFENCE WHITE PAPER

I attach the draft of the Defence White Paper which is to be taken by OD on 18 March. Wed

Following your suggestion last year, a much shorter and snappier version will be produced for public consumption. The final version of the White Paper itself will be in several colours, with plenty of pictures, boxes and diagrams.

In general, it is a thorough and workmanlike document, with a good story to tell. As in recent years, it contains a number of essays on topical issues, including one that you particularly wanted on the need for nuclear weapons.

You do not need to read the White Paper but may like to sample the following passages:

- ✓ Chapter 1 is in essence a summary. My only misgiving is mentioning Reykjavik in the very first paragraph.
- ✓ Essay on the Soviet Threat. This is a sober and balanced assessment. I think it is rather good.
- ✓ Chapter 2 deals with arms control and will need to be updated shortly before publication. The description of Reykjavik is factual and avoids judgements. The Camp David conclusions are fully reproduced.
- ✓ Essay on Nuclear Weapons and NATO Strategy.
- ✓ Essay on our role outside the NATO area, with an impressive diagrammatic map at the end.
- ✓ Useful tables of Major Equipment ordered since 1979.

5  
5.50

- Essay on The Minimum Deterrent. This deals with claims that Cruise would be enough for our purposes, and explains the limits on Anglo-French co-operation.
  
- Chapter on the Defence Budget which comes clean on the expected decline of about 5% in defence expenditure by 1988/9.

*CDP*

C D POWELL  
12 March 1987





UNITED KINGDOM PERMANENT REPRESENTATIVE  
ON THE NORTH ATLANTIC COUNCIL  
OTAN/NATO  
1110 BRUSSELS  
TELEPHONE 2426775

24 November 1986

*CDP  
2/12*

Charles Powell Esq  
10 Downing Street  
London SW1

*Dear Charles,*

STEPS TOWARDS A EUROPEAN DEFENCE IDENTITY: WEU ETC

1. I have the impression that both Geoffrey Howe and George Younger are personally persuaded of the need to do something on European defence. There seems to be resistance - or perhaps merely inertia - lower down in the FCO, at least. The opponents of movement habitually quote the Prime Minister's doubts as one principal reason for believing that progress will be difficult. The line which she took at her press conference in Paris on 21 November tends to give them encouragement.

/ 2. I have written the enclosed letter in a form which will enable you to show it to her if you judge that sensible. How do you assess the chances of persuading her to give her backing to an initiative? Have you time for a talk on Thursday or Friday?

*Yours ever*

*Michael*

MICHAEL ALEXANDER



10 DOWNING STREET

Prime Minister MB

Defence Spending:

Benefits of Competition

You raised a point about the cost of the new Shorts RAF trainer (Tucano).

Although it is likely to exceed its tender price, the tender price itself was well below the assumptions made in MOD's long-term costings. CDP



PRIME MINISTER <sup>2</sup>

## DEFENCE AS A PROPORTION OF GDP

The position on defence is in fact as follows:

	% GDP	
	Including Falklands Expenditure	Excluding Falklands Expenditure
1985-86	5.0	4.9
1988-89	4.4	4.4
1989-90	?4.3	4.2 (baseline for PES)

The position in 1989-90 is complicated by woolly edges around the deal Mr. Heseltine did for 1988-89. My successor on defence in the Treasury believes the Treasury will have to concede the cost of the Falklands in 1989-90 (£125 million) plus perhaps another £25 million. Defence expenditure with these additions would be around 4.3 per cent of GDP. (The Treasury are at present bidding for big cash reductions in all years.)

Defence expenditure is falling as a proportion of GDP for two reasons: the calculations assume that GDP grows each year in real terms, and the GDP deflators used each year to set the baseline for the new year of the PES period are usually less than the figures used to deflate the cash plans as that year gets nearer. The second of these of course means cuts; the first does not.

For comparison, using consistent NATO definitions international figures for 1985 were:

## 1985 % GDP

US	6.9
UK	5.2
France	4.0
Germany	3.3
Italy	2.7

The briefing below was prepared for the Chief Secretary. There are lots of interesting nuggets. See particularly the page flagged, for the benefits of competition. My own feeling is that MOD has much more scope for greater efficiency even than the NHS.

DRW

MI

DAVID NORGROVE

3 October 1986

SL2AJN



1986 SURVEY: MODBRIEF 2.2: SCOPE FOR SAVINGS IN RESEARCH AND DEVELOPMENT

"...the Defence Secretary should be urged to look hard at his research expenditures, which consume 12 per cent of his budget for an output that looks hard to justify at that price."

'Daily Telegraph' leader comment on SDE86, 13 May 1986

"...in view of the considerable resource costs consumed by Defence Research Establishments, which incur a significant opportunity cost to the extent that they pre-empt alternative uses for scarce scientific manpower and other resources, this Committee expect the MOD to ensure by continuous critical review the most effective utilisation of these resources for defence purposes."

"PAC 48th Report, Session 1985-86, "Management of Work at Research Establishments", HC491, 14 July 1986

"...development is where we have overrun [on cost] most substantially and development contracts have been historically not as well controlled as production contracts."

Mr Levene, evidence to PAC on major projects statement 1986, 17 March 19861 **TREASURY OBJECTIVE**

To argue that part of agreed reduction in defence R&D expenditure should be released as a contribution to the PES reductions requested.

MOD currently spends some £2.3 billion on R&D, over 15 per cent higher in real terms than in 1978-79. Following reports on defence R&D by officials (MISC 110) and by Ministers (MISC 119), E(A) agreed that the volume of resources devoted to defence R&D should be reduced in line with the projections in the 1985 LTC. Based on the LTC 85 figures given to MISC 110 our preliminary calculations indicate that this should produce reductions in R&D expenditure of some £100 million in 1987-88, £230 million

in 1988-89 and £340 million in 1989-90. Even if only one third of this was released as a contribution to the reductions requested, this contribution would be of the order of £60 million, £80 million and £100 million in the respective years.

## 2 POINTS TO MAKE

- Ministers have already agreed that defence R&D should be reduced from the present high base [some £2.3 billion a year, over 15 per cent higher in real terms than in 1978-79]; the reductions envisaged by Ministers will still leave defence R&D at about the 1978-79 level at the end of the Survey period;
- defence R&D pre-empts resources better used in the civil economy [spin-off and other incidental benefits were not (in the opinion of the majority of MISC 119) "yet commensurate with the high level of Government expenditure"; Mr Levene's view is "that the civil spin-off that can be obtained from defence R&D is very, very limited" (HCDC, 11 June 1985)];
- also costs to industry from its dependence on defence R&D programmes [Sir Robin Nicholson (after his industrial visits for MISC 110) wrote of the "shambles created by decades of over-interventionist MOD policies"];
- also scope for efficiency savings; [in its 48th Report PAC said "We are disturbed that junior managers in Research Establishments have not so far been required to demonstrate that their work provides good value for money." And, "we are particularly concerned that the usefulness of Research Establishments' work has not been positively assessed in the past by those for whom it was done".].

## 3 POINTS TO WATCH OUT FOR

Mr Younger may argue that substantial reductions in defence R&D will reduce UK industry's ability to supply the advanced equipment



the Armed Forces need, forcing MOD to import and causing job losses. You might counter that:-

- production and development should be considered separately. Collaboratively developed equipment can obviously be produced in the UK, but so can equipment developed abroad: production under license is possible; offsets can be negotiated. The RAF basic trainer is a good example;
- there is no employment problem for the skilled scientific manpower used in defence R&D. They are scarce and can find other jobs in the civil sector where their expertise will create jobs for others.

1986 SURVEY: MOD

BRIEF 2.3: THE SCOPE FOR SAVINGS IN EQUIPMENT PRODUCTION

"Two years ago about 38 per cent by value of equipment contracts were placed subject to competitive forces. The figure is now well over 60 per cent... We are confident that the result of such greatly increased competition will be substantial reductions in tender prices and much better value for money for the Ministry, and for the taxpayer."

Mr Younger, Commons debate on SDE 86, 30 June 1986

"There is still scope for major savings through more efficient management and, of course, more efficient procurement, which we have discussed in the past... Since I last spoke to you on this topic, one thing has become very clear to me where I am sure we are going to save very considerable amounts of money in the future. This is by virtually ending the cost-plus contract."

Mr Peter Levene, evidence to PAC, 17 March 1986

## 1 TREASURY OBJECTIVE

To argue that the planned savings in equipment production should contribute to the PES reductions requested.

Within its total procurement budget MOD spends over £6 billion a year on equipment produced for the Forces. MOD aims to achieve substantial savings in this area, partly through increased competition and partly through tougher contracts. The proportion of contracts, by value, placed subject to competitive forces has markedly increased; in 1983-84 it was 38 per cent, in 1985-86 64 per cent, an increase of about two-thirds over three years. And there are now numerous examples of the savings provided by competition (see appendix).

Mr Levene has a publicly-stated target of 10 per cent a year savings in MOD's procurement (that is, research, development and production) budget by the end of his five-year tenure in 1989-90. Applied to equipment production this would imply savings in excess of £600 million a year. Given the substantial increase



in resources allocated to defence since 1978-79, it is not unreasonable to argue that the taxpayer should now share in these savings. Even a one third share of the expected savings in this context would make a considerable contribution to the PES reductions sought.

## 2 POINTS TO MAKE

- MOD's own stated target for savings in equipment procurement is 10 per cent; equivalent in equipment production context to some £600 million a year. Already large number of examples of significant savings through increased competition, and clearly there will be more progress over next three years;
- not unreasonable to suggest that taxpayer should have some share of these savings, given substantial increase in resources allocated to defence and difficult position in Survey.

## 3 POINTS TO WATCH OUT FOR

Mr Younger may argue that all such savings are needed by the defence programme, to maintain continuing and necessary re-equipment programme not least in the face of the build up of Trident expenditure. Your response might be:

- there has already been a massive conventional re-equipment programme, which will continue on a substantial scale. Planned savings in this context clearly considerable; MOD has so far kept the benefits of all the savings achieved through increased efficiency etc - should now make some positive contribution to achievement of Government's overall public expenditure objectives by giving up a share.

APPENDIX TO BRIEF 2.3: SAVINGS THROUGH COMPETITION

Among recent examples of savings through competition are:-

- But it is going to over-run. Please examine.*
- the contract for the new RAF trainer awarded to Shorts was some 35 per cent - or £60 million - less than that assumed in MOD's forward costings;
  - the production contract to GKN Sankey for MCV80 (the new mechanised combat vehicle) saved approximately £100 million, or 12 per cent;
  - the competition for two mine-countermeasures vessels won by Vosper Thornycroft resulted in prices 12 per cent, nearly £10 million, lower than assumed;
  - the contract with Vickers Defence Systems for a new armoured recovery and repair vehicle for Challenger tanks produced a saving of almost 20 per cent;
  - the contract for the Seawolf missile beacon, designed by Marconi Defence Systems, was awarded after competition to Microwave Associates Ltd, whose equipment was more than 30 per cent lower in price and technically superior;
  - the combination of competition and batch ordering for Type 2400 conventional submarines resulted in a saving of £20 million on the previously estimated cost;
  - successive rounds of competition for batches of missile pallets have resulted in lower prices each time. The final effect has been a saving of some 50 per cent on the original price;
  - a new company has entered the field for remote ground sensors, which has saved MOD 10 per cent on



the price they had previously paid;

- opening the latest production order for BARRA air-dropped sonobuoys to competitive tender led to a 30 per cent reduction over previous production costs;

- in the recent order for three new Type 23 frigates a saving of 5 per cent - £8 million per ship - compared with previously estimated unit production costs was achieved through competition;

- competition in the order for warheads for the first main production order for Stingray torpedoes achieved a 30 per cent saving.

August 1986

1986 SURVEY: MODBRIEF 2.4: THE SCOPE FOR SAVINGS IN STOCKHOLDING

"In our 33rd Report of Session 1983-84 we reviewed MOD's arrangements for maintaining some £5,000 million worth of stocks in central depots. We concluded that the position was unsatisfactory in a number of respects and that action was needed ... we are pleased to note a change in MOD's attitude and that they now accept that significant savings are possible ... We acknowledge the complexities of a stores organisation the size of MOD's but must express our grave concern at the ineffectiveness of many of the studies designed to lead to improvements ... we trust that in future MOD will show a much greater determination to secure the solutions they are seeking to the problems facing them ... It seems clear that, for over 30 years, the MOD have been operating arrangements for providing repair spares without having satisfied themselves that they were meeting their objectives and securing good value for money ... We also find it most disturbing to learn that, 20 years after our predecessors criticised excessive CRSP (Contractor Repair Supply Procedure) stocks, over half of all current holdings may have no foreseeable use ... The savings from the changes introduced by MOD demonstrate that "value for money" examination can pay for itself many times over ..."

PAC 18th Report, Session 1985-86, "Supplies for the Armed Services", HC 142 February 1986

"The report of Project WINNOW into Army stock levels has now been published ... It offers the potential for significant financial savings by changes in purchasing methods and organisation."

MOD six-monthly report on efficiency programme, March 1986

## 1 TREASURY OBJECTIVE

To argue that there is scope for savings in stockholding, as a contribution to the requested reduction in baseline.

Excluding war reserves MOD hold stocks valued at some £7 billion. Annual expenditure on such items going into store (ie initial provisioning, re-provisioning and, where relevant, through-life buys) is not readily identifiable, but from figures in a recent C&AG report is estimated at some £2 billion. MOD has itself set a target for a 5 per cent reduction in the value of its



stockholdings by 1 April 1988, which should provide a significant once-for-all saving in 1987-88. It is difficult to quantify the scope for continuing savings, partly because of the lack of definitive figures for the expenditure involved. But on the basis of annual reprovisioning expenditure of £2 billion a year, and in view of the extensive internal and external criticism of MOD's performance, savings of the order of 5 per cent - £100 million a year - would not be an unreasonable target.

Savings should be achievable through, for example:

(i) increased stock visibility and improvements in tri-Service holding with computerised records ["Stock visibility across Service boundaries needs to be improved" - Levene Report on Stockholding, para 42];

(ii) design simplification (more standard parts) ["operational and engineering policy needs to be more closely scrutinised to ensure economy of equipment support" - Levene, para 4];

(iii) tauter initial purchasing policies ["a major cause of excess stockholdings is incorrect initial provisioning decisions" - PAC 18th Report 1985-86, para 6];

(iv) reduction of MOD stores held by contractors ["for over 30 years MOD have been operating arrangements for providing repair spares without having satisfied themselves that they were meeting their objectives and securing good value for money" - PAC 18th, para 19];

(v) more use of direct supply contracts ["there is considerable potential for increased direct supply ... we are concerned that so much pressure was necessary before the Ministry accepted the need for a new approach" - PAC 18th, para 11];

(vi) increased efficiency in stores organisation ["modernisation of warehousing techniques ... offers scope for savings" - Levene, para 46].

## 2 POINTS TO MAKE

- given weaknesses revealed by PAC reports and internal MOD studies, clearly scope for very considerable savings in stockholding. Indeed, MOD's own target for a 5 per cent reduction in stock value by 1 April 1988 is surely evidence of the scope for savings in this context.

## 3 POINTS TO WATCH OUT FOR

Mr Younger may argue that all of the criticisms from PAC, Levene etc have been taken into account, quoting the 5 per cent target mentioned above. Your response might be:

- these reports have revealed significant and longstanding weaknesses in an area of massive expenditure; even small improvements in efficiency must release large savings.



1986 SURVEY: MODBRIEF 2.5: SCOPE FOR SAVINGS IN SUPPORT ACTIVITIES

"Efficiency improvements are continuing to flow in. And they are not simply once-and-for all measures. Their effects will be permanent."

Mr Younger, Commons Debate on SDE86, 30 June 1986

"The MOD is a major user and its non-operational energy bill runs at over £240 million a year. It is clearly sensible for the MOD to make the most of potential savings ... to give further impetus to improvements in energy efficiency, I have recently set up a steering group of senior officers to oversee implementation of an energy efficiency programme with a target of a further 25 per cent reduction in the MOD's energy bill over the next five years."

Mr Lee, Parliamentary Under Secretary of State for Defence Procurement, Commons debate on SDE86, 1 July 1986

## 1 TREASURY OBJECTIVE

To argue that there is scope for savings in various aspects of MOD support activities as a contribution to the requested reduction in baseline.

Activities such as training, education, medical and veterinary services, welfare services, recruitment and repair and maintenance involve substantial expenditure for MOD. The costs are not wholly visible. But, for example, Armed Forces training costs some £1,250 million a year, medical services some £240 million and repair and maintenance (excluding the Dockyards) some £300 million. A total of some £2 billion a year would probably be a conservative estimate of the costs of these activities, which are of the type where managerial action to improve efficiency is highly relevant: many of the 800 efficiency studies which MOD has in hand cover such areas. A target for savings of 5 per cent - some £100 million a year - would not be unreasonable in this context.

Examples of potential savings include:

(i) a staff inspection conducted last year at Royal Naval Armament Depot Beith identified savings in industrial numbers of over 30 per cent. The MOD inspectors recognised that read-across to similar establishments could produce similar savings; such a saving could amount to as many as 4000-5000 posts;

(ii) many areas of industrial work in MOD operate productivity schemes - total annual expenditure is some £70 million. But many schemes are inefficient and over-ripe for review;

(iii) a current NAO study of Service hospitals has shown staffing levels maintained well above complement (eight times above in one instance), wasting up to £13 million a year;

(iv) the scope for rationalisation in training looks to be considerable. One possibility is in helicopter pilot training; each pilot costs £900,000 to produce in the RAF against a Navy cost of £400,000 and £200,000 in the Army;

(v) although progress has been made in rationalising the recruitment machine, single-Service recruitment centres continue to exist in many places. Full rationalisation could produce substantial savings including economies of scale;

(vi) a recent PAC report (49th, Session 1985-86, "Service Movements", HC 465, 25 July 1986) expressed dismay at "the absence of basic cost data and comprehensive management information systems" in this context and concluded that there is "much scope for further rationalisation". The Committee also considered it "extraordinary" that some £50 million is spent a year with the Government Freight Agent under arrangements which are not the subject of competition or even a formal contract;



(vii) the energy savings target quoted by Mr Lee above would save some £60 million a year by 1989-90. To achieve it MOD will have to spend some £30 million a year on necessary capital investment. But even so, the exercise, which commenced in 1985-86, ought to be running at a profit by 1987-88.

## 2 POINTS TO MAKE

- aware that MOD has in hand very large number of efficiency measures to improve value for money in various support activities. Effort to improve energy efficiency alone likely to provide savings of £30 million a year by end of Survey period. Given very considerable expenditure involved, even small savings at the margin would release substantial sums.

## 3 POINTS TO WATCH OUT FOR

Mr Younger may argue that all these savings have been taken into account, or that for the Treasury to "raid" them would remove the incentive for MOD managers to achieve them. Your response might be:

- only asking for a share, as a contribution to the achievement of the public expenditure totals agreed by Cabinet. Surely cannot be the case that scope for savings now exhausted - some of MOD's initiatives are very recent, while many studies continuing. And PAC/NAO investigations seem to regularly turn up further worthwhile possibilities.

DM Group  
6 October 1986

1986 SURVEY: MODBRIEF 2.6: THE SCOPE FOR SAVINGS IN ARMED FORCES ALLOWANCES

"Taken as a whole the recommendations in this report might be regarded as a challenge to the structure of financial provision for Service personnel, which has been built up over time and which in total provides a necessary recompense for the character of Service life. It may be argued that the allowances discussed are essential elements of conditions of service and that to take the actions proposed would lead to loss of morale and to recruitment and retention difficulties. However, the detailed evidence presented is of substantial drift in the coverage of allowances, of complex procedures and weaknesses in control, leading on occasions to manipulation and fraud, and of excessive and unfocussed expenditure. In the present climate of severe constraint on defence resources it is considered that in some areas the report makes out a clear case for immediate and vigorous action. In others, and particularly where changes related to the scope of allowance and eligibility are proposed, the recommendations might well be considered in conjunction with the report stemming from the work of the Armed Forces Allowances Working Party."

"Possible savings which can be identified include £4.9m in respect of recommendations relating to Separation Allowance, £5.7m for Lodging Allowance, £11m for Residence to Place of Duty; and £33m for Leave Travel."

Report of MOD's Internal Audit, July 1986

## 1 TREASURY OBJECTIVE

To secure agreement that there is scope for net savings on Armed Forces allowances.

Armed Forces allowances (including waivers) covered by last year's joint Treasury/MOD review involve expenditure of over £600 million a year. There are about 50 different allowances and benefits. The review provided an essential base of factual information and identified areas for further study. Around 30 separate studies are being carried out by a number of MOD study teams, the last of which have still to report. The basis of the review was 'nil



net cost' or better (ie, net savings). Acceptance by Mr Younger that net savings are achievable would not only help your case in securing the PES reductions sought but would strengthen the Treasury's hand in continuing negotiations on individual allowances.

Potential savings of at least £55 million per year have been identified already, but the Services are now fighting to negate relevant recommendations and to improve other benefits. Net savings of £20 million a year - roughly 3 per cent of expenditure - would not be an unreasonable target and would still leave scope for improvements where justified.

The allowances system has grown up piecemeal over a long period, and there are now inevitable anomalies and items whose continued justification is questionable or else where some restriction would not be inequitable. The review and studies enable MOD to plan a more rational and cost effective system for the future and, although withdrawing benefits will be very unpopular, they have accepted that there should be scope for economies. For example:

(i) Servicemen in the UK receive four free leave travel warrants a year, at an annual cost of some £35 million. MOD's Internal Audit have recently criticised the administration of this scheme and a separate MOD study has recommended that it be withdrawn, observing that "the Armed Forces now rank among the best paid public sector employees and ... are no longer alone in needing to be mobile to sustain employment". The study report questions "should MOD pay one section of their employees 4 times a year to go away on holiday?" This report is being strongly opposed by the Services. There is another anachronism overseas with the generous Germany leave scheme. This was introduced during the occupation period in order to restrict fraternisation, and yet still provides Servicemen with free travel three times a year, including a return trip to 50 miles beyond the FRG border;

(ii) The Military Salary assumes that the Serviceman pays appropriate charges, set by the AFPRB, for his food and accommodation, but waivers apply in certain circumstances. For example, the waiver of food charges whilst ships are at sea (counted as "operational" irrespective of the activity involved) involves an annual cost of about £14 million. Food charges are also waived for married personnel unaccompanied for Service reasons; arguably all personnel eating at public expense should pay an appropriate charge, unless they are serving under field conditions;

(iii) a recent MOD study of removal expenses for Service personnel has recommended economies through the encouragement of regional single-Service supplier contracts for household removals on posting. A new scheme is to be introduced which is expected to save up to £2 million a year from 1987-88;

(iv) another MOD study has recommended that the "personal contribution" in respect of Residence to Place of Duty Allowance should be increased;

(v) while another MOD study has questioned the provision of free medical and dental treatment for dependents of Service personnel. Withdrawing this would save about £1.25 million a year.

## 2 POINTS TO MAKE

- MOD's own studies have shown that there is scope for significant savings in expenditure on Armed Forces allowances; no reason why such savings should not make a contribution to the achievement of overall public expenditure objectives.

## 3 POINTS TO WATCH OUT FOR

Mr Younger will no doubt argue that he will be under immense pressure from the Services to transfer all savings arising from the review - and more - to new benefits or increased allowances,



of corresponding increases in pay; the review has also identified areas where modern conditions would justify increases. He may also point out that such Service pressure tends to find sympathetic support in Parliament and elsewhere. You might counter that:

- MOD's own studies have identified savings on a scale that would leave ample room to finance improvements where merited while still providing net savings; only requesting a share;

- at a time when 'difficult decisions' on equipment are apparently necessary, cannot be right that this one area should be exempted from the need to improve value for money. Just as with pay, a firm stance here is necessary to bring home to the Services the reality of limited resources.

DM Group

6 October 1986

CONFIDENTIAL

1986 SURVEY: MODBRIEF 2.7: SCOPE FOR SAVINGS IN DEFENCE WORKS ETC

"We are adopting an imaginative approach to the disposal of our high value sites in the defence estate. We are developing a rolling programme of land disposals, using the proceeds to reprovide facilities elsewhere. The scheme is self financing, and we expect to generate funds to support the defence budget and achieve major savings in maintenance expenditure"

Roger Freeman, Parliamentary Under Secretary of State for the Armed Forces, Commons debate on SDE86, 30 June 1986

## 1 TREASURY OBJECTIVE

To argue that there is scope for savings in management of defence works and the defence estate as a contribution to the reductions requested.

MOD currently spends some £1.7 billion a year gross on the defence estate (including lands). Offsetting receipts in the current year will include some £60 million from the disposal of surplus land and buildings. The impetus behind the disposal programme mentioned by Mr Freeman is being maintained by the Defence Estate Steering Group under his chairmanship. Existing disposal targets should yield some £75 million in total in 1987-88 and 1988-89, but the indications are that this can be bettered, in that MOD are confident that scope for further disposals exists.

As regards the works programme itself individual cases reveal that there may be some "gold plating" on occasions, not related to operational requirements, and therefore scope for savings, principally by imposing a tighter grip on the standard of new works. For example:

(a) Wellington Barracks have been criticised as overlavish in their recent refurbishment, which exceeded forecast cost by around £10 million;

(b) The Navy is currently seeking approval for expenditure of £400,000 on a church complex at HMS Collingwood, comprising

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one church, two church halls and other facilities underlying a carpark. The complex would be used by only 80-100 people, and there are already 5 churches serving the main denominations within 2.3 miles;

(c) The Army recently spent £100,000 on three sculptured statues for the new Flowerdown barracks at Winchester.

Against this background - not least of MOD's hefty disposal receipts - it would not be unreasonable to look to this area for a contribution to the PES reductions sought of perhaps £10-£15 million a year.

## 2 POINTS TO MAKE

- understand that accelerated disposal programme in hand which will generate funds for defence budget; again, not unreasonable to suggest that some of the benefits should be passed on to the taxpayer;

- surely some scope for savings in MOD's massive works programme, not least by a tighter grip on standards - not unknown for there to be gold-plating in this context.

## 3 POINTS TO WATCH OUT FOR

Mr Younger may argue that there is no scope for savings in the works programme, since it is already under pressure, not least because of Trident related works; 'arbitrary' cuts would adversely affect maintenance and spend-to-save measures, such as improved energy efficiency. Your response might be:

- not seeking arbitrary cuts in the works programme. Surely must be scope for savings at the margin through a tightening up of standards etc;

Additionally, Mr Younger may argue that for the Treasury to "raid" receipts from disposals of surplus land and buildings will remove the incentive to release these assets. Your response might be:

- not asking for the whole lot; rather some contribution

from the extra receipts MOD is achieving from sale of assets  
paid for with taxpayers' money.





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

5422

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(Switchboard) 01-215 7877

SECRET

17 July 1986

The Rt Hon George Younger MP  
 Secretary of State for Defence  
 Ministry of Defence  
 Main Building  
 Whitehall  
 LONDON  
 SW1

CD  
 #17

*John Gery*

DEFENCE PROGRAMME ADJUSTMENTS

Thank you for your minute of 1 July setting out the adjustments you propose to make to the defence equipment programme, in particular for shipbuilding and support helicopters. I have also seen the minute of 7 July from No.10 with the Prime Minister's reaction.

As you say, the implications for shipbuilding were aired through MISC 127. Since then E(A) has discussed the issue and I am now taking matters forward with the Chief Secretary. I do not therefore propose to comment further on this aspect now.

As you know from our brief talk earlier this week, I am very concerned about the position on Sea King orders. Your Department wrote to Westland on 15 August 1985 that "we intend to purchase up to 14 more Sea Kings for the Royal Navy;" and a further letter from your Department to Westland dated 13 December 1985 referred to "intended further orders for 14 Sea King helicopters." Westland has, therefore, been planning on the basis that they would receive orders for 14 more Sea Kings and they will no doubt have taken the 13 December letter as reinforcing that planning assumption. As you say, they have been expecting all the orders to be placed this year, thus providing work during 1987-88. Your reduced and delayed proposals are likely to mean that unless other orders are obtained very soon, Westland's work load will fall below the minimum level they believe is necessary to sustain a viable helicopter operation.

JF4ACY

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 BOARD OF TRADE  
 BICENTENARY



SECRET

I do not know how Westland would respond to this situation but clearly the industrial and political implications could be considerable.

On the industrial front, further redundancies at Westlands would have been likely even with an order for 14 or 15 Sea Kings; the numbers involved are likely to be greater if your present proposals are confirmed. I know that our officials are considering the financial implications, following No.10's letter, and I am following this closely.

Moving wider, the decision to reduce the Sea King order can be expected to revive the Westland controversy and may well be represented, however unfairly, as retaliation for Westland's choice of the Sikorsky. There is also a risk of public criticism that Westland has been allowed to plan on false assumptions for so long.

As you know, Westland made a presentation on their position and prospects to our officials last week and will be following this up with a letter setting out the implications for the company of Government policy on a number of issues. Once we have had a chance to consider this letter, I think an early discussion may be needed with you and interested colleagues. I hope a final decision on the Sea King order can be delayed till we have had such a discussion, although I suggest it would be right for you to warn Westland now that your intention to order 14 Sea Kings is being reconsidered.

Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

PAUL CHANNON



DRUNK

BUDGET

P712



shd  
cpc  
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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

7 July 1986

*John Howe*

**DEFENCE PROGRAMME ADJUSTMENTS**

The Prime Minister has seen a copy of the Home Secretary's minute of 1 July to the Secretary of State for Trade and Industry about adjustments in the defence programme.

As regards the intention to reduce the planned order for Sea King helicopters and the consequences of this for Westland, the Prime Minister has asked what will be the cost of redundancies and unemployment benefit resulting from the decision as compared with the cost of the helicopters.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

*John Howe*  
*C. D. Powell*

(C. D. POWELL)

John Howe, Esq.,  
Ministry of Defence.





1 Prime Minister (2)

What with  
the bit of  
redundancy

MO 8V

unemployment - levels  
compared with helicopter - and  
more

SECRETARY OF STATE FOR TRADE AND INDUSTRY

The Defence Secretary wants  
of two industrially sensitive  
reductions in his equipment  
programme:

- (i) a slow down in  
to rate of ordering fighters;
- (ii) a halving of the  
order for additional sea  
king helicopters. This will  
be a blow to Westland.

DEFENCE PROGRAMME ADJUSTMENTS

As you will know from my minute of 30th May to the Chief Secretary, I am facing significant problems in aligning the defence programme with the resources available to me. I am having to deal with a situation where the cumulative decline in defence resources up to 1988/89 will be nearly £1 billion in real terms compared with 1985/86. As a result, and despite major steps in improved efficiency, for example, in the procurement of equipment and in manpower, I am having to make a wide range of adjustments to our plans which will have a serious impact - both individually and cumulatively - on our future defence capability.

CDP  
ms 1/7

2. In coping with this situation, while maintaining the main strands of our defence policy and associated commitments, I have had to look largely at the equipment programme for the necessary adjustments and thus cannot avoid measures which will have some impact on industry. And even though I have sought to limit the impact to a reduction in future prospects (as opposed to cutting back on orders already placed), the room for manoeuvre that I have in relation to the problem I face is limited. Thus, in





addition to a delay in the build up in the RAF front line, including the UK air defence force to which high priority was attached in Cmnd 8288, it has been necessary to defer orders for the new single role minehunter and the future conventional submarine, to reduce the planned size of the second batch of the Harrier GR5, to cut back on future ammunition purchases for the Army, as well as to reduce, delay or remove from the programme a wide range of other projects affecting all three Services. In general, I believe that firms should be able to absorb the adjustments that will be necessary. Nevertheless, there are two particular areas which I feel I should draw to your attention. These are shipbuilding and the question of future orders for Sea King helicopters.

3. As regards shipbuilding, this is already the subject of consideration in MISC 127, and the results are being brought before Ministers collectively. I will not, therefore, go into detail other than noting that, as the MISC 127 report shows, I have been forced to reduce the planned order rate in the next few years for the new Type 23 frigate from some three a year (a figure to which we are currently publicly committed) to two in 1986 and one in each of the following two years. This is, in fact, a good deal better than the complete deferment of all further frigate orders for eighteen months which was at one stage a possibility.





4. In the case of helicopters, I envisage placing orders for a further eight Sea Kings (probably one this year and seven next). This will undoubtedly be a disappointment to Westland for they have known for nine months or more that our total further requirement for Sea Kings could be as high as fifteen; and indeed this is known also to the Defence Committee. Westland have been expecting all these orders to be placed this year and, in fairness, my Department will be telling them of our revised intentions soon. I thought, however, that I should let you know first.

5. I am, of course, conscious of the impact of these measures industrially and politically. Clearly they will, on the one hand, make more difficult the present over-capacity which already exists in the warship yards; and, in the case of Westland, while I would not see the lack of these particular orders leading to the company going under, there are likely to be redundancies. But, within the budget that I have, I can see no way of avoiding these measures. They provide me with major savings in the early and middle years of my planning period (for which, in resources terms, I am predicating a level run in real terms from 1988/89 onwards). Given this, any alternative measures would also have a major impact on industry and on the front line - either as a result of delaying the acquisition of other new equipment or as a result of further reductions in the



front line beyond those which I am already facing. And the final result would be a less effective and well balanced defence programme than would otherwise be possible.

6. Regrettable, therefore, as these measures will be, they are simply a reflection of the difficult decisions which I am having to face, and to which, at the specific request of colleagues, I drew attention in the 1986 Statement on the Defence Estimates.

7. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

A.Y.

Ministry of Defence

1st July 1986



Ref. A086/1066

PRIME MINISTER

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Statement on the Defence Estimates 1986

Flag A - (C(86) 12)

CONCLUSIONS

Subject to discussion, the Cabinet might be guided to:

- a. approve the Statement on Defence Estimates 1986;
- b. agree that it should be presented to Parliament on 12 May.

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BACKGROUND

2. The Secretary of State for Defence has amended the draft Statement on the Defence Estimates 1986 to take account of the full discussion at the Defence and Overseas Policy Committee (OD) on 19 March (OD(86) 2nd Meeting). The main changes concern the presentation of the planned decline in real terms of the defence budget over the next three years, arms control issues and the future balance between defence and civil research and development. A summary of these changes is attached at Annex.

3. At the OD meeting, the Secretary of State for Defence was invited, in consultation with the Secretary of State for Transport and other interested Ministers, to consider what could be done to counter the detrimental effects on the United Kingdom's defence capability of the decline in the size of the British merchant fleet and in the number of British merchant seamen. In his minute of 7 April the Secretary of State for Defence confirms the view in paragraphs 443 and 444 of the draft

Statement on the Defence Estimates that, with the exception of trawlers for minesweeping and of one heavy lift ship, the British merchant fleet is adequate to meet our specific defence requirements and the indications are that this will continue to be the case. (Although paragraph 5 of the attachment to the Secretary of State for Defence's minute does not make it clear, the United Kingdom's present contribution of around 120 ships to meeting NATO's transatlantic reinforcement and resupply requirements can be provided.)

4. *Flag D -* The Secretary of State for Transport, who was not present at the OD discussion, has circulated a minute dated 7 April on the wider implications of the British merchant fleet's decline and possible ways of stemming it. The Secretary of State tried unsuccessfully to obtain a 50 per cent first year tax allowance on merchant ships in the recent Budget. His minute describes work in hand in NATO on the pooling of merchant shipping resources for civil purposes in war (page 1) and work in the European Community and on the possible need for legislation to exclude some foreign vessels from cabotage around the United Kingdom and on other possible moves (page 3). The Secretary of State recognises that the Cabinet's discussion of the Statement on the Defence Estimates is not an appropriate occasion for substantive consideration of the wider mercantile aspects of the shipping question. You may wish to keep discussion of this aspect brief; the Cabinet could note the ideas the Secretary of State is pursuing and invite him to name a date before the Summer Recess by which he will put firm recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A)).

## HANDLING

5. You will wish to invite the Secretary of State for Defence to introduce the Statement. Points to be established are -

- a. Is the Cabinet content with the text?



[You expressed the view that a lot more work remained to be done].  
OON

- b. Is the Cabinet content to note the minutes from the Secretary of State for Defence and the Secretary of State for Transport on the decline of the British merchant fleet? By what date will the Secretary of State for Transport put firm recommendations to E(A)?
- c. Is there any objection to the proposed date of presenting this year's Statement to Parliament (12 May)?

RA

ROBERT ARMSTRONG

8 April 1986

Draft Statement on the Defence Estimates 1986Summary of Amendments made following OD Discussion on  
19 March 1986Arms Control

Paragraphs 114, 212 and 213 have been substantially amended to bring the drafting fully into line with your response to Mr Gorbachev dated 17 March 1986; also paragraphs 9-11 of the essay on the Strategic Defence Initiative (which follows paragraph 121) now reflect the Foreign and Commonwealth Secretary's speech to the Foreign Press Association on 17 March.

Budgetary Issues

2. Paragraphs 501 and 503 have been revised to take account of OD's wish that the implications of the planned reduction in the real value of the defence budget over the next three years should be brought out more clearly. In particular, the formula used by the Secretary of State for Defence in the House of Commons on 11 February 1986 that "some difficult decisions will have to be taken but there will be no need for any change in our main defence posture" has been repeated in the penultimate sentence of paragraph 503.

Defence and Civil R and D Resources

3. A new paragraph 537 has been added to the text in view of the OD decision that Chapter 5 should be amended to reflect the Government's intention to improve the balance between defence and civil research and development in favour of the latter. Also, at the suggestion of the Minister of State for Industry



and Information Technology, the penultimate sentence of paragraph 534 has been added to describe a current example of collaborative Ministry of Defence/Department of Trade and Industry research at RSRE.



From the Minister of State  
for Industry and Information Technology

OD(86)2nd

CCPC

DEPARTMENT OF TRADE AND INDUSTRY  
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GEOFFREY PATTIE MP

Rt Hon George Younger MP  
Secretary of State  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1 2HB

EDD  
21/3

21 March 1986

Dear George

STATEMENT ON THE DEFENCE ESTIMATES

ATTACHED

Following our discussion at OD on Wednesday about the Defence Estimates statement, I would like to suggest that the following sentence be included towards the end of paragraph 534 after "..... appropriate and available":

"An example of this is the scheme of collaborative research we have recently launched with the Department of Trade and Industry, which has started with initiatives in pattern recognition and silicon microsystems at RSRE, Malvern."

May I also suggest that paragraph 527 of the Statement should refer to the Ministry of Defence's encouragement of certification and to the Ministry's commitment to deregister suppliers under their own assessment arrangements, linked to recognition of assessments by other certification bodies.

GEOFFREY PATTIE

MR 4/MR 4ABB

17  
19 **86**  
BOARD OF TRADE  
BICENTENARY



Prime Minister

Cabinet office to chair  
meeting of officials to  
settle detailed amendments.

CDD

[CDS needs a

brief word with you

at the end of the

meeting].

DEFENCE WHITE PAPER

Points to make:

- ✓ - remove paragraph 11 of the essay on the SDI. The Defence Secretary has already agreed to this.
- Consider direct reference to fact that there will be a decline in real terms in defence spending in next three years.
- ✓ - Confirm that essay on UDR should stand.
- Welcome evidence of increased competition in procurement.
- Query omission of reference to policy of northward shift of MOD establishments and work.
- Possible change in structure of future White Papers to make Part One more attractive to the general public.
- On the effect of financial constraints on existing capabilities, insert Defence Secretary's words in the House:  
("Some difficult decisions will have to be taken but there will be no need for any change in our main defence posture.")
- Officials to look at passages on arms control to take account of Cabinet Office drafting amendments.
- Add a passage at the end of paragraph 522 as proposed in Cabinet Office brief to reflect conclusions of E(A) that future defence R & D expenditure should be a smaller proportion of total such expenditure.

N.B. Please also see notes by  
Northern Ireland Secretary & CST, attached inside cover.

18 March 1986

C.D.P.  
CHARLES POWELL

COP

LO4ACS



PRIME MINISTER

STATEMENT ON THE DEFENCE ESTIMATES

I will not be able to attend OD's discussion tomorrow of the Statement on the Defence Estimates (OD (86) 6). The Transport interest is, in any event, confined to Merchant Shipping and I am content with the references in the draft Statement. I should, however, remind colleagues that last year the section on Merchant Shipping, although small, attracted a fair amount of attention in the House and in the press and I would expect a similar reaction this year, particularly in the light of the recent publicity on the decline of the fleet. I am of course in close touch with George Younger on the subject of Merchant Shipping and defence.

I am copying this minute to other members of OD and to Sir Robert Armstrong.

*T. Lunt*

p.p. NICHOLAS RIDLEY

18 March 1986

*(Approved by the Secretary of State and signed in his absence)*

010  
FROM: THE PRIVATE SECRETARY



CONFIDENTIAL

NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

cc BG  
Fin. Dept  
COP

Dennis Brennan Esq  
Private Secretary to the Secretary  
of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1A 2HB

18<sup>th</sup> March 1986

Dear Dennis,

My Secretary of State will be unable to attend the meeting of OD on 19 March when the Defence White Paper will be considered. He has no general comments to make, but has asked me to record that although he recognises the sensitivity, on balance he supports the inclusion of the passage on the UDR in the section on army operations in Northern Ireland.

He saw the text in its present form at an earlier stage, and took the view then that it was a balanced and largely factual account. Any reference to the UDR attracts criticism in some quarters, but he does not regard this as a justification for avoiding any comment. He believes that the section on the UDR is expressed in such a way as to represent a positive step.

Copies of this letter go to the the Private Secretaries of the other members of OD and to Sir Robert Armstrong.

Yours sincerely  
Neil Ward

N D WARD

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ca 56  
Prime Minister  
COP

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger MP  
Secretary of State for Defence,  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1

18 March 1986

Dear Secretary of State,

STATEMENT ON THE DEFENCE ESTIMATES 1986

ATTACHED

I have seen a copy of your memorandum (OD(86)6) covering the draft Statement on the Defence Estimates for 1986 which OD is to discuss on 19 March. There is one point which I thought it might be helpful to raise in advance.

In the third paragraph of your memorandum you suggest that we should give some indication in SDE86 that difficulties lie ahead for defence, in order to prepare the ground for future decisions. As you say, a balance has to be struck here. However, I do not feel that a satisfactory balance has been achieved in paragraph 503. In particular, there is a risk that the wording in the penultimate sentence will increase concern regarding our long-standing decision not to continue real growth beyond 1985-86, and lend weight to the suggestion (made, as you will recall, by the House of Commons Defence Committee last year) that a "defence review by stealth" is now in train. The effect might well be to reinforce criticism, including among our own supporters, of our commitment to Trident. I therefore suggest that this sentence should be replaced by the following:-

"Rigorous selection of priorities will be needed to manage the programme within the available cash."

I am sending copies of this letter to members of OD, Tom King and to Sir Robert Armstrong.

Yours sincerely

John Macgregor

FR JOHN MACGREGOR

Seen and approved by the  
Chief Secretary and signed in  
his absence

MR POWELL14 March 1986STATEMENT ON THE DEFENCE ESTIMATES

This seems a well-presented upbeat document. The critical issue of the squeeze on resources (para 503 et seq) is well handled; neither dismissing the issue nor declining into special pleading. Trident at £9.87b is costed by convention at \$1.28 to the pound, (although not stated), at today's exchange rate this would be £600m less. (Para 406)

The sections on procurement and competition (520 et seq) show an encouraging trend with 60% by value of all contracts now subject to competition - double the figure in 1979. Inevitably most of the budget (perhaps three-quarters) still goes to the top dozen firms although they will sub-contract downward a fair proportion of the work. Annex G lists the suppliers by size: Tate & Lyle supply £10-25m worth!

Para 314 provides a table of six European collaborative projects, the only significant omission being the troubled SP70 self-propelled gun. But three of the six examples are on helicopters: the BH101 and the NH90 are already committed, including proposals for a battlefield helicopter study is surely one more hostage to fortune than necessary.

The most noticeable omission from the paper is any mention of Michael Heseltine's northward shift of MOD establishments and work. (The only passing reference is in para 519 in relation to a surely erroneous shortage of school leavers to do apprenticeships). If practicable this would be a sensible policy and must be worth pursuing.

*Peter Warry*  
PETER WARRY



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PRIME MINISTER

cc Sir Robert Armstrong

Statement on Defence Estimates 1986  
(OD(86)6 and OD(86)7)  
Meeting of OD on 19 March at 9.00am

BACKGROUND

Flag C - As indicated in the Defence Secretary's covering memorandum (OD(86)6), his draft 1986 Defence White Paper does not depart markedly in structure from previous years. The draft has the familiar six chapter structure and the last three cover the same ground as last year on forces and equipment, the management of defence resources and the Services and the Community. The first three chapters are in a slightly different form with arms control being given a separate chapter. In last year's White Paper it was possible to give a central theme to the first three chapters with the 40th anniversary of the setting up of the North Atlantic Treaty Organisation (NATO), and arguably a common theme of this sort is needed to attract the more general reader. As is now customary, the chapters of the draft are interspersed with essays. The volume of statistics

Flag D - has been circulated separately as OD(86)7.

2. The Defence Secretary proposes to publish this year's Statement on 13 May. It is the intention that the Statement, amended as necessary in the light of the Committee's discussion, should be circulated for consideration by the Cabinet at its meeting on 10 April.

3. All members of the Committee should be present with the exception of the Chancellor of the Exchequer. The Chief Secretary, Treasury has been invited to attend.

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HANDLING

4. You should invite the Defence Secretary to introduce the draft White Paper and then invite general comments, particularly from the Foreign and Commonwealth Secretary and the Chief Secretary, Treasury. You may wish to structure discussion to cover the following main issues -

a. General structure of the White Paper

It could be argued that the size of this White Paper and its traditional structure make it suitable only for the specialist reader. The Ministry of Defence are preparing a "British Defence Policy Pamphlet" for the general public. Will it appear at the same time as the White Paper? But could not the material in the White Paper itself be used more eloquently to help to persuade a wider public of the wisdom of our defence policy? In future years could we have a much shorter Part One, presenting the highlights in readable form, while preserving the present material as Parts Two and Three? (Defence Secretary)

b. Defence Budget

In his covering memorandum the Defence Secretary has highlighted his concern to strike a balance between giving assurances that there is no budgetary justification for drastic change or a defence review and on the other hand warning of problems in bringing the programme into line with available cash in future. There will be a decline in real terms in annual defence expenditure over the next three years, following real growth in excess of 20 per cent since 1979/80. The 1986 Government Expenditure White Paper, published in January, gives the following picture (page 6 of Volume II of Cmnd. 9702);

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	1979-80 (Outturn)	1985-86 (Estimated Outturn)	1986-87 (Plans)	1987-88 (Plans)	1988-89 (Plans)
Defence Expenditure <u>in real terms</u> £m. (base year 1984-85)	14,083	17,354	16,883	16,570	16,240

The White Paper does not mention this planned reduction in real terms (paragraphs 118 to 119 and 501 to 503). Will critics not make more of the point if it is not volunteered? Without it, will not the reference to a £400 million cash increase in the second sentence of paragraph 501, masking as it does a real decrease, appear disingenuous? (Defence Secretary and the Chief Secretary, Treasury)

As regards giving a fair description of the problems ahead, paragraph 118 makes it clear that there is no financial requirement for drastic change in the roles of the Armed Forces. But the fourth sentence of paragraph 503 states that "increasing rigour will have to be applied in striking the balance between the maintenance of existing capabilities and new investment...". Such words could attract the attention of people who favour increased expenditure on defence in the years ahead or the maintenance of particular elements in the armed forces, such as the surface fleet; and of people wishing to prove that Trident has created intolerable pressures on the defence budget. What existing capabilities will be under review? Could not the need to balance these considerations be more adroitly handled by drawing together the arguments set out in paragraphs 118 and 503, perhaps in similar terms to those used by the Defence Secretary in answering questions in the House on 11 February 1986 (Hansard column 770) -

"Some difficult decisions will have to be taken but there will be no need for any change in our main defence posture."  
(Defence Secretary and Chief Secretary, Treasury)

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c. Arms Control

*Del*

Paragraphs 112 to 116 of Chapter one give a brief survey of the part played by conventional and nuclear weapons in NATO strategy. At the end of this chapter, the essay on the Strategic Defence Initiative (SDI) recalls in paragraph 11 the Foreign and Commonwealth Secretary's speech on SDI at the Royal United Services Institute in March 1985. That paragraph could easily be deleted. Chapter three is entirely devoted to arms control with a ~~full~~ account of your recent response to Mr Gorbachev in paragraphs 212 to 214.

I see three drafting problems, which officials could pursue after the OD meeting. The first sentence of paragraph 114 appears totally to dismiss President Reagan's long term vision of a nuclear free world. In order to bring it into line with your response to Mr Gorbachev, the sentence might be amended:

"The aim of NATO strategy is the prevention of all war, both conventional and nuclear, and in this nuclear weapons will for the foreseeable future play an indispensable part."

The third sentence of this paragraph, saying that possession of a full range of nuclear forces will remain fundamental to our security, seems incompatible with our willingness to contemplate a zero-zero option on INF. The point could be covered by amendment:

"But the continued possession of nuclear forces remains at present fundamental to our security."

The second sentence of paragraph 212 seems to imply that we could entertain the concept of a balance of nuclear forces in Europe, and that in talking to the Soviet Union we are acting independently of the Americans.



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d. Defence Research and Development

Defence accounted for 53 per cent of Government-funded R & D in 1985-86. More than 30 per cent of this was on equipment development, mostly by private industry. There has been increasing concern at the pre-emption by defence of scarce scientific and technological skills, and E(A) decided last month that future defence R & D expenditure should be constrained in the downward path shown in the 1985 Long Term Costings. There are useful references (at the end of the essay on SDI in Chapter one, and in paragraphs 532 to 536) to the advantages of wider application of technology developed for defence purposes. It might be helpful to add some flavour of the E(A) decision by inserting at the end of paragraph 522:

"Increasing emphasis in defence procurement on international collaboration and on competition should make possible a continuing reduction in the proportion of procurement expenditure devoted to research and development. This is one way to secure more defence output from a given cash input, and would reduce defence needs for scarce scientific and technological resources urgently required in other parts of the UK economy."

(The Defence Secretary, the Lord President of the Council and the Secretary of State for Trade and Industry)

e. The Ulster Defence Regiment (UDR)

The essay on the UDR at the end of <sup>Chapter</sup> ~~paragraph~~ 6 will not greatly please the minority in Northern Ireland but its praise of the courage and commitment of the UDR is deserved and will be welcome to unionists - which in present circumstances would be useful. I understand that the Secretary of State for Northern Ireland, who is unable to attend the meeting, will be commending the inclusion of the essay in a letter to you.

I very much agree  
CDP

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CONCLUSION

5. Subject to discussion, the Committee might be guided to agree that the draft White Paper, taking account of any amendments agreed in discussion, should be circulated to the Cabinet for consideration on 10 April and thereafter, subject to Cabinet agreement, be published on 13 May.

*C L G Mallaby*

C L G Mallaby

14 March 1986



letter from his hon. Friend the Minister for Trade who expressed his complete opposition to the privatisation of the royal dockyards and warned of the fear that they might fall into the hands of strangers?

**Mr. Younger:** We always take the greatest trouble to ensure that in any changes this country's security of supply is maintained. It might be of interest to the hon. Gentleman if I remind him that since the 1930s the vast majority of military trucks used in this country have been bought from a company owned by Americans. That does not appear to have done us much harm.

**Mr. Nicholas Brown:** What assurances can the Secretary of State give to the Royal Navy and the warship building communities that they will not be the major victims of any expenditure cuts in his Department? When will he place the three type 23 warship orders that are scheduled for this year, and when will he order the fleet auxiliaries?

**Mr. Younger:** I have nothing to add to what my hon. Friends the Minister of State for Defence Procurement and the Parliamentary Under-Secretary of State for Defence Procurement have said about the orders in the debates which have taken place in the past two weeks. On security, I should have thought that all the hon. Member's constituents and those of his hon. Friend the Member for Dunfermline, East (Mr. Brown) will be looking with some dread at the possibility of the Labour party ever coming back into office, because there will be huge job losses in those constituencies.

**Mr. Hardy:** With chickens rapidly coming home to roost and Treasury forecasts of defence spending proving rapidly to be awry, would it not be as well for the Secretary of State to recognise the problem and to act or announce decisions upon it now rather than to wait for further time to elapse and for his predecessor's role to be forgotten?

**Mr. Younger:** With regard to recognising facts, the hon. Gentleman must recognise that after six and a half years of this Government, the defence budget is now approximately 20 per cent., in real terms, above what it was in 1979. We should put that against statements made by the right hon. Member for Llanelli (Mr. Davies) who has made it clear in debates that the Labour party has no intention of increasing the present levels of conventional spending. I do not believe that the hon. Gentleman has a leg to stand on.

**Mr. Wallace:** Does the Secretary of State accept that the so-called salami-slicing of defence spending, which is implicit in his answer, will continue to lower the morale of our forces? In recent months that has led to increasing numbers of resignations. Will he make a virtue out of necessity and announce the abandonment of the Trident project, which means not just high opportunity costs in terms of new conventional equipment but a considerable escalation in our nuclear fire power at a time when there is serious negotiation over deep cuts?

**Mr. Younger:** I do not accept most of the hon. Gentleman's premises. To abandon our Trident programme would be to make a most grave change in this country's future security. I think, but I am not sure, that his SDP allies propose not just to abandon Trident but to replace it with something else. I do not know where they would find the money for that.

**Mr. John Browne:** Does my right hon. Friend accept that deterrence is the product of capability times will and that cuts in defence give the impression to other nations that we lack the will to defend ourselves? Will he assure the House that future defence reviews will not contain cuts in effective spending and effective capability?

**Mr. Younger:** I understand my hon. Friend's point on future cuts. We have clearly laid out the provisions for defence for the next three years. I repeat that that starts from a position at least 20 per cent. higher than it was six years ago, thanks to the action of this Government.

**Dr. Hampson:** Will my right hon. Friend confirm that what he has just said means that there is a firm commitment to Trident? Will he comment on the recent press speculation on a review of or a delay in the Trident programme?

**Mr. Younger:** There is certainly a firm commitment to Trident. At present, the programme is on course. There is no change in the Government's position.

**Sir Anthony Grant:** In his review, will my right hon. Friend seek views on cruise missile deployment, especially from the Liberal party and the SDP, because it seems to be obscure at the moment?

**Mr. Younger:** I appreciate what my hon. Friend says. However I should make it clear that I am not conducting a review on the main components of our defence stature. I am considering ways in which the available cash can be worked into it. I believe that consulting the SDP and the Liberal party about their plans would be time-consuming and not a profitable exercise.

**Sir Nicholas Bonsor:** When my right hon. Friend reviews our defence requirements, will he bear in mind the importance of maintaining an adequate surface fleet, and will he consider the merits of the short, fat frigate design?

**Mr. Younger:** I appreciate my hon. Friend's point about the surface fleet, which we shall be taking into account. The design of future frigates is another matter.

**Mr. Dalyell:** In the work carried out by the right hon. Gentleman in preparation for the review, are any of the papers of the right hon. Member for Henley (Mr. Heseltine) or Sir John Nott denied to him?

**Mr. Younger:** I am not aware of any papers denied to me. I must again make it clear that I am not conducting a defence review in the terms that the Opposition consider it to be. I am examining the present position of resources. Some difficult decisions will have to be taken, but there will be no need for any change in our main defence posture.

**Sir Geoffrey Johnson Smith:** Is my right hon. Friend aware that we welcome his intention not to have a fundamental review on defence? The Opposition would welcome it, because they want to destroy a British independent deterrent.

**Mr. Younger:** My hon. Friend is perfectly right. The Opposition have done that twice in recent memory, and it has not done our defence any good.

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seen to be out of control by £1 billion. Is it not impossible to finance Trident and all the existing conventional commitments at the same time? Something must give—Trident or conventional defence.

**Mr. Younger:** What is taking place is the normal annual process of a review of the long-term costings of the defence programme. Regarding matching the two factors, one cannot undertake to buy everything that everyone wants in each department. There is no call for any fundamental review of our defence posture.

**Mr. Soames:** Will my right hon. Friend acknowledge that it is folly to pretend that there is no crisis in defence spending in Britain today? Does he agree that it is far better to have a defence review now to tackle the fundamental choices that must be made rather than to wait until the crisis becomes untenable?

**Mr. Younger:** I know my hon. Friend's long-held strong views on this subject. I assure him that, in my examination of the defence budget, I shall not leave anything to chance. I shall take the greatest care.

#### Procurement

5. **Mr. Willie W. Hamilton** asked the Secretary of State for Defence when he next intends to meet representatives of British defence manufacturers to discuss defence procurement.

**Mr. Younger:** I intend to chair the next meeting of the National Defence Industries Council on 27 February.

**Mr. Hamilton:** Does the right hon. Gentleman agree that the future of the Nimrod project is very much in question because of its escalating cost? That project is manufactured primarily by GEC. When the chairman of GEC, the right hon. Member for Waveney (Mr. Prior), makes representations to the right hon. Gentleman, does he speak on behalf of his constituents in Waveney, or is he earning his £60,000 a year as chairman of GEC?

**Mr. Younger:** Another question has been put down on this subject, but I can tell the hon. Gentleman that when my right hon. Friend the Member for Waveney (Mr. Prior) speaks to me as chairman of GEC, he is, of course, speaking for that company.

**Sir John Farr:** Can my right hon. Friend say whether the 50 or 60 per cent. of the content of Trident that is supposed to be British is being prepared and whether approaches are being made to British manufacturers to fulfil that proper percentage?

**Mr. Younger:** Of course, we are anxious to secure the highest percentage of British participation in this project, and we shall follow my hon. Friend's suggestion.

**Mr. Duffy:** At that meeting on 27 February, will the Secretary of State ensure that British defence manufacturers are fully alive not only to the contract and job possibilities open to them through the Nunn and Quayle amendments and the Weinburger memorandum, but to the longer-term threat posed by Gramm-Rudmen?

**Mr. Younger:** I have no doubt that that subject will be discussed at the meeting.

**Mr. Robert Atkins:** In connection with the procurement of the 155mm shell for the FH70, does my right hon. Friend agree that, were that procurement to have

been from a British company, the delay of 15 months that has surrounded this contract would have necessitated possible cancellation and second sourcing from another company? Why should it be any different when we are procuring the balance of the contract from Rheinmetall in Dusseldorf, which is harming many ordnance factories, including the one in my constituency?

**Mr. Younger:** I appreciate my hon. Friend's strong feelings on the matter, which affects his constituents, but, as he knows, those purchases are part of a work-sharing agreement, which is of mutual benefit to West Germany and Britain. It would be impossible to upset the agreement without causing great difficulties.

#### Fearless and Intrepid

8. **Mr. Dixon** asked the Secretary of State for Defence when he expects to announce the order of replacements for HMS Fearless and Intrepid.

**Mr. Lee:** In anticipation of the current specialist amphibious ships coming to the end of their useful lives in about the mid-1990s, we have, during the past year, been examining all the aspects of our future amphibious capability in relation to our overall defence needs. We expect to make a decision on our future amphibious capability later this year.

**Mr. Dixon:** Since it has been reported that the joint chiefs of staff have recommended the complete replacement of those two vessels, why does the Minister not accept their advice and place those orders as early as possible, preferably on the River Tyne, where the shipyard workers are looking for work from this Government, bearing in mind the uncertainty about the type 23 and the royal fleet auxiliaries?

**Mr. Lee:** I have nothing to add to my reply in terms of timing. The obtaining of any future orders will be a matter of competition. As the hon. Gentleman knows, we are evaluating tenders from Swan Hunter in his constituency and from Harland and Wolff.

**Mr. Allen McKay:** How much of the surface fleet will the Government let go to keep Trident? How much of the manufacture and maintenance of Trident will be carried out by British manufacturers?

**Mr. Lee:** We have every intention of maintaining a fleet of about 50 escort vessels.

**Mr. O'Neill:** Given that the Government will have only a cash review and that it is not fundamental, how can the Minister give any assurances about the size of the fleet or, indeed, the amphibious craft about which my hon. Friend the Member for Jarrow (Mr. Dixon) asked him?

**Mr. Lee:** The hon. Gentleman and the House need only examine our naval expenditure since 1979 to know that we have a record of which to be proud. We shall not let the conventional Navy down.

#### NATO Exercises

10. **Mr. Kirkwood** asked the Secretary of State for Defence if troops from the North Atlantic Treaty Organisation exercising in the United Kingdom are required to notify his Department of the equipment and weapons to be involved; and if he will make a statement.



PRIME MINISTER

DEFENCE WHITE PAPER

The Defence White Paper is to be taken by OD next week. You may like to glance at it over the weekend.

Generally speaking it is a well-presented paper which you will find generally acceptable. There are a number of useful essays including one on the UDR. Arms Control is dealt with satisfactorily.

I see only two problems:

*1/1 number (i) deleted. It just was enough would last time. no*

(i) you will not like paragraph 11 of the Essay on the SDI which reverts extensively to the Foreign Secretary's RUSI speech last year.

(ii) it is nowhere explicitly admitted that there will be a decline in real terms in defence expenditure over the next three years. This could give rise to accusations in the House that the Government is trying to obscure this fact.

I attach a note by the Policy Unit (A) and a brief by the Cabinet Office (B).

*C.D.P.*

Charles Powell

14 March 1986

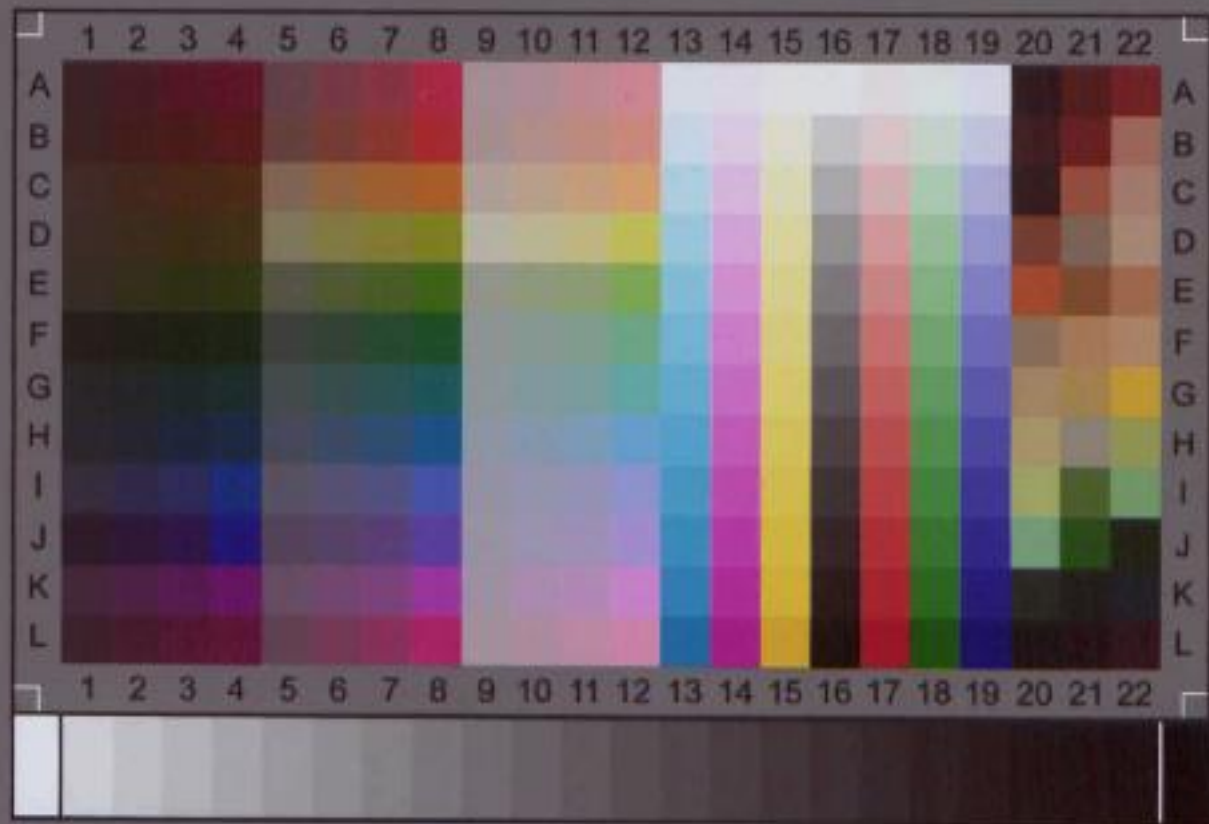


PART 11 ends:-

'Guardian' Article 21.5.85

PART 12 begins:-

CDF to PM 14.3.86



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