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DD(80) 25th Meeting

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DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 3 DECEMBER 1980 at 9.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 1)

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

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
(Item 1)

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary for Trade
(Item 1)

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
(Item 1)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 2)

The Rt Hon Michael Jopling MP
Parliamentary Secretary
Treasury
(Item 2)

The Hon Nicholas Ridley MP
Minister of State
Foreign and Commonwealth Office
(Item 2)

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

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1. DEFENCE SALES

The Committee considered notes by Secretary of State for Defence, Chancellor of the Exchequer and Secretary of State for Industry (OD(80) 70, 71 and 73) which described steps which were already being taken to stimulate overseas defence sales and proposed further action which ought to be taken. They also had before them a letter from the Secretary of State for Energy to the Secretary of State for Industry, proposing that his suggestion in OD(80) 73 that defence sales should be linked in some cases with the export of North Sea oil should be considered by the Ministerial Committee on Exports.

THE SECRETARY OF STATE FOR DEFENCE said that his proposals were intended to reflect a more positive approach to the task of increasing defence sales overseas. There was a need to strike a balance between conflicting military, economic and political factors. The Ministry of Defence were now placing greater emphasis on the sales potential of the equipment which was being developed and produced for our own armed services, although this process would not be carried to the extreme position prevailing in France where the interests of the armed services were in large measure subordinated to overseas sales considerations. The proposed Ministerially chaired working group would give greater impetus to defence sales and deal with difficult cases. It could be expanded as necessary to act on an interdepartmental basis.

THE CHANCELLOR OF THE EXCHEQUER supported the Defence Secretary's proposals, but suggested that greater stress should be laid on producing goods which the customer would buy. There were a number of examples such as the Type 22 frigate and Sting Ray, where British equipment was produced to such a high specification that it became too expensive for overseas customers, and other countries got the orders instead. A high proportion of the expenditure on research and development in the defence budget went on items which did not achieve a proportionate share of overseas defence sales. British industry was concerned that the Ministry of Defence too often sought the last degree of technical sophistication in the equipment which was being developed and produced for their use, to the detriment of its sales potential. There was also evidence to suggest that defence projects in industry were subjected to excessive monitoring and too many bureaucratic procedures.

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THE SECRETARY OF STATE FOR INDUSTRY endorsed the proposals made by the Defence Secretary and the comments of the Chancellor of the Exchequer, and particularly welcomed the establishment of the proposed Ministerially chaired working group on which he hoped the Department of Industry would be represented.

In discussion there was general agreement on the importance of increasing the present level of British overseas defence sales. The following points were made -

a. There was no easy solution to the problem of reconciling the military requirements to procure the best possible equipment with the commercial consideration of producing equipment with the best chance of achieving overseas sales.

b. There had been a significant improvement in the extent to which Ministers were briefed on defence sales matters when they were undertaking overseas visits. There was great scope for defence sales all over the world, particularly in the Middle East.

c. Compared to the French overseas defence sales efforts there was a tendency on the part of the Ministry of Defence salesmen to tell overseas customers what was available rather than to seek to adapt the product to the market. This was regarded as a task for British industry. There was a need for closer liaison between the Government and industry in this situation.

d. The overseas defence sales achieved in 1979-80 represented a major reduction on the level in the two previous years. This was due to the loss of a major market in Iran. The recent failure of British Aerospace to sell the Hawk to Egypt indicated both the existence of promising alternative markets and the need for greater efforts to exploit them.

e. Defence sales were a long-term business. But the Ministry of Defence's ship designers were now working on a frigate which would have commercial prospects in due course. It was also sometimes necessary, as in the case of the Armoured Personnel Carrier, to support British industry by procuring more expensive defence equipment than was available on the

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international market and which therefore lacked overseas sales potential. The relationship between British defence industries and the Ministry of Defence was a good one.

f. Despite the need to increase overseas defence sales, some foreign policy constraints were bound to be observed. Britain could not be seen to be stimulating international conflict or taking sides in existing wars by the nature of British defence sales. There were also countries which because of their record on human rights or the general irresponsibility of their rulers could not be regarded as a suitable market for British defence equipment.

THE PRIME MINISTER, summing up the discussion, said that the Committee were fully agreed on the importance of stimulating overseas defence sales to provide a springboard for the export efforts of high technology industries. Although it was not easy to reconcile the needs of the British Services for sophisticated and expensive equipment with the needs of other markets which might be less demanding, it was important in the national interest to strike the right balance. Defence equipment could not be sold abroad if the British Services refused to accept it for themselves. The stimulation and support of overseas defence sales was a matter in which all Ministers should take an interest.

The Committee -

1. Took note of the work already in hand to stimulate defence sales described in OD(80) 70.
2. Agreed that the merits of creating a link between exports of North Sea oil and defence sales should be considered by the Ministerial Committee on Exports.
3. Invited the Secretary of State for Defence -
 - i. in consultation with the Foreign and Commonwealth Secretary and Secretary of State for Trade to exploit all possible opportunities to extend overseas markets for defence sales.
 - ii. To establish the Ministerially chaired working group proposed in paragraph 10 of OD(80) 70.

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- iii. To ensure that cases of difficulty arising from overseas defence sales were brought up for prompt consideration by the Ministerial Committee on Exports.
- iv. To ensure that overseas defence sales were supported by an appropriate programme of Ministerial visits.
- v. To continue to seek as a matter of high priority to increase the present level of overseas defence sales.

2. FALKLAND ISLANDS

Previous Reference: OD(80) 23rd Meeting, Item 1

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIDLEY) said that, as agreed by the Committee at its meeting on 7 November, he had visited the Falkland Islands in order to discuss with the islanders' leaders the "lease-back" proposals discussed at the Committee's previous meeting as a possible basis for a resolution of the dispute with Argentina. It had been necessary to outline in public the nature of these proposals, not only because of reports which had appeared in the Press but also because the islanders' leaders would not otherwise have been able to canvass local public opinion on the subject. He had therefore made a statement in the House of Commons on 2 December. His visit had indicated that there was vociferous minority opposed to any moves towards settling the dispute; another minority which wanted a settlement on the best terms available (including the "lease-back" basis, if that was the most favourable basis for making possible the development of the resources of the islands); and a majority which was still undecided. Most of the islanders seemed to favour a settlement being reached, but had not so far been willing to consider the terms on which this might be possible. The islanders' leaders would be letting him have their considered reaction in about six weeks' time. Left to themselves, they might well have concluded that a settlement should be sought, but the hostility with which his statement had been received on both sides of the House of Commons now made this less likely.

In discussion the following points were made -

- a. In Her Majesty's Government's view, there was no legal doubt about British sovereignty over the islands. This view was not accepted by the Argentine Government, but they were unwilling to see the matter referred to the International Court.
- b. There had been good reasons for the Government's decision to explore the possible basis for a settlement which, because they underlined the extent of the islands' dependence on Argentina, it was impossible to develop in public.

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c. It would be necessary, in the islands' own interests, to keep the Argentine Government in play. The latter would no doubt be content to wait until the islanders' considered views were known, but they would not be easy to handle thereafter, if the islanders rejected any idea of seeking a settlement.

d. Feelings in the House of Commons were extremely strong, not least among the Government's own supporters. It was disappointing that the latter had not stood by the more open-minded attitude they had taken when consulted informally by the Minister of State before his visit. Although their present stance was not necessarily irreversible, there was a real danger of it becoming so. It was important to make clear that the Government would afford the islanders full support if they decided in favour of the status quo.

e. Opinion in the islands and in Parliament was exercised about the position under the Government's forthcoming Nationality Bill of those islanders who were not patrials. These were believed to constitute about one-third of the population. It might be necessary to grant them an automatic right of access to the United Kingdom. Such a decision, however, might have unwelcome repercussions elsewhere and might even be taken as a sign that the Government were encouraging the islanders to leave in preparation for a sell-out.

f. It appeared that the islanders were getting an inadequate rate of interest on their deposited savings, which amounted to about £2 million. It was not clear how far the Government were responsible for this. More generally, the islands lacked adequate facilities for raising capital for development. The Shackleton Report might be relevant in this context.

THE PRIME MINISTER, summing up the discussion, said that the Committee would wish to resume consideration of the subject when the islanders' leaders had reported further on local opinion. Unfortunately, Parliamentary hostility to the idea of a settlement was now so strong that, even if the islanders' considered view was that one should be sought, this might be regarded as

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merely the result of pressure from the Government. It should therefore be made quite clear that, if the islanders favoured maintaining the status quo, they would be fully supported. Further thought would need to be given to the way in which the proposed Nationality Bill would affect the islanders; to the adequacy of arrangements for their savings deposits and for their capital needs; and to the continuing problem of how to maintain contact with the Argentine Government if the islanders were to reject current ideas for a negotiated settlement.

The Committee -

1. Invited the Foreign and Commonwealth Secretary to report further when the islanders' considered reactions to the Minister of State's suggestions were known.
2. Invited the Foreign and Commonwealth Secretary to give further consideration to the future course of contacts with the Argentine Government.
3. Invited the Foreign and Commonwealth Secretary and Lord Privy Seal to arrange for Parliament to be reassured as to the Government's readiness to sustain the status quo if this proved to be the islanders' choice.
4. Invited the Home Secretary, in consultation with the Foreign and Commonwealth Secretary, to give further consideration to how non-patrial islanders should be treated under the proposed Nationality Bill.
5. Invited the Foreign and Commonwealth Secretary to investigate, in consultation with the Chancellor of the Exchequer, the adequacy of existing arrangements for paying interest on the islanders' savings deposits and for raising capital for the islands' development.

Cabinet Office
4 December 1980

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