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PRIME MINISTERDEFENCE ESTIMATES 1981/82

I must report to you the present position on the 1981/82 Defence Estimates.

2. Special factors make matters unusually difficult. The recession has to an unprecedented degree concentrated industrial effort on the defence programme. We must expect this to continue next year, invalidating assumptions made in earlier costings about the likely shortfall in industrial production. On this score alone we have had to find specific programme reductions of £360M at 1980 Survey prices. In addition, real costs have arisen. The Cabinet's November decisions require a further cut of £200M. Large though the defence budget is, it is a formidable task now to make cuts on the necessary scale at short notice from a programme where so much has to be committed well ahead.
3. Extensive savings were already in hand. For example, we shall make a further cut in UK based civilian employees of over 6,000, to add to a reduction of over 16,000 in 1980/81. But I have no alternative but to cut the front line, reduce war stocks and reserves, rein back Service recruitment, training and exercises, and prune future equipment programmes, with inevitable effects on industry. Annex A sets out the main measures I have already decided upon. These, with others not listed, will affect almost every aspects of defence activity, and the effects will be felt for years to come, for example a permanent reduction in the size of our destroyer and frigate force.
4. The measures so far decided would leave us still over £100M short of the target. I am considering the further measures at Annex B to close the gap. They include abandoning our recently announced plan for a third Lightning squadron for UK air defence; disbanding 41 Royal Marine Commando, which the previous Government specially reprimed; cancelling British Aerospace's Sea Eagle missile; and severe cutbacks in shipbuilding, entailing widespread redundancies. All of these items are highly visible and sensitive politically. If however I do not proceed with



these measures I shall have to find others, which we cannot expect to be less painful. This is the stark message which the Chiefs of Staff gave you when you met them last month.

5. My officials have had discussions in confidence with those major firms most significantly affected, and have kept in close touch with the Department of Industry. Major problems in the shipbuilding industry could well lead to sharp contraction of our surface warshipbuilding capacity and the direct loss of up to 15,000 jobs in the next three years. There may also be serious difficulties for the aircraft and guided weapons industry (notably at BAe, with implications for flotation), the helicopter and military vehicle industries, and some of the Royal Ordnance Factories, where numerous redundancies have already been declared and more are to come. Prospects in the electronics industry will also be hit, with particular damage in specific areas (like the electro-optical industry). It is not yet possible to specify the total loss of jobs but it will be very substantial.

6. We must present our decisions carefully with our Allies, the public and Parliament (including the House of Commons Defence Committee, which has asked for a note on the £200M cut by 9th January). I shall personally be co-ordinating the detailed handling. Many of the measures need early action if we are to save the money, but they do not all need specific announcement. It may be possible to hold some items for the "natural" occasions of our 1981 Defence White Paper (probably mid-April) and our routine July input to the NATO Defence Planning Questionnaire. Some of the many items with major industrial effects will however (when confirmed) have to become public fairly soon; and some of the near-term frontline changes have to be specially reported to NATO. I shall seek to play this last aspect in low key, but even if we succeed in muting Alliance reactions we must expect a bad reception in Parliament damaging to our overall national stance in defence, and to the particular areas of the country affected by the cuts.

7. In our public handling we must stress our commitment to continued real growth in defence expenditure, and the creditable character of our NATO contribution in the round. We can point to valuable advances we shall still be making in our defence capability in 1981/82. But we must ourselves recognise that the total effect of these measures is severe; that it will moreover extend heavily into later years; the repercussions, and those of projecting the £200M cut beyond 1981/82, will be heavy in later years; and that these facts cannot be hidden. As the Chiefs of Staff told you, they believe a broad re-appraisal

SECRET



of the pattern of our future defence effort is unavoidable.

8. I am also profoundly concerned about the consequences of a cash overspend this year, coming on top of the reductions I have described above. It is only the equipment Vote that is affected and I am looking hard at the implications which a continuation of present economic conditions could have for our future defence programme. I shall be minuting you about this in the New Year.

9. I am sending a copy of this minute to the members of Cabinet and to Sir Robert Armstrong.

Handwritten initials

Ministry of Defence

23rd December 1980

SECRET

DEFENCE CUTS 1981/82

	£M	
1. Tri-Service measures -		
a. Recruiting	12.2	Prolongs undermanning. Structural disruption. Loss of recruiting in good years before demographic trough.
b. Fuel stocks	50 (approx)	Affects war readiness and compliance with NATO standards.
c. B vehicles (general purpose, load carriers etc)	35.3	Vehicle shortages. Retention of over-age vehicles, leading to uneconomic repair. Industrial implications still under examination.
2. Sell/scrap 1 cruiser and 2 frigates	2.0	Affects declarations to NATO
3. Sell 1 additional stores ship (TARBATNESS)	3.9	
4. Sell or scrap 5 Tribal class frigates	8.9	Affects declarations to NATO
5. Dispose of HMS BULWARK 6 months early	2.6	Affects declarations to NATO
6. Disband 781 Sqn (Communications) and close fixed wing function at Lee-on-Solent	2.7	Staff Side and Trade Union interests, strong local issue
7. Recast ship repair programme: cancel conversion of NORFOLK and sell (82/83). Defer ANTRIM 1 year. Delay BACCHANTE's modernisation	4.1	Industrial implications
8. Reduce Royal Marines winter training	1.9	Affects specialist reinforcement to vulnerable area of NATO
9. Territorial Army - training, works etc	9.5	Detracts from emphasis placed on reserve forces in 1980 Statement on Defence Estimates



	£M	
10. Slow down computerised artillery target engagement system (BATES) by 1 year	1.4	Delays enhancement of artillery effectiveness in BAOR
11. Slow down delivery of mines (BARMINE)	1.4	Affects war maintenance reserve
12. Blowpipe air defence missile cancel some improvements, delay others and defer some production	4.0	Will affect Army's air defence capabilities. Industrial implications for Shorts still being examined
13. Reduction of strike Vulcans by 1 squadron equivalent, brought forward	5.5	Affects declarations to NATO in long range theatre nuclear capability. Also national strike cover.
14. Run down Canberra Photographic Recce squadrons early	1.0	Affects commitments to NATO
15. Hold Buccaneer establishment to 24	0.4	RAF maritime/strike attack capability to be reduced by one-third
16. Reduce long-range maritime patrol, Vulcan, fast jet and communications flying	31.4	Reduced capability to meet Service tasks, Fast jet measures must affect operational standards.
17. Defer purchase of 14 Jetstream and further 18 Hawk	17.2	Industrial implications
18. Defer electronic counter-measures for Jaguar	4.1	Reduces planned future capability of Jaguar
19. Reduction in Shackleton Airborne Early Warning Force	1.0	Affects declarations to NATO (Nimrod AEW not due until 1984/85)
20. Extensive further cuts in works programme for all 3 Services (other than TA)	91.7	Major industrial implications for the construction industry, felt in many parts of Britain. Very few new contracts will be let, and will take many years to recover ground lost. Comes on top of long series of works cut-backs, leading already to a seriously run-down defence estate.

DEFENCE CUTS 1981/82 -
MEASURES TO BE CONFIRMED

	<u>£M</u>	
1. Disband <u>41 Commando Royal Marines</u> , close <u>Deal</u> and reprovide some facilities at Eastney	3.4	
2. Do not form 3rd Lightning squadron or increase establishments of existing squadrons	3.4	
3. Cancel <u>Sea Eagle</u> , putting Staff Requirement into abeyance	29.7	
4. Cancel Sky Flash Mark II, abandonment of air defence improvement already announced. Gap until advance weapon available late 80's or early 90's	11.0	
5. Shipbuilding measures -		
a. Defer 2 mine counter-measure vessels, drop <u>planned</u> order for 6 and advance the single role mine hunter programme	7.5	
b. Order nuclear submarine SSN16 to maintain build-up to <u>Trident</u> , defer SSN 17-19, do not order SSN 20 or proceed with second SSN building stream	11.1	
c. Defer SSN OZ by <u>4 years</u> and conventional submarine SSK 01 by 1 year	7.0	
d. Defer Type 23 programme by <u>1</u> year and Type <u>44</u> by 5 years	14.2	
e. Drop planned order of Type 22-07 and stretch later orders	14.0	
f. Seabed Operations Vessel - stop work after launching	18.0	
g. Defer minesweeping (EDATS) trawlers 3 years	2.6	
6. Disband Nimrod (R) force	7.0	

Cannell - Laird

Scott Lithgow.

Vosper-Thornycroft.