

Meeting  
31<sup>st</sup> Dec  
afternoon

SECRET

PRIME MINISTER

Chie

what is  
the 500 -  
how much saved  
how much saved (not  
M.O.D) does it  
list by  
M.I.

How much saved (not  
M.O.D) does it  
list by  
M.I.

Defence Expenditure 1981/82

The minute which we have been expecting from Mr. Pym about cuts in the defence programme next year has now arrived: it is the longer of the two minutes in the attached folder. He has also sent you another, shorter minute, emphasising that he is fully alive to the political significance of the reductions which he sees as unavoidable.

In his longer minute Mr. Pym says that, so far, he has been seeking programme cuts next year totalling £560 million. This is made up of the £200 million reduction decided upon by the Cabinet last month, together with a reduction of £360 million which he believes he must make now if he is to avoid next year the kind of overspending which he has incurred this year because industry is completing defence orders much more rapidly than it normally does. This is a very large sum to find in a year which will begin in only three months time, and some of the measures which Mr. Pym believes he will have to take to find this saving are going to be painful politically, industrially and militarily.

He has already had to decide, as part of the process of completing next year's Estimates, on a large number of measures, and these are set out in Annex A to his minute. But these do not give him all he needs, and in Annex B he lists the options he is still considering. These are plainly much more difficult than those in Annex A: they include the possible cancellation of Sea Eagle and Sky Flash Mark II and reductions in the shipbuilding programme which have already been foreshadowed in the Press.

I believe that the measures in Annex B are such that you should discuss them with Mr. Pym before he goes any further, and I have told his office this. Because they are working to finalise the list of cuts with a view to submitting their Estimates to the Treasury by 9 January, they would like any meeting to be held

/as

SECRET

t//

SECRET

- 2 -

as soon as possible. Mr. Pym could see you on Wednesday 31 December (when you are in London and are free in the afternoon) or on Monday 5 January (which would involve you in returning to London from Chequers rather earlier than I think you are at present planning). Either date would give the MOD time to get their Estimates completed. Do you want to see Mr. Pym? If so, which day do you prefer?

If you have a meeting, you ought ideally to have Lord Carrington and Sir Keith Joseph there. Lord Carrington will be in this country next week but not the week after; whereas Sir Keith Joseph is abroad next week but back the following week. Whichever date you have the meeting, therefore, one of them will have to be represented by a junior Minister.

You still have to reply to Mr. Buck's letter seeking a meeting with you to discuss the defence programme. Mr. Pym thinks that you should see the officers of the Defence Committee, and Ian Gow and I believe that this is right. If you agree, it would be preferable for you to meet them in the week beginning 5 January: Mr. Pym will still be in London that week before he leaves on 11 January for the Gulf, and if decisions on the Annex B measures are taken next week or at the very beginning of the week beginning 5 January, there is a risk that they will start to leak by the week beginning 12 January and the Defence Committee will realise that they are too late to influence the course of events. But it will no doubt be difficult for the officers of the Defence Committee to come together for a meeting in that week, and they are much more likely to prefer to come to see you in the following week when the House reassembles. I enclose a letter for you to send to Mr. Buck which I have cleared with Mr. Pym's office.

You also have to reply still to Mr. Cranley Onslow's letter on the possible cancellation of Sea Eagle. I have revised the earlier reply you were given to take account of the latest developments, and the re-draft is also enclosed.

HW.

24 December 1980

SECRET