

Prime Minister.

? Over 01)
to approve.
There are important
decisions that
we have to carry out
with us. Will take
up the point at
the meeting.



MO 8/2/12

PRIME MINISTER

DEFENCE ESTIMATES 1981/32

As NOK compares most of the
Pym's proposed savings. There
he does not want to make
(including Sir Eagle) add up to
£40M; and he makes no proposals
for closing the gap. We shall have
to discuss how to deal with this
at Monday's meeting.
fall
16.19.

As you know, I believe that it would be right for me to make an early Statement of the further adjustments to the Defence Programme necessitated by the agreed reduction in Defence Expenditure for 1981/82. If we try to avoid giving such an indication until the publication of this year's Statement on Defence Estimates (and until your return from seeing President Reagan at the end of February) we will be subject, I believe, to a steady stream of publicity about cuts and speculation about our intentions which would be far more damaging than any adverse impact of a statement outlining the totality of the necessary measures. There is in any case no way in which I can avoid being drawn into comment next Tuesday, 20th January, when I am down for first order PQs.

2. Subject to your views, therefore, and to discussion at your meeting on Monday, I would propose to make a Statement after Questions next Tuesday on the lines of the first draft at Annex I to this minute.

3. We have a good story to tell. And my aim is to change the mood in which, because of the earlier leaks, this debate has been conducted over the past three months. Instead of the gloom which surrounds the "battle" between the Treasury and the Ministry of Defence we must get everyone talking about the tremendous contribution which this country is making to the Alliance - and the vast programme of new procurement in the next financial year.



We can present the story in a way which will encourage NATO and President Reagan. My statement is drafted on that basis.

4. On the substance, we are all agreed on the measures in Annex A to Francis Pym's minute of 23rd December which for convenience I reproduce as Annex II to this. Annex B of his minute identified measures which he was considering in order to close the gap which remained after the other savings (in his Annex A) which he had taken. Of these I am prepared, although with misgiving, to amalgamate 41 Commando Royal Marines with other Commandos, (although we will keep the Royal Marine School of Music at Deal for the time being); abandon plans to form an extra peacetime Lightning Squadron although I am considering the formation of a "shadow squadron" at negligible cost which could be found out of training units in time of tension; and to cancel the Skyflash Mk 2 missile although we will keep the technology alive with a small programme. Subject to further study, which is in progress, I also accept disbanding the special Nimrod Squadron. On the other hand I cannot accept that it is right to decide now on the cancellation of Sea Eagle - I believe that this project must continue for the time being, though I do not exclude the possibility that when I have reviewed the longer term programme later in the year I may have to cancel it, despite its operational and industrial importance. From the shipbuilding list I will implement about half the savings in Annex B of Francis' minute, including the Type 44 destroyer. These reductions will have immediate industrial consequences, particularly for the viability of Cammell Laird. I do not, however, think it right to take the remaining shipbuilding measures which Francis identified since they would have very damaging operational and industrial consequences,



/ particularly for Vosper and Scotts. For convenience I summarise at Annex III to this minute the savings which we must make.

5. The remaining gap is some £40M, and I have given much thought to how it could be closed. It could be narrowed by imposing yet greater cuts in 1981/82 on the activity of the Services eg cancelling training, (including TA training), flying and necessary stores, more than we plan already. But this kind of measure is deeply damaging to the efficiency and morale of the Services and I cannot recommend it. The alternative is yet further cuts in planned orders for new equipment, eg the shipbuilding measures which I have already referred to, or in our present force levels. An illustrative list of the kind of measures I would have to contemplate (but on which I have not yet had the advice of the Chiefs of Staff) is at Annex IV.

6. But I do not think it right to embark on yet further cuts of this kind which would have potentially the most serious consequences, both short and long term, at a time when I have still to appraise the long term defence programme. That decisions on the allocation of our resources are needed I do not doubt, but I am most concerned that these should be taken only after most careful and realistic examination of what needs to be done (and I have had today my first all day meeting with the Chiefs of Staff) and not in the context of a hurried and short term adjustment of expenditure figures.

7. I invite agreement to making a Parliamentary Statement on 20th January in the terms of my draft at Annex I; as regards Annex IV, closing the remaining gap presents me with very great



difficulties. I shall need to reflect further on how they may be resolved and, if necessary, consult my colleagues again. But I should welcome any views you and they may wish to express.

8. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Industry; and to the Secretary of the Cabinet.

JW

Ministry of Defence

16th January 1981

DRAFT

ANNEX I

1. Mr Speaker, with your permission I would like to make a statement about expenditure on defence.
2. In the financial year 1981/82 defence expenditure should rise to £9753M at 1980 Survey prices. This figure is about 8% more in real terms than the defence out-turn in 1978/79, the last year of the previous Government. So far as this year is concerned we may exceed the $3\frac{1}{2}\%$ percentage rise in 1980/81 but until the out-turn is clear we cannot assess the distribution of growth between this year and next. In cash terms, although the cash limit has not yet been finalised, next year's defence budget is expected to be of the order of £12.3 billion, more than £1 billion higher than the budget this year.
3. The scale of the increase, in relation to the containment of expenditure on other programmes, fully accords with the Government's expressed determination which I re-affirm today, of giving the highest priority to our defence in the face of the growing threat from the Warsaw Pact. It also represents an increase in defence expenditure per head and raises still further the proportion of our GDP devoted to defence, which is already much higher than that of our main European allies, and close to that of the United States. Let me make it plain beyond doubt that I share without qualification the objectives stated by my predecessor in the House to sustain and improve the front line quality of our forces and our contribution to the Alliance, which remains the cornerstone of our security and the ultimate safeguard of our freedom against any aggression.

4. In accordance with these objectives, I can confirm that next year the major programme of improvements will continue. Even after trimming recruitment, there will be over 5,000 more regulars in our Services than in this financial year. A nuclear powered fleet submarine, two new air-defence destroyers, an anti-submarine frigate and several other vessels will enter service; other new warship orders, including anti-submarine carriers, nuclear-powered submarines, destroyers and frigates, together with major maritime weapon systems such as Stingray and Sub-Harpoon, will be moving forward; substantial further orders for ships and other naval equipment will be placed; and the Trident programme is under way. The Army's new Challenger tank, the new armoured personnel carrier, the Milan anti-tank and Rapier and Blowpipe air defence systems and the Ptarmigan and Clansman communications systems continue in procurement. Deliveries under the very large Tornado programme, the core of the RAF's future capability, will be accelerating. Contrary to some reports, development work on the Sea Eagle anti-ship missile will continue. Large sums will be spent on the Nimrod airborne early warning aircraft, improvement of our Harrier and Jaguar capability, and air-to-air defence missiles. We spend a bigger proportion of our defence budget on major equipment than any other NATO country - next year over £4000M, which will sustain hundreds of thousands of jobs, many in the highest fields of technology.

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Phase
in 1985
the
programme
could
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5. Nevertheless, there remain hard choices, for next year and further ahead. The problems are well known to the House, but they are worth recalling briefly. The real cost of defence equipment, much of it inevitably highly sophisticated to counter the threat, continues to rise. The recession has led industry to concentrate more heavily on defence work, ^{which means that} with continuing ~~payment issues~~ effects on our cash flow. With so much of the programme already committed, it is not easy to make adjustments quickly to respond both to these factors. Defence, like other Departments, has to make adjustments every year, in all sorts of ways, to fit its programme to planned expenditure, but for the reasons I have given the scale this year is more extensive than usual. In order to avoid continuing speculation and uncertainty harmful to the Services and to industry, I think it right to give the House an early indication of the character of the adjustments and before the Defence White Paper is published.

6. The main changes which I propose accelerate the phasing out of some older equipment, the deferment of certain equipment procurements, the trimming of our works and training programmes, and further reduction of overheads; in essence, to concentrate our resources where they are most valuable.

7. Some older ships of the Royal Navy will be sold or scrapped; HMS Bulwark will be disposed of about six months earlier than planned; and planned reductions in the Vulcan force and Shackleton airborne early warning aircraft and the rundown of Canberra photographic reconnaissance squadrons will be accelerated.

There will be some adjustment to the forward warship construction programme. Logistic support road₃ vehicles, Jetstream and Hawk

aircraft orders will be deferred. The Skyflash Mk 1 missile will continue, but instead of the Skyflash Mk 2 we will proceed with a programme to demonstrate a new technology for short-range air-to-air missiles. To save overheads, No 41 Commando will merge with the other Commandos, without reduction in the present overall strength of the Royal Marines and with a Royal Marine presence remaining at Deal. The Naval Communications Squadron at Lee-on-Solent will be disbanded. The extra Lightning squadron will not be formed as planned but we shall provide for a squadron to be found out of training units which could rapidly be made operational in emergency.

8. I turn now, briefly, to the future beyond next year's Estimates. The 3% annual growth in resources will continue from the revised 1981/82 baseline. Even with this increase in expenditure however, we face, as do other countries a major task in matching resources to our clear defence needs - a task made more difficult for us than for other countries because of our low growth. Talk of apocalyptic choices between key defence tasks is wide of the mark; but we must, over the next year ~~or~~ ^{so}, look realistically at our programmes to ~~see~~ ^{what needs to} be done. We shall do this in an Alliance context and, we hope, in close concert with our Allies: But let it be clear that whatever our economic problems, the maintenance of effective security within and through the Alliance remains an overriding commitment of this Government.

DEFENCE CUTS 1981/82 (ALREADY AGREED)

£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 (Communi-
cations) 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 rein-
forcement 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 TAKEN

	<u>£M</u>
1. Merge 41 Commando Royal Marines with other Commandos and contract facilities at Deal	3.4
2. Do not form 3rd Lightning squadron or increase establishments of existing squadrons	3.4
3. Cancel Sky Flash Mark II but continue with technology demonstration programme	11.0
4. Shipbuilding measures -	
a. Drop planned order for 6 MCMVs and advance for single role mine hunter programme (Vospers/Yarrows)	4.0
b. Order nuclear submarine SSN16 to maintain build-up to Trident, defer SSN 17-19, do not order SSN 20 or proceed with second SSN building stream (Vickers)	11.1
c. Defer SSN OZ by 4 years and conventional submarine SSK 01 by 1 year (Vickers)	7.0
d. Defer Type 44 (Yarrows)	10.0
5. Disband Nimrod (R) force	7.0

FURTHER MEASURES FROM WHICH ITEMS TO CLOSE THE REMAINING GAP WOULD
NEED TO BE CHOSEN

Shipbuilding

£M at 1980 Survey Prices

- | | | |
|----|--|------|
| a. | Defer order for 2 mine counter-
<u>measure vessels (Vospers or Yarrows)</u> | 2.2 |
| b. | Suspend <u>Seabed Operations Vessel</u>
(Scott and Lithgow) | 10.2 |
| c. | Drop order for Type 22-07 (Yarrows) | 11.9 |
| d. | Defer minesweeping trawlers | 2.4 |

Force Reductions

- | | | |
|----|--|------|
| a. | Lay up 8 Destroyer/Frigates
1 Fleet Tanker and 1 Stores
Support Ship | 12.0 |
| b. | Further reduction in Vulcan forces
(affects declarations to NATO) | 7.5 |
| c. | <u>Reduce VC10 force by 3 aircraft</u> | 5.0 |

 51.2

? effects on
navigation?
Shant?