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Ref. A04917

PRIME MINISTER

Timetable -

The Defence Programme

The Secretary of State for Defence has sent you three minutes, all dated 14th May, as a basis for the discussion which you will be having on the evening of Monday, 18th May with himself, the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Industry. The Secretary of State for Defence's aim is to obtain your endorsement in general terms of the way in which he is tackling the problem of bringing the defence programme into line with the resources which are likely to be available.

2. The Secretary of State for Defence intends to prepare a paper for the consideration of OD based on the conclusions reached at your meeting on 18th May. We could take this in OD at one of the meetings already provisionally arranged, on Monday, 1st June or Monday, 8th June. The Secretary of State for Defence's timetable envisages that NATO allies will be consulted in early June and a public announcement and publication of a White Paper will follow in early July.

① 3. His three minutes consist of a detailed report on the progress of the examination so far, a minute on the particular problem of HMS Ark Royal, and a personal minute explaining the underlying reasons for the proposals he is putting forward. You may like to use this latter document as the main basis for discussion on Monday, and suggest that attention on this occasion should concentrate on the following three basic questions:-

- (a) Are the resource assumptions set out in paragraph 5 of the main report generally agreed?
- (b) If they are, are the Secretary of State for Defence's plans for bringing the programme into line with them the right ones in terms of the national interest?
- (c) Can these plans be successfully presented to the Government's supporters, the general public and NATO allies, particularly the United States?

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4. Clearly the discussion must both begin and end with question (a). On this, there are no firm figures for the cost of the Secretary of State for Defence's proposals, but the thrust is clear: in the long run they would significantly reduce the rate of growth of the defence programme and therefore of the share of GDP consumed by it; but in the short run - the next three years - not only would there be no further savings on defence, but the Secretary of State would require a commitment to the existing figures in real terms plus additional provision of the order of £200 million a year for Trident. Can the Chancellor - or indeed the Government - live with that?

5. In relation to question (b), in broad terms it is the Secretary of State for Defence's intention to impose marginal reductions on the Army and RAF programmes but to cut the surface fleet very severely. In effect the surface fleet is being cut in order to pay for Trident. This may be the best way of presenting it. Although Trident is not an instrument of sea power, the weapon platform is a submarine and therefore the addition of this potent weapon to the Royal Navy may be seen by many as an adequate compensation for the proposed reduction in surface ships. Even so the proposed reduction in naval manpower of nearly one-third by 1991 and the proposed closures of Gibraltar and Chatham dockyards and the sharp reduction in the size of Portsmouth dockyard will all be very bitter pills to swallow, particularly for the sitting Conservative Members for Portsmouth and Chatham. What is more, the frigates and destroyers of the surface fleet have probably been of greater operational value ~~ous~~ in the last ten years than the submarine fleet: if you were sending ships to the Gulf, for instance, frigates might be more to the point than submarines.

6. The other main point which arises under question (c) is the likely attitude of our allies, particularly the United States. In the original Trident agreement President Carter laid great stress on the importance of the United Kingdom continuing to improve its conventional forces. It is going to be very difficult to persuade the United States that the United Kingdom is actually doing this in the light of their proposals, and at the same time move from the proposed procurement of the Trident I system at £5 billion to the Trident II system at £6 billion (at this stage Trident II is simply a working assumption. The Secretary of State for Defence will be reporting on this issue within the next two months).

HANDLING

7. You will wish to ask the Secretary of State for Defence to introduce his three papers. You may then like to suggest that subsequent discussion should concentrate on the three questions set out at (a), (b) and (c) above. Subsequent discussion should cover the following points:-

- (i) How does the Secretary of State for Industry assess the overall industrial effects particularly on British Shipbuilders and British Aerospace of the proposals put forward by the Secretary of State for Defence?
- (ii) Do the Ministers present agree with the general thrust of the Secretary of State for Defence's argument that it is the surface fleet which must bear the main brunt of the reduction? This may be difficult. When OD discussed the defence programme on 8th July 1980 there was a strong disposition to argue that in the long term it was in Britain's national interest to concentrate on her maritime defence effort. The Lord Chancellor held this view particularly strongly and the Foreign and Commonwealth Secretary has been heard to express similar views.
- (iii) Does the Foreign and Commonwealth Secretary believe that these proposals can be presented successfully to NATO allies, particularly the United States?
- (iv) To the extent that either the Chancellor of the Exchequer argues that the demands of the defence programme are still too high, or Ministers believe that some of the proposed reductions go too far, are there any alternative reductions which the Secretary of State for Defence should be asked to consider?
- (v) In regard to the Secretary of State for Defence's separate minute to you of 14th May about HMS Ark Royal, you may like to invite the meeting to endorse the line which he proposes he should take i. e. to investigate the possibility of the Australians buying or leasing either Invincible or Illustrious. You may equally wish to endorse the Secretary of State's proposed rejection of HMS Britannia as a possible saving.

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8. Subject to points made in discussion, you may like to conclude the meeting by inviting the Secretary of State for Defence to prepare a paper for circulation to OD reflecting his proposals.

9. The Chiefs of Staff present a problem. You may like to deal with it by proposing that after Monday's meeting but before the OD discussion the Chief of the Defence Staff and all three Chiefs of Staff should come and see you with the Secretary of State for Defence to discuss the proposals. As the CGS and CAS will broadly agree with what is proposed and the CDS will probably sit on the fence, the CNS will be left in a minority of one, and my present impression (it can be no more) is that he will not press his unhappiness to the point of resignation. In subsequently presenting the proposals in public you should be able truthfully to say that you have taken due note of the views of your professional military advisers in arriving at these conclusions. This course of action might also greatly ease the Secretary of State for Defence's position within his own Department. But I gather that Mr. Keith Speed - the Parliamentary Under Secretary of State for Defence for the Royal Navy - might feel the need to resign.

RA

ROBERT ARMSTRONG

15th May, 1981

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