

Ref: B06220



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PRIME MINISTER

The Defence Programme  
(OD(81) 29 and 31)

BACKGROUND

The proposals in the Defence Secretary's paper OD(81) 29 were foreshadowed at your informal meeting with him and other colleagues on 18th May, and were the basis of your meeting with the Chiefs of Staff on 3rd June. They are the outcome of the radical review he has conducted internally in the Ministry of Defence. They call for crucial and controversial decisions. A special Cabinet meeting on the subject has been arranged for 17th June. Mr Nott then plans to announce the key decisions in July, after informing Allies.

? 2. The key issue is Mr Nott's request for either a 3 per cent annual increase in volume terms up to 1985/86 plus an average supplement of about £200 million a year specifically for Trident (the fast adjustment option) or a 3 per cent annual volume increase for two years longer i.e. to 1987/88 but no Trident supplement (the slow adjustment option). In return for either he offers major reductions in the planned programme, particularly as regards the surface fleet. These reductions would be more sudden and unpopular under the fast plan; hence the need for a supplement to protect Trident from being seen (wrongly) as the cause of the trouble.

3. The Chancellor of the Exchequer's paper OD(81) 31 naturally endorses the reductions strategy but opposes both options. He urges that 3 per cent growth (in real but cash - i.e. not volume - terms) should be continued only up to 1983/84, the end of the current PESC period. Some of his points would be disputed by Mr Nott on factual grounds (eg the assertion that the defence burden on national resources is now at a post-war peak).

4. The Foreign and Commonwealth Secretary's minute to Mr Nott of 5th June, copied round the Committee, objects on foreign policy grounds to some of the proposed reductions which concern Belize, Gibraltar, Cyprus and the Falklands. But he suggests discussing these relatively



minor problems bilaterally, rather than in Committee. The Ministry of Defence would be content with that procedure, on the basis that they would find offsetting savings for any such reductions which the Foreign and Commonwealth Office persuade them are impossible.

5. Another significant point of detail may be raised by the Secretary of State for Trade in relation to the proposal to halve the hydrographic fleet with loss of capability for both defence and civil surveys. When the Committee last discussed this subject on 19th March 1980 they reached the conclusion that any British Government had an important responsibility to ensure British waters remained safe for shipping. Cutting naval hydrography may therefore only mean that the Department of Trade have to be allocated equivalent resources from the Contingency Reserve.

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6. Three basic questions arise on Mr Nott's proposals.

- a. Are the resource assumptions set out in paragraph 6 of his Annex generally agreed?
- b. If so, are his plans for bringing the programme into line with these resources the right ones in terms of the national interest?
- c. Can these plans be successfully presented to the Government's supporters, to the general public and to NATO allies, particularly the United States?

7. Behind these issues lies a more fundamental problem. We think of ourselves as a military power comparable in weight to France and (nuclear weapons apart) Germany. We are at present spending on defence about as much, in absolute terms, as they are. But our GDP is only about 60 per cent of Germany's and 75 per cent of France's. We are therefore using over 5 per cent of ours, compared to the Germans' 3.3 per cent and the French 4 per cent. We face an unpleasant choice, over the years to come, between continuing to make much greater sacrifices than they or opting out of their league.



8. The major attraction of Mr Nott's proposals is that they offer the first real prospect for years of bringing defence plans into line with resources. "Overstretch" has been the bane of our military posture since the War. It will be worth breaking some eggs to get away from it at last - as after the initial shock both the Services and our Allies should come to appreciate. The choice of the surface fleet to bear the main brunt of cuts is of course controversial. But any alternative choice would probably be even more so.

9. The main snag about the proposals is the implicit damage to the Government's public expenditure strategy over the next three years. This may give rise to more serious heartsearching in Cabinet than at the present OD stage.

10. The main question mark over the proposals is their ambiguity about expenditure levels after the adjustment period (ie after 1985/86 or 1987/88). Paragraph 19 of the Annex is the key passage here. It talks of movement towards "figures somewhat closer" to those in column 1 (in paragraph 6 of the Annex). This could mean anything from figures just higher than column 1 to figures just lower than column 3. The difference is enormous - nearly £2 billion a year. The Ministry of Defence have been given no indication of what Mr Nott has in mind here. But any real approximation to column 1 (the constant-share-of-GDP line) would be bound to involve several years in which defence expenditure would actually fall in real terms.

11. The Secretary of State for Industry hopes to be present for this discussion if he can get back in time from the United States; if he cannot Mr Tebbit will be available to stand in. The Chief Secretary, Treasury will be present because of the public expenditure implications and you have also agreed to the Secretary of State for Employment's attendance. The Secretary of State for Defence will be accompanied by the Chief of the Defence Staff.

#### HANDLING

12. You will wish to ask the Secretary of State for Defence to introduce his paper and the Chancellor of the Exchequer to introduce OD(81) 31. The Foreign and Commonwealth Secretary may also have general points to make; he is likely, as with the Chiefs of Staff, to give Mr Nott broad support, despite his personal predilection for a blue water strategy.



13. You could then structure the subsequest discussion around the questions identified in paragraph 6 above. The points to establish are -

(a) Is the aim of radical restructuring and reductions generally agreed (subject to bilateral resolution of points of detail raised by Lord Carrington and any other colleagues, eg Mr Biffen)?

(b) If so, do the Committee accept Mr Nott's implicit recommendation that the smaller of the two Rhine Army cuts is to be preferred (paragraph 10.a of his covering paper)?

c. Further, and more significantly, do they agree with his implicit preference for slow adjustment (extending to 1987/88) rather than fast (ending two years earlier)?

d. If so, is it accepted that, despite Sir Geoffrey Howe's views, so major a restructuring could not be attempted without pre-empting the resources sought by Mr Nott up to 1987/88?

e. Is the Committee prepared to reach this decision ahead of this autumn's public expenditure review?

f. When the restructuring is over, is there a real prospect of holding defence to a constant share of GDP (albeit nearly 6 per cent)?

g. What are the professional views of the Chief of the Defence Staff? (You yourself have already heard these on 3rd June but you may wish him to repeat them for the benefit of the Committee. His opinion that only on the Central Front could the Allies lose a war in an afternoon seems particularly worth bringing out.)

h. What are the views of the Secretary of State for Industry on the industrial implications of the Secretary of State for Defence's proposals?

i. What are the views of the Secretary of State for Employment on the job losses involved both in the Services, the Civil Service and Industry?



j. If the general thrust of the Secretary of State for Defence's proposals is agreed, is the Foreign and Commonwealth Secretary content that they can be presented to our Allies, particularly the United States, along the lines proposed in paragraph 26 of OD(81) 29? It is relevant that in December 1974 the United Kingdom Defence Review proposals were presented to NATO on the same day that they were announced to Parliament, and that confidential bilateral discussions in Washington and Bonn had only taken place in the previous three weeks.

k. Does the Chancellor of the Duchy of Lancaster believe that these plans can be successfully presented to the Government's supporters and the general public? Is there a risk that they will precipitate a general debate about the necessity and desirability of replacing Polaris?

14. You may like to avoid any general discussion on the Trident programme by stressing that the Chiefs of Staff attach the highest military priority to preserving the strategic deterrent, and that the Government must stand firm on the decision to replace Polaris. It is not at present clear whether the replacement should be Trident I (as agreed with the Americans last year) or Trident II (which may prove necessary in the light of American decisions about their own programme which have not yet been taken). This may be something you will be advised to raise with President Reagan in the margins of the Ottawa Summit next month. But if it is raised at this OD discussion you need only note it as an issue which the Defence Secretary will if necessary bring forward for decision when the position is clearer.

#### CONCLUSION

15. Subject to points made in discussion you may like to remind the Committee of the sensitivity of the issues under consideration and to guide them to agree

i. to the proposals made by the Defence Secretary in paragraph 27 of OD(81) 29, including a preference for the slow adjustment option and for the smaller reduction in Rhine Army;



ii. that minor problems raised by the Foreign and Commonwealth Secretary, and perhaps others, should be resolved in bilateral discussion with the Defence Secretary, who should make further cuts to balance any modifications he agrees to in his present reduction proposals;

iii. that the Defence Secretary should circulate his proposals, in summary form, for the consideration of the Cabinet at their meeting on Wednesday, 17th June.

5th June 1981

A handwritten signature in blue ink, appearing to read 'R L Wade-Gery'.

R L WADE-GERY

c Sir Robert Armstrong