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From the Private Secretary

3 June 1981

Kear Brian,

THE DEFENCE PROGRAMME

The Prime Minister held a meeting with the Chiefs of Staff this morning to discuss the defence programme. The Chief of the Defence Staff, the Chief of the General Staff, the Chief of the Naval Staff and the Chief of the Air Staff, as well as the Defence Secretary and the Foreign and Commonwealth Secretary, were present.

The Prime Minister said that she wanted to make it clear at the outset that press stories to the effect that she had been "furious" about the way the review of the defence programme had been conducted were quite unfounded. She had no idea where these accounts had come from. As far as she was concerned, the behaviour of the Chiefs of Staff throughout had been impeccable. She would ensure that her Press Secretary briefed the press accordingly after the present meeting.

After thanking the Prime Minister for seeing him and his colleagues, the Chief of the Defence Staff said that the meeting came at a critical time. The interest which the Prime Minister had taken in defence matters was much appreciated by the Armed Forces. Her recent visit to Ulster had given a considerable boost to the morale of those serving there. The Chiefs of Staff recognised that the Prime Minister would ensure that as much as the economy could stand would be allocated to defence. Nor were they insensitive to the needs of the economy. They knew the Prime Minister would stick to the commitments she had entered into publicly.

Nonetheless he and his colleagues had to say that the situation had deteriorated since they had last seen the Prime Minister in November 1980. The Soviet threat had increased. NATO had not succeeded in improving its position. The resolve of its members seemed, if anything, to have weakened. Pacifism was on the increase in some member countries. This was no time for Britain to be planning reductions.

A number of allies faced similar problems to ourselves. The Dutch, the Belgians and the Germans were all in the throes of defence reviews. The Canadians appeared to be planning changes

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to take account of Mr. Trudeau's wish to take initiatives in the North-South context. (Mr. Trudeau also seemed to have his own ideas on East-West relations). The United States, for their part, were planning increases in their defence budget. But they were also planning to change the thrust of their strategy, giving a higher priority to South West Asia and global considerations at the expense of Europe. To fail to coordinate these various reviews internationally would be most unwise. HMG had proposed at the end of the previous year that there should be a NATO-wide review. The proposal had been rebuffed. Perhaps attitudes would now be more receptive. Perhaps the Prime Minister could suggest at Ottawa that there should be a collective review of ways in which the major Western states could reshape their defence capabilities.

It would not of course be possible to await the outcome of a review initiated in July if the July deadline under which the Defence Secretary was at present working was maintained. However, this deadline was to some extent self-imposed. If the 3% annual increase could be extended for two years beyond the PESC period, i.e. until 1986, this would make it possible to postpone the major decisions while we consulted our allies. There would of course be no point in doing this unless it was considered that such consultation would be productive. For the moment it should be recognised that we, like a number of other countries, were making major changes in the direction of our military effort without any consultation whatever.

The Chief of the Air Staff recalled that he had outlined in November the consequences for our ability to meet our military commitments of a failure to provide adequate financial resources. The Defence Secretary had now laid it down that the resources which were available were to be focussed on the central region rather than on the North Atlantic. Given that a choice had to be made, this was the right one. The proposals being put to OD would enable the Royal Air Force to carry out its role in the years ahead and indeed to make some improvements in its air defence capability and to provide some compensation on the Naval air side for the run down in the surface capability. The main difficulties would be encountered in the next two to three years. Measures required in the short term to make the longer term programme possible might, for instance, temporarily place the operational standards of the Air Force at risk. The accelerated phase-out of Vulcan before the Cruise Missile and Tornado were available would mean a dip in our front line capability at a dangerous time. In the longer term, the only major problem was the lack of resources on the air combat side. The cost of a full Jaguar programme was admittedly excessive, but the requirement would have to be met in some way.

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The Prime Minister said that she would like to have a separate discussion with the Chief of the Naval Staff and the Defence Secretary at some convenient time. The Chief of the Naval Staff said he was grateful for this. He was in a rather different, and more difficult, position than that of his colleagues. He stressed that he appreciated the economic problems facing the country. He was entirely behind the Defence Secretary in his bid to secure as much money for the defence programme as the country could afford. It would be irresponsible of him to argue that the Navy should be preserved at the expense of the other services. At the same time it would be irresponsible to

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agree that the majority of the savings should be found by the Navy. There were other options which had not yet been fully analysed. There should clearly be consultation with our allies. If the cuts which they made ran in the same direction as ours, the Alliance could find itself in deep trouble. There would be a real risk of decoupling. He was deeply concerned at the extent to which the Government seemed to be prepared to mortgage the future. A position might be created from which it would be impossible to recover.

The Chief of the General Staff said that he had little to add to the paper which the Defence Secretary proposed to submit to OD. The question was which of a limited number of options HMG chose. There were risks whatever one did. The choice was largely a matter of judgement. He agreed with the Defence Secretary that the Central Front was the decisive arena. Scenarios other than an outbreak of hostilities on the Central Front might be more likely. But only on the Central Front could the war be lost in an afternoon. Tinkering there would do more damage to the Alliance, and to the prospects of keeping the U.S. engaged in Europe, than action elsewhere. As regards more radical approaches, it would of course be best if NATO would start from scratch and consider, e.g. more specialisation. But the feasibility of such a review was doubtful. The need for a continental strategy had been established for centuries. Departures from it had been disastrous. A land force in Germany of three divisions and a TA division seemed to be the best answer.

The Foreign and Commonwealth Secretary said that he agreed with the Defence Secretary about the need for drastic decisions, unpalatable though these would be for the country and for the Conservative party. Deterrence was as much a matter of political will as of military capability. Keeping NATO going was more important than the question of precisely what it could do - always provided its military capability remained credible. In many ways the Defence Secretary's proposals went against what might seem militarily most effective. However, it was politically inconceivable that BAOR should be wound down. The only area where there was room for flexibility might be in seeking ways to put the decisions into effect less rapidly.

The proposal made by the Chief of the Defence Staff for consultation with our allies was logical and sensible. Unfortunately it seemed unlikely to work. NATO's machinery would not come up with decisions in the time available and indeed might find it difficult to come up with any agreement at all. We should have to take our own decisions as best we could and then try to sell them to the Federal Republic and the United States.

The Defence Secretary said he fully agreed with the Foreign and Commonwealth Secretary. There was no real choice about the direction he took. It would however be helpful if the 3% increase could be carried beyond the PESC period since this would enable us to phase the introduction of the new programme better. Even so there would be no time for consultation of the kind envisaged by the Chief of the Defence Staff. A major Alliance defence review

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would put the unity of the Alliance at risk and might be gravely destabilising. Nor could the Government now afford to postpone decisions. The morale of the Navy would, for instance, suffer from a continuation of the present uncertainty. The decisions should be taken and OD should determine how fast they would be implemented.

In the subsequent discussion, the following points were made:-

- (a) there would be advantage in having in future defence budgets a substantial central (or contingency) fund;
- (b) the decisions affecting the Royal Navy would be extremely difficult to sell within the country and to our allies. Particularly careful thought would have to be given to their presentation. It would be important that it should not appear that the conventional naval forces had been forced to carry the cost of Trident. There was a tendency to argue in this way because Trident was a maritime weapon. The allocation of resources between the three Services, once the cost of the strategic deterrent had been met, should be seen as having been determined on its merits. This sort of problem would be easier to handle in future if a "central fund" could be established;
- (c) although there might be difficulties with SACLANT, the United States Government would probably be prepared to accept the decisions under consideration. They would be anxious to see the Trident programme maintained in order to avoid a situation where France was the only European nuclear power. However, their acceptance should not be taken for granted. They had been given certain assurances at the time of the initial decision to purchase Trident I;
- (d) the handling of the decision in NATO would be of great importance. Even if it were decided that an initiative on consultation should not be taken in Ottawa it would be vital to keep NATO, and in particular the major NATO Commanders, fully in the picture;
- (e) the cuts proposed in our naval capability were of such magnitude that there would be no possibility of any flexibility being exercised in response to comments from NATO;
- (f) apart from their general impact, some of the proposed cuts would have immediate foreign policy effects. This was notably the case in regard to Gibraltar where the closure of the dockyard would have considerable consequences;
- (g) it was wrong to suppose that it would be possible to escape the present dilemmas by opting for less sophisticated equipment. The decision to abandon the Type 22 Frigate had been taken before the present review. The Type 23 Frigates might well cost as much as £70 million per copy.

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Military equipment was designed to meet an objective threat. To base procurement exclusively on financial considerations was to risk leaving oneself in the end without any effective military capability but having spent a great deal of money;

(h) this year's defence budget seemed destined to exceed the cash limit by as much as £500 million. The overrun was mostly on Air Force systems. It was pointed out that while the inflation factor for equipment in the cash limit was 11%, British Aerospace were expecting their overheads to go up by 18% and Rolls Royce by 22%.

The Prime Minister in conclusion said that everyone would, of course, like to spend more on defence. No-one wished to have to make choices. The Government would allocate as much as it could to defence. But choices would have to be made. The Cabinet had been unanimous in considering that the first priority had been to sustain morale in the Armed Forces by meeting the recommendations of the Review Body on Armed Forces Pay. The task now was to equip the Forces as well as possible in a period where costs were rising rapidly. It was doubtful whether the allies would agree to a "state of the Alliance" review. Such a review might result in some Member countries opting out of existing commitments. The decisions envisaged by the Defence Secretary could not be delayed. The requirement now was to take the decisions and then to sell them to the Alliance.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

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Ministry of Defence

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