

Prime Minister **41**

Ref. A06055

PRIME MINISTER

DEFENCE

*Frisk - Paul - the
Proposition of X to
the Treasury other if
they can work with
MOD. The situation
are mutually
non-explicit*

Since receiving
these papers (at 7.30pm) I've
been trying to assemble some
statistical material for you - eg the
defence equipment price index: given
the thin-ness of the material offered
Alas! I have been unsuccessful.*

I hope that the attached note goes some way towards explaining
the apparent conflict of view between the Treasury and the
Ministry of Defence about what has been happening to defence
prices this year.

*Should we
set up a further
meeting, on
Monday afternoon?*

MLS 20/11

2. If you want to try and reach a settlement before this comes
before the Cabinet, there might be a way forward on the following
lines:

**later*

I have got

*✓ the attached
defence RPE
table*

(i) So far as 1981-82 is concerned we know that the
Defence Secretary would be prepared to accept the Treasury's
offer of £275 million in the context of an overall settlement.

(ii) So far as the years 1982-83 and 1984-85 are concerned,
the Defence Secretary has indicated that he might be prepared to
drop his bid for a future relative price effect of 2 per cent
which, as the note on defence prices suggest, is less well
founded than the bid relating to higher prices in 1981-82
(sums involved: £169 million in 1982-83, £381 million in 1983-84,
and £643 million in 1984-85).

(iii) The important year for the Defence Secretary is 1982-83
because a large part of his expenditure for that year is already



committed; it is also common ground that the figures for 1983-84 and 1984-85 are provisional.

3. We then have the following position:

	1981-82	1982-83	1983-84	1984-85
Treasury offer	275	250	250	225
MOD possible revised bid	275	455	466	477
MOD maximum bid (1982)	400	624 (169)	847 (381)	1120 (643)
Compromise	275	330	250	250

X || It might just be possible to settle the matter by raising the Treasury offer to, say, £350 million in 1982-83, leaving the later years at £250 million or a little higher.

ROBERT ARMSTRONG

20 November 1981

RIA