



Prime Minister.

Mr Nott is anxious to discuss this in the first instance just with you and the Chancellor of the Exchequer. Because of the immaturity of the publication of the Defence White Paper and of the Defence White Paper he would like to do this before you go to New York. May we arrange a meeting. Yes

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PRIME MINISTER

THE DEFENCE PROGRAMME

With military victory in the Falkland Islands achieved, we must expect the policy and budgetary issues to take centre stage. Already there is heavy pressure to know our plans for replacing the ships and other equipment we have lost and whether changes in our defence policy are planned. We cannot afford to be on the defensive about this. I do not propose a new Defence White Paper. The Lord President, the Chief Whip and I believe that the present White Paper should be published with a short preface. I understand that the Lord President has mentioned to you that I wish to publish next Tuesday 22nd June. We also see no way of avoiding at least four debates on defence before the House rises, including three on the Services. So, we must start thinking about what we are going to say now.

Yes  
16th  
not

2. First we must reply to those critics who have been arguing that our defence policy has been wrong. It is absolutely clear to me that events in the South Atlantic must not be allowed to obscure the fact that the principal threat to our security remains the Soviet Union and its Warsaw Pact allies. It was this threat - with NATO remaining the major bastion of our defence - that the programme set out in Cmnd 8288, together with our commitment to the NATO 3% aim, was designed to meet. I am convinced that the framework of that programme and the 3% growth aim remain an essential foundation stone for further planning. We shall of course need to analyse the lessons of the Falklands operation (and we must be ready to disclose the results publicly, possibly in a subsidiary White Paper in the late autumn), and within the framework of Cmnd 8288 we may well need to make adjustments to our policy.



3. Against this background, I have no doubt that our first priority must be to make good the material losses we have suffered in the Falklands campaign. These are considerable. We have already lost ships and aircraft through enemy action or accident and there may be more. We have also consumed a considerable proportion of our ammunition, missile and other stocks. Replacement will take time: the lead times for some major equipments is long and elsewhere industrial capacity may not permit early recovery. Costs will therefore extend over a number of years. We shall have to consider in detail how replacement is best effected - in some cases direct replacements are not available; but I believe we must decide now - and announce our decision before the summer recess - that in principle we shall seek to make good all the equipment lost or consumed as soon as possible.

4. It is also clear to me that these replacements - and all the other defence consequential costs of the campaign including the costs of the equipment we have acquired, partly from the USA, and of the garrison which we shall have to maintain after repossession - must be funded by additions to the Defence Budget over and above the 3% a year real growth required to meet the NATO target (which now runs to 1988). We cannot afford to spend less on the main threat. Still less can we be seen to be robbing our capability for defending the United Kingdom to pay for the Falklands operation and its consequences. Any hint of this would put us in deep trouble with our allies and our supporters. I believe that we must be ready to accept and announce the principle of additional funding now. Otherwise the criticism that we are paying for the Falklands by cutting our basic defence effort and



capability cannot be rebutted - and it must be shown as a separate item in the Public Expenditure White Paper so that we are seen not to rob our main capability to pay for the Falklands.

5. It is impossible at this stage to make anything approaching an accurate estimate of what the extra costs might be. Costs in the current year, which will include the cost of the operation itself, could ultimately be of the order of £500m; we must be ready to announce an addition to the defence cash limit when a figure has been worked out. Very rough calculations I have had done for subsequent years suggest that the additions quantifiable at 4 June might be in the region of £250m in 1983/84 (average 1981/82 prices) reducing thereafter. These figures cover the cost of the operations and equipment specially acquired for them; replacement of ships, aircraft, ammunition etc. lost or consumed; the running-on of INVINCIBLE. But these figures do not cover the cost of protecting the Islands in the future. Further costs will emerge later, but cannot be quantified at present. I will circulate separately a table giving more detail of costs assessed so far and possible additional commitments.

6. In the light of the Falklands conflict we shall undoubtedly need to enhance our military capabilities in a number of ways. It will take time to work out the military implications in their full detail. But I believe that we must announce an initial package of specific measures without delay. The Falklands operation has brought the importance of defence and the danger of neglecting our security to the forefront of public and Parliamentary debate. A statement of general principles about additional funding of the operation and its consequences will not be enough to match the mood of our supporters and public opinion.

7. The detail of an initial package needs to be considered further. But the outlines are already clear to me. I am sure that our intention on INVINCIBLE must be announced, subject to consultation with the Australians, and that I should refer to my plans for accelerating the frigate construction programme.



But in addition I am sure that I must announce a first batch of replacement orders which I propose initially should comprise 4 Type 22 frigates to replace the 4 ships lost, and replacement of Harriers and helicopters. Immediate orders will do something to hold the rapidly deteriorating employment situation in the shipyards. I shall need to give an assurance that we will maintain Frigate Destroyer numbers at the (reduced, Cmnd 8288) figure of 50 by withdrawing a number of older ships from the disposal list, pending delivery of the new Type 22s. I must also announce our intention to go ahead with orders to replace stocks especially of missiles and ammunition consumed during the operation. Further replacement orders will be needed, but these can be announced later.

8. To sum up, I believe that we must announce in the first Defence Debate that we shall in principle replace as soon as possible all equipment and other material lost or consumed in the campaign; and that the costs of this and other costs which are consequential on the campaign, including a continuing garrison, will be met by additional allocations over and above the 3% growth commitment. I must also announce a first batch of decisions, as indicated in the preceding paragraphs. I do not think that anything less than this would be politically sustainable. It would allow me to plan the defence programme on a coherent basis in order to restore our capability and lead to a more detailed statement of the lessons of the Falklands in the Autumn.

9. I seek agreement in principle to this approach. Subject to this, I will consider in more detail the terms in which a statement of our general approach might be framed and circulate a draft.

10. I am sending copies of this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Paymaster General and to Sir Robert Armstrong.