CONFIDENTIAL

Prime Minister

(2)

As expected. I have said that you hope the departments concerned will pursue the financial question and reach agreement.

A.J.C. 1/7.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

MT

PRIME MINISTER

HMS INVINCIBLE

with AJC ?

I have noted from John Nott's minute of 29 June that he plans to revise last year's decision to keep in service in the long term only two ASW carriers. The question of naval force structures is primarily one for him. But I cannot agree that the retention of "HMS INVINCIBLE" should be funded by additions to the defence budget.

2. Questions of force mixes - or any other military improvements considered desirable as a result of studies now in train - cannot be charged to the Falklands bill. A decision to retain "HMS INVINCIBLE" would be little different from the earlier decision to run on "INTREPID" and "FEARLESS" and must be funded from the existing defence provision. I would expect the same principle to apply to any other changes in the defence programme that are proposed in coming months.

3. This is quite separate from the question of the treatment of Falklands' costs. We accepted that they could place an additional heavy burden on our public expenditure plans. But that does not mean that other quite specific changes in defence policy should not be paid for out of the defence budget. On the contrary, indeed: since the special treatment to be accorded to genuine Falklands expenditure will aggravate the other public expenditure problems we face in the months ahead.

4. I am copying this minute to the other members of OD and to Sir Robert Armstrong.

G.H.

30 June 1982