PERSONAL AND CONFIDENTIAL

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Prime Minister
NOT copied to members of OD (FAF).

A-J-C. 17.11

PRIME MINISTER

FALKLANDS GARRISON

I understand that we are to discuss at OD(FAF) tomorrow John Nott's minute of 12 November.

2. I am concerned that the minute does not report adequately for other OD(FAF) colleagues the decisions taken at your meeting on 18 October. On John Nott's initiative we then reached the following agreement on financing the garrison (Scholar's letter of 21 October): "On the costs of the Falklands garrison the Secretary of State proposed that the interests of control would be best served by allocating fixed sums and including them in the defence budget. If that was accepted, he would be prepared to argue at OD(FAF) that any additional costs should be met from the defence budget." It was on that basis that we arrived at firm figures for the garrison's costs.

3. My strong view is that we should keep to this agreement. Our public expenditure plans for 1983-84 have since been published; and it would make no sense to contemplate - either now or in the New Year - the possibility of re-opening firm decisions so recently taken. I suspect that John Nott actually agrees with this: the problem for tomorrow is that his minute does not make that plain to those copy addressees who were not present at the meeting on 18 October.

4. I have also seen Francis Pym's minute today. I should myself have thought that any problem with regard to NATO must be largely one of presentation. As John Nott recognises, some of the new equipment currently attributed to the garrison, e.g. the new

strategic tanker aircraft will help to improve our general defence capability; its cost can be attributed accordingly, not just to the Falklands. This would help NATO to recognise that the Alliance will also benefit from such expenditure.

5. Our 1983-84 defence spending plans provide for real growth in excess of the NATO 3 per cent target; and for £624 million "Falklands" expenditure on top of that. I really do find it very hard to believe that we could be criticised in NATO for this defence effort. If there is some presentational problem, it should be easily soluble.

G.H.

16 November 1982