

1. SECRET

Prime Minister.

March 17th - 07
Please allow
submitt.
line in.

Not good news about the latest
costing of the defence programme, I
am afraid. But the only decision
you have to take immediately is on
the proposed procedure in paragraph 5
below. Are you content with it.

AKH
28ii

Ref. A01550

MR. WHITMORE

Future United Kingdom Defence Policy

On 25th February I held a meeting with senior officials to take stock of progress on the various exercises on defence which were set in train following the OD meeting on 3rd December. I attach a record of the meeting (which we are otherwise circulating only to those present).

2. The completion of the 1980 Long Term Costings within the Ministry of Defence has confirmed the fears that were expressed at OD about the availability of resources to support the policy proposed by the Secretary of State for Defence. Over the next four years the estimated cost of the defence budget on present plans and programmes is approximately £1,200^{millions} above the approved PESC figures, and this takes no account of the possible expenditure over this period of about £300 million on a successor system to Polaris.

The reasons for this excess are given - such as they are - at X in the note attached.

3. At this stage the Chiefs of Staff have taken the view on priorities that there should be no reduction in the provision planned for the defence of the United Kingdom base, or for the nuclear forces which the United Kingdom commits to NATO. They consider that any reductions should be spread (not necessarily evenly) between the land and air forces maintained by the United Kingdom on the European Continent, and the United Kingdom sea and air contribution in the Eastern Atlantic and Channel. But they are anxious for wider political direction before taking a final view, because of the possible consequences of such reductions.

4. It is not yet easy to be clear just how serious the position really is. Over four years the excesses over the approved PESC figures, even allowing for expenditure on a Polaris successor, amount to only about 4 per cent of total defence expenditure. Some of this excess can probably be removed by improved efficiency, minor programme adjustments and more realistic estimating of the rate of equipment deliveries. But the Ministry of Defence obviously have a problem, on which they will need Ministerial guidance.

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5. OD ought to consider the position at the same time as it discusses the report by officials on the case for a United Kingdom military intervention capability outside the NATO area. This might be done at an OD meeting in the week beginning 17th March (with my own group considering the papers in the previous week). The purpose of this discussion would be, not to take decisions, but to introduce Ministers to the scale of the problem and the nature of the strategic decisions which it will require. The next stage could be, in late April or early May, a more general discussion on future defence policy - perhaps the discussion at Chequers which the Prime Minister suggested earlier. In the light of the OD discussion, and any wider consideration of future United Kingdom defence policy, the Secretary of State for Defence would then come back to OD in the early summer with specific proposals to bring the defence programme into line with the resources available.

6. I should be grateful if you would let me know if the Prime Minister would be content with this procedure.

RA

ROBERT ARMSTRONG

27th February, 1980

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28 FEB 1960



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CONFIDENTIAL



Reference
RF 19-3-80
In OD Mgmt 20/3

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Future United Kingdom Defence Policy

I have shown the Prime Minister your minute AO1550 of 27 February, and she agrees that we should proceed in the way you propose in paragraph 5 of your minute. She has commented that sufficient time must be allowed for a full discussion at the OD meeting on 20 March. At present we are allowing about 2½ hours: we may need to consider nearer the time, when we see the papers for the meeting, whether to drop the item on home defence, even though there will be a link between it and the MODs papers.

CMW

3 March 1980

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COPY NO 2

NOTE FOR THE RECORD

Future United Kingdom Defence Policy

Following his letter to Sir Frank Cooper dated 15 February 1980, Sir Robert Armstrong held a meeting on 25 February with the Chief of Defence Staff, Sir Michael Palliser, Sir Douglas Wass, Sir Frank Cooper, Sir Kenneth Berrill and Sir Antony Acland. Mr Wade-Gery, Mr Hastie-Smith and Mr Wright were also present.

SIR ROBERT ARMSTRONG said that the purpose of the meeting was to take stock of progress on the various exercises on defence policy which had been set in hand by the OD decisions on OD(79) 30 at the OD meeting on 3 December.

X

SIR FRANK COOPER said that the Ministry of Defence had now nearly completed the study into the relative priority to be attached to the four main elements of UK defence policy as they had been identified by the Defence Secretary in OD(79) 30. This study had been carried out at the same time as work had been completed on the 1980 Long Term Costings (LTC) of the defence programme. The outcome of the work on the 1980 LTC indicated that over the next four years the defence programme which had been costed was about £1200 million in excess of the approved PESC figures. This excess took no account of the probable need for expenditure of about £300 million on a Polaris successor system over the same period. There were several causes for these excesses. The decision to rejuvenate NATO after the end of the Vietnam war had led to the acceptance of an equipment programme which was possibly over-ambitious in relation to the resources available. There had also been cost escalation in a number of projects. But one of the main causes of the excesses was that the approved PESC figures to which they related were lower than those to which the Defence Secretary had related his PESC bid in 1979, which had been reflected in his policy paper OD(79) 30. Although the Ministry of Defence was studying ways of reducing the excesses by programme adjustments, their total elimination would undoubtedly produce difficult problems in relation to NATO allies and

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British defence industries, and for Ministers in presentational terms.

THE CHIEF OF THE DEFENCE STAFF said that the defence budget outturn for 1978-79 reflected, in real terms, the lowest annual expenditure on defence by the United Kingdom since the Korean war. At the same time as this trough in expenditure was taking place, the United Kingdom had, like its allies, accepted the aims of the NATO Long Term Defence Programme including the commitment to an annual growth of 3 per cent in real terms in defence expenditure. The Chiefs of Staff had carried out their priority study on the "four pillars" against this background. They had concluded that the political importance of the UK's contribution to NATO of the only European nuclear force committed to NATO was so great that no reductions could be made in this area. They had also concluded that neglect in the past of the defence of the UK base meant that this was another area in which economies could not now be made. This only left for consideration the contribution of substantial land and air forces on the European Continent, and the contribution of sea and air forces in the Eastern Atlantic and Channel. At this stage it was the view of the Chiefs of Staff that the reductions should be spread (not necessarily evenly) over these two areas. But in reaching this view, the Chiefs of Staff were conscious that the factors to be considered went beyond professional military judgement, and they were anxious to obtain wider political direction. The impact of the kind of reductions which would be necessary could have grave consequences for the cohesion of NATO as a whole. Although in relation to the total size of the defence budget an excess of £1200 million over four years might seem manageable, so much of the defence budget was taken up in fixed costs that the reductions would have to fall very largely on the equipment programme. For the Army this could amount to a reduction of 25 per cent on its new equipment programme for the next four years. But there were different ways in which the reductions could be implemented and it would be helpful to consider this problem at the same time as Ministers considered the report of MISC 32 on the case for a UK military intervention capability outside the NATO area. Their views on that issue would be an important indicator of the political direction in which the defence programme as a whole should be reshaped. At the same time within NATO we should try and take advantage of the American initiative in relation to South West Asia to try and reshape NATO strategy to meet our own national interests. Some easing of our difficulties could be achieved by changes in the division of labour with West Germany for example,

*Not the job of the
Chiefs of Staff to
make political
judgments of this
kind.*

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with the UK assuming a wider role outside the NATO area.

In discussion the following points were made:-

- a. It was difficult at this stage to form a view on the true gravity of the defence budget excesses over the approved PESC figures during the next four years, or the severity of the measures it would be necessary to take to remove them.
- b. There was a tendency to exaggerate the hostile reaction of NATO allies and European Community partners to measures of economy which this country needed to take to solve our economic problems. On the other hand it was important to take account of the resurgence of Senator Mansfield's ideas in the US. Reductions in the UK's defence effort would strengthen the position of the US isolationist lobby.
- c. The recommendations of MISC 32 on the case for a British military intervention capability outside the NATO area were likely to be dealing with much smaller issues in terms of size than the major resource problem which faced the Ministry of Defence over the next four years. In any case it seemed very unlikely that MISC 32 would be recommending either a major injection of new resources into the defence budget, or a sizeable diversion from other defence commitments in order to create a large intervention capability. It was much more probable that their recommendations, which in any case would not deal with questions of force structure, would propose relatively minor improvements, and such devices as double earmarking of existing military formations.
- d. Reductions in size of the British Army of the Rhine could produce both political and economic problems. The political problems related not only to NATO commitments but to the fact that such reductions would anticipate the outcome of a Mutual and Balanced Force Reduction agreement, which might be prejudiced as a result of them. Furthermore the experience of the 1960s had showed that in budgetary terms it might actually cost more to rehouse the troops in the UK than the withdrawal saved in Germany.

Unlikely.

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e. Any major reshaping of the defence equipment programme involved difficult political problems. The cheapest way of meeting defence equipment needs was very often to buy "off the shelf" abroad. But this course of action would be detrimental to British industry and could lead to the loss of major areas of national industrial capability. It would be important to have a view of long-term defence policy objectives in planning major equipment programmes.

f. Although it was true that the Armed Services faced increasing recruitment difficulties over the next decade, in the short term recruitment was actually improving. The present shortfall was about 20,000 on the total of 300,000 and no immediate deterioration in this position was expected.

g. It would be important to minimise political difficulties with the US who attached importance to the maintenance by Britain of her present conventional defence capability, and might be unenthusiastic about providing a successor system for Polaris if its procurement was accompanied by an apparent decline in UK conventional capability.

SIR ROBERT ARMSTRONG, summing up the discussion, said that it was clearly important that these problems should be laid before Ministers. This should be done at an OD meeting in the week beginning 17 March which would consider a memorandum on this whole problem by the Defence Secretary, and the report of MISC 32 on the case for a UK military conventional capability outside the NATO area. Before that discussion it would be helpful to consider both papers at another meeting of the present Group. Following the OD meeting he would consult the Prime Minister about the possibility of a meeting at Chequers for a more general discussion of defence policy. In the light of the conclusions of the first OD meeting and any Chequers discussion, the Defence Secretary would then bring back specific proposals to OD in the early summer to bring the defence programme into balance with the available resources.

Cabinet Office
28 February 1980

Distribution

Those present

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