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Foreign and Commonwealth Office

London SW1A 2AH

29 October 1980

M O'D B Alexander Esq
10, Downing Street
LONDON, SW1

Dear Michael,

HEALTH OF THE ALLIANCE

I thought that you might like to see for your personal information the enclosed copy of a letter from Oliver Wright about the present German position. It is relevant both to the OD meeting next week and to the Prime Minister's visit to Bonn.

Yours ever
Antony

Antony Acland

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BRITISH EMBASSY,
BONN.

H. G. Williams

Mr J. Deighton

24 October 1980

*cc. PS.
PS/LPS
28/10 PS/PUS
Mr Bullard
Mr P. Moberly
Mr Stalaby
Planning Staff*

Sir Antony Acland KCVO CMG
Foreign & Commonwealth Office

*This is very much the conclusion
we have come to in Whitehall
- hence the proposal for
a multilateral review.*

*1/10/80 20
x*

Dear Antony,

HEALTH OF THE ALLIANCE: FAIRER SHARES IN NATO

1. I understand that the FCO and the MOD are considering how some of the defence burdens within the Alliance might be shared more equitably. We recently saw a draft MOD paper entitled "Health of the Alliance: Fairer Shares in NATO" which explored various schemes designed to do this. I gather that this has now been partly overtaken. But since all the schemes for a more equitable sharing of burdens within the Alliance inevitably require the Federal Republic of Germany to pay more than hitherto, it seems appropriate that I should make a few general points which might be borne in mind in the next stage of the deliberations in Whitehall. These will also be relevant as background for the Prime Minister's visit to Bonn on 16 November.

2. I recognise the acute budgetary problem which HMG faces and agree that it would be in the British interest if my clients were to make a greater financial contribution to the maintenance of BFG than they do at present. But it is not in the British

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interest to launch proposals which stand no chance of success and which will sour Anglo-German relations without achieving the desired result. The Rhine Army is our biggest single asset in our relations with the FRG. Crusader has won a wider appreciation of its merits and effectiveness here than it has enjoyed for a long time. We should not put that credit at risk to no purpose.

3. The omens for securing an increased German contribution are not propitious. The German economy has stopped growing and the battle over financial priorities is beginning. It is now the DM which is weak and the £ sterling which is strong. It is now the German balance of payments which has moved into deficit, because of the increased cost of imported oil, and the UK balance of payments which is in balance or surplus, because we possess North Sea Oil. We are therefore economically in a new ball game, at least in the German perception, from the one we have hitherto been playing. It is already clear, for instance from General Brandt's conversation on 1 October with the CDS, that the German defence budget is going to be squeezed and probably held at best at no more than its present level in real terms. The equipment programme will suffer severely. The disposition to give more to the UK (which in German eyes has already benefited substantially at German expense from the provisional CAP/EC budget settlement) will be non-existent. Moreover the German budgetary difficulties, though not as acute as ours, are real.

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4. The Germans do not accept that the "level of real resources" devoted by the UK to defence is higher than that of the FRG and are not convinced by arguments which describe defence expenditure as proportions of GDP. They maintain that what matters ultimately in defence is the size of the contribution in absolute terms. The argument that the Germans prefer to use, naturally enough, measures expenditure per capita, according to which, in 1978, the FRG paid 342 dollars as against our 247 dollars. The hard fact is that the UK, largely owing to its own economic incompetence, is now only half as rich as the FRG but needs - for both political and defence reasons - to maintain a comparable defence capability: our Army is smaller, the RAF about the same, the Navy is bigger than their Bundeswehr equivalents. Although minor adjustments in the present balance can be demanded by the UK in the name of equity, pressure by us for any significant shift in the relative level of our financial contribution to the common defence would be bound to have political consequences for the weight we carry within the Alliance, distribution of senior posts etc etc, as well as other damaging consequences for our relations with the FRG.

5. There are also other aspects of the problem to be considered. In the German view, we are defending Britain in Germany, as part of our agreed Alliance strategy. Of course, it costs us more to do so, in resource and foreign exchange terms. But it also brings us benefits. We defend ourselves several hundred miles away from Britain; we have 55,000 soldiers and 10,000 airmen working and flying all over Germany and not over Britain. We were able to mount Crusader 80 over the farms of

/Lower



Lower Saxony and not of, say, Gloucestershire, Oxfordshire and Warwickshire. That must be worth something to us. Moreover if BFG were not in Germany, they would be either in the UK or disbanded. If in the UK, they could cost a lot of money to re-locate. In either case, our stock in the Alliance would slump. I should not care to put a price tag on the value to us of having BFG in Germany, but it must have a price.

6. The likelihood that neither the FRG nor ourselves will reach the NATO target of 3% real growth will show up in stark contrast to the extent of American efforts. The Americans will no doubt argue that the European members of the Alliance should all be doing more to ensure their own security. The potential problems ahead associated with maintaining mutual confidence within the Alliance against this background and allaying fears about "Denmarkisation" will surely overshadow the problems about an alleged inequity of the effort as between the Europeans.

7. That said, it may still be possible to get the Germans to do more in Europe. Afghanistan and the threat to Western oil supplies in the Gulf have already started to focus their minds on the need for the Alliance to take a new look at the nature of the threat and the possible need for the FRG to take over tasks from some of its Allies (or pay more) in order to release Allied units for use outside the NATO area. So far their thinking has not got very far, mainly because all the possibilities look equally unpalatable: they are adamantly

/opposed



opposed to any reduction of US or other Allied forces on the Central Front and, as I have explained, there is no additional money available for expenditure on defence. But they are beginning to recognise that the problem will have to be tackled. Hence their willingness, for what it is worth, to permit units of the Federal Navy to be deployed north of 61°N; and their qualified readiness to do more to help the US with Host Nation Support. From the UK's point of view, the least unpromising line of approach would seem to be to come up with proposals for some reallocation of tasks to meet the changed and extended nature of the threat, rather than to hammer away yet again on the need for a more equitable distribution of the financial burden within the existing NATO area. I do not suggest that the equity argument should be dispensed with altogether but it should be, at most, a very subsidiary element in our case. We should also be able to make some capital out of German uneasiness about the plausibility of their contention that the use of the Bundeswehr outside the NATO area is ruled out on constitutional and political grounds.

8. So what are the consequences of these considerations in practical terms? I suggest the following:

(a) There is no future in straight bilateral pressure on the FRG to do more for the UK. Any pressure will need to be multilateral, and preferably based on an agreed reappraisal by the Alliance as a whole of the nature of the threat and the redistribution of effort needed to meet it.

/(b)



(b) The main argument for the FRG to do more in Europe would be in order to enable other countries to do more elsewhere - with a view to striking a new "deal" from which the UK might hope to benefit in the longer term.

(c) If we are to press in addition for more equitable treatment as between European allies, we shall need to take due account of the counter-arguments to the measurement of effort in terms of GNP and prepare our case accordingly.

(d) We should not expect or press for large financial advantages.

(e) The closer we come to achieving the (politically significant) 3% target, the stronger our case vis-a-vis the FRG.

(f) We should continue to pursue "conventional" ways of redressing the balance, in particular through arms sales and collaborative defence projects. There may be openings in this area as a result of the current German Equipment Review: eg we might be able to supply cheaper weapon systems to replace expensive plans which the FRG may cancel. My Defence Supply Counsellor is writing separately to the MOD about this.

(g)



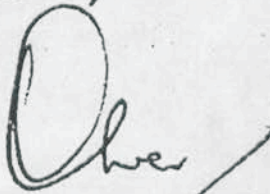
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(g) Host Nation support may be a fruitful area for continued exploration, but any adjustments in our favour are unlikely to be more than marginal. The Germans know that any agreement to help us is likely to involve them in expenditure on other countries too; the Americans are already trying hard and with some success to tap this potential source, and so are the Belgians.

9. But let me repeat, first, what I have written earlier. We are now in a different economic ball game, for the reasons I have given. And let me add: there is nothing which would prevent the Prime Minister's getting back on to reasonable terms with Helmut Schmidt more than for her to give the Chancellor the impression that she was after more of his money. His feelings are still sore after the Great Community Budget Battle. His energies and his health have suffered as a result of the election campaign. As our efforts to arrange the next Anglo-German bilateral have shown, he is not exactly raring to meet the Prime Minister again. If she comes with ideas for meeting the real strategic needs of the 80s, he will be all ears; if he suspects that all we want is more German money, he will be deaf - and very angry.

Oliver Wright


Oliver Wright

cc: M E Quinlan Esq, DUS(P), MOD