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Subject. Defence

NOTE FOR THE RECORD

Defence: Budget Pt 4
extract. Defence: Pt 3: Balesknot
extract. Defence: Feb 81:
Ministerial Og in MOD.

The Secretary of State for Defence called on the Prime Minister on 10 February for a preliminary discussion of his ideas on future defence policy. The Foreign and Commonwealth Secretary was also present.

Mr. Nott said that he would not be announcing any new decisions before May or June. However, he wished to be certain that the ideas which he would be developing in the intervening weeks were not totally unacceptable to the Prime Minister and Lord Carrington. He also hoped to ensure that the line the Prime Minister took in Washington would be compatible with the emerging policy. *His ideas at this stage were essentially personal but he knew that his senior officials were thinking on similar lines.*

The Defence Budget was hopelessly over-extended both in the short and in the long term. As regards the short term, there would be no way of squaring the circle if the Treasury were to insist on a £300 m claw-back. At least no way short of closing down the shipbuilding industry and reneging on a number of NATO commitments. Even leaving aside the £300 m, it was not at all clear where the other £150 m which would have to be found in 1981/82 would come from. The Prime Minister commented that she was appalled by the degree of over-commitment which had been allowed to arise. She was not impressed by Mr. Nott's argument that the Ministry of Defence had become used to under-spending, and had been caught out by the recession.

As regards the longer term, the long term costings, which would be coming to hand within a month or so, seemed likely to suggest that the Defence Budget was over-committed to the tune of between £2 and 3 b. Out-turn figures were always much lower than long term costings, but nonetheless the degree of the excess at present in prospect was worrying. The difficulty lay in the increasing real cost of sophisticated weapon systems. Even if we adhered to the NATO target of a 3% growth year on year, we would not come close to standing still in volume terms. The scope of procurement would have to be narrowed, and the quantities would have to be smaller.

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This would no doubt give rise to industrial problems which would require careful handling. Up-coming problems in this area included the Jaguar replacement, the Sea King replacement, and ~~tracked~~ Rapiers. We would have to buy more from the United States - though only on the basis that they bought more from us.

We would have to give more emphasis to the overseas sales requirement generally while recognising that decisions taken now e.g., to move towards the procurement of simpler weapons systems, would show results only after several years.

Procurement cut-backs would not suffice to resolve the budgetary problems. "Something would have to give." The sensible thing to do would no doubt be to withdraw a division from BOAR. However, this was politically impossible. Forward defence was central to the Government's European policies. Nor could savings be found in the home base. Indeed, our effort here was totally inadequate, and would have to be increased. Greater emphasis would have, for instance, to be given to the territorial army. A start would be made with the recruitment of a thousand young men through the Youth Opportunities Programme. General Richards, who had been about to be appointed Defence Attache in Washington, would instead be appointed as an adviser on the mobilisation of reserves. There would be a great deal of emphasis on the PR aspects of the appointment.

As regards the RAF, there was no scope for savings. Indeed additional expenditure would probably be required.

The main area for savings would therefore have to be the Royal Navy. The Navy needed more submarines and more mine-sweepers but its present surface capability was excessive and extremely expensive. The procurement of through-deck cruisers ~~as well as~~ had, to take one example, been grossly extravagant. (Mr Healey, who had been responsible, now admitted as much.) The Navy's programme of refits was similarly

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extravagant. It should be slowed down. The numbers of destroyers and frigates should be steadily cut back.

It would serve to make a decision to reduce our naval effort in the long run more palatable to the Americans if in the short run we were to offer to help the Americans with the rapid deployment force. The through-deck cruisers would be ideal in e.g. the Gulf. The offer to the Americans would have to be on the basis that another NATO ally, presumably the Germans, would fill the resulting gap in the North Atlantic. The Foreign Secretary welcomed the idea of supporting the rapid deployment force. The Americans had already made it clear that they were pleased by the French presence in the Gulf. President Giscard would no doubt try to get on close terms with President Reagan. We could not afford to be left in the cold.

Lord Carrington said that he agreed with Mr. Nott's general analysis. He thought that in the end we would have little choice but to cut the Navy although he thought that on objective grounds this was the wrong decision. However, it would be essential to carry NATO with us in any decisions that we made. The Defence Secretary asked whether this was an argument for reviving the idea of a review of the "Health of the Alliance". He himself doubted whether this was the best way to secure agreement to changes in our deployments. The Foreign Secretary and the Prime Minister agreed that a NATO review would never get off the ground. We should start instead by discussing the paper we had prepared last autumn with the Americans.

The Foreign Secretary said that NATO defence planning as a whole made little sense. On the one hand, they were preparing for a 4-day war. On the other hand, they were relying on reinforcements which would take a month to arrive. The Prime Minister and the Defence Secretary said that it was safe to assume that whatever one planned for, the reality would turn out differently. The Defence Secretary's own view was that

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any war would be a relatively long drawn out affair, and that reserves would be necessary.

In a brief discussion on the nuclear deterrent, the Foreign Secretary expressed the hope that the forthcoming debate in the House would not be confined to Trident, but would deal with our nuclear defence policy as a whole, including questions of arms control. The Defence Secretary confirmed that it was his intention to deal with all the issues. It was essential to do so since two-thirds of the Party and two-thirds of the Cabinet were opposed to the procurement of Trident. Even the Chiefs of Staff were not unanimous. He himself believed that the decision was right, but also believed that in the end we would have to acquire 5 submarines and spend £10 b rather than £5 b. The Foreign Secretary said that he also was in no doubt about the decision. Failure to acquire Trident would have left the French as the only nuclear power in Europe. This would be intolerable. The Prime Minister, the Foreign Secretary and the Defence Secretary all agreed on the need to couple arms control with deterrence. The Defence Secretary added that he hoped nothing would be said in Washington or elsewhere in the next few months to suggest that HMG was committed to the acquisition of ERW and/or chemical weapons. To do so would add greatly to the problems of justifying our nuclear defence policy. He was confident he could win the argument by the autumn. Thereafter the acquisition of ERW, which was almost certainly desirable on military grounds, could be reconsidered.

It was agreed that the Lord Privy Seal should wind up the debate in the House of Commons when it took place.

Ministerial Organisation in the Ministry of Defence

The Defence Secretary said that he would be approaching the Prime Minister in the summer to ask her to abolish single Service Ministers. He wished to move to a Ministerial organisation based on a Minister of State for Procurement, a Minister of State

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for the Armed Services, and two Parliamentary Under-Secretaries. He would also be seeking changes in personalities: at present he had the worst ^(worst) team in Whitehall.

The Defence Secretary said that he was resisting pressure from CDS to confirm his successor now, and to decide at the same time on the next generation of single Service Chiefs. He had not yet decided whether to build up the role of the CDS or to abolish the post. One or other course was necessary. The Prime Minister counselled the Defence Secretary against building up a rival to himself. The Defence Secretary commented that the abolition of the post of CDS would enable him to get rid of a lot of bureaucrats.

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