CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 6169

D/S of S/~~PS/10~~

13th July 1982

Prime Minister

I don't think we can send the longer version of this letter. Please mark the enclosure PRIVATE & CONFIDENTIAL. Modified last para.

Mr Nott would prefer you to send the short reply at A. There is a longer version at B, if you prefer.

WR 15/7

Dear Willie,

Thank you for your letter of 23rd June enclosing one from Lord Hill-Norton to the Prime Minister, complaining about certain aspects of the public presentation of defence policy.

On the first of Lord Hill-Norton's points, that the briefing note circulated recently to backbenchers was incomplete and hence misleading, my Secretary of State has asked me to say that it was not intended to be a full and balanced picture any more than is Lord Hill-Norton's critique which - not unexpectedly - seeks to discredit the Government's plans. Most of his criticisms are well known to us and have been answered before in replies to Parliamentary Questions and Members' letters (though this is the first time that Lord Hill-Norton has intervened); and my Secretary of State does not recommend that the Prime Minister should reply in detail. For your background information, however, I attach a commentary on the critique.

My Secretary of State believes, however, that the Prime Minister would wish to deal with the second of Lord Hill-Norton's points - the allegation that he misled the House on two occasions recently. On the first occasion the position is as follows. Lord Hill-Norton has taken out of context the remarks Mr Nott made in the House when he was seeking to deal with the criticism, implicit in Mr Keith Speed's remarks to which he was replying, that Trident was funded at the sole expense of the Navy programme. Mr Speed's intervention had implied that, if Trident had not gone ahead, the associated funding would have been devoted to enhancing conventional naval forces. Mr Nott pointed out (Hansard attached) that Trident was financed by the defence programme as a whole and had been placed in the Navy programme simply for reasons of management: it did not, therefore, follow that without Trident there would have been more funds available for the Navy. Obviously without Trident the SSN programme would have been different as Lord Hill-Norton suggests, but, as is clear from the context, Mr Nott was addressing a different point.

As to the suggestion that the House was misled on 7th April, (Hansard attached), two factors should be borne in mind. Firstly, last year's White Paper (Cmnd 8288) stated specifically that the

W F S Rickett Esq

CONFIDENTIAL

size of the surface Fleet would decline over the next few years. It is, of course, this very fact - more than any other - which has given rise to considerable public debate, and the House cannot possibly have thought that - contrary to what Cmnd 8288 had said - Mr Nott was trying to give the impression that the Government planned to increase the size of the Navy. Second, as you will see from the Hansard, the immediate context makes it clear that my Secretary of State had in mind the increase planned expenditure on the conventional Navy, which is not how Lord Hill-Norton has interpreted the answer. Not even the least knowledgeable Member can have misunderstood exactly what Mr Nott meant.

/ My Secretary of State has approved the attached draft letter which the Prime Minister might consider sending to Lord Hill-Norton. The draft deals with only some of the many points Lord Hill-Norton has raised but if the Prime Minister nonetheless preferred not to comment at all on the substance of his letter my Secretary of State would be entirely content for a very brief reply to / be sent on the lines of the one which I also attach, and which Mr Nott actually prefers.

Yours ever,

Derek Piper

(D T PIPER)

DRAFT LETTER FROM PRIME MINISTER TO LORD HILL-NORTON

Thank you for your letter of 22nd June.

Before I make any comment on some of the points you have raised I must say that the Government's overall naval policy was very clearly set out in the White Paper the Secretary of State for Defence published last Summer "The UK Defence Programme - The Way Forward" (Cmnd 8288). Decisions about our future defence policy had to be taken in response to changes in the technological environment and the rapid growth of defence equipment costs, and one decision was a reduction below the then current plans for the size of the surface Fleet. Others were mentioned in your critique. You are right to say that most of the major warships that have entered service since April 1979, or will enter service over the next five years, were ordered by the last Government but that is bound to be the case since the Labour Party were in power over most of the relevant period. But given their commitment drastically to reduce defence spending to the average of our NATO Allies it would have been impossible for them to pay for them - indeed the defence programme was too large prior to Command 8288 even to be accommodated by the 3% growth target to which we are committed.

PP. For our part we have explained our policy and defended it on many occasions in both Houses of Parliament. It has also been analysed in the Press, and there has been wide support for its overall thrust although I realise that there are a significant number of people, like you, who find difficulty in accepting aspects of it. The note to which you refer must be seen as an attempt to highlight the favourable points in the naval programme in contrast to the criticism which has been one-sided and unbalanced. For instance,

your critique makes no mention that the naval programme is higher today in real terms than when we took office and we have, as a matter of policy, made a switch in the programme to weapons as opposed to platforms.

You referred to a statement by John Nott in the House of Commons on 11th March on Trident. I cannot accept your assertion that the House was misled on that occasion. It is to my mind clear from the context in which John Nott made his remarks that he was seeking to refute the criticism that had been made on a number of occasions, and was implicit in Keith Speed's question, that Trident was funded at the sole expense of the Navy Programme, with the implication that if Trident had not gone ahead the associated funding would have been devoted to enhancing conventional naval forces.

You also mentioned what John Nott said in the House on 7th April. I have re-read the paragraph in which the quotation appears; and, bearing in mind that it is dealing principally with levels of expenditure and that our plans to reduce the surface Fleet are well known, I do not think that there can have been any doubt that John Nott was intending the specific remarks to which you draw attention to refer to increases in the naval budget rather than the size of the Fleet.

I realise how strongly you feel about some of the decisions contained in Cmnd 8288. It is, however, a very serious charge to say that a Member of Parliament - and particularly a Minister - has deliberately misled the House of Commons and I hope that on reflection you will withdraw ~~such a charge~~ it.

DRAFT

Thank you for your letter of 22nd June.

I have noted your comments about the note which was issued by the Secretary of State for Defence. All I would say on the note is that it must be seen as an attempt to highlight favourable points in the naval programme to counter-balance the criticisms which have often been one-sided.

I was particularly concerned to read your charge that the Secretary of State for Defence had deliberately misled the House of Commons. Having personally looked into this I believe that your allegations are completely unfounded. I just do not think that anyone in the House of Commons with any knowledge of the Defence White Paper of last June (Cmnd 8288) and of the general thrust of our defence policy, particularly with regard to Trident, could sensibly have interpreted Mr Nott's words in the way you have.

ANNEX A TO
D/DS4/118/1/2 (387/82)
DATED 1 JUL 82

THE ROYAL NAVY

(Commentary on Lord Hill-Norton's Critique)

Naval Budget

1. This financial year the RN's share of the Defence Budget will be 29% as compared with 28% in 1978/79. On present plans it will be 30% at the end of the decade. Discounting expenditure on the strategic deterrent the figures for 1982/83 and 1989/90 are 27% and 25% respectively. There are, however, likely to be changes as the programme develops over the coming years. In public, therefore, we should take the line that no final decisions have been taken on the detailed size and allocation of the defence budget in the late-1980s.

2. It is agreed that the cost of ships and their weapons continue to increase rapidly in common with other armaments. One of the purposes of the Defence Review was to recast the programme so as to create the headroom necessary to deal with the problem of cost growth in the longer term.

Ship Numbers

3. As Lord Hill-Norton concedes 'operational' is a broad term and open to different definitions. At one end of the scale, availability at A1 readiness for NATO is the strictest criterion (fully operational in all respects and available in the Alliance area within 48 hours). At the other end of the spectrum it can be argued that recent experience has shown that the majority if not all ships not well into refit can be called on at varying notice for operations. The figures underlying the comment in the handout that more ships and submarines would be operational in 1985 than now were based on a projection on the best data then to hand of ships and submarines likely to be available in Category A1 plus those undergoing essential repairs (available at reduced capability within 2-4 days) together with ships undergoing training and trials available at no more than a fortnight's notice. Full account was taken of the decreased amount of time that individual ships will spend in major refit following the decision to cease mid-life modernisation. This said, it should be noted that any assessment of this kind is subject to considerable change in both the short and long term because of developments for example in the dockyards programme; in the physical condition of ships and in changes in plans for the use of ships. Ship losses in Operation CORPORATE will also have a major impact on the forecast until they are replaced. The need to repair damaged ships will have a significant effect on availability in the short term. Any consequential adjustments to the dockyards programme in the medium term would also have an impact on operational availability.

4. Lord Hill-Norton's comment that the size of the Fleet has reduced from 98 major warships in 1978/79 to 86 at present is correct. The size of the Armed

Forces has, however, consistently reduced for many years in response to budgetary pressures, technological advance and changes in policy. As regards S of S's remarks in the House on 7 April, the immediate context referred to future planned expenditure. Cmnd 8288 also accepted a reduction in the size of the surface Fleet. Taking these two factors together there cannot be any doubt that S of S intended his remarks to refer to increases in the naval budget rather than the size of the Fleet.

5. A large-scale modernisation programme is under way. For further details see below. At the same time Cmnd 8288 made it clear that we could no longer hope to sustain all our previous plans and announced a number of changes (reductions in future carrier and DD/FF force; RFA reductions; abandonment of Type 44 and cessation of further Type 42s; abandonment of mid-life modernisation; dockyard cuts). Others were announced subsequently (abandonment of Sea Dart improvements; early disposal of Counties and BRISTOL). Lord Hill-Norton is therefore drawing attention to facts concerning the reduction in the navy which are already on the public record as a means of attacking the cuts in the Fleet. He is correct in saying that the scope for future improvements to our capability will be reduced by limited dockyard facilities but our aim is to incorporate as many improvements as possible in the course of the new cycle of refits and restorative refits. As he points out, the SSN force will be less than that envisaged by the Labour Government. This was brought about principally by the decision to proceed with Trident and to rephase the SSN programme around it. Resources could not be found to transfer the SSNs displaced by the Trident boat to a second shipyard. Guidance for the Defence Review also directed that the SSN programme should proceed at no faster pace than was necessary to maintain shipbuilding capacity for Trident.

6. We shall be considering in the light of experience gained during the Falkland Islands crisis whether any changes are needed to the programme within the overall framework announced last year. Cmnd 8288 stated clearly that we would be flexible in implementing the new policy. FEARLESS and INTREPID were reprieved in March. Plans for the retention of FIFE, GLAMORGAN and BRISTOL are due to be announced on 1 July.

Recent Orders

7. Lord Hill-Norton's comments on the Government's order rate and on the number of ships having entered service since 1979 or due to enter service over the next 5 years are correct. His remarks on the value of orders placed are also correct.

8. This said, with a long-term construction programme such as the RN's many orders placed by its predecessor are inherited by an incoming Government. Cmnd 8288 confirmed that the programme would proceed in full, with the consequence that expenditure on the naval shipbuilding programme has risen sharply and continuously

since 1979. A copy of a recent draft parliamentary answer on this subject is attached together with a note by Head of Mat Coord(N) on the issue of public presentation of the figures.

9. In addition work on the design of the new Type 23 frigate is proceeding and its outline configuration was announced on 1 July, together with tenders for the ninth Type 22 (the third order in a year). Tenders for a new nuclear powered submarine have also been invited recently and for the first batch of a new class of minesweeper.

10. The critique makes no mention of the fact that, in accordance with the philosophy outlined in Cmnd 8288, resources are being ploughed on a large scale into weapons rather than platforms. War reserves are due to be built up and since the publication of the White Paper the following major projects have been announced:

Project	Value £M
Heavyweight torpedo	775
Sea Wolf improvements	75
Sea Eagle	320
Satellite communications	100

Others entering service this year include the Stingray torpedo (value: £1200m) and the Sea Skua air-launched missile (value: £210m).

Carriers

11. Lord Hill-Norton's claim that the handout goes no further than Cmnd 8288 is correct. Presumably his purpose is to draw attention to the need as he sees it to retain three in order to be able to deploy two at any one time. This possibility is now under consideration following the Australian Government's offer not to hold us to the sale of INVINCIBLE, if we now wish to retain her. BULWARK was indeed paid off early - but by only six months as an economy measure. This was announced in January 1981.

ANNEX 3

during the currency of the procurement of the system it will not be cancelled, either at the whim of the United States Congress or as a result of changes of President or changes of presidential mood or attitude over the next 20 years?

Mr. Nott: On the whole, our allies tend to keep to their agreements. I do not think that such a hypothetical situation has ever arisen, nor do I think that it is probable.

The answer to my hon. Friend's question is that most of the system will be built here, by British industry. It is only the missile and the missile control system that we are buying from the United States. The majority of the expenditure will be made here in the United Kingdom. There is nothing in this technology which we in this country are not inherently capable of producing. Indeed, the French Socialist Government—and in the French Socialist Government the Communists actually declare their colours—are spending 25 per cent. of their present defence budget on their nuclear deterrent. We can do this ourselves, as we have proved with Chevaline, but it would be enormously expensive to do so and it is cheaper to buy the technology from the United States.

Mr. Dick Douglas (Dunfermline): Does the Secretary of State recall a speech he made in which he indicated that the cost of Chevaline had gone bananas? What chance is there that the cost involved here in relation to Trident will not go the same way? Additionally, whilst he is talking about jobs, has he noted that in the financial statement one of the worries of this country is import penetration? The cost of going for Trident in this way, and at this time, may be a diminution by British industry generally to compete across the board and thus, whilst strengthening our defence, may be weakening our total economic position.

Mr. Nott: I do not underestimate the technical difficulties which face the United Kingdom industry in competing successfully for the United States Trident programme. On Sub-Harpoon, Chinook, the advanced Harrier, Rapier, and a whole range, we have just recently done about £1,000 million worth of business in defence equipment with the United States.

If the Hawk, the Searchwater and other programmes go forward, we hope to do another £1,000 million worth of business with the United States. If this two-way street did not exist, if we were not buying and selling each other's defence equipment, those extra jobs would not be created for British industry.

I do not accept that this is a programme which is any more subject to escalation of costs than any other highly advanced technology, because most of the content of this programme is already well developed. To say that we have not tested our warheads is not true. We have. It is the same warhead as the Trident I. There is a misunderstanding on this. There is a great deal of business for British industry in this. I hope it succeeds in doing as well on this programme as it has done on the other American programmes.

Mr. Keith Speed (Ashford): If the choice is between modernising Polaris or between C4 and D5, we are undoubtedly right to stay with D5. There is no alternative. Will the Minister answer two questions? First, we have not heard what will be the percentage of expenditure of the naval equipment programme at the apogee of the Trident expenditure. Secondly, I am concerned about the submarine building capacity, because we need a regular building programme for the SSN. Some of the SSNs are getting old and the first one is already to be scrapped. We must be ready to build the new 2400 SSKs.

Mr. Nott: We have a defence equipment programme, and what I am concerned about is defence capability. I look at our overall defences. We are finding money for the Trident programme as a separate item. Trident will be manned by the Royal Navy. It is easier to manage this programme under the Royal Navy and put it in its programme. But it is not right to say that if we had not had Trident the naval programme would have been different. That does not follow logically. It is financed by the defence programme. The SSN programme is going forward as planned when the hon. Member was in the Department. We shall build as many SSNs as we can at Vickers, Barrow, until the monemt comes for Trident to take up. We have not yet placed the orders for the SSK programme, but as soon as we are in a position to do so we shall consider which yard shall take them.

Mr. Stanley Newens (Harlow): Will the Minister tell us how he proposes to meet the costs of this weapon after 1985 when they escalate to the peak? Does he propose to meet them out of the normal defence budget, which will mean cutting down on conventional expenditure, or does he propose to have a special budget which will add even more to the gigantic escalation of defence expenditure which his Government are proposing? If so, how on earth will this country afford it?

Mr. Nott: We have to look ahead over 10 years to see when the peaks of different items of equipment will come. At no point, even in the peak year of spending on Trident, will it be as expensive as Tornado will be next year in my programme. The peak year will probably be in the last year or two of the 1980s. At the peak of our programme D5 will take up about 11½ per cent. We shall pay for it, as we are now paying this year and next year, for a much more expensive programme, namely, the Tornado aircraft. It will be financed in exactly the same way as our conventional programme is being financed now.

Sir Timothy Kitson (Richmond, Yorks): Will my right hon. Friend clarify one point in his statement? If the cycle between refits for the new Trident submarine is to be seven years, can he assure the House that there will be no need to order a fifth vessel?

Mr. Nott: Because of the extended length of the refits—seven years—four Trident submarines are equivalent to at least five Polaris submarines. We do not now need to contemplate five submarines. Four Trident D5s, with a much longer refit interval and the in-tube life of seven years, plus the missile, are equivalent to more than five Polaris submarines. We shall have three in the operational cycle for a large proportion of the time.

Mr. Bruce George (Walsall, South): Does the Minister agree that it is not simply a replacement programme but that in terms of quality and quantity of warheads D5 repersents almost a quantum leap forward? Will the Minister tell the House why we require a hard kill capability? Will he inform his hon. Friends what cherished projects are likely to be cancelled as a result of this £8,000 million expenditure?

PRIME MINISTER

I attach below (Flag A) a pretty arrogant and unpleasant letter from Admiral Hill-Norton in reply to your letter of 19 July to him (Flag B).

I really see little point in your continuing this correspondence with him: it is plainly going to get nowhere. I hope that you will feel able to send him the fairly stiff reply which I attach below.

KW.

28 July 1982

Admiral of the Fleet The Lord Hill-Norton G.C.B.

NUTFIELD RIDGE 3309

KING'S MILL HOUSE,
SOUTH NUTFIELD,
REDHILL,
SURREY. RH1 5NG

CF? Rcd in CF 26/7

The Rt.Hon. Mrs. Thatcher, M.P.,
10 Downing Street,
London,
S.W.1.

23rd July, 1982

R2617

Dear Prime Minister,

Thank you for your letter of 19th July.

I am sorry that most of it was about Defence Policy, to which I was at pains not to refer in my letter of 22nd June. The arguments deployed by your Private Office have not improved with time, and are today no more convincing to those who understand Defence than they were when first adumbrated last year. They are, of course, entirely different to those which you (presumably) endorsed during the first eighteen months of your Administration, on the advice of Mr. Pym - who did understand the problem. What, one may well enquire, has since then changed in the Defence scene except the Secretary of State?

I am, to return to the gravamen of my previous letter, bound to be disappointed and, I must confess, surprised that you do not accept my contention, to put it quite bluntly, that Mr. Nott deliberately misled the House in a matter of fact, on 7th April. Following our exchange, which I initiated solely to save you personal embarrassment, I feel free now to say so, at what I consider to be the right time.

I am content to let Parliament and the public be the judges as they have been in the past, of what the words he used do actually mean, both in English and in context.

Yours sincerely,

Hill-Norton

PERSONAL AND CONFIDENTIAL

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Defence

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10 DOWNING STREET

THE PRIME MINISTER

19 July 1982

Dear Lord Hill-Norton,

Thank you for your letter of 22 June.

Before I make any comment on some of the points you have raised, I must say that the Government's overall naval policy was very clearly set out in the White Paper the Secretary of State for Defence published last summer "The UK Defence Programme - The Way Forward" (Cmnd. 8288). Decisions about our future defence policy had to be taken in response to changes in the technological environment and the rapid growth of defence equipment costs, and one decision was a reduction below the then current plans for the size of the surface Fleet. Others were mentioned in your critique. You are right to say that most of the major warships that have entered service since April 1979, or will enter service over the next five years, were ordered by the last Government but that is bound to be the case since the Labour Party were in power over most of the relevant period. But given their commitment drastically to reduce defence spending to the average of our NATO Allies it would have been impossible for them to pay for them - indeed the defence programme was too large prior to Command 8288 even to be accommodated by the 3 per cent growth target to which we are committed.

For our part we have explained our policy and defended it on many occasions in both Houses of Parliament. It has also been analysed in the press, and there has been wide support

/for its

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for its overall thrust although I realise that there are a significant number of people, like you, who find difficulty in accepting aspects of it. The note to which you refer must be seen as an attempt to highlight the favourable points in the naval programme in contrast to the criticism which has been one-sided and unbalanced. For instance, your critique makes no mention that the naval programme is higher today in real terms than when we took office and we have, as a matter of policy, made a switch in the programme to weapons as opposed to platforms.

You referred to a statement by John Nott in the House of Commons on 11 March on Trident. I cannot accept your assertion that the House was misled on that occasion. It is to my mind clear from the context in which John Nott made his remarks that he was seeking to refute the criticism that had been made on a number of occasions, and was implicit in Keith Speed's question, that Trident was funded at the sole expense of the Navy Programme, with the implication that if Trident had not gone ahead the associated funding would have been devoted to enhancing conventional naval forces.

You also mentioned what John Nott said in the House on 7 April. I have re-read the paragraph in which the quotation appears; and, bearing in mind that it is dealing principally with levels of expenditure and that our plans to reduce the surface Fleet are well known, I do not think that there can have been any doubt that John Nott was intending the specific remarks to which you draw attention to refer to increases in the naval budget rather than the size of the Fleet.

Yours sincerely

Margaret Thatcher

Admiral of the Fleet The Lord Hill-Norton, G.C.B.

The attached letter has been copied to MOD

Monica

10 DOWNING STREET

PRIME MINISTER

I have retyped the second page of Lord Hill-Norton's letter, and marked it private and confidential as you requested.

Vanessa

18 July 1982

for its overall thrust although I realise that there are a significant number of people, like you, who find difficulty in accepting aspects of it. The note to which you refer must be seen as an attempt to highlight the favourable points in the naval programme in contrast to the criticism which has been one-sided and unbalanced. For instance, your critique makes no mention that the naval programme is higher today in real terms than when we took office and we have, as a matter of policy, made a switch in the programme to weapons as opposed to platforms.

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~~I realise how strongly you feel about some of the decisions contained in Cmnd. 8288. It is, however, a very serious charge to say that a Member of Parliament - and particularly a Minister - has deliberately misled the House of Commons and I hope that on reflection you will withdraw it.~~

~~Yours sincerely~~

~~Geoffrey Howe~~

Admiral of the Fleet The Lord Hill-Norton, GCB.

file

cc
Defence

10 DOWNING STREET

THE PRIME MINISTER

30 July 1982

Dear Lord Hill-Norton,

Thank you for your letter of 23 July 1982.

I note that you now feel free to pursue publicly the point which you were making in your letter of 22 June.

I rather doubt whether there is much more to be gained by continuing to exchange letters about the matter.

Yours sincerely,

Margaret Thatcher

Admiral of the Fleet The Lord Hill-Norton, G.C.B.

LPO