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PRIME MINISTER

BILATERAL WITH THE DEFENCE SECRETARY

You have a bilateral with the Defence Secretary tomorrow morning. The main subject is the new tank. But it is also an opportunity to discuss defence spending (on which a joint MOD/Treasury minute should reach you in the course of the day), the organisation of intelligence in Northern Ireland and the break-in at Faslane.

New Tank

We cancelled the OD planned for tomorrow because MOD are not yet ready with a paper. It is likely to be mid-November before they are. This will put us under some pressure to reach a decision by Christmas.

My information is that the choice has narrowed down to Challenger Mark 2 with a rifled gun or the American Abrams tank. I know that the Defence Secretary saw and tried out the Abrams in the summer and is personally very impressed by it. It is of course already in service and has a number of improvements planned, both to the armour and the gun. But purchase would deprive us of the capability to manufacture tanks in future (although we would get sub-contracting work) and of export sales. It would be a severe blow to Vickers.

You will want to ask the Defence Secretary how the MOD's deliberations are going. You do not think foreign policy considerations should play a serious part in striking the balance. The most important questions are:

- How great is the risk of opting for the Challenger?
- Do we think Vickers capable of producing the tank to cost and to time?
- Of is there a danger of another Nimrod/Awacs experience (ie. starting down the route of national manufacture, then finding we cannot do it)?

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- How important is it in defence terms to maintain an independent capability to manufacture tanks?
- Do we really think Vickers have good sales prospects outside the UK?
- Is it true that the American tank is more advanced technically?
- What is the relative balance of cost likely to be? And what assumption will be made about the £/dollar rate?
- What counter-concessions could be obtained from the US if we were to opt for the Abrams tanks?

A great deal will turn in the end on how we assess the risk of committing ourselves to the Vickers project versus the importance of maintaining an independent capability in this field.

Defence Spending

As you know the Defence Secretary has reached agreement with the Chief Secretary to add £1.5 billion to the MOD's programme over three years. This would give real growth in defence spending of over 2 per cent. The question is whether the outcome matches funds to commitments; or whether the MOD will subsequently find that they cannot keep within the programme and end up proposing politically damaging cuts in equipment or commitments.

The Defence Secretary has reached agreement with the Chief Secretary with an eye to the Government's wider objectives, but personally doubts whether some cuts can be avoided by the second and third year. His original bid was for £2.3 billion: I understand he would be confident of getting by at £1.7 billion.

You will want to get a feel for how deep and genuine the Defence Secretary's doubts are. It will be very important to give the right signal internationally on defence spending at a time when some of our partners are already showing signs of abandoning any pretence of adequate defence spending: and subsequent cuts in defence would be very awkward and difficult to reconcile with your public commitment to strong defence. Against this, the Government's long-term ability to fund defence spending depends on getting the economy right now: more than 2 per cent real growth over the period is a good path to be on: and there is still plenty of scope to improve the MOD's financial management.

Intelligence Organisation in Northern Ireland

You may want to tell the Defence Secretary in confidence that you are coming to the conclusion that the Army's ideas for reorganising intelligence in Northern Ireland will not work in their entirety, indeed would dislocate the overall intelligence effort at a crucial time. Moreover, the Army have confirmed your misgivings about their ability to handle intelligence properly.

But it should be possible to go some way to meet them: for instance on strengthening the overall coordination machinery and the briefing of senior commanders, improving the operation of joint cells, and the appointment of a higher-ranking and more powerful Director and Co-ordinator of Intelligence. The key will lie in willingness of all concerned to work together. The departure of Sir Jack Hermon will help.

Intrusion at Faslane

You await the outcome of the Board of Inquiry. But it is a lamentable story of incompetence, which makes it hard to have confidence in the arrangements for the protection of our nuclear weapons. It may be that a wider review of these arrangements will be necessary.

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