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MINISTRY OF DEFENCE
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5th March 1984

Dear John,

The Defence Secretary has seen the draft Green Paper attached to the Chancellor's minute to the Prime Minister of 29th February and has asked me to pass on to you the following comments.

a. Paragraph 15(i) As drafted, this paragraph implies that in the context of the NATO 3% aim we have increased defence expenditure by 23% since 1978/79. In fact, of course, the 23% calculation has been done on a cost terms basis, while our performance against the NATO aim is measured in input volume terms. The Defence Secretary therefore asks that "in real terms" in the first sentence is amended to "in cost terms": indeed he considers that to avoid misunderstanding it would be preferable for all the measurements in this section of the Paper to be expressed as "in cost terms". In addition he feels that the last sentence implies, inadvertently, that Falklands costs are in addition to the 23% increase. He suggests that the second two sentences are redrafted to read:

"This reflects the Government's commitment to meet the NATO aim of real increases in defence expenditure of 3 per cent per annum up to 1985/86 and to meet defence Falklands costs out of monies additional to the 3 per cent annual rate of growth."

b. Paragraph 35 The reference to "a more equitable division of the common defence effort among the European Allies" reflects no current positive aspect of Government policy and should be omitted.

c. Paragraph 42 30 per cent, not 37 per cent, of the defence budget is attributable to pay: 37 per cent includes service pensions costs.

I am copying this letter to the Private Secretaries to the Prime Minister, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Yours sincerely
 Nich Evans

(N H R EVANS)

J O Kerr Esq

Econ Pol: Public Exp: Pt 27



6 MAR 1981

