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BF to CP  
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PRIME MINISTER

#### EUROPE AND DEFENCE

I have seen the Foreign Secretary's minute of 25 July and your comments recorded in your Private Secretary's letter of 27 July, together with those of the Defence Secretary in his minute of 10 August.

2. I am not entirely clear what "difficult resource decisions and political choices" the Foreign Secretary has in mind in the second paragraph of his minute. The fact is that, given the very great difficulty of reconciling the substantial bids for additional resources which the Ministry of Defence has submitted with the public expenditure planning totals for future years agreed by Cabinet on 5 July, we do indeed face difficult decisions in the near future on the resources to be allocated to defence. Against that background, I very much agree with the Foreign Secretary that the need is to present actively, to the Americans and others, not only the scale of the resources which we are putting into the Western defence effort, but also the ways in which we will be further improving the effectiveness of that contribution without a real growth commitment after 1985-86.

3. Improved European co-operation in arms production can be one means of increasing the output provided by the existing level of resources allocated to defence. In his minute, the Defence Secretary has set out the ways in which we are seeking to expand the range of such co-operation. I welcome this activity, provided we are clear that our primary objective in equipment procurement is value for money. The aim must be the provision of cost-effective and competitive equipment which meets real operational needs. In this context, I must say that I continue to have some reservations about the motives and approach of some of the IEPG and Eurogroup members. I understand, for example, that Geoffrey Pattie reported after the last IEPG meeting that most of the other members seemed to favour strongly protectionist policies and a predominant role for governments rather than industry in fostering and



organising collaborative activities. If such protectionist attitudes prevail, they will heighten rather than reduce the more general US/European strains in the Alliance, perhaps putting at risk our efforts to increase UK sales of defence equipment to the US. Through inefficiency and waste they will also inevitably increase rather than reduce the pressure on resources.

4. I am copying this minute to other colleagues in OD and to Sir Robert Armstrong.

*Margaret O'Hara*

N.L.

21 August 1984

*(Approved by the Chancellor  
and signed in his absence)*

Federal  
policy  
Strategy pt 2



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