

D/DUS(FB)/7/10/10

180/82

PS/Secretary of State

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 Head of DS1  
 Head of GF1  
 DCPR

I am happy. But  
 re-word "came" vice in  
our words \*  
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Presumably this is aimed at  
 the Banks. No one else seems to  
 be worried about the work.

THE FALKLAND ISLANDS: COSTS OF DEFENCE ACTIVITIES

I mentioned to you earlier today a message from Treasury officials that the Chief Secretary was to speak tomorrow evening at a Party occasion in Oxford and that both he and the Chancellor felt that the speech should contain, or be preceded by, a statement on the cost of the Falklands operation. A prior statement would presumably take the form of a Treasury press release. But this was not yet decided.

2. We told the Treasury that Mr Nott would wish to clear personally the draft of anything that was to be said or released. We also warned them against falling into the trap of inflating the cost issue into something more than the present facts of the matter justify.

3. The enclosed draft has now been passed to us by the Treasury and is also being submitted to the Chief Secretary this evening. The intention is to prepare a final version tomorrow morning in the light of comments by Mr Brittan and the Secretary of State. The draft draws on material already circulated by the MOD, eg in Mr Evan's letter of 6 April to Mr Whitmore, or used in public by the Chief Secretary. But there are some new points.

4. We shall be looking at the detail of the draft, but I should be glad to have the Secretary of State's guidance. On the whole I think the trap referred to in paragraph 2 is avoided.

WS

14th April 1982

DUS(FB)

PS. Further to paragraph 1 I understand that the Chief Secretary's likely preference will be to release the notes to the press in advance of his speech.



## THE FALKLAND OPERATION: THE DEFENCE COSTS IN PERSPECTIVE

At times such as this one must beware of exaggerated and baseless speculation about the Falkland operation, and of its implications for the Government's economic strategy. It is clearly far too early to offer an estimate of the cost of the Naval Task Force. This will depend on the length and nature of the operation, which naturally cannot be predicted. However there are some matters about which we already can and should be clear.

2. There is no cash ceiling on the cost of the operation. The operational needs of the Task Force must and will come first. Its cost can and will be met in ways consistent with the Government's economic strategy.

3. Not all of this cost will be additional. Additional expenditure arises only where the cost of the operation proves to be greater than that of the tasks to which the Forces concerned would otherwise have been assigned. These extra costs are being identified. At this stage the extra cost represents a very small proportion of the Defence Budget of over £14 billion. There is no cash or budgetary problem immediately in prospect. The implications for the Defence Budget will be considered as the cost of the operation becomes known.

4. It has been suggested recently that our ability to respond to the crisis in the Falklands, or others like it, has been weakened by the Government's so-called "cuts" in Defence spending. This is nonsense.

5. We have raised Defence spending in cash terms from the level of £7½ billion we inherited in 1978-79 to over £14 billion today. This cash increase of over 85% represents a real increase of about 11 per cent.

6. This financial year we will be spending £½ billion more in real terms on conventional naval forces than was spent in the year before we came into office. As to the future, we will still be spending more on the conventional Navy, even when expenditure on modernising the strategic deterrent is at its peak, than we were in 1978-79. The Navy still enjoys as high a proportion (28%) of the Defence Budget as it did in that year, and a higher proportion than it did ten, twenty or thirty years ago.



A massive modernisation programme for the fleet is in hand. The Naval equipment spend will be over £2200m in 1982-83. Our submarine numbers are planned to increase by almost 50%. Two carriers will continue to be kept in service; (Invincible is to be replaced by Illustrious, and Hermes by Ark Royal.) In February we ordered the eighth Broadsword class frigate, and the build up of the Sheffield class destroyer force is progressing well.

8. These vessels will be equipped with effective modern weaponry. The Sting Ray torpedo will enter service shortly, and the development of a new heavyweight torpedo was recently announced; the torpedo procurement programme now totals more than £2 billion. We are also bringing into service the air-launched anti-ship missile Sea Skua and the submarine launched Sub-Harpoon; the air defence missile Sea Wolf is being upgraded; and Sea Eagle is in full development.

9. Short-sighted critics seem to think that they are scoring a direct hit on the Government's policies by pointing out that particular vessels will be disposed of or scrapped before long and thus will not be available for use in a future operation of this or any kind. What they omit to mention is that this programme of modernisation and rebuilding will leave us with more<sup>major</sup> ships and submarines operational in 1985 than are today. More a "own goal" than a direct hit some might say, to so completely misunderstand the results of a major programme of procurement.





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FALKLAND ISLANDS - FINANCE

The Secretary of State was grateful for your minute of 13th April, and has asked me to say that he approves of the instructions which you are issuing to finance staff, and he hopes that all concerned will recognise the need to carry out their appropriate financial responsibilities in a way that ensures that there are no delays to operationally essential requirements for the Falklands operation.

2. The Secretary of State has noted the steps being taken to estimate the possible costs of operations but for the time being he would prefer the line to be taken in public to remain "No estimate of cost has yet been made".

14th April 1982

*J B Omand*  
 (D B OMAND)  
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