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Subject



file

copied to
Master Ser

Dofene BK

10 DOWNING STREET

From the Private Secretary

8 July 1980

Dear Brian,

Call by the Defence Secretary

As you know, the Defence Secretary called on the Prime Minister yesterday evening for a preliminary discussion about the paper on the defence programme (OD (80) 49) which is being taken at OD this afternoon. Much of the conversation was of a general kind but one or two points may be worth recording.

The Prime Minister and the Defence Secretary agreed about the need to have a closer look at the question of burden sharing within the Alliance. The Prime Minister said that she was not yet persuaded that it was necessary to keep so many troops in Germany. She wanted careful consideration given to the possibility of our doing more in the maritime field. The Defence Secretary said that he had this very much in mind but that it would be essential to proceed in agreement with the other members of the Alliance. Any change in the present arrangements would have to be negotiated and would take time. Nothing, in any case, could be done until after the German elections. The Alliance could be made more cost-effective but the domestic political difficulties of various members would make it a slow process.

The Defence Secretary expressed concern about the allocation of resources to the defence budget in future. The paper on the defence programme was based on the assumption that the public expenditure survey figures would be adhered to. It was essential to have stability in planning for the period 1981 - 84. If the resource allocation were to be reduced ie if any doubt were to be cast on the assumption that there would be an annual increase in resources for defence of 3 per cent in real terms, many of the recommendations in the paper (and indeed the question of the Polaris successor system) might have to be reconsidered. The Prime Minister took note and asked about the situation in the current year. The Defence Secretary said that there seemed likely to be an overspend of more than £500 million. Of this, £150 million was a volume overspend which would be cut out. But £370 million represented the difference between the cash limit and the volume figure given in the White Paper. In other words, if the White Paper commitment was to be met, there would need to

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be an increase of £370 million in the cash figure. These problems had arisen as a result of inflation, of the increase in oil costs, of accelerated deliveries by firms hit by the recession and of earlier billing. The Prime Minister, again, took note of what the Defence Secretary had said and agreed that there was cause for concern. She commented that it had been unwise to agree the 16 per cent claim for industrial civil servants. There was a choice to be made between pay and the purchase of equipment.

The Prime Minister asked whether there would be any difficulty about informing NATO of the cuts envisaged in OD (80) 49. The Defence Secretary said that he had been advised that provided we adhered to the plan for 3 per cent growth in real terms, it would be possible to get away without making any declaration to NATO. NATO would, however, learn of the cuts when we next returned answers to a defence planning questionnaire.

Johns Sweeney

Michael Alexander

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