



MO 13/1

PRIME MINISTERA REVIEW OF NATO

You will recall that the OD meeting on 7<sup>th</sup> November last year considered a possible British initiative for an independent review of the NATO Alliance. At your meeting on 31st December on defence expenditure, which my predecessor attended with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, you indicated that a reassessment in conjunction with our Allies of the pattern of defence spending would be highly desirable and that it would be for consideration whether and how you should take this up with President Reagan when you visited Washington.

before  
Budget  
Pt 4

2. Officials have set out the objectives which a review might serve in the note at Annex A herewith. When we discussed this subject at our small meeting on Tuesday I expressed certain reservations about the present proposals; and I had the impression that you and the Foreign and Commonwealth Secretary might also be minded to reflect further. It was however agreed that it would be a mistake to draw right back at this stage, and that as the Americans are expecting to hear more from us we should go ahead and present them with a short note. A suggested text, framed so as not to commit us too flat-footedly, is attached at Annex B. A convenient low-key opportunity to hand this over arises next week, when FCO and MOD officials are due to be in Washington on other business.





3. I imagine you will want to discuss further, before you leave for Washington, just how much weight you should put behind the review idea when you see President Reagan and Caspar Weinberger.

4. It would plainly be wrong to say anything more to other Allies, such as the FRG, until we have re-evaluated matters in the light of the Washington talks. We should accordingly ask the US to keep the matter confidential.

5. I am sending copies of this minute to the Foreign and Commonwealth Secretary, and to Sir Robert Armstrong.

SW .

Ministry of Defence  
12th February 1981

Defence.

16 February 1981

Review of NATO

The Prime Minister has seen the Defence Secretary's minute to her of 12 February about a Review of NATO. She agrees that the annexes to that minute may be handed over to the Americans in Washington this week.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

MODBA

CS

Brian Norbury, Esq.,  
Ministry of Defence.





Prime Minister

Foreign and Commonwealth Office

Agree that these

① London SW1A 2AH

His may be handed  
over to the Americans

Yes

13 February 1981

Dear Michael,

next week.

Am 13/2

Review of NATO

Lord Carrington has seen Mr Nott's minute of 12 February to the Prime Minister about our proposal for a Review of NATO.

Lord Carrington is content with the texts of the two Annexes attached to Mr Nott's minute. He believes that it is worth trying out our ideas on the new US Administration. He therefore agrees that the paper at Annex B to Mr Nott's minute should be handed over to the Americans when FCO and MOD officials are in Washington next week. Lord Carrington also agrees that we should not say anything on this subject to the other Allies until we have a clearer picture of American views.

Unless therefore the Prime Minister sees objection, we will hand over the discussion note to American officials in Washington on Tuesday 17 February. Ministers can consider the proposed review again, in the light of initial American reactions, before the Prime Minister's visit to Washington.

I am sending copies of this letter to Brian Norbury (MOD) and David Wright (Cabinet Office).

Yours ever,

*Francis Richards*

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street  
LONDON



## ANNEX A

NATO REVIEW: UNITED KINGDOM OBJECTIVES

1. We should be seeking, through the Review, to further two main kinds of United Kingdom objective: those arising from the interest we share with other members in the Alliance's collective strength, and those specific to ourselves. This note lists the former briefly and discusses the latter more fully. The difference does not imply that the former matter less.

I - General Aims

2. The Review could serve wider Alliance aims which while not peculiar to the UK are none the less important to us:-

- a. A more cost-effective pattern of interdependence could help the Alliance keep up its military strength in times of economic stress and growing Soviet power.
- b. Such a pattern, collectively arrived at, might help to lock some of the weaker contributors into a structure of commitments on which they could less easily renege than at present.
- c. The Review might help to develop an updated common view of Alliance tasks and interests, and of global division of effort, by means more constructive and less abrasive than, for example, argument between an inexperienced US Government and a resentful (and perhaps domestically uncomfortable) FRG one.
- d. The Review might help get across to the US Government - and the US Congress and public - the European outlook on Western security policy, and the weight and value of the European contribution.
- e. The Review could offer an opportunity for streamlining and re-invigorating the Alliance's organisation and procedures, which in some areas, are hidebound.



- f. The Review could help highlight afresh in all member countries the Alliance's importance, its continued relevance and its readiness to adapt.

## II - UK-Specific Aims

3. Our specific national aims fall into three groups. The first and most important is to secure a more cost-effective framework of Alliance effort to which we can relate the defence programme choices which undoubtedly face us. The second is to secure a better system of common financing, within which we can break away from the disproportionate shares we now pay to some funds, and possibly also improve the return to ourselves. The third is to secure, within a tauter organisation for Alliance consultation and management, more effective UK influence. (This last is less important.)

### Division of Effort

4. In NATO the term "division of effort" can refer either to the division of global responsibilities for the defence of Western interests, or to the division of tasks within the NATO area itself. Since the invasion of Afghanistan the US (and, defensively, the FRG) have used the term more in the former sense, to refer to concepts whereby those who can act world-wide would do so on behalf of all, while those who cannot would have a special duty to fill in gaps left by any shift of effort out of the NATO area. We need not oppose this idea - indeed, we can seek to exploit our own modest global flexibility within it - but our prime interest is in division of effort within the NATO area.

5. Even with annual growth at 3% after 1981/82 the defence budget cannot support the programme (even in the reduced form accepted by OD in July 1980) at which we have been aiming. Further pruning of overheads will not suffice; we must avoid future short-term cash savings on items like fuel, unit and operational training, ammunition and food which mean that equipment and forces are underemployed with damaging consequences for morale and readiness. We need more



flexibility in the programme. We must therefore reduce the weight, the quality, or the span of our current front-line effort. Major reductions in weight or quality would harm Alliance cohesion and ability to counter growing Soviet strength. We must do all we can to secure economies - and cut the proportion of our spending that goes on overheads like R&D - by reducing, within one or more of our main roles, the diversity of particular tasks. For example, we have given up the strike carrier role and are about to surrender the role of long-range air strike/attack overland; both these roles will then be undertaken for NATO by the US alone. But we have no choice but to go further.

6. It will be inefficient and dangerous to our own security if we discard necessary Alliance tasks without reference to whether or how they will be discharged thereafter. The effect could be worse still if similar measures were taken in isolation by others (and financial pressures are not unique to us). There is a strong case for establishing an effective dialogue. Apart from its relevance to our own choices, this could help us influence those of others.

7. Among our major Alliance roles, in the distinctive nuclear contribution we have already, with the US, pushed the concept of interdependence about as far as is compatible with maintaining the contribution's key point, its operational independence. Our Alliance in this vital area needs greater recognition. In direct defence of the UK we cannot hive off whole tasks to others; indeed, this is an area where we need to assign greater resources so as to do more for ourselves, though useful contributions from our partners, such as elements of US air defence capability, may be possible. This leaves the EASTLANT/ACCHAN role and British Forces Germany, and also (of lesser financial weight but significant political importance, and indeed also, in "out-of-area" applications, potential UK trade importance) our specialist reinforcement forces (SRF).

8. Within these candidate areas we are conducting work to identify precisely what it would best suit us to give up. This will depend upon factors yet to be studied in the context of the 1981 long-term costings (LTC 81), and upon what is feasible and attractive for our potential partners in interdependence - that is, primarily the US and possibly the FRG in the maritime context; primarily the FRG in the



Central Region; and primarily the prospective host countries in respect of the SRF. We should be better able to decide our preferences by mid-summer, when post-LTC 81 work has been carried forward. One approach might be to identify tasks (especially with heavy expenditure in prospect) where the current policy of "balanced" forces involves providing costly equipment, units or support which we cannot afford to, or need not, provide in other than modest amount; and to consider whether a "major-user" partner - e.g. the US Navy, or the Federal German Army or Air Force - might provide enough capability for both. Bargains could not be one-sided; we should need to be ready to consider, for example, providing reciprocally extra numbers, host nation support or otherwise enhanced effort in tasks that we were to retain. But the object on all sides ought to be to maximise economies of scale for each participant.

9. For the SRF (where we might have to be careful not to impair the viability of units that were among possible candidates for national use "out-of-area") we might explore the possibility that host countries in NATO should provide more transport, stockpiles or other support. Both for the SRF and in respect of British Forces Germany more use of local reserves or civilian infrastructure might be studied. We need to keep in mind, as regards flexible forces like the SRF, that while economic constraints must limit the scope of potential "out-of-area" application some shift of emphasis in this direction can - provided that serious gaps are not left behind unfilled in the NATO area - have important benefits not only for general Western interests but also in enhancing wider British political influence and trade opportunities.

10. Realising ideas of these kinds ultimately requires negotiations between Governments. But in this field perhaps even more than elsewhere, an independent review could serve as a catalyst for possibilities which political inhibitions or institutional rigidities may otherwise keep submerged.

#### NATO Common Budgets

11. The present system of three separate NATO budgets, financed by nations on pre-determined percentage formulae to totals which have to be laboriously negotiated for each period, with the status quo and the pace of the slowest well entrenched, offers much friction and little flexibility. This is particularly unwelcome to us, since our shares of two of the three budgets are much higher than our wealth justifies. Though the sums which these two inequities



entail are not large (a theoretical maximum of perhaps £17M a year) they are indefensible and could be better spent elsewhere. It would be welcome also if we could secure more common financing for UK defence projects, though the grounds for expecting improvement here are much less clearcut.

12. It has been judged that head-on attack now upon the inequities in isolation will not be productive. We should seek through the Review to create a climate of change within which our own contributions can be re-set (and if possible thereafter readily kept) in up-to-date relation to our economic position.

13. Possibilities for change might include brigading the three budgets together; adopting a single cost-sharing formula; provision for regular recalculation of the formulae on objective criteria; and determining budget totals and raising revenue for them on some lines analogous to the European Community's ressources propres.

14. It is not feasible to define now what scheme would best suit our interests while being negotiable with our Allies. The first step must be to get the subject opened up. Again, this should be considerably easier for an independent body than for any nation.

#### UK Influence in NATO

15. UK influence in NATO is considerable. Our civilian and military personnel, in both national and international posts, generally compare well with those of other countries; we have a favourable share of senior military posts; English is overwhelmingly the Alliance's first language; and, most importantly, the UK's substantive performance as an Alliance contributor has of late commanded respect.

16. Two factors somewhat inhibit our influence. First, some aspects of the organisation are so entrenched that no influence for change, whether UK or other, can easily make itself felt. Second, a significant proportion of UK-held civilian posts at NATO Headquarters are held by long-service expatriates, often past their peak, not in close touch with our policies, and sometimes occupying administrative rather than policy posts.

17. Adjustments will not be easily secured, and their importance should not be exaggerated; but the prospect will be best in a



context of organisational modernisation stimulated from outside. Especially under the uninterested Dr Luns, internally-generated reform will not get far.



DISCUSSION NOTEA REVIEW OF THE ALLIANCE ?Introduction

1. The NATO Alliance faces challenges today which are different in many ways from those of the past. It is legitimate to ask ourselves whether NATO is as well prepared to meet them as it could be.

2. In some respects the recent past has brought success. There remains a powerful will towards cohesion, and in all countries of the Alliance the principle of NATO membership commands general political support. Greece has rejoined the integrated military structure. Although difficulties remain, the programme for LRTNF modernisation is going forward. Public and Parliamentary awareness of the Soviet military threat remains high. Against this must be set other factors which are less positive. Vital Western interests are under new threat outside the NATO area, particularly in South West Asia. New collective attitudes may need to be worked out, for example about the role of arms control in defence policy, and about what needs to be done to make up for the diversion of forces away from the NATO area to deal with the threat elsewhere. Forces are often in patchy condition, and the momentum of the LTDP may need re-invigoration. There is public concern in some countries about nuclear armouries and about demands for high military spending at a time when all members of the Alliance face harsh economic problems. Worries have re-emerged about fair distribution of effort for the common security. At a time when money for defence is short and when advanced equipment is getting more costly, there are doubts about whether the Alliance is getting the best return on its aggregate investment. Comparisons are difficult, but there appears to be general acceptance that the Alliance achieves less military output than the Warsaw Pact, for





a larger total input. In the past NATO has relied upon qualitative superiority to make up for deficiencies, but this is no longer an option. NATO now needs to get the fullest possible value for money. Unless it can do so the progressive degradation of its conventional capabilities relative to the Warsaw Pact may well accelerate.

### Objectives

3. In the British view the time may have come for a major review of the Alliance in order to determine how the varied challenges and difficulties of the next decade might best be tackled and its agreed strategic doctrine sustained. We do not seek Alliance defence on the cheap; we stand by the agreed Alliance view that increasing resources need to be assigned to defence. Nor do we seek a debate on basic principles - these rather need re-statement and re-affirmation. We endorse the Alliance commitment to a strategy of forward defence and flexible response. What a review might valuably do is to consider how Alliance aims and policies can best be sustained in the economic and political circumstances of the 1980s against the background of new and additional demands. Moreover, valuable as a review would be in itself, it could also help demonstrate publicly that the Alliance is grappling collectively with the challenges of the 1980's - which Alliance Governments could then point to in domestic debate in defence issues.

### The Case for an Independent Review and its Scope

4. It is unlikely that any alternative would offer as good a prospect of progress as an independent review. The normal NATO machinery is essentially taken up with day-to-day burdens and commitments. If there are to be broader adjustments, we do not believe that these can readily be brought about by bilateral pressures from one or more member countries on the others; this would be a recipe for divisive and acrimonious argument, which





might merely increase disillusionment about NATO's ability to face up to the threats of the 1980s without leading to any real progress. A mechanism would be needed which bypassed entrenched orthodoxies and offered an opportunity for original and radical thinking. But an independent review would have to be carried out by a high-level team which commanded international respect, had impeccable NATO credentials and was intellectually prepared to think afresh about the new problems which face the Alliance in the 1980s; and was at the same time closely in touch with and responsive to the member countries and the Alliance organisation.

5. Such a team might best comprise at least one representative from each of the political, diplomatic and military fields, and cover a balanced spread of nationalities. It would need the support of a competent staff, allocated full-time. As regards timing, it should be possible to produce a report in nine months from the date of commissioning.

6. The terms of reference for such an enquiry would need to be drawn up with care. East/West relations as a whole must be the context for any review of defence policy. But the terms of reference would need to make clear that it was not the intention to revise or re-interpret the Treaty, to examine the broad purposes for which the Alliance is designed or to open up sensitive issues of doctrine or strategy. At the same time the terms of reference must allow the review to take account of the changes in the focus of Western political/military effort worldwide, and of the unremitting increase in Warsaw Pact capabilities. Indeed it would be against this background of fact that the review would work in its efforts to find means of achieving greater cost-effectiveness across the board. A draft of the kind of terms of reference that might be appropriate is attached. These are drafted in terms broad enough to take account of concerns of other Allies.





The Subject Matter for a Review

7. The review could examine thoroughly the possibilities for greater specialisation in defence tasks, with each nation concentrating on force contributions most appropriate to itself and most valuable to NATO's collective security aims. It makes less and less economic sense for each nation to maintain capabilities across a wide range of military activity. A measure of specialisation already exists within the Alliance, and the difficulties of going further down this road are not inconsiderable. But the time may be more ripe than it was in the mid-70s when earlier NATO studies foundered. The United States, for example, has advocated what amounts to a division of effort with the European Allies doing more to fill the gap in Europe. The Federal Republic has put forward ideas of Arbeitsteilung and, most significant of all, the financial problems of member nations are now such as to compel recognition of the logic of further expanding specialisation.

8. Experience strongly suggest that attempts to foist a complex or ready-made blue print on members of the Alliance would be counter-productive and that success is most likely to be achieved through the adoption of a pragmatic approach in self-contained areas where real achievements are possible.

9. Although a pragmatic approach would be most likely to produce results, an overall concept would be needed as a framework for individual measures. The most promising approach might be one which built on and perhaps sharpened existing patterns of relative strength and emphasis in national contributions. In some cases, this would involve acceptance of the need to concentrate nationally on a narrower range of capabilities than now, and also of a resultant heightening of long-term reliance upon the performance of others. But the emphasis would have to be on improving the effectiveness of national contributions, not on reducing them.





10. It is difficult to be specific about possible outcomes in advance. Specialisation inherently implies adjustments involving several participants, and often entailing uncomfortable change. To suggest particular examples would risk building up opposition before the exercise starts. The best approach would be to initiate dialogue on a broad basis and without set ideas, and to work up our thinking as ideas develop and opportunities open up. There would be enough procedural and other complexities in a multinational exercise of this kind for there to be little risk that countries will find that the work has suddenly run ahead too fast.

11. The existing arrangements for NATO common funding would also warrant review. This would not be a question merely of updating the apportionment of the funding burden under existing arrangements, but rather a thorough-going examination of the current system itself and an imaginative search for better ways of working. For example, the review might consider the possibility of bringing together the infrastructure, military and civil budgets in a common defence fund. This concept would bring more flexibility in resource application. One might also consider widening the scope of common funding to include major new areas of activity common to the Alliance. Action on these general lines would emphasise the collective interests of all the Allies. Alternative systems of collective funding might also be examined.

12. There would also be advantage in taking a hard look at the organisation and structure of NATO in order to identify areas where efficiency might well be improved. This might cover, among other things, the relationship between the civilian and military sides of NATO and an examination of the Committee structure in order to achieve speedier transaction of regular business and more fruitful political consultation.





DRAFT TERMS OF REFERENCE

To examine how the Alliance can best fulfil its agreed strategic objectives in the light of changing political, economic and military circumstances and of the need to make the best use of all the human, material and financial resources available.

To consider what steps can be taken to exploit these resources in a better co-ordinated, more flexible and more cost effective way.

CONQUEROR