

~~7(AE)~~



Prime Minister

12(a-e)

Here are the Defence Secretary's highly pertinent comments on Alan Clark's paper (which you have already seen). The only change to the letter is to excuse the expression 'defence review'.

MO 7/4/1L

PRIME MINISTER

DEFENCE POLICY AND PROCUREMENT NEEDS

A copy has gone to the Foreign Secretary on a personal basis. I propose to send one also to the Chancellor. CAP 9/11

At the end of your CFE seminar in September, you commissioned a range of follow-up work. I shall be minuting you within the next week or so to provide a progress report on work on apportionment of cuts under a CFE, and Douglas Hurd and I are also about to put to you proposals on handling of the short-range Nuclear Forces issue. The second remit from the seminar was a fresh look at our own defence procurement needs in the light of CFE, aimed as much at identifying what we would do without as what we need, and paying particular attention to the scope for greater inter-operability. Alan Clark was nominated to take the lead, with the Treasury and FCO also involved.

2. Alan has now submitted his paper to me. It is a very personal paper in which sets his issues of procurement in the wider context of his ideas for a new defence policy and indeed foreign policy for the 1990s. I wanted you to see the 'uncut version' of his paper against a background, that it is entirely his personal view and I have a number of reservations about certain aspects of it. Indeed in fairness to Alan he emphasises that his paper is cast in the most extreme form as the furthest possible option and certainly his approach, for example to the European theatre, is one which we shall want to consider very carefully. Clearly the ideas that he has addressed have very considerable domestic and international sensitivity and his study has therefore been handled in a very tight



circle here. Only a very small number of officials have been involved in preparing the figures, which have not therefore been fully checked through to avoid widening the circle unnecessarily at this stage, and other departments have not been brought in.

3. Alan's paper is a most stimulating approach with the widest ranging assessment to options for defence in the 1990s. He brings to bear his historian's perspective and does raise fundamental issues about geo-strategic developments and the UK interest in relation to them. He does emphasise the importance of thinking further about the nature of our forces on the continent and about the case for far greater mobility and flexibility. These are serious issues that must be addressed, but my own immediate comment is that the case for maintaining a significant presence on the European mainland for the foreseeable future must still be very strong. He does describe it as "the least likely region for conflict on a major scale" but this must be open to challenge. Moreover the value of NATO and the United States and Allied presence in Europe as a force for stability and reassurance, to enable the political process to continue to advance in Eastern Europe, is one that is clearly recognised not least by President Gorbachev.

4. The particular points I would stress are:

a. While the nature of the Warsaw Pact threat has clearly changed (with short-notice attack soon to be ruled out) and is changing further (with fundamental political developments in Eastern Europe), the Soviet Union remains a massive military power (in both conventional and nuclear terms). It is internally preoccupied and may be heading towards disintegration: but this cannot be assumed, nor does it suggest we are moving towards a risk-free Europe.



b. The central problem that is re-emerging is how to cope with an economically and politically powerful Germany. It remains in our interest to anchor Germany to the West. We have encouraged the Germans to take a realistic view about the threat from the East. They cannot match this conventionally on their own and we would not wish them to try. Unless they are to have nuclear weapons of their own (which would be profoundly destabilising), they must also look to the nuclear powers for nuclear deterrence: extended deterrence will be credible only with US stationed forces in Europe, and burden-sharing and other arguments are likely to drive us also towards a substantial Continental presence (so long as this remains acceptable to Germany).

c. Changing warning-time and a generally scaled-down Warsaw Pact threat have potential impact for the balance between ready and reserve forces and the weight of our defence contribution in respect of all our conventional defence roles, not just our forward contribution in Europe.

d. If we do maintain a serious presence in Europe, then the issue of inter-operability between the forces of different countries, rather than between different areas as Alan described in his minute, is obviously an important point.

e. On the issue of the savings that Alan quotes, it is important to recognise that we are in any case likely to be putting forward some necessary changes by virtue of economy in our current programme in advance of any further changes that might follow from a strategic reconsideration.



5. During this period of considerable upheaval, both you and I have emphasised the importance of setting an example to weaker European countries to try to avoid any domino effect of premature Western disarmament. It is for this reason that we have steadfastly declined to state that we are embarking on a defence review. Nonetheless, it clearly is increasingly difficult to maintain this position against the pace of change in Eastern Europe and the different prospects that we now have. I believe that the next step has to be studies of a range of options for future defence policy and the defence programme, linked both to the present work on CFE and possible changes going beyond this, and that the work must include addressing the approach set out in Alan's paper as well as other possible approaches. This would enable us to be in a position to deal promptly with any shift of emphasis that was linked to the signature of a CFE agreement and also to prepare on a contingency basis for any more radical changes.

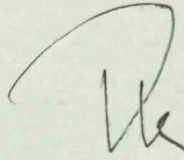
6. My great concern in all these matters is that the reconsiderations should be handled as tightly as possible and against the vital need to maintain Service morale and public commitment to the continuing effective defence of our country. It will be very important at our meeting to discuss how we should present any work on these further considerations or studies and why it is so important up to then that the tightest security is observed for these papers. I welcome the very clear recognition of this point in Charles Powell's agenda for the meeting.



7. In view of the obvious foreign policy aspects of Alan's paper, I am arranging to send a copy of the paper direct to Douglas Hurd for his personal consideration, but not the annexes at this stage in view of their obvious sensitivity.

Ministry of Defence

9 January 1989

 T K



10 DOWNING STREET

PRIME MINISTER

The promised minute from
Mr. King has still not come.
I think I have to show you
this now, since you may not
have time to consider it
properly later. But could you
please not mention to Mr. King
that you have seen it.

C.D.P

C.D. POWELL

7 January 1990

It is a very
good paper - but
there will be
a lot to argue about.
Europe is far from
being safe
and

PRIME MINISTER

BRITISH DEFENCE POLICY

You will recall that, at the end of the seminar on conventional force reductions in September, you commissioned Alan Clark to do a paper on the implications for our military procurement of substantial conventional force reductions.

Alan has characteristically interpreted this widely and launched his own Defence Review. You will find it attached. It has caused some bad blood between him and Tom King who feels that Alan has gone both beyond his remit and behind his back. I have therefore waited before submitting it to you to receive Tom King's comments, which are now also attached.

[not yet received] It was not very wise of Alan to call his paper a Defence Review and Tom King has had the title and some of the introduction altered to eliminate those words (although in substance we are sooner or later and probably sooner going to have to conduct a defence review). More worryingly, Alan has told at least one journalist about his work and its conclusions, and it is only a matter of time before some account of them sees the light of day. Indeed there have already been some reports hinting at a defence review in the Sunday Telegraph.

As one would expect, Alan's paper is well-written and wide-ranging. His basic line of argument is that we are moving into a very different sort of world: we shall no longer be facing a monolithic Soviet threat, but a multitude of different possible threats in various parts of the world. Instead of being obsessed with the European balance of power, we should think much more in terms of the world balance. In effect we would revert to the historic role which we played up to 1914, with a capacity to intervene around the world rather than fight major wars on the Continent of Europe.

The conclusion which Alan draws is that we should move away from

concentration on the Central Front and go instead for much greater amphibious/airborne flexibility. The army would be reduced by one third, most of BAOR would be withdrawn and we would put far more resources into the air force (particularly air defence) and navy. We would retain an independent nuclear deterrent as the absolute core of our defence, although Alan has some worries as to whether the United States would in all circumstances continue to make available the necessary assistance to us. He puts great emphasis on the need for EFA and thinks we should go all out for that and drop ideas to up-grade or carry out a mid-life fatigue rectification of Tornado.

Based on this restructuring of our forces, he identifies potential savings of £15 billion over ten years, and sets out in considerable detail where the savings could be achieved. They come mostly from reducing the Rhine army and the equipment being procured for it, for instance a very substantial reduction in the number of new tanks. At the same time we would spend more on buying helicopters, transport aircraft and various naval and air weapons.

I have a lot of sympathy with the general thrust of Alan's conclusions. If relations between East and West continue to evolve as rapidly as over the past few months, and if we start to move towards German reunification, then there will be a major question mark over the current structure of NATO's forces. We certainly need to be thinking now about the implications of this. A return to a UK-based defence, with heavy emphasis on flexibility and capacity to intervene in different parts of the world, would build on our natural strength and our traditions. Moreover if we are prescient and take the necessary decisions in good time we can save very substantial sums of money by cancelling the equipment which is not appropriate for this role.

But there are, of course, difficulties as well. Politically we are trying to slow down moves towards German reunification and are emphasising the need to maintain the structure of NATO and the Warsaw Pact. We can hardly pursue a defence policy which is diametrically opposed to this without precipitating the very

result we want to avoid i.e. the collapse of NATO and rapid German reunification. Equally, we do not want to be left high and dry with our armed forces structured for the land defence of Europe, only to find that we are overtaken by events and they are no longer needed. At the very least we must be ready to move in the direction suggested by Alan and that would require very substantial preparatory work (although the difficulties of keeping it secret are horrendous).

I am more sceptical whether we could really make net savings on the scale suggested in Alan's paper. Although many of the reductions might be possible, I suspect that the cost of re-equipping our forces for the different role which he envisages would be much higher and cancel out a fair part of the net savings. It would be rash to proceed in the belief that the defence budget could become a major area for economies, or diversion of resources to other areas.

In short, I think Alan's paper is an excellent basis for discussion at the in-house seminar on our future defence policy which we are planning to hold at Chequers in on 27 February. But we must do everything possible to keep it under wraps: premature knowledge of the paper could precipitate a considerable storm in Parliament and in NATO before we are ready to reach decisions.

C.D.P.

(C. D. POWELL)

28 December 1989

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For POL: East West Nels pr 10



*File to
a: diplomacy*

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 January 1990

Dear John,

I have written to you separately about the meeting which the Prime Minister plans to have at Chequers on 27 January to discuss the implications for our diplomacy and defence policy of recent developments in East/West relations. I now enclose a copy of one of the background papers for this meeting entitled "DEFENCE POLICY AND DEFENCE PROCUREMENT NEEDS (Options for Defence in the 1990s)" which has been produced by Mr. Clark, Minister for Defence Procurement, together with the covering minute by the Defence Secretary. This paper was, as the Chancellor will remember, commissioned at the end of the Prime Minister's Seminar on Conventional Force Reductions in Europe in September, although it does go rather wider than our defence procurement needs alone. The paper should be handled on the same extremely restrictive basis as all matters relating to the meeting on 27 January.

I am sending a copy of this letter and enclosure to Sir Robin Butler and Sir Percy Cradock, with the same caveat. I am also copying the letter alone to Simon Webb (Ministry of Defence) and Stephen Wall (Foreign and Commonwealth Office).

*Yours sincerely,
C.D. Powell*

C.D. POWELL

John Gieve, Esq.,
HM Treasury.



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MINISTER OF STATE FOR DEFENCE PROCUREMENT

21 Dec 89

Choke

The 1990 Defence Review

I enclose a bit of Christmas reading for the Prime Minister (if you think she is in the mood).

It is entirely personal. There is some support in the Department (more, curiously, in the Services) for the form but no one dare go as far as I suggest. To guard against leaks I have confined the work to a very small group - myself, Julian Scopes, and the D/US (P) Richard Mottram. Others have necessarily been involved, without any intimation of the broad picture, when I sought answers to particular queries relating to costs and timing.

You will recall ~~the~~ certain personal sensitivities following the CFE seminar note. Tom knows about the group, but has not attended any of our meetings. Archie, also, and has sat in on a few of them. Immediately following the Chequers spate Tom insisted that I should not communicate with the PM without his permission. I have not sought his permission but I am showing him a copy of this paper and informed him that I have sent it over. In fact I do not think he will mind, probably be quite relieved.

I have not liaised or shown anything to John, although Richard Mottram has been maintaining a tenuous contact at official level (the Chequers note said "...Minister (Defence Procurement) should take the lead with the Treasury and Foreign and Commonwealth Office also involved.>").

It really depends as to what use, if any, the Prime Minister wants to put this paper. It is, at least, the first time that the whole picture has been - broadbrush - costed. I have got two copies of the bound 'Directory' and you may find this one useful to keep in a secret cupboard remembering, of course, that sunk costs and cancellation costs are constantly moving totals.

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Jc

* Major.



MINISTER OF STATE FOR DEFENCE PROCUREMENT

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9 (A-V)

Copy no. 1 of 4 copies

PRIME MINISTER

DEFENCE POLICY AND DEFENCE PROCUREMENT NEEDS

(The 1990 Defence Review)

INTRODUCTION

1. At the Chequers Seminar on CFE (30 September 1989), it was decided, inter alia, that there was a requirement for: "a fresh look at our own defence procurement needs in the light of CFE. The purpose would be as much to identify what we can do without as what we need. It should pay particular attention to the scope for greater interoperability".

2. Consideration of defence procurement needs cannot take place in isolation from defence policy. It is therefore necessary, first, to address the context within which defence procurement is to be planned.

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3. I digress on this below (fully conscious, of course, that the preference and/or credibility attached to the various assumptions that I make is a matter entirely for your own political judgement). Nonetheless I feel that budgetary pressures and a more realistic appreciation of the Threat on the Central Front were, even a couple of years ago, making a Defence Review inevitable. I see no reason to shy away from this term; and in this entirely private document, which does not carry the broad endorsement of the Department - although I am showing it to the Secretary of State and to Archie Hamilton - I propose to use the term 'Review' throughout.

4. Although the pace of change has accelerated markedly since even September 30th, I believe that this has done no more than corroborate a trend which could have been perceived since the Russian failure to intervene militarily against Solidarity in 1981; their withdrawal from Afghanistan; and the increasing dislocation that seems inseparable from the Perestroika reforms. The diminution of the historic Threat will give rise to vacua and conflict in unpredictable locations around the globe. Indeed, there are analogies with the collapse of the Ottoman Empire in the XIX Century which fast transformed a traditional adversary into The Sick Man of Europe, whose preservation became the common interest of the major European Powers.

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5. For this reason I have quite deliberately cast the Review recommendations in a most extreme form. This is the farthest option and should produce net savings of approx. £15,000M over ten years. The shift in role-emphasis, and force structure, is more radical than even these figures would suggest because savings arising from cancellations and disbandments will to some extent be offset by changed procurement patterns to support our policies in the 2000's.

6. Just as you have to judge the validity of my geo-strategic assumptions. so it will be for you to determine the extent to which you may wish to move inwards - ie. to temper the radicalism of the proposed Review. You will see that many of the proposals are so formed that they can be moderated in scale although I should emphasise that the resultant savings would not be arithmetically proportionate.

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Below I set out:

Section A Certain broad propositions of a geo-strategic nature none of which is discordant with the main argument - namely that our present defence posture is fast becoming ill-suited to prospective dangers as well as being extravagant and, in theatre terms, highly inflexible.

Section B A narrative summary of the major changes proposed in the Review.

Section C A table showing resultant savings compared with new liabilities, arising from the proposed changes of emphasis and role.

I am also accompanying these papers with a bulkier annexe to which you may find it convenient to refer which gives a comprehensive directory of all land, sea and air weapons systems presently contracted together with their estimated cost, projected final cost, cancellation charges, and a short indication of the role they are expected to fulfil.

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SECTION A

i) Although the adversarial simplicities have gone, human nature has not changed. The world remains a cruel, greedy and deceitful environment in which the Hobbeseian philosophy that in the last resort only a sovereign state will advance and protect the interests of its own people, and alliances will not endure unless they are grounded on a mutual recognition of self interest as paramount.

ii) The United Kingdom remains a substantial economic and military power. Our objective has to be by diplomatic finesse to gear up this power so that we can deploy influence to our advantage among the major global blocs which will shift, coalesce, and (undoubtedly) conflict within the next fifty years; namely the United States, Europe (not the Community), the Soviet Union, China, ASEAN and Islam. Defence Policy has to be able to guarantee such diplomacy a minimum level of force projection in all and any theatre of operations. Satellite communications and inflight refuelling have shrunk the globe so that there need be no such concept as 'Out-of Area'.

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iii) Short and long term objectives tend, particularly at present, to overlap and vitiate each other. For example, our immediate need - so to organise our response that the progressive stages of disarmament maintain the relative stability that we have hitherto enjoyed through confrontation and military stalemate - may conflict with our need to support the Soviet Union if and when the centripetal forces to which it will be subjected threaten to become too destructive.

iv) The notion that a totalitarian regime will follow adventurist foreign policies in order to relieve domestic pressures holds only when the resultant patriotic enthusiasm is itself supportive to that regime, and is seldom validated by History. A more usual consequence is that public support is short-lived; and those who start such adventures are seldom in power at the finish. In the Soviet Union it is inconceivable that there should be either institutional or public support for aggression on the lines of the old 'Threat' prognosis. However, the likelihood of localised corrective action remains high and I believe there is the possibility of a major encounter (at Corps or Army level) in the East where both China and Japan could be tempted to annex territory on whatever pretext if Soviet disintegration proceeds beyond a certain point. We should direct our minds to co-ordinating a possible Western response in such a situation.

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v) Existing changes bring the European Polity back not to pre-Yalta but to pre-Versailles. Present European configurations are far from ideal and I do not see either a UK or a Western interest in pouring concrete around their foundations. There is an optimum size to every bloc, and it is a function not of area but is set by those boundaries where mutual economic interest diminishes, and starts to be endloaded with grants and subventions to buy off political or social conflicts on the periphery ('cohesion' in the jargon of Brussels).

vi) For example, some of the later, and least comfortable members of the EC were admitted principally on the grounds that it would "stop them going Communist". And although the Greater European Space, including White Russia and the Ukraine is a benign concept it is completely unworkable in terms of administration or regulatory function. There are more natural groupings within such a Space: a North Sea Conference of the UK, Scandinavia, France, Germany; a Hapsburg League, Austria, Hungary, Slovakia, Croatia, etc; a Mediterranean Federation closely joined to the Northern Maghreb and so on. Certain powers would naturally take on a straddle position. The UK has conduit between the United States and its own close European partners; Germany with a local dominance of both the North Sea Conference and the Hapsburg League.

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vii) The important thing is to avoid becoming obsessed by the European balance of power - which got us into such trouble by following a contrarian policy in 1914 and 1939 - but by the world balance. In a world context it is not the business of the UK to offset the dominion of one power by siding with the weaker (nearly always a recipe for disappointment) but to align itself with the strongest in each bloc and exploit the advantages of such close association.

viii) Such bi-lateral understandings are better served when both partners can share, even if unequally, the deterrence of military threat to trade or territory.

I make these points because unless we are prepared to open our minds to the scale of probable change we will not adapt speedily. Time and resources will be wasted and opportunities lost. In particular those vested interests - military, industrial, and political - which like molluscs have been dislodged by the high tides of autumn will find new rocks to which, limpet-like, to attach themselves.

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SECTION B

The importance of facing up now to a need for a Review is that we can settle the patterns of force structure and procurement at one coup instead of enduring, piecemeal, a series of debilitating confrontations between departments and/or our collaborative partners (some of these we might win others we could lose, but whose result would be a loss of the balance which we can impose only if the procurement programmes are considered simultaneously and as part of a whole).

1. Whatever the ultimate shape of the Review, it has to be considered within the context of the imperative need to maintain a strategic nuclear deterrent.
2. Second only to this priority must be the air defence of the UK - toutes azimuth - and a capacity to establish local air superiority.
3. Thirdly, and most radically, a move away from the commitment (enchainment would be a better word) to the Central Front towards a very high degree of amphibious and/or airborne flexibility.

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In relation to (1) above I would recommend that some preliminary research should be put in hand to consider a tentative successor or substitute system if only because restrictive action by the United States within the existing system's lifespan cannot be totally excluded. Ideally this should be adaptable to the tubes on the Vanguard boats. Such development would have to be collaborative, either with the French or another partner.

In relation to (2) above the essential driving force has to be the development and acquisition of EFA, without political compromise being allowed to effect its operational efficiency (the intricacies of the ECR 90 and the whole Ferranti saga merit an annexe of their own which I have not included). The strongest case against EFA was originally that it is a very large and expensive programme to produce a fighting machine with a somewhat forshortened period of dominance. It would be the last of the line of conventional air superiority fighters but obsolescent almost before it was purchased against a background of the US Advanced Tactical Fighter and its Soviet 'stealth' equivalent. Now that the ATF is under serious threat from Congress and is in any case likely to develop at no more than a snail's pace, EFA will be coming into service when the best on offer to Western airforces will be little more than an enhanced F18 and should have a long life expectancy as a dominant machine with good prospects of export sales.

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It is not necessary, however, to press on with the Tornado ADV update or the extremely expensive fatigue rectification studies. In addition RAF Germany should be progressively run down by four squadrons and there should be no more attrition buys of either category of Tornado. This should produce savings of £3,000M* over ten years. Further savings could be made if Gutersloh and Wildenrath were closed but I favour retaining Wildenrath as long as FRG permit it in view of the excellence of the fixed installations, their size and scope for receiving fast reinforcement in a crisis (see below). There will be some impact immediately from savings on the Royal Air Force but these will taper off as EFA demands multiply. Additionally there is a need for new expenditure on Chinooks and Hercules to support the second intervention brigade (see below).

* In this saving I have not included any figure for deletion of the Tornado ADV fatigue rectification programme as no provision has yet been made for this. CSA's paper of August 89 suggested that the figure could have been as high as £1,000M.

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In considering (3) above my considered belief is that we should revert to our historic (up to 1914) role of amphibious flexibility. The maintainance of a standing Army on the European continent is a most unnatural posture for Britain without precedent since the time of Catherine of Aragon. Its origins in military thinking can be found in the commitment of millions of soldiers to the Western Front in the First World War. But the victory in 1918 was a result of blockade by the Royal Navy; the four year haemorrhage of talent, life and hope in Flanders was the principal factor in our own enfeeblement and loss of will in the Thirties. And it should be noted that the distorting of our natural defence posture by the commitment to maintain Rhine Army in situ is founded in the Western European Treaty of 1948 and was originally conceived as a guarantee against German rearmament not as a defence against Soviet invasion (itself a steadily diminishing likelihood since the Cuban Missile Crisis of 1962).

Even now, though, over three quarters of our conventional military power is confined not just by location but by capability to one theatre. To deploy the bulk of the present (and projected) land weapons systems outside the

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'Central Front' would be in some cases impossible in others grossly cumbersome and extravagant. Yet the theatre to which these weapons are designated is in fact the least likely region for conflict in the major scale. I recognise the argument that this force may serve a political function (separate from its deterrent role) in the future notably - such are the symmetries of history in giving reassurance to the Soviets. But why should 'allied' troops in the Federal Republic have any more influence on unwelcome events there than did Russian units in the GDR?

Amphibious Flexibility is the ability to project a force from sea on to land into a hostile or potentially hostile environment, in a tactical posture, without any reliance on ports or airfields. We cannot afford both this and a 'heavy' deployment on the mainland of Europe.

The purpose of this Review is to use the savings arising out of a role transfer both to support an enhancement of our amphibious flexibility and to produce a large enough overall surplus to secure both Treasury and electoral acceptance.

With the possible exception of helicopter numbers these changes well within the putative UK contribution to phased CFE reductions.

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I have allowed for the retention of one 'heavy' division (out of three) and in calculating the saving I have made generous provision for continuing fixed installations and reinforcement lines. Additional savings could be effected if it, too, was withdrawn to the UK. Much of the equipment and personnel of the two disbanded divisions (particularly the specialist categories) will be redistributed throughout the new configuration, which is to include a second intervention brigade, a fourth battalion in the parachute regiment, and in expanding and upgrading the equipment of the territorials. I anticipate that overall Army numbers will be reduced over the period by 25-30,000, which should, incidentally, solve growing problems of recruitment, retention and quality.

The Chequers remit asked for "particular attention to be given to Interoperability". This may have several meanings. I interpret it particularly as covering equipment which can effectively be deployed in widely different theatres instead of being confined to one particular role and area. I have already pointed out that three quarters of our land systems can barely be said to enjoy this characteristic at present. And the same is true of much of the ordnance carried on our aircraft. While the Royal Navy remains completely obsessive

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about anti-submarine warfare and has done very little -
inspite of protestations to the contrary - to correct those
vulnerabilities to air attack learned at such high cost in
San Carlos Water.

At this stage I am not digressing into very high technology
fields where it is essential to maintain, at the very least
contact R and D - fire control computer software; variable-
nozzle technology in aero-engine design, and continuing
development of the ASTOVL; electronic counter and counter-
counter measures; very long wave radio transmission etc, but
it is highly dangerous to allow any of these to wither. In
the field of conventional hardware our objective has to be a
shift away from immobility and weight towards speed and
economy. The guiding maxim would be the judgement of Chris
Keeble, 2nd I-C of Two Para, adapting a phrase from Rommel's
infantry manual of 1938:

"Remember always that in the first hour a Section can do
what it will take a Battalion the following day, a Division
the week after, a Corps, or even an Army once a month has
elapsed."

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SECTION C

This section sets out deletions and acquisitions providing a net minimum saving of £15Bn over ten years. Costings are indicative only, drawn from a variety of sources, but not all subject to detailed validation. Some will be overstated, others understated. They are broadly expressed as a saving/addition over a 10 year period, though the savings/costs will not fall evenly over the period. Given the nature of the exercise, the precise incidence of equipment savings/costs over the 10 year period has not been examined. The equipment figures, in addition, take only a guideline view of possible cancellation costs where these are likely to be incurred. Plainly I have taken no account of political or industrial considerations, nor of the diplomatic/etc repercussions of withdrawal from collaborative programmes.

At the foot of the table there are notes on the genesis of each costing. "Project Notes" refers to a source of material prepared by PE in August 89 at my request (the 'Red Directory'), giving total programme costs for a variety of projects, together with a guesstimate of cancellation costs.

Forces/SystemsIndicative Savings/Costs
Over 10 Year PeriodArmy Savings

- | | |
|--|------------|
| 1. Cut Rhine Army from <u>3 to 1</u> Armoured Division (2 Divisions <u>disbanded</u> not relocated). | - £10,000M |
| 2. Delete MLRS 2 (anti-armour mine warhead for MLRS system). | - £ 110M |
| 3. Delete MLRS 3 (terminally guided warheads for MLRS system). | - £ 1,500M |
| 4. Cancel remaining MLRS 1. | - £ 150M |
| 5. LAW 80 - reduce production offtake by say 20%. | - £ 50M |

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6. SA80 - reduce production offtake by say 20%.	- £	12M
7. Ptarmigan - delete uncommitted production.	- £	100M
8. BATES - delete Phase 2 production offtake.	- £	65M
9. 4 Tonne Truck - reduce requirement by (say) 20%.	- £	30M
10. Warrior - cancel further production.	- £	300M
11. Long Range Trigat - cancel and buy off shelf for LAH/Apache etc (ie saves development costs only).	- £	280M
12. AS90 - reduce buy from 230 to 115 (plus reduced ammunition buy).	- £	300M
13. Challenger 2 - reduce buy from 600 to <u>120 tanks</u> .	- £	750M
14. Challenger Improvements (CHIP) and CHARM 1 - delete.	- £	150M
15. Bridging for 90s - delete.	- £	60M
16. Wet support bridge - delete.	- £	50M
Subtotal	- £	14,000M

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RAF Savings

17. Delete 4 sqns Tornado GR1s from RAF(Germany).	- £ 750M
18. Delete provision for Tornado ADV Weapon System Upgrade.	- see note
19. Delete 2 sqns Tornado ADV from UK Air Defence.	- £ 500M
20. Cancel Tornado GR1 attrition buys.	- £ 500M
21. Cancel Tornado ADV attrition buys.	- £ 500M
22. Delete Utility EH101 provision - buy 15 Chinooks instead.	- £ 400M
Subtotal	- £ 3,000M
Total	- £17,000M

These are crude "paper" savings consciously rounded downwards to be as conservative as possible. Incomplete account has been taken of accompanying support savings on fixed installation etc which could be substantial.

Programme Additions

23. 10 Chinooks to increase air mobility.	+ £	220M
24. 10 Hercules.	+ £	300M
25. 10 Sea Harriers for attrition.	+ £	120M
26. 1 Aviation Support Ship.	+ £	150M
27. Bring forward purchase of 2 new build LPDs.	+ £	100M
28. 2 Upholder class conventional submarines.	+ £	170M
29. Bring forward spending on next generation of through deck Carrier (Invincible Class replacement)	+ £	100M
30. Various equipment enhancements (eg arming attack helicopters with air-to-air weapons; Rarden 30mm in all RN vessels, 0.5 machine guns and other battalion firepower enhancements).	+ £	500M
Subtotal	+ £	2,000M

Summary

Army Saving	-	£14Bn
RAF Savings	-	£ 3Bn
Enhancements	+ £	2Bn
Net	-	£15Bn over 10 year period

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NOTES

DELETIONS

1. BAOR. Defence Budget analysis (Vol 2 SDE 89) suggests cost of BAOR in 1989/90 of £2.4Bn (DUS(P) note of 21 Nov £2.5Bn). This includes equipment costs - eg capital procurement of tanks etc as the incidence of expenditure falls year by year. To avoid double counting with specific equipment measures (below), the annual £2.4Bn cost is abated by 30%. It is assumed that remaining 2 of the 3 Armoured Divisions will cut the remaining figure proportionately by two thirds. The assumed saving, therefore, is £1Bn pa (rounded down, no allowance for redundancy costs etc).
2. MLRS2 - source, project notes. Total cost estimated £125M, with nil cancellation costs. Since preparation of these notes, progress has been made towards agreeing start of production, so it is assumed that some expenditure commitment has been incurred and the saving rounded down to £110M accordingly. There will also be a (probably minor) "cost" in terms of UK's collaborative credentials given approval state reached.
3. MLRS3 - source project note. Total cost £1.6Bn - sunk £50M - cancellation costs £15M at 1 Sept 89 (so rounded up to £20M) - saving (rounded down) £1.5Bn. Severe "cost" in collaboration credentials with USA.
4. MLRS 1 - source, DUS(P) of 21 Nov. Remaining LTC provision £300M; assume cancellation/sunk costs of £150M - saving £150M.
5. LAW 80 - source project notes and Major Project Statement 89. Total cost £430M of which £300M is production cost (MPS89). 20% cut in offtake suggests saving of £60M; rounded down £50M.
6. SA80 - source project notes. Total cost £238M, sunk £116M total potential saving £120M - assume about 10% of this could be saved by means of a 20% cut in production offtake - saving £12M.
7. Ptarmigan - source project notes. Total cost £1460M - sunk £1250M - cancellation cost £25M - saving rounded down £100M.
8. BATES - source project notes. Saving from deleting Phase 2 production (not yet let) £64M.

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9. 4 Tonne Truck - source project notes. Total cost £155M; 20% saving is c£30M.
10. Warrior - source project notes. Total cost £1130M; sunk £450M; assume can save half of remaining expenditure - saving £300M.
11. Long Range Trigat - source Major Project Statement 89. Assume a weapon will still be required for LAH (eg AAWS for Apache) so save only development costs. MPS89 estimate for LR Trigat development £276M.
12. AS90 - source AS90 submission. Production cost to be £383M. Reduce offtake by half but assume significantly higher UPC, assume save £150M. Also assume savings in ammunition procurement (£503M identified in submission) of say £150M.
13. Challenger 2 - source Chieftain Replacement submission. UPC of CR2 of about £1.7M. Saving from deleting 480 tanks would be £815M - abated for higher resulting UPC say saving of £750M. No attempt to calculate ammunition savings.
14. CHIP/CHARM 1 - source project notes for CHARM 1 - guesstimate for CHIP. CHARM 1 total cost (including ammunition) £280M - sunk £85M - cancellation cost unknown. Assume saving (with CHIP) of say £150M.
15. Bridging for 90s - source project notes. Total cost £110M, sunk £11M, cancellation costs £20M - save say £60M.
16. Wet Support Bridge - source project notes. Total cost £70M, sunk £5M, cancellation costs unspecified. Save say £50M.
17. 4 Tornado GR1 Sqns - source Programme Element Costing, suggests running (including personnel) costs of £30M per annum per squadron. Assume saving over 6 years of period; £750M.
18. Tornado ADV WSU - no provision in programme for main costs of Tornado ADV Weapon Systems Upgrade beyond feasibility studies. Measure "saves" unprogrammed cost of perhaps £800M.
19. 2 Tornado ADV sqns - as 17 above, assume running cost £30M per squadron. Assume saving over 8 years of period; £500M.

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20. Tornado GR1 Attrition. Assumed upc of £17M per aircraft. 9 ordered two years ago (assume no saving); 26 ordered more recently, guess saving £400M out of £440M; 6 not yet ordered (£100M). Saving total £500M.

21. Tornado ADV Attrition. Assumed upc of £18M per aircraft. 15 ordered; guess saving of £210M (out of £270M), 16 not yet ordered (£290M). Saving total £500M

22. Utility EH101 - source project notes. Total cost £560M, sunk £5M. Assume £10M upc for Chinooks. Net saving - £400M.

ADDITIONS

23. 10 Additional Chinooks. Assume upc of £12M (with spares etc). £120M. Running costs of additional squadron say £20M pa for 5 years of period - 10 years cost £220M.

24. 10 Additional Hercules. Assume upc of £15M (with spares etc). £150M running costs of additional squadron say £30M pa for 5 years of period - 10 year cost £300M.

25. 10 Additional Sea Harriers. Upc if current proposed buy is £11.6M - cost £120M.

26. 1 Additional Aviation Support Ship. Current "guide price" £105M, likely to be underestimate, so assume £120M. Running cost say £10M pa for last 3 years of period.

27. Bring forward 2 new build LPDs. Assume brings some costs into the 10 year period.

28. 2 Additional Upholder SSKs. upc £110M. Running cost of each £10M pa (assumed for last 3 years of period).

29. Next Generation Carriers. Bring forward spending on next generation of through deck Carriers (Invincible class replacement) - assume + £100M brought into the 10 year period.

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