

OD(80)24
13 March 1980

COPY NO 42

CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

CIVIL HYDROGRAPHIC REQUIREMENTS

Memorandum by the Secretary of State for Trade

We need to decide how to pay for essential and urgent hydrographic work in the waters round the United Kingdom, which is required for merchant shipping rather than for the Royal Navy. The problem has been considered by the Ministerial Group on Maritime Affairs, of which I am Chairman. But no agreed solution proved possible at that level.

2. Traditionally the Hydrographer of the Navy has carried out surveys for both naval and civil purposes. But the increasing draught of modern merchant ships and technical developments in submarines have caused the two requirements for surveys to diverge, and the Hydrographic Fleet will be engaged until the mid-1990s on high priority defence surveys. Although a significant proportion of these surveys will be relevant to the needs of merchant shipping, about 70 per cent of the main shipping routes round the United Kingdom have not yet been surveyed by modern means. The most acute need is for periodic resurveys of the unstable areas in the Dover Straits and the Southern North Sea. The risk of a major maritime and environmental disaster involving a deep draught tanker is steadily growing.

3. A working party at official level has considered the problem. They recommended that the most essential civil hydrographic work should be coped with by adding 3 new coastal survey vessels (CSVs) to the Navy's Hydrographic Fleet (at a capital cost of £24 million over 4 years and subsequent annual running cost of £3.5 million); and that, while these vessels were being built, urgent work should be done by private sector contracts (at a cost of about £5 million a year). But they were unable to agree on how this programme should be financed. My Ministerial Group agreed on the importance of providing the means to undertake increased civil hydrographic work and on the need to reach early decisions. But they too were unable to agree on who should pay for what.

4. The working party's recommendation echoed arrangements provisionally agreed by our predecessors. These envisaged that 3 new CSVs should be built, with the cost being met by the Department of Industry's Ship-building Intervention Fund (SIF); that the Ministry of Defence should provide their crews and running costs; and that meanwhile the Ministry of Defence should pay for necessary work to be carried out by private contracts. Our predecessors announced this programme last April, though not their decisions about who was to pay. Under the pressure of public expenditure cuts, the present Ministers concerned have withdrawn their Departments' agreement to those financial decisions.

5. My Group considered a possible compromise, with the following elements:

- a) The Department of Industry should pay, from the SIF, for one new CSV to be built as soon as possible.
- b) The question of how to fund the capital cost of 2 further CSVs should be addressed in the next PESC round.
- c) The Ministry of Defence should provide the crew and meet the running costs of the first new CSV.
- d) The Ministry of Defence should also provide crews and running costs for the second and third CSVs when built.
- e) Meanwhile the Ministry of Defence should meet urgent requirements, up to an amount equal to the work of the 3 ships, by paying for private contracts and/or by making capacity available from within the existing Hydrographic Fleet.

6. This compromise collapsed, however, for the following reasons.

- i) The Department of Industry are not willing to pay for one CSV since there is no certainty that money would be found from elsewhere to order the other two in the same batch; if there is no batch order, the unit cost of one CSV is likely to be some 10-30 per cent higher; and unless the 2 other CSVs were ordered at no cost to the SIF, the use of the Fund's money for a single CSV would not be justified in terms of its objective of maximum job creation (jobs would be created at £17,000 each, nearly 3 times the maximum for merchant ship cases).
- ii) The Ministry of Defence are prepared to accept (c) but not (d) above; and
- iii) could only meet (e) above to an extent equal to the work of one vessel not 3 (or perhaps slightly more).

7. Various other solutions have been exhaustively examined but discarded as impossible. Payment of the missing sums from the Contingency Reserve seems inappropriate for expenditure which cannot be regarded as unforeseen. Higher prices for hydrographic charts would be regressive; a levy on shipping using the waters concerned would be impractical and might lead to reprisals; and voluntary contributions from the private sector are simply not forthcoming. A policy of building up the private sector's hydrographic capacity would not solve the problem of how to pay for private contract work, which would in any case be more expensive and would drain away scarce skilled manpower from the Hydrographic Fleet and its important defence commitments.

8. It seems clear that the compromise considered by my Group offers the only way through. I accept that this will not be welcome to the Secretary of State for Industry or the Secretary of State for Defence. But I urge the following factors in mitigation:

- i) If the SIF pays for one CSV (and perhaps eventually 2 more), we create fewer jobs but we end up with a capital asset belonging to the Government; whereas if it is spent on subsidising the building of a merchant ship, more jobs are created but the capital asset ends up in the hands of the shipowner (who may well be foreign and thus our competitor);
- ii) The actual order for the first CSV cannot be placed until the end of the year, when the Ministry of Defence will have completed the design work, on which they have already begun. So if by then we have managed in the next Public Expenditure Survey round to agree on how to finance the other 2, we would avoid the penalty cost of not ordering in a batch.
- iii) The running costs of the new CSVs, and the cost of providing 3 ships worth of work in the meantime, is not large in relation to the Defence Budget.
- iv) We shall collectively look very foolish as a Government if a bad accident occurs for reasons which can be shown to derive from our inability to solve this small problem.

9. In theory we could delay a decision on all 3 new CSVs until after the next Public Expenditure Survey round, since we shall not be ready to place any actual orders until the end of the year. But this would have two disadvantages:

- a) it would hardly be fair to ask the Ministry of Defence to undertake interim survey work unless there is some evidence that we are beginning to move towards more definitive arrangements which will keep the interim as short as possible.
- b) Parliamentary and other domestic pressures on us are mounting. We need to be able to say something publicly about our intentions without further delay. The last announcement, now out of date, was made by our predecessors nearly a year ago (paragraph 4 above). If a bad accident occurs this year, we shall be that much less open to criticism if we have at least shown some signs of having a policy.

10. I therefore ask my colleagues to endorse the compromise described in paragraphs 5 and 8 above.

J. N.

Department of Trade
13 March 1980