

HOUSE OF COMMONS

First Report from the

**DEFENCE
COMMITTEE**

Session 1983-84

**STATEMENT ON THE DEFENCE
ESTIMATES 1984**

**Report together with the Proceedings of the Committee
and the Minutes of Evidence**

*Ordered by The House of Commons to be printed
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LONDON
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capability".¹ In the 1984 Statement on the Defence Estimates there are specific proposals for substantial improvements in front-line forces, which are to be achieved by a 'tail to teeth' transfer.

36. The Royal Navy will have available to the operational Fleet up to eight ships which would have been placed in the stand-by squadron, but will have to man them from savings in shore support, where manpower is expected to fall by 25 per cent. between 1981 and 1988, and by a further 5 per cent. from 1988 to 1993.² The Army is to redeploy three per cent. of its total manpower, representing 4,000 men, from a number of support functions into the front line.³ Royal Air Force manpower is intended to be held at present levels although the number of front-line aircraft is expected to increase by 15 per cent. over the coming decade.⁴ Ministry of Defence officials told us in evidence how these changes were to be achieved.⁵

37. A shift in resources of this kind may produce a welcome increase in front-line numbers and apparent capability, but there is always the danger of striking the wrong balance. The result may be that in war effective use of front-line capability cannot be made for lack of adequate logistical support, or that in peacetime it will become necessary to replace support elements at a cost higher than the original cost, plus carrying charges. We were glad to hear from Ministry of Defence officials that the general point had been taken into account⁶, and we hope that it will be borne in mind during the detailed implementation of these changes. The Falklands campaign demonstrated the vital importance of first-class training and logistic support⁷ and these must be maintained.

TRIDENT

38. This Committee and its predecessor have taken a close interest in the Trident programme throughout. It is not our purpose here to reproduce the arguments for and against this programme or its consequences. Since the decision to buy the Trident weapon system to replace the Polaris nuclear deterrent was announced on 15 July 1980 the cost estimates have risen very substantially, because of exchange rate variations and inflation as well as the move from the C4 to the D5 system. The original estimate for a four boat Trident I (C4) force was "around four-and-a-half to five billion pounds" at 1980 prices.⁸ On 11 March 1982 the Government announced their decision to order the Trident II (D5) system⁹, and the cost implications were discussed in detail in the Statement on the Defence Estimates 1982.¹⁰ The cost changes were there attributed as follows:

Estimate for C4 Force
Improvements to s
640-class by OHIO
Increment for D5 mis
Exchange rate change
Inflation changes

Total at Septem

This estimate was reduced rates as a result of the deci Georgia¹, but further inflat Statement on the Defence £7,500m at average 1982/

39. In March 1984 the project estimate of £8,72 £1,900m since the costing was partly offset by expect prepare and refurbish the n mately £500m at Septem £1,200m. Some two-thirds US inflation and about on

40. The March 1984 est and an exchange rate of \$1 reluctant to put a figure on way in the exchange rate, in single factor.³ If 45 per cent hard to arrive at a rough movement of one cent. eith

41. The original calculat rate of \$2.36 = £1. By Septe was the rate assumed in th having noted that exchange observed cheerfully "Of cou opposite direction".⁴ The r used in the March 1984 stat the rate was considerably w This change could add sor

¹*The Way Forward*, Cmnd. 8288, paragraph 39.

²Cmnd. 9227-I, paragraphs 220 and 221.

³*ibid.*, paragraph 223.

⁴*ibid.*, paragraph 222.

⁵Qs. 304-6.

⁶Q.304.

⁷This was recognised in *The Falklands Campaign: The Lessons*, Cmnd. 8758, for example in paragraphs 208 and 241-2.

⁸*The Future United Kingdom Strategic Nuclear Deterrent Force*, Defence Open Government Document 80/23, July 1980, paragraph 63.

⁹*The United Kingdom Trident Programme*, Defence Open Government Document 82/1, March 1982.

¹⁰Cmnd. 8529-I, pp.5-6.

¹Report by the Comptroller and Session 1983-84, paragraph 5. Th States facilities at King's Bay will

(a) a *pro rata* share of the cap

(b) payment for additional fac

(c) payment for operations cos

May 1984, col. 600).

³Cmnd. 8951-I, paragraph 214.

⁴Q.147.

⁵Cmnd. 8529-I, paragraph 121.

	£m
Estimate for C4 Force at September 1980 prices	5,100
Improvements to submarines (including replacement of 640-class by OHIO class)	500
Increment for D5 missile system	390
Exchange rate changes	710
Inflation changes	800
Total at September 1981 prices	7,500

This estimate was reduced to £6,984m at September 1981 prices and exchange rates as a result of the decision to prepare and refurbish missiles at King's Bay, Georgia¹, but further inflation and exchange rate changes had, by the time of the Statement on the Defence Estimates 1983, restored the figure to approximately £7,500m at average 1982/83 prices.²

39. In March 1984 the Secretary of State for Defence announced a revised project estimate of £8,729m at 1983/84 prices. The cost had increased by £1,900m since the costing of £7,500m set out in the 1982 White Paper, but this was partly offset by expected savings from the use of United States facilities to prepare and refurbish the missiles having also increased to £716m from approximately £500m at September 1981 prices; the net increase was thus about £1,200m. Some two-thirds of the £1,900m increase in cost resulted from UK and US inflation and about one-third from adverse movements of exchange rates.

40. The March 1984 estimate of £8,729m was on the basis of 1983-84 prices and an exchange rate of \$1.53=£1. In evidence to us the Secretary of State was reluctant to put a figure on the cost implications of a one-cent movement either way in the exchange rate, in case disproportionate emphasis were to be put on this single factor.³ If 45 per cent. of the spend is to be in US dollars, however, it is not hard to arrive at a rough estimate of some £25m change in total cost for a movement of one cent. either way in the exchange rate.

41. The original calculations at September 1980 prices assumed an exchange rate of \$2.36 = £1. By September 1981 the rate had worsened to \$1.78 = £1. This was the rate assumed in the Statement on the Defence Estimates 1982 which, having noted that exchange rate effects had added some £700m to the total cost, observed cheerfully "Of course, the exchange rate could always move again in the opposite direction".⁴ The next 'benchmark' exchange rate was the \$1.53 = £1 used in the March 1984 statement. Even at the time that that statement was made the rate was considerably worse than this, and now stands at around \$1.40 = £1. This change could add some £325m to the total cost, giving a new figure at

¹Report by the Comptroller and Auditor General, *Ministry of Defence: Trident Project*, HC287 of Session 1983-84, paragraph 5. The United Kingdom contribution towards the cost of the United States facilities at King's Bay will consist of three main elements:

(a) a *pro rata* share of the capital cost of the jointly used facilities;

(b) payment for additional facilities required, and

(c) payment for operations costs related to the United Kingdom work load (*Official Report*, 25 May 1984, col. 600).

²Cmnd. 8951-I, paragraph 214.

³Q.147.

⁴Cmnd. 8529-I, paragraph 121.

1983/84 prices of around £9,050m. When this is converted to approximate 1984/85 prices by adding, say, 3 per cent. for US inflation and 4.5 per cent. for UK inflation, a more realistic Trident estimate is around £9,400m.

42. It must of course be emphasised that these calculations are made on available assumptions. The total spend could be reduced by favourable changes in the exchange rate, by lower inflation rates in the United States, or by a limited use of the very substantial element for contingencies. Although the Comptroller and Auditor General noted in his report on the Trident programme of 23 February 1984 that some areas of expenditure associated with the Trident project are not included in the programme estimates¹ he also stated that "Generally the Trident costing ... is unusually comprehensive compared with those for conventional projects".²

43. It will be seen that, apart from inflation, to which the whole of the defence budget is vulnerable, an important variable to which the Trident estimate is subject is the dollar/sterling exchange rate. Trident must be viewed as a massive public sector foreign exchange expenditure programme, which will be spread over so many years that it is impossible to make any useful provision for movements of exchange rates in the later years of the project.

44. It was originally planned that 70 per cent. of expenditure on the Trident I (C4) force would be spent in the UK. The Defence Open Government Document *The United Kingdom Trident Programme* of March 1982 commented:

"Given the movement in exchange rates since July 1980 and the decision to adopt Trident D5, the dollar amount of spend in the programme has increased from around 30 per cent. to something under 45 per cent. However, this assessment is based on the current pattern of procurement. Under the agreements negotiated with the United States Government, the United Kingdom's purchase of Trident D5 is to be accompanied by American agreement to allow United Kingdom firms to compete on the same terms as American firms for sub-contracts for weapons systems components for the Trident D5 programme as a whole. This, together with other steps to be taken by the United States, will mean that in the final analysis the dollar impact of the United Kingdom's acquisition of Trident D5 will be affected by the success with which United Kingdom firms can exploit these new opportunities".³

45. This optimistic tone is continued in paragraph 405 of the present White Paper, where MoD predict that about 55 per cent. of the total spend will be in the United Kingdom. The paragraph continues:

"The total value of the Trident programme to British industry will depend on the extent to which United Kingdom firms are awarded contracts for the D5 weapon system under the industrial participation arrangements

¹HC 287 of Session 1983-84, paragraph 8. These estimates do not include (a) the cost to the UK of manning Rapiers air defence systems for USAF bases in the UK which is provided as a negotiated offset for the waiver by the US of a research and development surcharge above 5 per cent.; and (b) contributions to new facilities at AWRE Aldermaston (£250m-£300m), and at Vickers Shipbuilding Yard at Barrow (£200m), both of which will be of value to the Trident programme, but which would still be required for other purposes even without Trident.

²*ibid.*, paragraph 9.

³Paragraph 42.

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⁴Footnote to Q.1

⁵Q.160.

⁶Q.159.

⁷Q.144.

⁸Q.166.

⁹See, for example
and Procurement, I

made in 1982. A number of small contracts have already been negotiated, but a fuller picture will not emerge until later this year when the main sub-contracts are placed".

46. We pursued this point with the Secretary of State, who told us that to date 14 contracts had been placed with UK firms, to a total value of £4.2m. Some of these contracts are follow-on orders to initial awards made during the earlier Advanced Development Phase of the programme. "Many of these contracts are small in value, but they have a potential value of some \$100m over the life of the programme if follow-on orders are obtained. In addition to the contracts mentioned, around 150 invitations to tender have been issued to UK firms".¹ The Secretary of State acknowledged that "There is not within the contractual arrangements a guarantee that the work will follow; there is an opportunity".² It is very much to be hoped that British companies will capture a substantial amount of sub-contract business. There is, otherwise, the possibility that the proportion of the programme spent in dollars and thus sensitive to exchange rate changes will increase. It should also be remembered that the 55 per cent. of the total cost has only been planned to be incurred in sterling; there is no guarantee that this will be the outcome. The Secretary of State told us that he was relying on British sub-contractors to keep the US share of the total programme costs below 50 per cent.³ The intended relative £/\$ spend has remained the same since the decision to purchase the D5 system, despite the agreement to prepare and refurbish missiles in the US rather than in the UK on the one hand, and the decline in the value of sterling on the other. This ambition can be achieved only by further variations in the programmes, by the gap between UK and US inflation rates becoming even less favourable to the UK, or by certain optimistic assumptions about the performance of British contractors and about future movements in exchange rates.

47. The Secretary of State was unwilling to revise figures for the cost of the project on a regular basis more frequently than once a year, as the total was subject to factors which were continually changing.⁴ We recognise the force of this argument. We would, however, expect to be informed in due course of the placing of the main contracts and of any implications of this for the spend in sterling and US dollars and for the total cost of the project.

48. In evidence to us, the Secretary of State put the incidence of Trident expenditure into the context of the equipment budget and of the naval equipment budget.⁵ He compared a figure of £1.1bn. for the Tornado programme with £8bn. for the Trident programme. The comparison is an interesting one, but it is not always satisfactory to have to put one very expensive programme in the context of another even more expensive, particularly when the latter is recognised to have suffered significant cost overruns.⁶

¹Footnote to Q.150.

²Q.160.

³Q.159.

⁴Q.144.

⁵Q.166.

⁶See, for example, Second Report from the Defence Committee, *Ministry of Defence Organisation and Procurement*, HC22-II of Session 1981-82, p. 452.

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[Continued]

[Dr Gilbert Contd.]

spent some time of talking to the people who run that. They operate within the areas that the military deem they should operate in. This is a constraint that I do not understand. I would rather have operational analysis that questions and has an element of creative tension about it and can challenge if they think the military advice is wrong or they have not taken into account a particular phenomenon. It is right that the operational analysis unit should have the capacity to explore the consequences of such a judgment and to expose the consequences of such a judgment. That is the thinking behind the idea of removing it, rather like the arms control unit, from under military influence to a more self-standing role.

135. When you refer to operational analysis units, I take it you are referring to DOAE at West Byfleet. Is that correct?

(Mr Heseltine.) Yes.

136. When I was at MoD there was fairly frequent tension between DOAE and the individual operational analysis staffs of the individual services. I come back to my question: are you eliminating the individual service operational analysis staffs so that it is all now going to be concentrated in West Byfleet?

(Mr Heseltine.) No. The West Byfleet operation is within a discipline imposed by the military. There is a case for them being more free-standing. That is not to say you take away the military operational analysis capability. I do not think you should do that.

137. If I have understood you correctly, you are still going to keep three separate — admittedly modest but separate — operational analysis staffs for the individual services here in London, separate from the DOAE capability?

(Mr Heseltine.) I cannot answer that because the individual service capability is one of the issues being looked at in great detail, as part of our working process of following the Open Government Document. The only issue where I would move towards some sort of conclusion is the idea of removing the West Byfleet outfit from the military discipline and making it more free-standing.

138. Would you share my assessment — at least when I was there — that DOAE was

one of the most valuable elements in your Ministry?

(Mr Heseltine.) That sort of thought is one of the reasons why I am in favour of it having a more free-standing role.

Dr Gilbert: I am much encouraged. Thank you.

Chairman: We have a number of questions to ask you on Chapter Four but Mr Churchill has one question hanging over from Chapter Two.

Mr Churchill

139. Some see your reorganisation of the upper echelons of the military as depriving the individual services of offering advice on strategy and policy. Have you considered the possibility that it will in fact deprive you, as Secretary of State, of competitive choices and the ability to decide the merits of the various proposals to be determined? We have already seen a down-grading of the single service Ministers and indeed their abolition. Is there not a down-grading involved here in the position of Secretary of State himself?

(Mr Heseltine.) No, I do not think so. Having seen some of the criticisms to which you draw my attention I think it is based on a fundamental misunderstanding of the nature of the re-structuring I am proposing. The single service Chiefs of Staff are, obviously, rightly men of great distinction and will so remain. They will play a full role within the Ministry of Defence advising on matters for which they are responsible. They will be able to draw on advice from the central staffs which will include very significant numbers of officers from each of the Services. So I do not believe it does narrow the choices in the way that has been suggested. What it does is to change the orientation of the choices. The present basic building block of the Ministry of Defence is a single Service building block and the origin of the advice that one is likely to get on many occasions is going to come from the well of single service inspiration. With a concept of a more central staff then the options widen as to where the ethos of the advice might come from. It might be, as has been suggested, on a geographical basis, you might have the central staff organised to deal with the NATO area, for example — that could be a way of dealing with it. The people involved in that process on that staff

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[Mr Churchill Contd.]
would have generated interests and advice of a sort of inspiration any way remove the Service building block do so and nor will single Service Chief

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140. This is something we have seen will produce at the (Mr Heseltine.) rises for the summer

141. Are you satisfied of the Polaris re-mission of Chevaline? (Mr Heseltine.) I am satisfied that both as to time and

142. There have been are aware of? (Mr Heseltine.) To me it is that we progress.

143. Can you give or is that something officials tomorrow? (Mr Heseltine.) I would do that.

144. Can you tell Trident? What has the depreciation of the exchange rate of which it is not and likely will not be.

(Mr Heseltine.) That a convention that we the estimates for Trident and report accordingly report to Parliament being asked for information Accounts Committee, be convenient to review rather earlier than we been the case if I had Paper. The day you individual circumstances people can ask about rates or domestic inflation America and those individuals

145. Are you in a position

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[Continued]

[Mr Churchill Contd.]

would have general across-NATO defence interests and advise accordingly from that sort of inspirational area. One will not in any way remove the ingredient of the single Service building block and one should not do so and nor will one remove the ability of single Service Chiefs to advise.

Chairman

140. This is something we will return to when we have seen the White Paper you will produce at the end of July?

(Mr Heseltine.) Yes, before the House rises for the summer recess.

141. Are you satisfied with the progress of the Polaris re-motoring and the introduction of Chevaline?

(Mr Heseltine.) As far as I am concerned I am satisfied that the work is proceeding both as to time and to cost.

142. There have been no delays that you are aware of?

(Mr Heseltine.) The Department's advice to me is that we are content with the progress.

143. Can you give us an up-dated costing or is that something we ought to ask your officials tomorrow?

(Mr Heseltine.) I would be grateful if you would do that.

144. Can you tell us please about Trident? What has been the effect of the depreciation of the exchange rate? I think the calculations we have so far had involve an exchange rate of \$1.53 to the pound which it is not and has not been and very likely will not be.

(Mr Heseltine.) That is correct. There is a convention that we change or we revise the estimates for Trident on a regular basis and report accordingly to Parliament. I did report to Parliament earlier because I was being asked for information by the Public Accounts Committee, so I thought it might be convenient to reveal the information rather earlier than would otherwise have been the case if I had kept it for the White Paper. The day you finish your up-date individual circumstances take over and people can ask about changes to exchange rates or domestic inflation rates in Britain or America and those indices are changing.

145. Are you in a position to give us the

current figure on 1984-85 prices?

(Mr Heseltine.) I have not got a figure which has been changed. We have not published a figure since the up-dated figure. We could work one out at any time that we were invited to do so but we normally would not do that except on the regular basis. I might be able to say something more to you about this privately, if that would be convenient.

146. There has been a suggestion that on current prices and exchange rates the figure is almost £9.5 million. Are you in a position to confirm or deny that? Or give us any alternative, if necessary in private?

(Mr Heseltine.) I would prefer to discuss it with you in private.

Dr Gilbert.

147. Can you tell us in public what effect on the total cost is of a one cent change either way in the exchange rate?

(Mr Heseltine.) I would be reluctant to do that because it then puts one in a position where that one factor is the factor that is always taken into account and any other factors that might be working either to magnify or minimise that figure are only worked out once a year. I think the best procedure, unless there are reasons for changing it — and I know the Committee are aware as I am of the fact we are talking of exchange rates spread over the next 20 years — is to stick with the annual up-date of the factors.

Chairman

148. Can we pursue that with you in another way, the current figure on current prices and exchange rates? On another occasion?

(Mr Heseltine.) If we had a private session I would be prepared to say something more than I have already.

Mr Churchill

149. Can you give us an indication of what percentage of the overall contract is subject to exchange rate fluctuations or in other words has to be bought from outside the United Kingdom?

(Mr Heseltine.) The dollar expenditure is 45 per cent.

valuable elements in your

That sort of thought is why I am in favour of it

standing role.

I am much encouraged.

We have a number of you on Chapter Four but is one question hanging over Two.

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your reorganisation of ons of the military as individual services of on strategy and policy. red the possibility that it ve you, as Secretary of itive choices and the e merits of the various determined? We have vn-grading of the single rs and indeed their e not a down-grading e position of Secretary

No, I do not think so. e of the criticisms to y attention I think it is ntal misunderstanding ie re-structuring I am gle service Chiefs of , rightly men of great so remain. They will thin the Ministry of on matters for which . They will be able to om the central staffs le very significant s from each of the believe it does narrow way that has been loes is to change the choices. The present : of the Ministry of ervice building block e advice that one is occasions is going to l of single service concept of a more options widen as to : advice might come has been suggested. sis, you might have ised to deal with the ple — that could be a h it. The people ccess on that staff

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[Continued

Chairman

150. Can you tell us what is the value of the contracts already obtained by British firms for the D5 system under the industrial participation arrangement agreed with the United States?

(Mr Heseltine.) Can I provide you with the figure?

Mr Douglas

151. On the proposals to build Trident at Barrow, the intention according to the White Paper is to order one later on in the year. Is that correct?

(Mr Heseltine.) Could you refer me to the paragraph in the White Paper?

152. I am sorry; it is hoped to order the first four Tridents by the end of next year. Would that be ahead of the proposals to privatise the yard?

(Mr Heseltine.) I think that must be subject to Government decisions which have not been taken or announced to the best of my knowledge.

153. The proposals to modernise the yard are fairly well under way?

(Mr Heseltine.) I am sure you appreciate that this is more a matter for my colleague the Secretary of State for Trade and Industry.

154. On the matter of capacity in the dockyards for the refit programme, are you satisfied there is sufficient capacity at Rosyth and Devonport to ensure the full refit programme can be carried out for Polaris, SSNs and, later, Trident boats?

(Mr Heseltine.) We are satisfied about that.

155. Have you made any decision as to which of the two dockyards Trident might go to?

(Mr Heseltine.) We have not.

156. Is that in any way subject to the

Note by Witness: To date, 14 contracts have been placed with UK firms, valued at some £4.2m, some of which are follow-on orders to initial awards made during the earlier Advanced Development Phase of the programme. Many of these contracts are small in value, but they have a potential value of some \$100m over the life of the programme if follow-on orders are obtained. In addition to the contracts mentioned, around 150 invitations to tender have been issued to UK firms.

Levene proposals?

(Mr Heseltine.) I do not think the Levene proposals would be relevant.

157. Have you therefore not envisaged leasing any of the nuclear refit facilities at the dockyards to private enterprise?

(Mr Heseltine.) As I said earlier, the proposals are at the moment ideas; they are not even proposals I have made up my mind I want to pursue.

158. To clarify my own mind, the proposals by Levene might include leasing sensitive areas used for nuclear refitting at both Devonport and Rosyth to private companies?

(Mr Heseltine.) If I may say so, whilst the hypothetical question is a perfectly reasonable one, I cannot at the moment answer questions based on proposals I have not even decided I want to pursue.

Mr Marshall

159. Appreciating you do not have detailed figures about D5 British procurement contracts, could the Committee be told in broad terms to what extent you rely on British sub-contractors to keep the US share below 50 per cent?

(Mr Heseltine.) I am relying on that. The understanding is that British sub-contractors will have access to tenders; they will have to compete in the market place, and very substantial progress has been made in securing the approval of British contractors, and I could produce figures of the number of people who have been approved for tendering work.

160. Approval is one thing but obtaining business as well we as all know is another. I take it it is the case that nothing has been placed in contractual terms?

(Mr Heseltine.) We will give the figure for the amount of contracts placed, which is relatively small, but there is not within the contractual arrangements a guarantee that the work will flow; there is an opportunity.

161. How much of the submarines will be British made in your estimation?

(Mr Heseltine.) The whole submarine will be built here.

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[Mr Marshall Con

162. Reverting about the transfer no worry about a front which could undermine the reached between United States?

(Mr Heseltine.) I do not see any think the American very tough but ment to provide British shipbuild the indications a British companies get the business.

163. It is not tion as American time to time say from doing it and classified?

(Mr Heseltine.) complaint and aware and have

164. You see as far as Trident (Mr Heseltine.) in relation to T

165. In answer you were satisfied dockyard can Devonport for that answer also SSKs and OBB you refit them be done by com (Mr Heseltine.) knowledge, the

166. In paragraph Paper you say per cent of the the period of the cent of the equipment's equip percentage of the will Trident ab

(Mr Heseltine.) of an average illustrative simply because mind at the moment if you take something over

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[Continued]

[Mr Marshall *Contd.*]

162. Reverting to an earlier answer about the transfer of technology, there is no worry about a policy decision on that front which could in any way be used to undermine the basis of the agreement reached between this country and the United States?

(Mr Heseltine.) No, I do not think so; I do not see any problems of that sort. I think the Americans have entered into a very tough but straightforward arrangement to provide a real opportunity for British shipbuilding companies, and so far the indications are that, as we expected, British companies will have to go out and get the business.

163. It is not so much the Administration as American companies who from time to time say they are being prevented from doing it and people are not security classified?

(Mr Heseltine.) This is a general complaint and one of which I am very well aware and have often become involved in.

164. You see no problems on that front as far as Trident is concerned?

(Mr Heseltine.) Not a specific problem in relation to Trident.

Mr Speed

165. In answer to Mr Douglas you said you were satisfied there was adequate dockyard capacity at Rosyth and Devonport for the SSNs and SSBNs. Does that answer also apply to the refit of the SSKs and OBERON class boats? Would you refit them at Portsmouth or would it be done by commercial firms outside?

(Mr Heseltine.) To the best of my knowledge, the latter option is possible.

166. In paragraph 405 of the White Paper you say that Trident will absorb 2 per cent of the total defence budget over the period of its procurement and 6 per cent of the equipment budget. In the peak years what percentage of your Department's equipment budget and what percentage of the naval equipment budget will Trident absorb?

(Mr Heseltine.) If I might talk in terms of an average figure which is broadly illustrative (not in percentage terms, simply because I do not have it in my mind at the moment), the position is that if you take the Trident programme of something over £8 billion spread over 20

years, you are talking of an average of £400 million a year, and that compares with an equipment programme of £8 billion a year in today's money. In the peak year it is estimated that the Trident cost will double in incidence, and that gives you a feel for moving up to 10 or 11 per cent. of the equipment budget in the peak year. This question also depends on how the naval budget is seen in that context. If one works on the basis of broadly one-third, or something like that (I will not try to work out the percentages), I think it gives the Committee a feel of what it could be. There is no doubt that it is an expensive programme but its purpose is of such vital importance in the defence budget that it is not something for which I would apologise. However, it is, for example, a lower programme cost than the Tornado programme which we had to finance and carry through under the Air Force target heading. The Tornado programme was £11 billion as opposed to £8 billion for the Trident programme, but illustratively the Trident programme works out at £400 million-£500 million a year and has to be seen in the context of a defence budget which this year is £3.6 billion higher than it was five years ago; it must be seen, if you are talking of a £8 billion-£9 billion programme over a period of 20 years, against the background of a defence budget which in current terms is something of the order of £340 billion in the same timescale. Therefore, if one is talking in terms of public expenditure and one multiplies it by 20 years one gets a substantial figure, because when one presents one figure one does not see the full background against which resources have to be found.

Dr Gilbert

167. Secretary of State, have you yet taken a policy decision — I will not ask you what it is — on the number of missiles or the number of warheads to be carried in Trident?

(Mr Heseltine.) No.

168. When do you expect to take it?

(Mr Heseltine.) I have not got a date, but obviously a decision is bound to be before Ministers in the not very distant future.

169. Are you able to tell the Committee in public session when you expect the in-

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[Continued]

[Dr Gilbert *Contd.*]

service date of the first Trident submarine to be?

(Mr Heseltine.) I think this information is available to the Committee.

170. Could you tell us why there is no mention of either the Army's nuclear system or the Navy's other nuclear system in that White Paper?

(Mr Heseltine.) No, I cannot tell you why there is no mention.

171. There is no listing in the text.

(Mr Heseltine.) No. Are they not in the statistical analysis?

172. I have not checked that, I must admit.

(Mr Heseltine.) Could I come back to the Committee on that?

Dr Gilbert: Indeed.

Mr Thorne

173. On the Trident question again, I appreciate what the Secretary of State has said on the relative cost in the overall context but I think that some people are still concerned about the possible run-on costs. As far as the research and development is concerned, is that now a fixed figure?

(Mr Heseltine.) We have given our best estimates in the money values that we have stated as to what the capital cost of the programme will be and that takes into account the costs of which we are aware, including capital costs of providing the infrastructure to house the system. This is the best information we can provide.

174. So is there any possibility of an open-ended commitment which could escalate considerably at a later date or not?

(Mr Heseltine.) I do not think I can give a 100 per cent. black and white disclaimer because until you have actually got a system in service there is always a contingency, but I think that that strikes the most pessimistic, ultra-cautious note, which I would not normally do unless I was being very careful about the language I used. I think we have given the best estimate we can provide.

175. With us in fact contributing a part

Note by witness: The question of British theatre nuclear systems is, in fact, covered in paragraph 406 of the White Paper, and also at Figure II in Annex A.

of of the total cost to the American research?

(Mr Heseltine.) A lot of it, yes, but that would be included in the figures that we have given.

176. So that has been taken into account?

(Mr Heseltine.) Yes.

177. And, therefore, it is possible that it could be less?

(Mr Heseltine.) I do not think I want to encourage that thought.

Dr Gilbert

178. In paragraph 406, Secretary of State, referring to the British theatre nuclear systems, you mention only Buccaneer and Tornado. The Royal Air Force does, of course, have other nuclear aircraft. What should we infer from this as to when you expect Buccaneer and Tornado to be the only nuclear-capable aircraft in the Royal Air Force?

(Mr Heseltine.) Perhaps I can let you have a note on this and that other question that you put to me.

Mr Churchill

179. What is the British Government's response to SACEUR's suggestion or call for a strengthening of conventional forces within the Alliance to reduce dependence on the early use of nuclear weapons?

(Mr Heseltine.) Strong support in this White Paper and the whole financial thrust of what we have been doing for the last five years is directly relevant to answering that call.

180. But will this not premise in the years ahead increasing expenditure in this field, bearing in mind that conventional defence, whether in high technology or in greater manpower, is more costly than nuclear defence?

(Mr Heseltine.) But we are spending vastly larger sums on it and, as I used the figure several times, I am now responsible for a budget of £3.6 billion a year larger than five years ago, most of which, the overwhelming proportion of which, is

Note by witness: See Paragraphs 406 and 425 of Cmnd. 9227-I for reference to British theatre nuclear systems operated by the Royal Air Force. We plan to retain strike attack Jaguars in the United Kingdom after they have phased out from RAF Germany.

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[Mr Churchill *Contd.*]

going to non-nuclear ongoing annual resour year a lot of the equip you have now got a nature, it is available and spend another £8 billion, the Committee this but if one looks the Tornado, the intro system we are workin of the new frigate, th Challenger tank, cor the field there is a ve up in the weapon sys British armed service listening to the profe indicates to me that well aware of this and the nuclear threshol our conventional cap Paper, by the decis standby squadron, m Royal Navy up to and and frigates for active per cent. enhancemen been available if we which was a possib extreme level of the Paper, and 4,000 peo the tail to the teeth, w enhancement of the Britain's Army, so it thrust.

Chair

181. On this very I made much in the W have just mentioned, goals, the 3 per cent, Army, the 5 per cent, eight ships from a stan operational fleet, whi shore support, could y just goals or has son been made in these di how much?

(Mr Heseltine.) The the figures have been has not yet come by possibly have been imp understand the arrang just been entered into absolute that the Ar deliver the arrangemen in this context.

182. In answer to a from one of the Membe tee about civilian manp

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[Continued]

[Mr Churchill *Contd.*]

going to non-nuclear resources and it is an ongoing annual resource. At the end of the year a lot of the equipment you have bought you have now got and it is of a capital nature, it is available to you, and you go on and spend another £8 billion and another £8 billion, the Committee are well aware of all this but if one looks at the introduction of the Tornado, the introduction of the MLRS system we are working on, the introduction of the new frigate, the introduction of the Challenger tank, comprehensively across the field there is a very substantial trading up in the weapon systems available to the British armed services. My experience of listening to the professionals in this field indicates to me that the people are very well aware of this and it is all about raising the nuclear threshold on the strength of our conventional capability. This White Paper, by the decision not to have a standby squadron, makes available to the Royal Navy up to another eight destroyers and frigates for active duties. That is a 20 per cent. enhancement of what would have been available if we had gone to the 42, which was a possibility at the more extreme level of the Cmnd. 8288 White Paper, and 4,000 people transferred from the tail to the teeth, which is a 3 per cent. enhancement of the fighting strength of Britain's Army, so it is all part of that thrust.

Chairman

181. On this very point, of which you made much in the White Paper and you have just mentioned, that is to say, your goals, the 3 per cent. redeployment in the Army, the 5 per cent. increase in aircraft, eight ships from a standby squadron to the operational fleet, while cutting those in shore support, could you tell us, are these just goals or has some progress already been made in these directions and, if so, how much?

(Mr Heseltine.) They are goals in that the figures have been agreed but the time has not yet come by which they could possibly have been implemented because I understand the arrangements have only just been entered into, but my faith is absolute that the Armed Services will deliver the arrangements they have struck in this context.

182. In answer to an earlier question from one of the Members of the Committee about civilian manpower, you said you

were not interested in publishing ambitious targets. One could suspect these are ambitious targets and there may be difficulty in fulfilling them. Are you quite satisfied that this can be done?

(Mr Heseltine.) Yes, I think it can be done. I think that it is a function of the recruiting and retirement policies of the Armed Services and I believe it can be done. I do not believe that the members of the Armed Services who have concluded these arrangements would have done so unless they believed they could be carried through.

183. If you have eight more ships in the Fleet and none in standby, what do you do in the event of some serious accident to a ship in the Fleet, as at present you can replace it by taking a ship out of standby? what will you do in the future?

(Mr Heseltine.) One of the reasons I was pleased to conclude the arrangements with the Navy that I did on the standby squadron is that I did not actually believe it was credible to have ships in mothballs. Heaven forbid we should ever fight another war but the idea with the sort of weapon systems involved that one would ever get those mothballed ships to sea and that they would actually work after goodness knows how long being mothballed did not seem to me a likely situation and I therefore felt what one was really facing up to was a figure at 42, if that was the lower level we had gone to, and we are all fully aware of the dilemmas and choices that would have presented us with. On the other hand, there was a need to find the crews and the Navy came to the view with me that we would find the crews from the shore staff, and I was delighted, therefore, to release the ships. If you then say what happens if you have 50 at sea or ready for sea and one in some way incapacitated by collision or whatever, exactly the same answer applies whether you have 42 or 59 at sea. There is an attrition process within the Ministry of Defence which replaces the equipment that goes, and, of course, it would fall to Ministers at any one time to decide how to carry that through. But the only answer to your question has to be that if the decision to have 50 was not a figure that was stuck to it would have to be purchased from the defence budget.

Chairman: I interrupted Mr Churchill on this line of questioning.