Joint Memorandum by the Minister without Portfolio, the Chancellor of the Exchequer, the First Lord of the Admiralty and the Minister of Shipping.

We have discussed together, in the light both of the experience of the last three months and of the present situation, the problem of merchant shipbuilding, to which reference has been made in recent memoranda circulated to the War Cabinet.

2. During the first year of the war, the losses of British, allied and neutral shipping incurred through all forms of enemy attack was almost the same as the average annual loss during the four years of the last war. We must, however, be guided in the main by the accentuated rate of loss which has been suffered during the last two or three months. In that period, attack by submarine and from the air has been intensified at sea, the E boat has shown itself, and shipping is now being subjected to bombardment from the air while it lies in port.

3. For the purposes of estimating our importing capacity during the second year of the war, the Ministry of Shipping expressed the view recently that we should assume that our total losses including marine casualties would, during that period, be of the order of 5 million gross tons. The Naval Staff have pointed out that if our losses, exclusive of marine casualties, were to continue at the rate suffered in June and July over a period of a year, they would amount to between 4½ and 6 million gross tons.

4. War losses alone during the last three months have been as follows:

<table>
<thead>
<tr>
<th>Calendar Month</th>
<th>British (gross tons)</th>
<th>Allied and Neutral (gross tons)</th>
<th>Total (gross tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>267,000</td>
<td>244,000</td>
<td>511,000</td>
</tr>
<tr>
<td>July</td>
<td>247,000</td>
<td>111,000</td>
<td>358,000</td>
</tr>
<tr>
<td>August</td>
<td>255,000</td>
<td>72,000</td>
<td>327,000</td>
</tr>
</tbody>
</table>

In addition, during this period 117,000 gross tons of merchant shipping has been lost while on commissioned service.
5. We are informed by the Controller of Merchant Shipbuilding that the present rate of merchant shipbuilding is not likely to reach more than 1 million gross tons during the next year, as contrasted with the target of 1½ million gross tons to be attained by February next under the arrangements made when the responsibility for merchant shipbuilding was transferred from the Ministry of Shipping to the Admiralty in the early part of this year. This reduced rate of construction represents a reduction of no less than one-third and, even so, may make insufficient allowance for adverse effects due to damage to the shipyards or to prolonged interruption of work as the result of enemy attack.

6. It is obviously a matter of grave consideration whether this reduced rate of merchant shipbuilding can be accepted in view of the increased rate of loss which we are forced to envisage as compared with that prevailing six months ago.

7. The Ministry of Shipping has purchased, mainly from the United States, some 40 vessels and is in negotiation for 6 additional ships at the moment. It is anticipated that the unexpended portion of the sum already made available by the Treasury should be sufficient to defray the cost of these vessels. The opportunities for purchase, however, are limited and the vessels acquired are 20 years old or more. It would be unwise to buy vessels which have not been in service as they might well prove not only very costly but extremely inefficient. Purchase of tonnage of this type is in any case merely a stop-gap war measure which will leave us after the war with old, expensive, and inefficient tonnage which will have to be rapidly scrapped, and does nothing to replace the British Mercantile Marine, of which the average age in all section is already too high. Notwithstanding these considerations we think that any opportunity of acquiring serviceable ships at reasonable prices should continue to be taken. The tonnage hitherto bought has cost on the average about 45 to 50 dollars a deadweight ton.

8. New construction in the United States. Construction of tonnage in the United States was put rapidly in hand in the later stages of the last war and was brought to a high rate of output. We consider it essential that our programme of home construction should be supplemented by the immediate placing in the United States of as substantial an order for new tonnage as can be laid down in the near future, and preliminary inquiries have been made as to the possibilities. It may be practicable to place orders for, say, 60 ships of 10,000 tons deadweight with United States yards for delivery at the end of 1941. The Controller of Merchant Shipbuilding thinks that it would be unduly optimistic to look for any earlier date of delivery. We recognise that the cost of this tonnage must be high, but our wastage of shipping must be made good. An expenditure of £20 million of which not more than £25 million would be required before the 31st March would be necessary for the acquisition of this tonnage. The Chancellor of the Exchequer has definitely agreed to orders being placed for 30 ships, in order that the immediate negotiations may be undertaken.
9. We are also of opinion that negotiations should be pursued with a view to securing the transfer of vessels already under construction in the United States to ourselves. There may be at the moment some political difficulties in persuading the United States authorities to agree to such transfer of contracts already placed by the Maritime Commission and special inquiries are being made upon this point. Insofar as any such transactions could be carried through, we should gain the advantage of earlier delivery, though, of course, we should have to undertake to meet the cost of replacing at a later date, the vessels ceded to us.

10. Let us assume that we shall be successful in securing some 15 months hence about 400,000 tons gross of shipping constructed in the United States, together with perhaps another 100,000 tons gross of old ships purchased in the market. On this basis, if our own programme remains at the level of 1 million gross tons per annum and if the rate of loss over the period amounts to something of the order of 5 million tons gross from all sources, we shall be replacing only 50 per cent. of our losses. This we consider quite inadequate.

11. The only other way of making good the wastage in tonnage is to increase our home programme. The Admiralty are of the opinion that, in existing conditions, any increase in the rate of merchant shipbuilding above about 1 million gross tons could only be secured at the expense of the naval programme or by some allocations of steel and other light materials in excess of the amounts allotted to the merchant shipbuilding programme under existing priority decisions.

12. There are further difficulties in securing suitable labour for the necessary marine engineering output for merchant shipbuilding purposes.

13. So far as steel is concerned, we would remind the War Cabinet that every ton of steel employed in shipbuilding yields a return in deadweight carrying capacity equivalent to an importing power of 12 tons of goods per annum. We think that every effort should be made to increase the home production substantially above the level of 1 million tons and to bring the rate of construction at least to the rate of 1¼ million tons gross per annum by the early part of next year, and that the necessary requirements which the Controller of Merchant Shipbuilding puts forward should receive the most favourable consideration.

14. If further inquiry as to the possibilities of construction in the United States prove disappointing, the whole situation of our home production will obviously have to be further considered as a matter of the most vital importance.

15. We do not overlook the possibility that under the system of Navicerts and Ships Warrants we may yet be able to induce or force into our service additional neutral shipping, but there are many difficulties in the use of neutral and even allied shipping which cannot be ignored. We need only refer to the recent action of the Greek
Government in withdrawing, under German pressure, all official support from Greek shipowners in enforcing the observance of existing agreements concerning war bonus for Greek crews—a step which may lead to substantial delays in the sailing of these ships, and to reluctance to charter except at extravagant rates. We have also in mind the probability of increasing demands upon merchant shipping for the maintenance of the forces in the Middle East and other essential naval and military operations. We think it essential to restore, as far as possible, our actual losses by the creation of new tonnage over which we have absolute control rather than to rely upon bringing into our service tonnage over which we have no such absolute control, and which in present circumstances we can only secure by negotiation and pressure.

**SUMMARY.**

16. We recommend:

(a) that our programme for the building of merchant shipping in this country should if possible be raised at least to the rate of 1½ million gross tons per annum;

(b) that immediate steps be taken to increase our merchant tonnage;

(i) by placing orders at once in the United States for the construction of another 30 ships each of 10,000 dead weight tons (a total of, say, 200,000 gross tons);

(ii) by securing (if no political objections prevent it) ships already partly completed for the United States Maritime Commission; these to be replaced by ships to be constructed under (i) above;

(iii) by the purchase by the Ministry of Shipping, as opportunity offers, of serviceable second hand ships so long as these are obtainable at reasonable prices;

(c) that the construction of a further 30 ships additional to those referred to in (b) (i) above shall be considered not later than November, 1940 in the light of the circumstances then existing, or at an earlier date, if in the opinion of the Admiralty and the Ministry of Shipping either increased losses or increased demands for shipping make this necessary.

(Intd.) A.G.

(" ") K.W.

(" ") A.F.A.

(" ") K.H.C.

Treasury Chambers, S.W.1.,
9th September, 1940.