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British Maritime League.

TRANSPORT

November 1983

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THE DEPARTMENT
OF TRANSPORT

FROM THE SECRETARY OF STATE

SECRETARY OF STATE FOR TRANSPORT

Prime Minister
You may like to note the terms of reference at the back
AT 23/5

The Rt Hon John Major MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

My Ref:

Your Ref:

Dear Chancellor,

JOINT GOVERNMENT/GENERAL COUNCIL OF BRITISH SHIPPING WORKING PARTY

We met Sir Jeffrey Sterling on Monday to discuss his proposals for a joint working party to examine the state of the shipping industry and ways of improving its competitive position. We agreed that it would not be proper to look at fiscal options but that it would be helpful if a joint working party could look at other aspects of the industry's position. As for fiscal questions, you told Sir Jeffrey that if the General Council of British Shipping wished independently to consider fiscal options you would be happy to meet them during the autumn to consider their recommendations. The timing would in fact fit in quite well with the review which we are expecting to undertake later this year of the defence aspects of merchant shipping.

We agreed that the setting up of the working party should be announced by way of a PQ. I propose to do so in the following terms, timed for answer at 12.00 hrs on Thursday 24 May to coincide with Sir Jeffrey's inaugural Presidential address to the GCBS:

Q. To ask the Secretary of State for Transport whether he will set in hand an examination of the state of the British merchant shipping industry.

A. I am pleased to announce the setting up of a joint working party, under my chairmanship and that of the President of the General Council of British Shipping, to establish the present circumstances in which the British shipping industry operates both domestically and internationally. The working party has been asked to report no later than 14 September 1990.

/ I am attaching the terms of reference for the working party.

/ I am sending copies of this letter to the Prime Minister, Douglas Hurd, Tom King and Nicholas Ridley and to Sir Robin Butler.

Yours sincerely

C. McCarthy

(PRIVATE SECRETARY)

for CECIL PARKINSON

(Approved by the Secretary of State & signed in his absence)

Joint Working Party
Terms of Reference

To ask the Working Party:

1. to produce an agreed factual account of the position of the British shipping industry domestically and internationally;

2. to identify the regulatory policy options, and measures which could be undertaken by the industry itself, for improving the competitive position of British shipping and to seek to quantify the direct and indirect benefits and costs of each;

3. to identify the main obstacles to the use of the British flag and to assess the benefits which would accrue from encouraging its greater use;

4. to report as soon as possible and no later than 14 September.

The Working Party will be jointly chaired by the Secretary of State for Transport and the President of the General Council of British Shipping. Other members will be drawn from Whitehall departments and the GCBS.

Department of Transport
23 May 1990

10 DOWNING STREET

GR. pl pm.

Mark

Bernard had only two comments - essentially questioning the wisdom of x and y

I have conveyed said comments to M. Poulter.

Jen

23/4.

010

PARLIAMENTARY UNDER SECRETARY OF STATE

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Mark Addison Esq
Private Secretary
10 Downing Street
London SW1

18 April 1985

Dear Mark,

Mr Mitchell has written an article on the Government's shipping policy which he would like to see published.
/ I attach a copy.

The guidelines on press articles by Ministers say that articles which go beyond the strict confines of a Minister's departmental responsibility should be cleared with the Prime Minister before any commitment to publish is entered into.

I will be grateful to know, if possible next week, whether the Prime Minister is content with this text. I am sending copies to Callum McCarthy, Jeremy Wright and Richard Broadbent.

Yours Sincerely

AJ POULTER
PS/MR MITCHELL

ARTICLE BY DAVID MITCHELL ON BRITAIN'S MERCHANT FLEET

Fifty years ago the only way for travellers to cross the North Atlantic was by sea. Splendid fleets of liners vied with each other for custom. Today the competition is just as fierce, but it is between airlines.

Fifteen years ago the prospects for oil transport by sea, particularly from the Middle East, were attracting massive investment in tankers. Today oil users can look to supplies nearer at hand from the North Sea, from Mexico and Alaska, and the demand for energy is lower than was expected. The result has been a huge and chronic excess of tankers, with greatly depressed earnings; and UK owners have been hard hit.

The comparisons illustrate just two of the changes which have affected our merchant fleet. There have been many other changes in the shipping industry, as there have been in every other industry. Change, of course, is always disturbing. But it can be accommodated more easily when things are expanding than when they are contracting.

The British Shipping Industry, however, is contracting; and because we have a long history as a seafaring nation, concern at this trend extends well beyond those who are directly involved in the industry. Emotional and economic arguments mingle. I suppose that isn't surprising. The great shipping lines remain household names; generations of Britons have earned their living in the Merchant Navy; and we are a trading nation, dependent upon sea links with other countries.

But what are the facts? We have the eighth largest Merchant Fleet in the world, and the second in the EC. It is not really one fleet at all, but a series of fleets. Tankers, dry bulk carriers, container ships, rig supply vessels, ro-ro vessels and coastal craft: all these vessels serve different markets and face different economic pressures. It is important to realise this when looking at the figures which are sometimes quoted for the decline of the fleet. The shrinkage in our tanker fleet accounts for 60% of the decline over the past decade. Our container fleet has actually increased in size and is now the third largest in the world.

Given this background, what do we want the shipping industry to do for us as a nation, and what should the Government do for the industry?

As a trading nation our dominant markets lie in Europe. For access to those markets we incur the costs of sea transport on top of inland distribution, putting us at a competitive disadvantage. Likewise our imports of raw materials have all to come by sea. So one of our clear national objectives must be to ensure that we minimise the competitive disadvantage of being an island; and that our shipping industry can provide swift, efficient and cost effective services.

Then there is defence. Our main defences needs in times of emergency or war would be to reinforce NATO forces on the Continent and to provide support vessels for the Royal Navy. The merchant navy is still large enough to meet planned defence needs though there is a problem on large deep-sea trawlers. The position is kept under constant review by the Ministry of Defence and the Department of Transport. K

The industry itself is under great pressure. Shrinking demand and overcapacity - with unneeded vessels still being built in the subsidised Far East Yards - has put pressure on the Merchant Fleets of all the world's countries. Shipping markets are critically dependent on the balance between supply and demand; with chronic excess supply in many markets, rates have been severely depressed.

Many Governments have reacted by imposing protectionist devices. But our fleet relies on carrying other peoples' cargoes as well as our own. Fifty eight percent of the international freight earnings of our fleet comes from "cross trades" - often plying between one far-off country and another. Protectionism is therefore not to our advantage. The plain fact is we would stand to lose more than we could gain.

In these circumstances the British Government's duty must be to keep maximum opportunities open for our Fleet to trade around the world. Some critics suggest that we should apply protectionism at home whilst still seeking free trade abroad. But it is always difficult to ride two horses at once - impossible if they are going in opposite directions.

So there are two main objectives for the Government: to keep down the cost of moving goods in and out of our ports, whichever vessels are carrying them; and to keep open the maximum opportunities for our fleet abroad. We are moving purposefully on both fronts.

If you look at the costs of moving goods in and out of the UK there are the lighthouse services; there is pilotage, and there are the ports themselves, with significantly varying costs.

The cost of the lighthouse services, over £51m a year at present, has been severely criticised by the shipowners, port authorities and the Public Accounts Committee. As a result a major financial review was undertaken and this has led to wide-ranging improvements that are now being implemented, and to a greatly increased cost-consciousness in the lighthouse authorities' management. I have asked consultants to undertake a major review of the structure of light dues and their report is on the point of publication. I envisage that this will lead to proposals for a more equitable sharing of the light dues burden.

Pilotage, which costs ship operators entering UK ports over £40m per annum, is important for safety and it will remain so. But for all the hard work and dedication of the pilots they are victims of an archaic system of barely credible complexity which has resulted in unnecessarily high costs. The Government has recently been consulting on a new approach designed to produce a more cost-effective pilotage service, so lightening another charge on our trade.

And then there are the ports themselves. To sharpen their commercial edge, we have removed a number of Government controls over their activities. They have learned, painfully in some cases, that to compete effectively they have to be leaner. Many people in our traditional ports believe that their ability to compete is constrained by the inflexibilities and costs associated with the National Dock Labour Scheme. They see that ports outside the Scheme have been steadily increasing their market share. So I am surprised that workers in the Scheme ports are not asking themselves whether the Scheme does still work in their best interest.

As for doing our best for the fleet itself, we want there to be freedom for British vessels to enter all international shipping trades. In fact there are protectionist devices at work which prevent the full achievement of this goal, even within OECD countries. The USA's reservation of Government cargoes is conspicuous, and the USA and most other OECD countries reserve their coastal trades. But very broadly only between 10% and 15% of total international seaborne trade is actually subject to cargo reservation like this - so that between 85% and 90% is open to our fleet. We keep up constant pressure to open closed markets and to ensure that protectionism creeps no further.

Success in this is more likely to be achieved if we act in cooperation with other countries. After years of frustrating disagreement, we are now on the verge of a breakthrough with the OECD countries in the Consultative Shipping Group, making common cause with the USA against any new shipping protection measures in the rest of the world.

Then there is the European Community. The Treaty of Rome has brought huge benefits to traders in goods. But it is supposed to apply equally to services. You would not think so from the woefully inadequate progress made. Hesitantly, at first, but with growing confidence now, the Commission is moving to implement the Treaty. The long-awaited memorandum on EC shipping policy was recently presented by the European Commission to the Council of Ministers. The proposals in the Memorandum are generally to the advantage of UK shipping: to fight protectionist policies in the rest of the world and in particular to open up the closed coastal shipping trades which exist within the Community. We can no longer afford the luxury of turning a blind eye to unfairnesses in the community itself, so we will now exert all the pressure at our command to secure action here. Not surprisingly, we are coming under increasing pressure to close our own coastal trades to EC members who will not open theirs up to us. If some progress is not made now, we may have to consider a bit of reciprocity. 4

Ministers are sometimes accused of not listening to the cries of woe from our embattled shipowners. Nothing could be further from the truth. We understand and share their frustrations. We cannot control the supply and demand for ships, which is the key to the viability of world shipping. But our dedicated negotiators are constantly seeking to keep open the shipping markets of the world, and we expect to make significant progress in the next 12 months.

The industry has also sought help from the Government in the shape of special tax treatment. The scope for the Chancellor to respond was very limited but I hope that his Budget proposal to extend the new free depreciation arrangements to second-hand ships will result in at least some additional investment in the coming year; undoubtedly it helps in terms of enabling a flexible response to market opportunities.

Some parts of the fleet are in decline, and the problems which operators face are very difficult. But let no one be in any doubt that this Government wants to see a large and successful British Merchant Marine continuing to operate competitively across the world. Our major task is to ensure it has the opportunity to do so.

With the Compliments of the
Parliamentary Clerk

Charlie

Briefing re 'British Maritime League', as requested.

Please note that the League's interests in shipping are not confined to merchant (ie DTp) interests; but also Royal Navy (MoD), Fishing (MAFF), Ship-building (DTI) — in effect the whole range of Maritime affairs.

Alan 25/11.

Department of Transport
2 Marsham Street London SW1P 3EB
Telephone 01-212 3711

PM'S BRIEFING.

British Maritime League

Background

Formed early in 1982, by both Royal and Merchant Navy interests, to act as a pressure group to express concern at the continuing decline of the merchant fleet, and, in particular, the consequences for naval support operations.

Its two principal recommendations, spelt out in its policy document "British Maritime Policy", have been:-

a) positive and coherent National Maritime Policies must be agreed on an all-party political basis and fully endorsed by the various business and other interests concerned;

b) a Maritime Affairs Committee of the Cabinet should be established under the Prime Minister to initiate, co-ordinate and direct these policies and their implementation.

The league sent a copy of this document to the Prime Minister in April this year.

Line to Take

a) These issues are important, but the prospect of useful all-party policies being drawn up and then agreed by all concerned must be limited.

b) The Government believes that the present arrangements whereby the Secretary of State for Transport has the lead role in co-ordinating maritime policy while other Ministers continue to have the primary role in some specific maritime fields is satisfactory.

c) It is basically a corporatist approach, allowing little room for market forces to determine allocation, and market forces are particularly strong and unavoidable in an international business like shipping

10 DOWNING STREET

MR. FLESHER

You may like to get a note for Questions.

Robin Butler

Charlotte

Could you commission something

21 November 1983

A.

HL

21/11

Thank you very much for your letter of 17 November enclosing an advance copy of the Council of the British Maritime League's latest policy document on British Owned Merchant Shipping. It is very good of you to give us advance warning of this, and I will certainly make sure that the Prime Minister is aware of it.

<u>Robin Butler</u>

The Rt. Hon. Sir Frank Cooper, G.C.B., C.M.G.

PERSONAL

34 Camden Park Road,
Chislehurst,
Kent, BR7 5HG.

17th November, 1983

Dear Robin

I have recently joined the Council of the British Maritime League and have just received an advance copy of the League's latest policy document on British Owned Merchant Shipping. It is about to be fairly widely distributed to, amongst others, Mr. Callaghan, Dr. Owen, Mr. du Cann and several Peers who may be involved in Lord Rochdale's debate on EEC Shipping Policy in the Lords on 24th November. It will also go to a number of Ministers as a considerable number of them are involved in maritime policy.

I enclose a copy of the paper as it occurred to me that the Prime Minister might wish to have seen it before someone tries to spring something on her - as there is an increasing volume of steam behind the subject. It is, incidentally, not a Royal Navy lobby, though there are obviously defence interests in it.

I think it would be worthwhile for the Prime Minister to glance at it.

Yours ever
Frank

Frank Cooper

Robin Butler, Esq.,
No.10, Downing Street,
Whitehall,
London, SW1.

BRITISH OWNED MERCHANT SHIPPING

THE OUTLINE OF A PROPOSED NATIONAL POLICY

BRITISH MARITIME LEAGUE

ISSUE No. 1/00/22

NOVEMBER 1983

EMBARGOED

ACKNOWLEDGEMENTS

The British Maritime League is grateful to all those who have provided information for this paper, especially the authoritative organisations listed below. The views expressed are those of the League alone and do not necessarily represent the positions of those consulted.

General Council of British Shipping

University of Wales Institute of Science & Technology

Department of Maritime Studies, Plymouth

Lloyds Register of Shipping

Department of Transport

National Union of Seamen

Merchant Navy and Airline Officers Association

International Maritime Industries Forum.

Issue No. 1/00/22 November, 1983

For further information please contact :

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British Maritime League
Beaufort House,
St. Botolph Street,
London EC3A 7DX
Telephone: (01) 247-7325

BRITISH OWNED MERCHANT SHIPPING

THE OUTLINES OF

A PROPOSED NATIONAL POLICY

INTRODUCTION

1. The most recent major study of British Shipping is the Rochdale Report (Cmnd 4337) of May 1970. Many unforeseen developments have occurred since then, both nationally and internationally. They include, for example, two traumatic increases in World oil prices leading to a major world recession, the emergence of Soviet Maritime power, the Falklands campaign, a major increase in the 'open registration' of shipping, the doubling of the size of the World's merchant fleet, accelerated ambitions in the Developing World, the worst ever crisis amongst traditional shipbuilding the exploitation of North Sea energy resources, and increasing political interference by governments.

2. This paper aims, in the light of these developments, to outline the present state and apparent future trends affecting British owned merchant shipping in order to determine whether the national interest has been adversely affected and, if so, to propose remedies. Specific aspects will be covered by a separate series of papers which are in course of preparation.

3. For many of the purposes of this paper it would be preferable to consider all British Owned Merchant Shipping as all commercial vessels beneficially owned by British citizens and incorporated bodies resident in the U.K. regardless of whether they wear the Red Ensign, or the flags of various 'open registers'. Most of the data is presented in dead weight tonnage (dwt) which is a measure of a ship's lifting capacity.

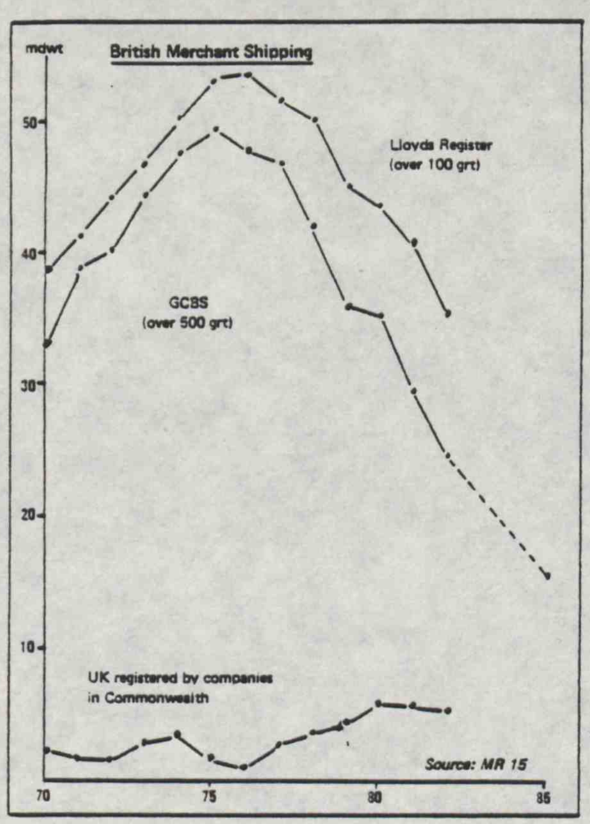


Fig. 1

BRITISH OWNED MERCHANT SHIPPING

4. Unfortunately, for commercial security reasons, no published figures are available for British Owned Merchant Shipping as defined above and where tonnage statistics are required other definitions have been used. In Figure 1 the Lloyd's Register curve shows all British flag ships over 100 grt, and the General Council of British Shipping (GCBS) curve all British owned and registered trading vessels over 500 grt, projected by GCBS to 1985. In both cases Red Ensign vessels registered outside the UK, e.g. in Hong Kong, are excluded.

5. A very approximate indication of British Owned Merchant Shipping in 1982 can be obtained by adding the 3.0m dwt UK flagged out ships in Figure 7 to the 24.7m dwt UK owned and registered ships given by GCBS in Figure 1. This suggests that even when flagged out ships are included in the UK total (and for strategic and other purposes discussed later, many of them should not be) the rate of decline remains alarming and is faster than those of our European allies.

6. This fleet, and its associated institutions such as Lloyd's Register, Lloyd's of London Insurance, the Baltic Exchange etc, has, for many years made amongst the highest contributions to UK invisible earnings. Ships have from time to time been transferred to Government control in support of maritime operations, (e.g. recently 54 ships for the Falklands campaign). It also directly employs a large number of qualified seafarers, some of whom are essential naval reservists.

7. Consequently any decline of British merchant shipping on the scale illustrated in Figure 1 must adversely affect the national interest from economic, strategic and manpower points of view.

8. <u>The causes of the decline</u> are predominantly international, including the following :-

a. The deep and continuing World recession has reduced the demand for seaborne trade to its lowest level since 1972.

b. At the same time the Developing World has, without regard to the consequences, given rein to strong ambitions over both shipping and shipbuilding. The resulting imbalance, expressed as an index of the situation in 1970 is shown in Figure 2, and the actual strength of the World's Merchant Fleet, including those of Liberia and Panama, in Figure 3.

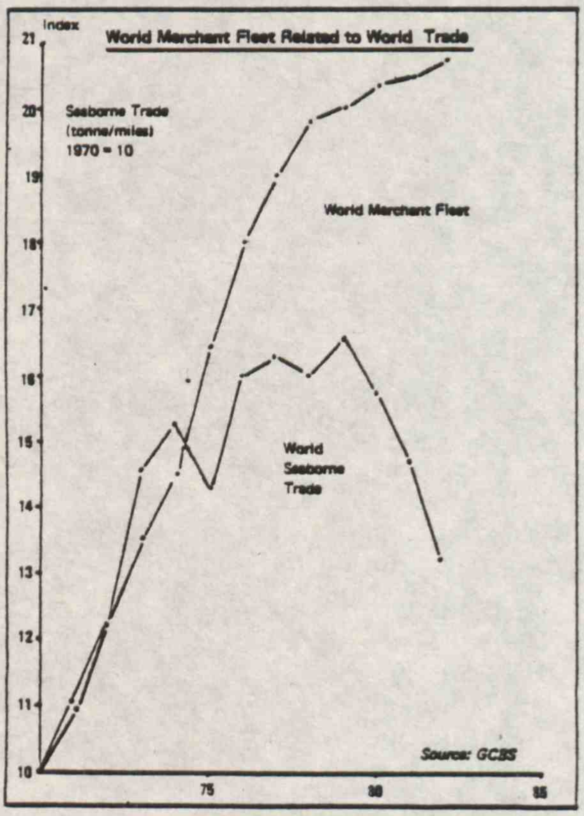


Fig. 2.

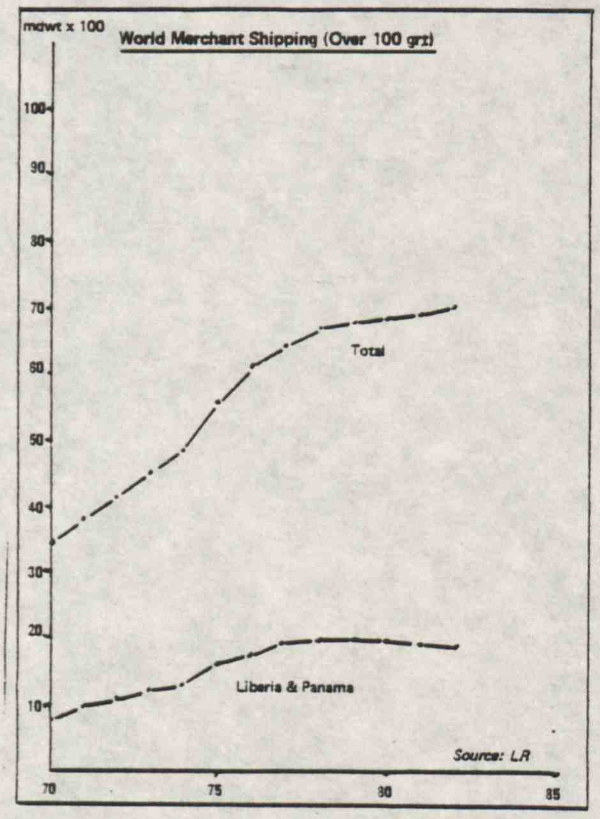


Fig. 3.

c. COMECON has acquired major maritime power with the expressed intention of displacing the maritime interests of the Western World. The Russian navy is now the largest in the world.

d. World shipbuilding capacity has grown to be grossly in excess of realistic demand and large numbers of new and unwanted ships are either forced onto a overcrowded market or driven straight into lay up. A record tonnage (100mdwt in June 1983) of ships is laid up.

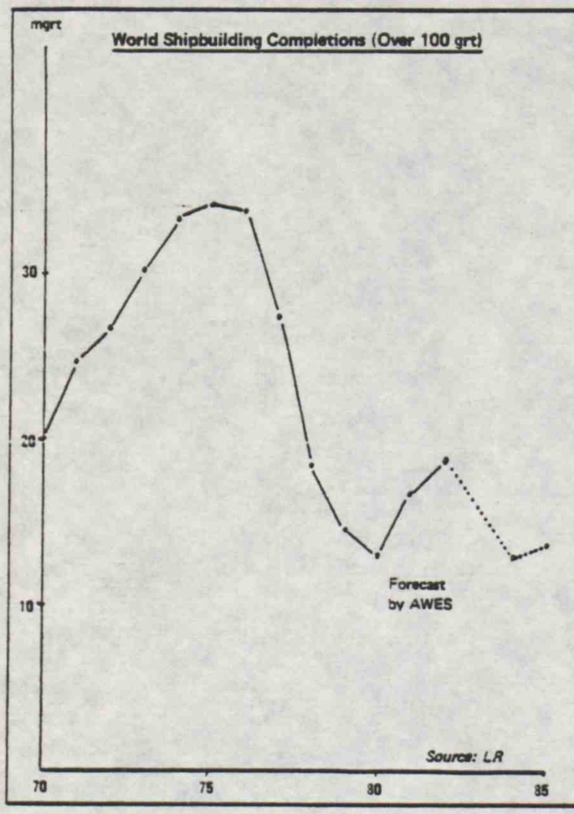


Fig. 4.

e. many governments have become heavily involved and are either promoting newly identified ambitions, like COMECON, South Korea,and South America or seeking, with varying degrees of success, to safeguard what they regard as their essential national interests.

f. much lower crew costs amongst developing countries.

g. technical developments and economies of scale.

9. Additional causes of decline, particular to the UK fleet, are:-

a. High rate of inflation.
b. Sterling strength against the dollar.
c. Distortion from investment grants.
d. Changes in pattern of trade consequent upon UK entry into EEC.

10. The shipping markets have thus become chaotic. A normal 'free trader' is hard pressed to avoid making a loss on every voyage and has little incentive to continue trading.

BRITISH ECONOMY

11. The resultant effects on the UK economy are examined under two separate but related headings - UK Trades (ships trading from overseas to and from UK ports) and Cross Trades.

UK trades

12. As a densely populated island nation, whose prosperity depends to a large extent on its industry, Britain, more than any other country, except possibly Japan, needs a substantial and continuous flow of imports and exports (e.g. 157m tonnes and 108m tonnes respectively in 1982). 98% by weight of these cargoes come and go by sea since this is generally the most economical, if not the only, way of carrying them.

13. Britain cannot sensibly allow any part of this trade to be dominated by an economic competitor. At the same time, as has been the experience of, for example the USA and Nigeria, the high cost of securing control through protectionism can seriously damage the national economy.

14. In terms of weight of cargo, the percentage of UK trade which is carried in British owned ships has varied by only a few points. However in terms of tonne/miles, substantial changes have occurred as shown in Figures 5 and 6.

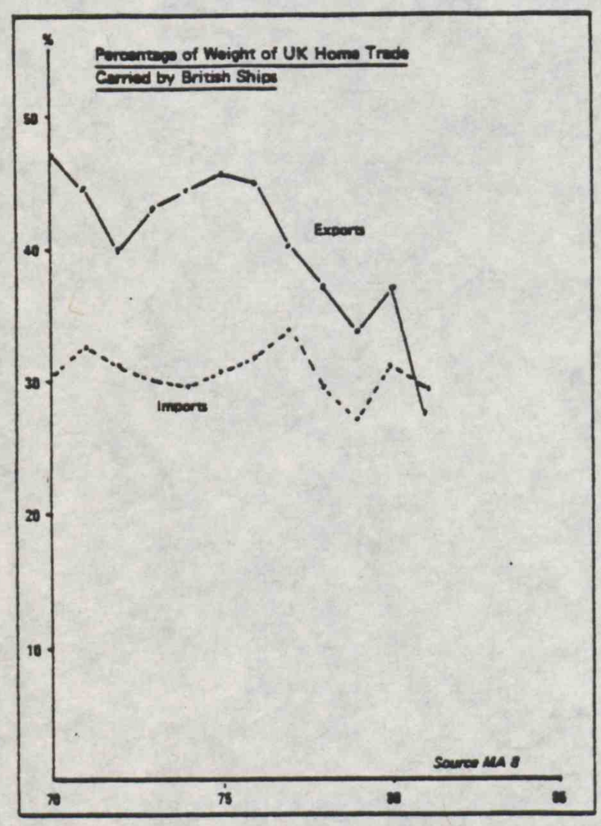


Fig. 5.

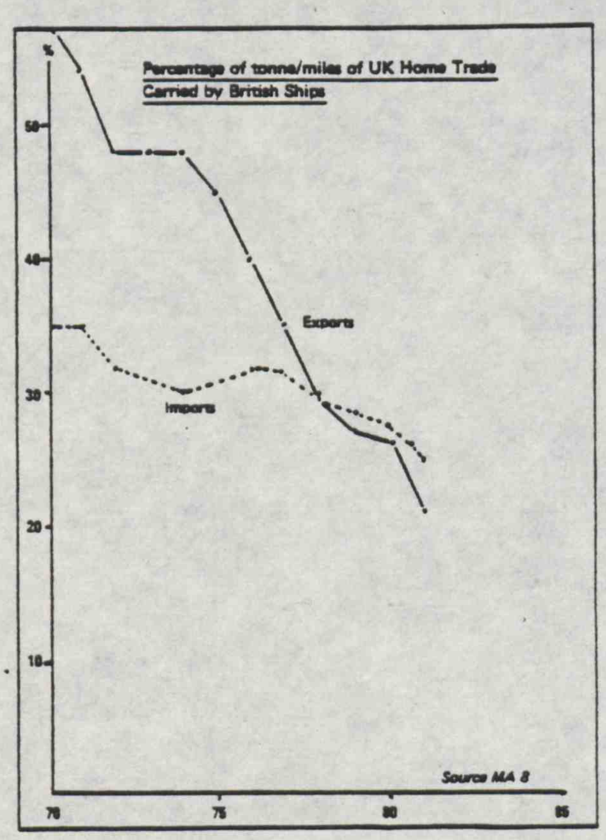


Fig. 6.

15. The principal reason for the differences between Figures 5 and 6 is the changing pattern of U.K. trade but there is also an increasing tendency for long haul cargoes to be carried in foreign ships. More cargoes are now trans-shipped through continental ports, notably Rotterdam, in preference to British ports such as Liverpool, Southampton, and London, and ferried to the U.K.

16. Revenue from our previously thriving entrepot trade has sharply declined.

17. No precise figure can be given of the level to which control can prudently be allowed to drop. The UNCTAD Liner Code supports a desirable level of 40% of Liner Conference trade. Several countries, for example Egypt, Philippines and Tanzania press, however unrealistically, for at least 50% of all seaborne trade. Many governments acting through controlled agencies have successfully insisted on cargoes being carried both ways in their own ships through a policy of buying **FOB** and selling **CIF** and this has even been applied by countries in receipt of U.K. bilateral aid.

18. In the short term, with some 80% of shipping being in the hands of OECD countries, there may be no immediate threat to the shipment of cargoes at a tolerable 'going rate'. In the longer term however the fact that Britain's share of her export shipments in tonne/miles has decreased by over 30% in ten years, to a level far below any visualised by Rochdale, must be of concern, especially if it could lead to a weakening of British influence in liner conferences.

19. We need to ensure that our shipping has the kind of environment in which it can profitably exploit the substantial commercial opportunities offered by UK trade and in this HM Government has a major part to play in restoring an orderly international market.

20. We also need to recover our former profitable entrepot trade.

Cross Trades

21. The carriage of cargoes amongst those foreign countries which depend on seaborne trade, but do not have all the resources to conduct it, has long been the main source of British shipping revenue, being about twice that from home trade.

22. Apart from the effects of the current world recession, our cross trading is threatened for three main reasons :-

a) National ambitions of developing countries. At present these ambitions are mainly political, to give tangible expression to newly found independence. This is being realised by such means as bilateral shipping agreements and cargo reservation clauses. Since the process of breaking new ground with scarce experience and resources is financially unprofitable, it is heavily subsidised not least by the UN which strongly supports these ambitions. (See UNCTAD report, Belgrade June 1983). Consequently the developing nations seem likely to achieve their aim of 20% of world deadweight tonnage by 1990, or soon afterwards. Ultimately these ambitions probably aim to become economic, as voiced by President Houphouet-Boigny of the Ivory Coast in 1980 when he declared to the African Shipping Conference in Monrovia that 'The way to economic emancipation is the sea'.

b) Increased competition from established shipping countries, especially now, COMECON and those who are making increasing use of 'open register' flags. Whilst COMECON does not use such flags it nevertheless strongly subsidises its market penetration by providing its shipping operators with new ships at a price little higher than the cost of the materials, arranging specially reduced price home bunkering, free insurance, and charging them with only a small proportion of their crew's wages, the rest being made up by a relatively generous 'social wage' paid by the state.

c) Allied to b. above is a very substantial increase in 'open registry'. Cross trading naturally attracts 'open registry' flags, the main components of which, for 1982, are shown in Figure 7.

FLAG	LIBERIA	PANAMA	CYPRUS	BERMUDA
Country/mdwt				
USA	53.6	7.4	-	-
Hong Kong	34.6	8.5	-	-
Greece	18.6	2.8	0.8	-
Japan	10.8	8.4	-	-
Norway	4.8	0.4	-	-
West Germany	2.6	2.7	0.4	-
UK	2.1	0.5	-	0.4

Fig. 7 Source Times Atlas of the Oceans

23. Some British owners have been driven to 'flag out' their ships as the only way in which to remain viable and competitive in what should be a free market. In facing this decision an owner must balance a whole range of factors including:

a. Fiscal incentives and penalties.

b. Total crew costs i.e. cost per berth rather than salaries and wages.

c. Cargo reservation in favour of particular flags.

d. Willingness and ability of governments to support their flag shipping against impediments to trading.

24. However the use of 'open register' flags is in many ways inimical to the national interest because :-

a. Tax revenue and invisible earnings are lost

b. Jobs for British seafarers are substantially reduced.

c. The number of ships, with suitable crews, which can meet strategic demands in an emergency is reduced. (HMG is now having to charter foreign ships for the Falklands).

d. In the case of certain flags, notably Panama, safety standards are reduced. For example the annual average total loss rate amongst Panamanian flag ships in the period 1975-1981 was 17 times that of Norwegian ships.

e. Responsibility for ownership can be obscured. 'Flagging out', combined with various forms of chartering, leasing, and agency management, has led to dangerous uncertainty over responsibility for control and safety, as was the case with M.V. Pacific Charger which was lost on her maiden voyage.

25. British cross traders thus face major and increasing threats to their business. However the effects could be greatly reduced by exploiting new opportunities for joint shipping ventures with developing countries in line with the declaration by the International Chamber of Commerce Conference in Caracas in 1981. Furthermore if such action led to increased trade, potential losses of revenue could be even further reduced.

26. The overall effect of the foregoing developments on our shipping revenue and balance of payments, as adjusted to 1982 price levels, is shown in Figure 8.

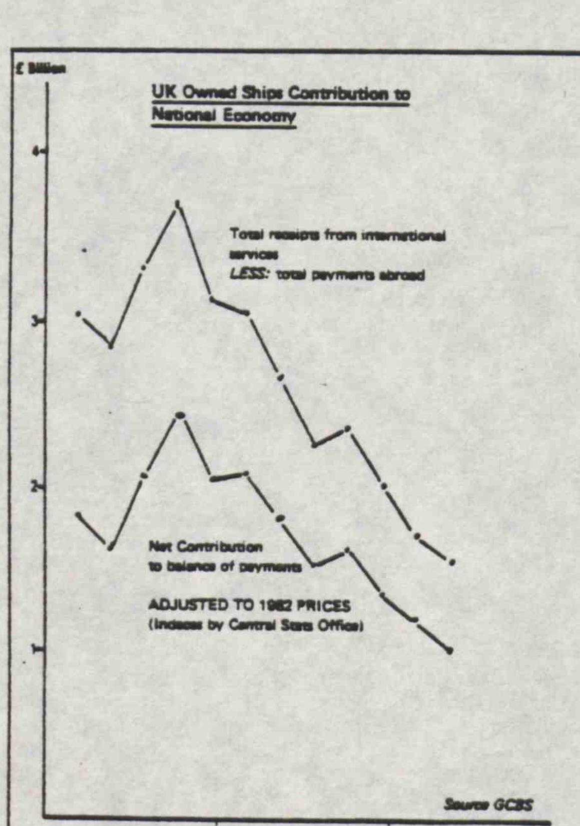


Fig. 8.

27. Whilst it can be argued that the importance attached by Rochdale to the balance of payments might be modified by the advent of North Sea energy and floating exchange rates, it should be remembered that these factors may be temporary whereas the loss of our merchant fleet would probably be permanent and irreversible. Furthermore the current fall-off in shipping revenue happens to equate closely with the £1.5 billion which the Treasury is now aiming to claw back, possibly through taxation and reduced public expenditure. Thus, despite the North Sea, our shipping fortunes still have a strong bearing on our standard of living.

28. Both shipping and the national economy are affected by shipbuilding policies, especially since the latter have resulted in a gross excess of world shipping.

Shipbuilding

29. The traditional shipbuilding countries, especially in Western Europe, are subsidising their shipbuilding industries in order to preserve at least a minimum viable capability and save their ship-owners from having nowhere to build but in the yards of their economic competitors. They also need to preserve a complementary commercial capability for their warshipbuilding yards. Their capacity has been reduced by an average of about 60% over the past five years.

30. By contrast COMECON yards have substantially increased their capacity and now quote the world's lowest prices which are about the same as the cost of materials alone in Britain.

31. Similarly several Far East countries, especially South Korea, are flooding the shipping market with cheap ships heavily subsidised, either directly or indirectly, by their governments.

32. Surprisingly the EEC Commission (Viscount d'Avignon, August 1983) considers 'there is not enough proof that special subsidies are given to the Far East yards.' Whereas the **Korean Shipbuilders' Associations's** February 1983 Report states :-

a. "Until the 1960's, Korea's shipbuilding industry had been only at the level of building fishing vessels and various coastal vessels for domestic lines."

b. "Tonnage completed 1974 - 220,351 grt
1982 - 1,426,267 grt."
i.e. an increase of 647% in 9 years, almost entirely from new yards.

c. "The average percentage of support performance in the sector of vessels among the total export funds provided by the Export-Import Bank of Korea during the past seven years amounts to approximately 75%, indicating that a considerable amount of funds has been extended in support of the vessels."

d. "the shipbuilding industry should be transferred from the industrially advanced countries to the developing countries,...."

South Korea acknowledges its dependence on foreign technology and has so far concluded 83 technical contracts (Norway 21, Japan 14, UK 12, USA 10, West Germany 8, France 5, various 13). It considers all technology should be transferred, preferably free.

33. During the 1970s the Japanese had much the same ambitions as the South Koreans now have. Their shipbuilding slogan was "80 by 80", meaning they aimed to capture 80% of the world market by 1980, thereby extinguishing West European shipbuilding. They nearly succeeded. Now however, having found that excessive ambition provokes unwelcome retaliation, they, in conjunction with the Association of West European Shipbuilders (AWES) and the International Maritime Industries Forum (IMIF), are bent on persuading the South Koreans to act more reasonably.

34. Between them the traditional shipbuilding countries still lead the world in ship design and building technology. It is well within their capability to design and produce ships which could operate safely with very much smaller crews, thereby significantly reducing the attraction of 'flagging out'.

ORGANISATION AND MANAGEMENT

HM Government

35. Shipping is currently the responsibility of the Secretary of State for Transport. It is also of concern, in some cases to a major degree, to the following other Departments of State : Defence, Foreign and Commonwealth, Exchequer, Agriculture Fishery and Food, Trade and Industry, Education and Science, Employment, Scottish Office, Energy, Health and Social Security, Environment, Northern Ireland Office, and the Welsh Office. There is no single effective national body with the information and authority needed to reconcile the conflicting interests of Government departments and formulate a national policy to stimulate the growth and prosperity of shipping and all British maritime industries. Other countries have attempted to solve this problem through the appointment of a single Minister for Marine Affairs or the establishment of a national maritime commission. They have failed because they lacked the necessary weight to deal with the more powerful departments. Nothing short of a Maritime Committee of the Cabinet, equivalent to the Defence and Overseas Policy Committee, would have the necessary standing.

Shipping Industry

36. Whilst some British companies manage their businesses to the highest standards and compete successfully in certain specialised areas, others are less successful. There has been no authoritative assessment of British management since Rochdale. No formal steps were taken to monitor action recommended therein, in this as in other spheres. A study of this subject has been put in hand and its results will form the basis of one of the further papers referred to in Paragraph 2.

Proposed International Remedies

37. HMG should encourage more effective international action, through such bodies as OECD to restore free trading conditions in both the shipping and shipbuilding markets. For example by promoting a self regulating quota system for both shipping and shipbuilding dependent on the extent to which a country's prosperity is bound up with seaborne trade.

38. Western pressure should be brought on COMECON through judicious restrictions on hard currency credits.

39. Action should be taken through the IMO to establish ownership criteria which clearly identify responsibility for safety, and an international register for such ownership should be enforced.

40. Similar action should be taken more positively to establish and enforce the highest safety standards.

Proposed National Remedies

41. HMG's fiscal policies as they affect British shipping should be reviewed in order to encourage British owners to maintain British registration and compete in a distorted international market.

42. Whilst shipping should remain the day-to-day concern of a designated Minister major policy matters affecting other departments should be the responsibility of a Maritime Committee of the Cabinet.

43. Certain areas of management practice should be re-evaluated.

44. Full details of all British owned vessels and their crews should be maintained by a central authority in such a way as to safeguard commercial security except in national emergency.

45. British owners and British shipyards should jointly aim to increase the percentage of British orders placed in British yards.

46. British owners, unions and British shipowners should jointly decide how best to apply modern technology to the reduction of manning levels. This could have an important bearing on deck and engineer officers' duties, qualifications and training.

MARITIME STRATEGY

47. The security of the British Isles is fundamental to our maritime strategy and must therefore not be taken for granted. It has been threatended in the past by various forms of attack or blockade and, through lack of foresight and preparation, it has very nearly succumbed. It cannot be said with any certainty that this could not happen again, especially as the potentially hostile forces are stronger than ever.

48. The Country therefore needs to ensure that it has the ocean shipping needed to carry essential trade in time of tension or war. Whilst the pooling of Allied shipping in a major international emergency will clearly be essential it is equally essential that Britain's contribution is commensurate with this Country's needs and available if the emergency has reached a national as opposed to an international level.

49. Allied to this need is the safeguarding of our coastal waters and ports, especially in the face of a potential mining threat.

50. The size and shape of ocean and inshore merchant fleet required, especially in the event of sophisticated cargo handling facilities not being available, have not been determined.

51. Apart from the security of the UK base, national commitments require merchant shipping to supplement naval forces in a variety of maritime operations. These requirements mainly involve replenishment-at-sea tankers, general cargo ships, ro-ro vessels, and trawlers. Other types which might be required include passenger vessels, repair ships and aircraft operating platforms. Several types of ship, such as VLCCs are unsuitable for such operations and this, coupled with the overall reduction in numbers, means that the ability of our merchant shipping to support maritime operations is declining. The UK would even now have great difficulty in meeting another Falklands type demand.

52. Apart from reduced availability, such ships as are basically suitable are ill prepared for lack of special fitting, stockpiled gear and trained crews. Such preparations have been one of the casualties of successive defence cuts. The extent of this problem has not been determined.

Proposed Remedies

53. As the fleet reduces the number and types of vessels required for strategic reasons should be maintained or acquired. Where some might not be viable commercially they should nevertheless be operated by British companies and assisted to compete on equal terms.

54. Certain ships should be prepared to carry defensive weapons and decoys. Those ships which need to be specially earmarked for maritime operations should be further prepared for their particular tasks.

55. Certain crews should be properly trained, and joint training with the Royal Navy should be extended as far as possible.

MANPOWER

56. The total number of qualified British seafarers serving in U.K. ships has been declining at a rate of about 5,000 per year since 1975. See Figure 9.

57. The annual intake of cadets is now well below that needed to man the fleet 10 years ago. For example the annual intake of engineer cadets was about 1,000 in 1975. It was 150 in 1982. This is likely to affect any restoration of the fleet's size and quality.

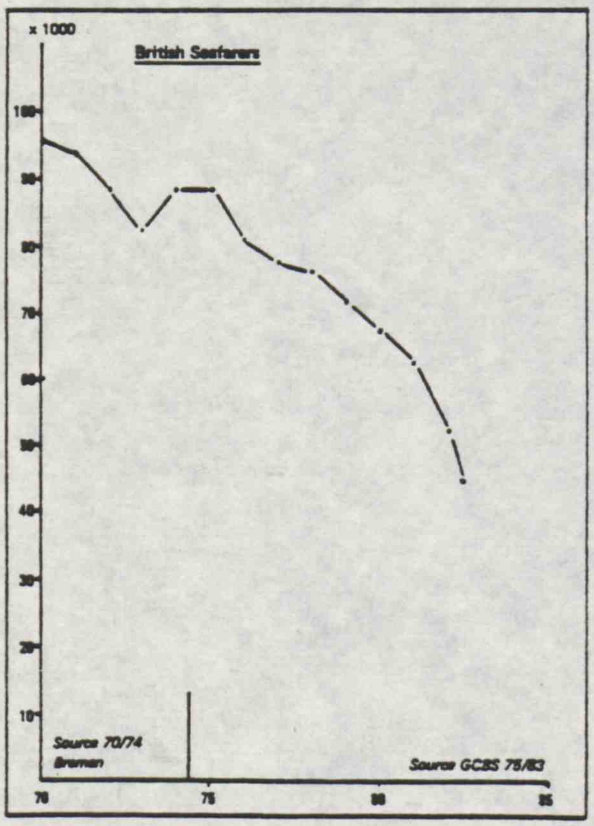


Fig. 9.

Education

58. At least 5 British Colleges of nautical education are threatened with closure and the UK's former lead in this field, together with the associated foreign exchange earnings, are moving elsewhere. For example the UN sponsored nautical training for developing countries has now been centred on Malmo in Sweden. Whilst some rationalisation is necessary, it is in danger of being overdone.

Administration

59. Recruitment to the merchant navy has severely reduced. The concentration of training into fewer centres provides the opportunity to reassess nautical training requirements. Under new conditions consideration of a wider basis of careers and new levels of entry is needed.

Crew costs

60. Close comparisons in this area can be misleading as, within a national fleet crew costs vary with ship size, type and trade amongst other variables. International comparisons tend to change markedly from year to year, primarily due to fluctuating exchange rates. Nevertheless a general picture is shown in Figure 10 of the crew costs attaching to a selection of ships and flags.

Approximate Annual Crew Costs in US$ September 1982				
Ship Type	General Cargo 16,000 dwt	Bulker 60,000 dwt	Tanker 60,000 dwt	Container 1400 TEU
Flag FOC/South Korea	530,000	562,000	608,000	560,000
Greece	900,000	940,000	1,015,000	925,000
U.K.	1,010,000	1,010,000	1,222,000	1,025,000
W.Germany	1,385,000	1,510,000	1,788,000	1,520,000
Japan	2,150,000	2,730,000	2,848,000	2,600,000

Fig. 10 Source Plymouth Polytechnic

This Figure indicates the financial attraction of 'flagging out', but does not explain why the U.K. owned fleet is dwindling faster than those of Western Europe and Japan.

SUMMARY OF CONCLUSIONS

61. British owned merchant shipping has proved in the past to be a major source of national wealth. Its present reduced state, resulting in a reduced contribution to the national economy, coupled with its continuing steep decline, should give cause for major national concern.

62. The causes are largely outside the control of British shipowners. They include the world wide recession, coupled with excessive and mainly political, ambitions on the part of the Developing World and COMECON. The shipping market has become chaotic and not subject to normal commercial activity. There is no coordinated national policy.

63. In addition to a serious loss of revenue our home trade is falling increasingly into foreign hands and our cross trading is threatened.

64. The reduced size of our merchant fleet has important strategic implications for both the supply and security of the UK base and our ability to provide support for maritime operations in an emergency.

65. In line with the Fleet, the number of qualified seafarers has also declined and the training base run down. This could well be a governing factor in the Fleet's recovery. It also affects the number of naval reservists.

66. There is a strong interaction between shipping and shipbuilding.

67. The situation can and must be substantially restored, though not by protectionism. Important actions can only be taken by Government. These, combined with actions by shipowners should see the industry through the current crisis to a position where it once again is a major source of national wealth.

SUMMARY OF RECOMMENDATIONS

68. HMG should take vigorous action, through international organisations to restore reasonable order in the world shipping and shipbuilding markets. A self regulating quota system should be considered.

69. HMG should review its fiscal policies as they affect shipping in order to provide support without counter productive protectionism.

70. HMG should encourage international cooperation within at least the Western World to counter COMECON's deliberate onslaught on our maritime interests.

71. HMG should establish a Maritime Committee of the Cabinet in order to facilitate the conduct of shipping affairs within an overall national maritime policy.

72. HMG should encourage international action to improve registration and safety standards.

73. HMG should encourage British shipowners to enter joint ventures with the national fleets of the developing countries in both direct and cross trades, and give them the necessary diplomatic support.

74. HMG should encourage UK shipbuilders, unions and shipowners to cooperate more closely over new ship designs to reduce manning levels substantially. This could involve a radical change in officers duties, qualifications, and training which should be examined at the same time.

75. The Industry should review management practice in the light of current needs.

76. Strategic needs should be constantly reviewed as to the number and types of ships which need to be available, and how they should be prepared.

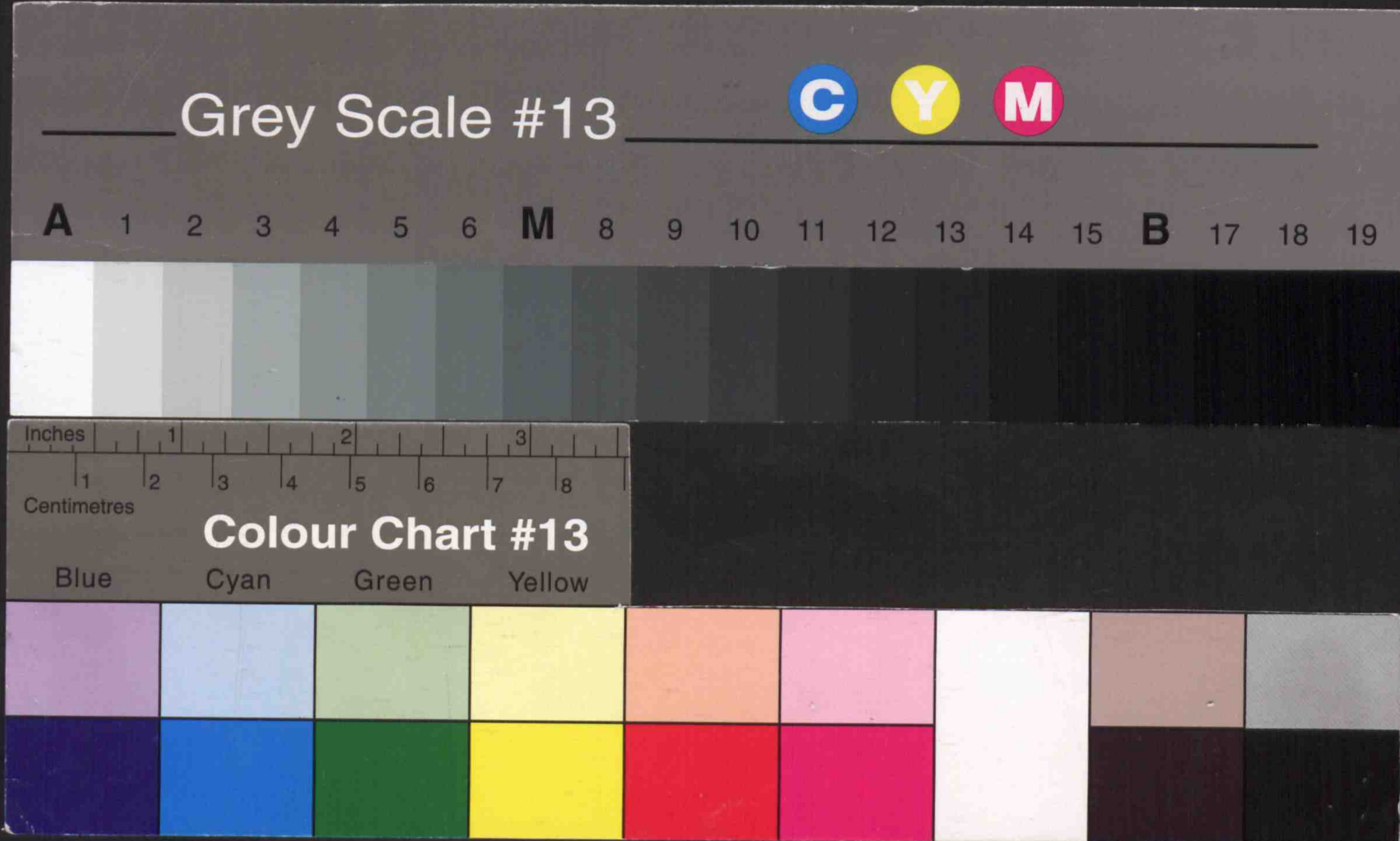
77. Such ships should be operated by British companies and any non commercial liabilities met by HMG.

78. Crews liable to be required for maritime operations should be properly identified and trained, in close collaboration with the Royal Navy.

79. Overall the country needs a setting in which British shipowners and operators can run an ultra modern, high technology fleet, with small but highly trained British crews under the British flag and making a major contribution to the prosperity of this island nation.

GLOSSARY OF ABBRIEVIATIONS AND TERMS

AWES	-	Association of West European Shipbuilders.
COMECON	-	USSR, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania.
Cif	-	Cost Insurance Freight. Supplier responsible for transportation.
DWT	-	Deadweight Tonnage. The measure of ship's authorised lifting capacity for cargo, stores fuel and water.
Fob	-	Free on board. Purchaser responsible for transportation.
Flagging Out/ Flag Out	-	The transfer of a ship to an 'open registry'.
GRT	-	Gross Registered Tonnage. The measure of a ship's volume.
IMIF	-	International Maritime Industries Forum.
IMO	-	International Maritime Organisation.
LR	-	Lloyds Register of Shipping.
MA 8 MR15	-	Department of Transport (Business Monitor)
OECD	-	Organisation for Economic Cooperation and Development.
Open Registry	-	A foreign ship registry in which a ship owner may domicile ships to avoid taxation or other burdens at home.
Rochdale	-	Rochdale Report. Published 1970 - Cmnd 4337.
UNCTAD	-	United Nations Conference on Trade & Development.
UN	-	United Nations Organisation.


Grey Scale #13
C Y M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19
Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8
Colour Chart #13
Blue Cyan Green Yellow