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Dee Patrick

REPORT OF THE INTERDEPARTMENTAL REVIEW OF PORTS POLICY

Last October, E(EA) invited me to arrange for my officials, in consultation with the other Departments concerned and with the Central Policy Review Staff, to conduct a confidential review of ports policy, taking account in particular of the scope for further privatisation (E(EA)81^{PT 1} 12th Meeting, Conclusion 2(ii)). The Group of officials set up for this purpose has now completed this review, and a copy of their report is attached.

The report includes (in Part II), for the first time, a useful summary of the Government's current objectives and policies for the ports industry and I commend paragraphs 2.2 and 2.3. It generally confirms our diagnosis in E(EA) last autumn that the two main weaknesses of the port industry are surplus manpower and the overall labour regime. It concludes, rightly in my view, that our current objectives and policies are already well tuned to deal with the problems ahead.

The other main points in the report's conclusions to which I would draw your attention are:-

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The Reduction of Surplus Labour

This, and the improvement of efficiency generally, must be the industry's first priority over the next few years. This will be essential to the recovery of the PLA and the Mersey Docks and Harbour Company, and to ensure the viability of other ports which are at risk of getting into financial difficulties. Over 4,000 severances of registered dock workers (and parallel savings among non-rdws) will be needed within the next three or four years. The latest severance offer has enabled us to make a good start on this; about 2,500 rdws will have left the industry by the end of this summer.

The Dock Labour Scheme

Whilst this is undoubtedly an important impediment to reducing costs and improving the ports' performance, the scheme itself is not seen as either the only or the main obstacle. This is because much is regulated by non-statutory agreements which are quite separate from the scheme. The labour regime in the ports certainly needs to be brought closer into line with that in other industries; but most of the Group believe that it would be mistaken, at this stage, for us to launch an attack on the scheme or on the Aldington-Jones agreement. To do so, in their view, would put at serious risk the vital manpower severance programme and the progress the industry is making to improve working practices and slim down the Dock Labour Board. So they recommend, with the Department of Trade dissenting, against an inquiry into the scheme of the kind for which the General Council of British Shipping have been pressing. The Department of Trade has taken the view that nearer the time of the announcement of our intention to repeal the Dock Work Regulation Act 1976 we should consider whether the time might also be appropriate to announce an inquiry into the scheme. I do not believe that circumstances are likely to change significantly over the next few months and I share the view of the majority on the Group that we should leave the scheme alone at this stage.

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Government Loans to Ports

The retention of my powers to make loans to ports is recommended, but for use only as lender of last resort in exceptional circumstances. Ports should be firmly required to look to the market for loan finance as a general rule. I have, in fact, been pursuing this policy since I became Secretary of State for Transport.

Applications for Government Grant

An important reason for setting up the review was to provide a proper framework for reaching decisions in future on financial assistance to individual ports. The report as a whole will certainly be helpful in this context; and it also includes specific criteria for evaluating grant applications (paragraph 4.6(d)). I accept that these are appropriate for the purpose and, if colleagues agree, I will arrange for my officials to maintain, for each of the ports most at risk, the information to enable applications for grant to be dealt with quickly should the need arise.

Ports most at risk

The Clyde, Manchester and Bristol are the ports currently at most risk of financial difficulties. The Clyde and Manchester should be able to overcome their difficulties provided the major rationalisation programmes on which they are already engaged are successfully completed, and the Clyde gets over its short-term cash flow problems. Bristol will remain in heavy deficit for the foreseeable future, but I entirely agree with the report that Bristol is, and should firmly remain, the financial responsibility of the City Council.

The scope for further privatisation

The report points out that because all commercial ports are statutory creations they cannot be regarded as wholly

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commercial bodies just like private firms. The scope for privatisation is generally limited to the introduction of share capital and attracting the private sector into port operations, like cargo handling. Investors are unlikely to regard ports generally as an attractive proposition until the industry has dealt with its manpower surplus and improved its productivity and industrial relations. The market may become more interested in ports if the BTDB and Sealink privatisations are successful, and I am pressing ahead with these. The report recommends that we should keep an open mind about the feasibility of a more extensive programme for the privatisation of port authorities and review the prospects again in a few years time in the light of developments in the meantime.

This is a disappointing conclusion. My own view is that we should certainly keep our minds open to the sale of ports to individual buyers. But I believe it is also important to do this in a way which avoids prejudicing the privatization of BTDB and the Sealink ports. In my view, we should get these two sales ahead as a precursor to further privatization plans.

Secondary Issues

I need comment on only two further secondary issues considered in the report:-

First the British Ports Association will shortly be submitting a progress report to me on their activities and plans following the abolition of the National Ports Council and the extension of the BPA's role. I will be pursuing the Association in particular on ways in which productivity in the ports can be further improved. I attach high importance to this.

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Secondly, the standard of management in the ports industry and the quality of the managers themselves is patchy and needs improvement. I shall also be looking to the BPA for effective proposals to improve the recruitment and training of port managers, particularly at middle-management levels. We know that they are already making progress with their plans.

I hope that you and our colleagues in E(EA) will share my views that this is a useful report, and that we can perhaps agree that its recommendations are sound and generally acceptable without the need for discussion. Any comments on specific points could be dealt with in correspondence or perhaps bilateral discussion. I recognise however that there may be different views on the question of an inquiry into the Dock Labour Scheme.

I am sending copies of this letter and the report to the Prime Minister, the other members of E(EA), to Sir Robert Armstrong and to John Sparrow.

*Yours
David*

DAVID HOWELL

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THE PORTS POLICY REVIEW

PART I - SETTING THE SCENE

A. The Ports Industry

1.1. "The Ports Industry" is a convenient piece of short-hand. But it disguises the fact that the ports are no more homogeneous than, say, the "retailing industry". Like shops, ports vary enormously in size, in the work they do, and in the way they are constituted. The next four paragraphs illustrate these important differences.

1.2. Britain has no shortage of ports. But many are little more than havens for small craft or serve the needs of tourism and recreation. Of our 300 or so ports, not more than 100 are of any commercial significance and even some of those are so small as to be negligible. In 1980, the 20 main commercial ports listed in Annex B handled 83% of total tonnage and 67% of non-petroleum tonnage. Some ports specialise in containers and roll on/roll off traffic (e.g. Felixstowe and Dover). Others, such as Milford Haven, specialise in oil traffic and handle hardly anything else. Some are heavily dependent on local traditional cargoes (e.g. Sunderland on coal and Teignmouth on clay). While yet others handle almost the whole spectrum of commodities from bulks, through containers to general cargo (e.g. the PLA and the Clyde).

1.3. Shareholders own a few ports. Nationalised industries will continue to own others until they are privatised. But the majority of port authorities are "trusts", appointed to run the port under statute in the interests of users and the community. The Secretary of State appoints all the members of a few trusts, some of the members of others and none of the members of most trusts. Some authorities have no more than conservancy functions (e.g. the Harwich Harbour Conservancy Board). Others are mainly dock owners and cargo handlers (e.g. Ipswich), while yet others provide the full range of services (e.g. the Forth and Tees and Hartlepool).

1.4. To complicate the picture still further, the labour arrangements also vary. The Dock Labour Scheme applies to most of the major ports but excludes others, largely for historical reasons: for example

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Felixstowe is not a Scheme port but Ipswich, next door, is. Moreover, the unions and employers have made many local agreements over the years which provide for different practices (e.g. on manning levels) both between ports and even between different parts of the same port. In most places, the TGWU is the dominant union but in others it is the GMWU or the NUR.

1.5. Increasingly over the last 10 to 15 years, cargo handling has been done by the port authority (the reasons for this are discussed in paragraph 3.40). But there are still ports - including some of the biggest - where private firms of stevedores handle significant amounts of traffic. And in many ports the users handle at least some of their own traffic, oil being the outstanding example.

1.6. Paragraphs 1.2-1.5 are intended to demonstrate two key points:

- (a) the danger of generalising about "the ports industry";
- (b) the need to analyse the particular circumstances of the individual port when problems arise or policies are being applied.

Main Common Features

1.7. But there are, of course, important features which the commercial ports have in common. Principally, they are:

- (a) The commercial ports are in **tough** competition with each other.
- (b) The authorities are creatures of statute and cannot, therefore, cease trading in the same way as ordinary commercial enterprises.
- (c) The PLA and the Mersey apart, ports are not subsidised by central Government (although their continental competitors are) and, increasingly, they have opted to borrow from private rather than governmental sources.

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- (d) With a few notable exceptions, productivity in British ports is lower than in continental ports; despite some notable advances recently, there is still a lot of scope for improvement in the ports' working practices and industrial relations.
- (e) The ports have had to adjust to the dramatic changes of the last 10 to 15 years. As a result of our entry to the EEC, the exploitation of North Sea Oil and the rapid and continuous growth of containerisation, traffic has shifted from the west to the east and south coast ports on a massive scale. Half of the 20 main commercial ports listed in Annex B owe their present importance to the post-war period, and 4 of them are entirely new in this period.
- (f) The ports have shed 63% of their registered dock workers between 1969-81 (from 54,000 to 18,000) and over 45% of their non-registered dock workers. During the next 3 or 4 years, a further major contraction will be required - over 4,000 rdws, with parallel savings among non-rdws.

The Statutory Framework

1.8. The operators of a port need powers which are not available to a private individual or Companies Act company; examples include powers to regulate use of the navigation or to construct works below high water mark that will obstruct the navigation. These powers can be granted only by Parliament (by public general Acts, private Acts or subordinate legislation). With these rights also go certain obligations. The precise rights and duties vary depending on the local circumstances and the terms of the port authority's private Acts and orders. But one consequence of the statutory basis of all port authorities is that they may not cease operations entirely without first obtaining legislative authority releasing them from their responsibilities.

1.9. This is not just a point of law; it is of practical importance. Some port authorities discharge essential land drainage or coast protection functions. Those functions will need to continue to be discharged even if the port ceases to operate; so new provision

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will have to be made. To take another example, although a port may cease to operate, the river or estuary on which it stands will probably continue to be navigated (e.g. by pleasure craft) and new provision/be needed to determine who will be responsible for the maintenance of the navigation and the regulation of its use. And if someone else wants to come in and operate all or some of the port, the necessary powers will need to be transferred to him.

1.10. It should not be inferred from this that port authorities (other than nationalised industry ports) are directly or even indirectly answerable to Ministers*or that they should all be subjected to Governmental monitoring and control. They are not "quangos". The non-nationalised industry ports are independent bodies given statutory responsibility for providing a public service on commercial terms. (* Indeed, as Annex C indicates, the Secretary of State for Transport has comparatively few statutory powers in respect of ports.)

1.11. Port authorities are of four constitutional types:

- (a) Local Authority Ports, such as Bristol, Sullom Voe and Sunderland - port management in these cases is directly answerable to the Council in the same way as the chief officers of the Council's other services.
- (b) Statutory Companies, such as Felixstowe, the Manchester Ship Canal Company and the Mersey Docks and Harbour Company - the ports are owned by the shareholders, to whom the directors of the port are accountable.
- (c) Nationalised Industries - these comprise ^{mainly} the BTDB and Sealink seaports, which are to be privatised as soon as possible. Meantime, they remain subject to the same general regime of Government supervision and control as applies to nationalised industries generally.
- (d) "Trust Ports" - these comprise most port authorities, including the PLA, the Forth, the Clyde, Dover and Tees and Hartlepool. They are ad hoc bodies created by or under statute for the purpose of managing a port and they do not have share capital. The Secretary of State for Transport appoints all or some of the members of only 28 "trust" boards. The members of all other trusts are appointed or

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elected locally by port users and other local interests.

The Functions of Port Authorities

1.12. The main functions of port authorities can be broken down into:

- (a) the provision and maintenance of port facilities (quays, wharves, etc);
- (b) conservancy functions, including lighting and buoying the harbour, the removal of wrecks and other obstructions, and maintenance dredging;
- (c) regulating the activities of port users, including regulating the movement and berthing of ships and licensing other people to construct works in the harbour;
- (d) carrying out cargo handling activities and other harbour operations such as weighing and sorting goods.

Nearly all the authorities for the major ports carry out all of these functions. Since the mid-60s, there ~~has~~ been a tendency, backed by successive Governments, to amalgamate dock and conservancy functions. But there are still some port authorities which do not themselves provide port facilities or cargo handling but are engaged solely in conservancy functions and the regulation of shipping (e.g. Harwich Harbour Conservancy Board). Conversely, there are a few important authorities (e.g. Felixstowe) which are mainly concerned with cargo handling and the provision of facilities and whose conservancy jurisdiction is limited to the relatively small area in the vicinity of the dock.

Financial Arrangements

1.13. Except for the PLA and MDHC, no port receives any Government financial support towards its operating costs. No port, with the same two exceptions, is eligible for grants towards capital **works** which are not also available to other public or private sector bodies (e.g. under section 8, Railways Act 1974). Grants may be crucial to the construction of a particular facility (e.g. a coal handling plant or

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a private railway siding) but no port's continued operation (PLA and MDHC apart) is dependent on grant. Finally, although all ports may borrow from the Government for capital works, fewer and fewer have wanted to do so in recent years.

1.14. Annex D describes the grants available to ports and the loans available to them from the EIB and ECSC. The rest of this section describes port borrowing from the British Government, local authorities and the private sector.

1.15. Loans under section 11, Harbours Act 1964: All statutory port authorities, including those owned by local authorities, are eligible for loans under section 11(1)(a). The purposes for which loans may be granted are restricted to expenditure of a capital nature. Loans are not available to re-finance other permanent borrowing. The main criteria which applicants have to satisfy are that the project is a viable one; that it secures an adequate rate of return having regard to the risks involved (generally at least the Treasury's Recommended Rate of Return); and that the port authority has the ability to repay the loan.

1.16. Once a loan is agreed, it is secured by a mortgage on the port's revenues, or its assets and revenues. In recent years, mortgages have usually been secured on the revenues only, on the ground that the Government could not - without prior legislation - force a port into liquidation of its operational assets to pay its debts. The loans are subject to interest at the rate prescribed by the Treasury at the date of issue, which remains fixed for the life of the loan. Loan periods vary, but in the main are between 10 and 15 years. With the fluctuating interest rates of recent years, fixed interest loans have been increasingly unattractive and applications have fallen off. No new loans have been approved since 1980.

1.17. Loans may also be made under section 11(1)(b) of the 1964 Act to enable authorities to pay sums due (e.g. during the construction period) in respect of interest or repayment of principal on loans made under section 11(1)(a). A moratorium on capital payments may also be agreed until the scheme becomes revenue producing.

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1.18. The accounts of a sample* of major trust ports suggest three main points. First, there has been a significant shift over the last few years in the sources from which ports are seeking loans. They have been reducing their dependence on the Government as a source of loan capital as the following Table indicates:

SOURCES OF LOANS INCURRED BY 10 MAJOR TRUST PORTS IN 1978, 1979 AND 1980

%age of borrowing	1978	1979	1980
(a) Government	57 %	29 %	23 %
(b) Banks	18 %	33 %	67 %
(c) Other sources	25 %	38 %**	10 %

The second point suggested by the sample is that, in 1980, only about half the outstanding capital debt of these trust ports was owed to the Government, about 10% to the banks and the rest to other sources (e.g. debenture holders). The third point is that tradition and local circumstances ^{have} exercised a major influence on the source from which ports seek loan capital. For example, the Medway and Forth ports have raised almost all their loans from the Government whereas the Clyde has relied mainly on debentures and Ipswich has no loan debt to the Government.

1.19. The Harbours (Loans) Act 1972: loans may be made to any port authority under the Act to enable it to pay off capital debts, temporary loans and overdrafts. The Act was introduced to deal with the crisis of confidence in port trusts following the collapse of the Mersey Docks and Harbour Board in 1971. Only three ports (Clyde, Forth and Tyne) have been granted these loans and only Tyne has any outstanding debt.

* The 10 trust ports in the sample were: Medway, Tyne, Clyde, Forth, Tees and Hartlepool, Dover, Aberdeen, Ipswich, Shoreham and Milford Haven.

** The figure for 1979 is so large because it includes a big loan from BSC for the building of Hunterston.

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1.20. Borrowing for Local Authority Ports: ports owned by local authorities - such as Bristol, Portsmouth and Sunderland - usually borrow the money they need through their own council's consolidated loans fund.

1.21. Joint Ventures: this is an attractive and important option for port authorities. They enter an agreement with a port user jointly to finance a project, so reducing the call on the port's own resources and tying the user to the port.

1.22. Debentures, Stock and Equity: ^{two} of the three major "private sector ports", Felixstowe and Manchester, have raised most of their capital from debentures and stock. Some trust ports also have power to issue debentures and stock (most notably, the Clyde); but this represents only a minor source of finance nationally. Trust ports have no power to sell equity.

1.23. Ports PESC: the Ports line in the Public Expenditure White Paper comprises:

- (a) investment by trust ports, however financed, net of land sale receipts;
- (b) investment by local authority ports;
- (c) only government lending to "private sector" ports, net of repayment;
- (d) grants to assist the PLA and Mersey.

BTDB ports are excluded, being dealt with separately as a nationalised industry.

1.24. Control of Capital Expenditure on Local Authority Ports: local authorities' capital expenditure on ports - like all their other prescribed expenditure - is controlled under Part VIII of the Local Government Planning and Land Act 1980. These are the only ports affected by a cash limit on capital.

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Radical Change in Trade Patterns, Technology and Shipping Patterns

1.25. Over the last 20 years, three main developments have combined to transform the environment within which British ports must operate. These three developments have been:

- (a) changes in trading patterns;
- (b) changes in technology; and
- (c) changes in shipping patterns.

Each of these is discussed in turn below and their combined effect is then assessed.

Changes in Trading Patterns

1.26. In 1950, 30% of the value of UK trade in goods was with Europe and 40% with the Commonwealth. By 1979, Europe accounted for 60% of the value of our trade and the Commonwealth only 15%. This sustained increase in our trade with Europe was stimulated by our membership of EFTA and boosted when we joined the EEC. As our trade with the Commonwealth and North America (in both absolute and relative terms) has declined the oil exporting countries have emerged as major export markets for the UK and others.

1.27. The composition of UK trade has also changed radically over the last 30 years. In 1950, we were importers of food and raw materials and exporters of manufactured goods. The discovery of North Sea Oil and major increase in UK agricultural production have greatly reduced our dependence on imports of fuel and temperate foods, although one half of all our food is still imported. But we are now importing manufactured goods on a much greater scale.

COMPOSITION OF FOREIGN TRADE

% of Total Value	1950		1979	
	Imports	Exports	Imports	Exports
Food, Fuel and Basic Materials	82	16	33	20
Manufactured and semi-manufactured goods	18	81	65	78

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1.28. These changes in the world distribution and in the composition of UK trade have radically affected the relative importance of the different types of sea route, as the table below indicates.

Type of Sea-Route of UK Seaborne Foreign Trade, 1965-80

FUEL TRAFFIC			
Million tonnes (%)	1965	1971	1980
Near Sea	14 (13%)	24 (15%)	46 (34%)
Short Sea	27 (26%)	40 (26%)	33 (25%)
Deep Sea	63 (61%)	93 (60%)	55 (41%)
All countries	104 (100%)	156 (100%)	134 (100%)
NON-FUEL TRAFFIC			
Near Sea	12 (13%)	16 (16%)	30 (30%)
Short Sea	32 (36%)	33 (34%)	31 (31%)
Deep Sea	46 (51%)	48 (49%)	39 (39%)
All Countries	90 (100%)	97 (100%)	100 (100%)

Notes:

- (1) "Near Sea" comprises trade with Eire, W Germany, Holland, Belgium and France
- (2) "Short Sea" comprises trade with Denmark, Sweden, other Scandinavian and Baltic, Spain and Portugal, and other Mediterranean
- (3) "Deep Sea" comprises trade with all countries outside Europe and the Mediterranean.

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1.29. International trade accounts for about 60% (by weight) of all port traffic. The rest is accounted for by coastal traffic and "one port traffic". Coastal traffic has increased in volume but declined in relative importance. But "one port traffic" (sea-dredged aggregates, dumping of material at sea, supplies to and landings from off-shore oil and gas rigs) has grown rapidly in absolute and relative importance.

Port Traffic by Type

Million Tonnes (% of Total)	1965	1971	1980
Foreign	189 (60%)	251 (70%)	249 (60%)
Coastwise	115 (37%)	98 (27%)	128 (31%)
One Port	11 (3%)	11 (3%)	37 (9%)
TOTAL	315 (100%)	360 (100%)	414 (100%)

Most coastwise trade is in bulk commodities (e.g. oil and coal) and for ports such as the Tyne and Tees forms an important element of revenue. Much of this traffic must be handled at specialised terminals, often linked to other specialised facilities (e.g. power stations). Non-oil coastal traffic shows a steady decline.

Changes in Technology

1.30. The post-war period has seen two major changes in technology - a big increase in ship size and specialisation; and the rapid and still growing move to unitisation. The full force of the cargo handling revolution has developed in the last 15 years and four main elements can be identified:

- (a) Bulk Carriers: the size of oil and other bulk carrying ships has increased enormously. A crude oil tanker now will probably be between 200,000 and 300,000 d.w.t. compared

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with, say, 15,000 in the 30s. Specialised trades in hydrocarbon gases and liquids have developed and some traffics formerly carried by piece have been converted to bulk.

- (b) Forest Products - mixtures of sawn wood, pulp, paper and so on carried on the same ship in 10-12 tonne units have replaced the loose carriage of logs, sawn wood etc, which were handled as individual bundles.
- (c) "RoRo" - this is part of the container revolution. The goods are carried either in fixed or detachable containers which are either trailers to road vehicles or on wheeled pallets. These are driven on and off the ship by the road vehicle, or a special port tractor. Ship designs have been adapted to cope with RoRo (e.g. by building ramps into the ship which can be let down onto the quay when the ship docks). Dover is our leading RoRo port.
- (d) "LoLo" - this is the pure application of containerisation. Containers (which have standard dimensions and fittings) are packed and unpacked on shore (if possible, away from the port at the consignor's own premises) and simply lifted on or off the ship. Most containers are carried in special ships designed around the "cellular" structure of the stacked containers. Felixstowe is a leading example of a big LoLo operation.

1.31. Systems (b), (c) and (d) above have the objective of minimising the time the ship spends in port. The ship is "working" when it is moving but when it is standing still in port it is merely accumulating running costs of about £20,000 a day. So the faster it can be turned round, the better.

1.32. The main consequences of these technological developments include:

- (a) Every pre-war crude oil terminal, every ore terminal built before 1964 and the two main grain terminals have been rebuilt

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to make them far bigger and to locate them in ports able to handle very big ships. This increases the difficulty of investment decisions. Because modern bulk facilities are so big and expensive, the decisions on their location (based on assumptions about shipping patterns, labour relations etc) become crucial for the futures of both the port and the port user.

- (b) The land area required for RoRo and LoLo operations is eight or more times as great as that of the "general cargo" berths built before the war. And the land needs to be paved for LoLo operations (so that it is able to bear the weight of stacks of containers and the heavy handling equipment). So the capital investment required of the dock owner or operator of the facility is much greater than it was when cargo was handled by the piece by large groups of dockers.
- (c) Throughput of goods per berth has become bigger and much faster.
- (d) Handling equipment has become large, expensive and sophisticated. High reliability of the equipment is essential to quick ship turn-round. Again, the capital investment required of cargo handlers is far greater than it was, say, 15 years ago.
- (e) Manpower requirements have been greatly reduced. Modern bulk, RoRo and LoLo operations are capital intensive whereas, by tradition, cargo handling is labour intensive. But the ports have not yet shed all the labour they could and labour costs still represent, on average, 65-75% of operating expenditure.

Changes in Shipping Patterns

1.33. Ship-owners' costs have increased substantially over the last 20 years. For example, bunker costs have risen four-fold in real ms since 1974. Ship-owners have been faced with the combined effects of:

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- (a) changes in ship and cargo handling technology;
- (b) changes in the patterns of trade and particularly the growth of the European market; and
- (c) higher capital and operating costs.

At the same time, there have been major improvements in road communications in Britain and Europe. All this has affected patterns of shipping. Now, a deep sea ship on its way, say, from Japan to Rotterdam is far more likely to include a call at one British port than at several and to make that call at Southampton, London, the Humber or Felixstowe rather than at Liverpool or Greenock. And traffic to and from Scandinavia and mainland Europe is likely to use a port on the east or south coasts (with distribution by road from there) rather than to ship the goods to or from the west coast. Above all, shippers and ship-owners are looking for a quick turn-round and reliability from the port. That is why ports such as Felixstowe and Sheerness - with new facilities, capable of handling big ships and containers, located in the south east and enjoying good industrial relations - are attracting more and more business at the expense of ports on the west coast and those saddled with bad labour relations or out-dated facilities.

Results, Lessons and Trends

1.34. In less than 20 years, the ports industry has been forced - by events wholly or largely beyond its control - to become relatively capital intensive rather than labour intensive. It has had to adjust to faster throughput of larger volumes at fewer ports; and to shed two-thirds of its labour force, training many of those who remain in the industry to operate new machinery. Great ports (Clyde, Manchester and Liverpool) have dwindled and seen their traditional traffic shift to fast growing ports on the east and south coasts. Moribund or minor ports in the north east have been rejuvenated and grown as a result of the exploitation of North Sea Oil. Little of this was (or could have been) foreseen in the 60s.

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1.35. There are three main lessons to be drawn from this experience:

- (a) There is too much capacity in the ports industry and there must be some rationalisation. But a programme of enforced closures could be based only on a view about future needs (and experience warns against over-confident prediction of what they will be), would reduce competition and would remove the ability to respond quickly to unforeseen developments (in the way that Kings Lynn and Felixstowe - both moribund only a comparatively few years ago - were able to adapt and grow when circumstances changed in their favour).
- (b) Anyone wanting to enter the new era of cargo handling on a large scale must be able to finance heavy investment in equipment and facilities (e.g. container cranes, extensive trailer parks, private railway sidings, bulk carrying equipment).
- (c) A plan for the ports industry (determining capacity, investment, location of specialist facilities and so on) would almost certainly have been counter-productive. As a service industry, the ports need to be free to respond to their customers' changing requirements.

1.36. The likely trends for the remainder of this decade are that:

- (a) total non-fuel traffic will at best grow slowly;
- (b) the share of European countries' trade with the UK will continue to increase;
- (c) trade with Middle East oil exporting countries will also continue to grow (though this is vulnerable to political shocks)
- (d) trade with Commonwealth and other Deep Sea markets will continue to decline;
- (e) imports of foreign crude oil will decline and exports to European countries increase;

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- (f) imports of natural gas from Algerian and Norwegian sources will continue to increase;
- (g) methods of "unitisation" will be extended to a greater range of products now handled as "conventional" or semi-bulk cargoes; and to countries not yet served by container facilities;
- (h) the east and south coast ports will continue to be at a significant advantage compared to those on the west coast;
- (i) further substantial reductions in dock labour will be feasible and required.

International Comparisons of Port Administration and Financing

1.37. Comparison of our arrangements for managing and financing ports with those of other European, North American and Australasian countries suggests two main differences between their arrangements and ours:

- (a) British ports are financially responsible for the full capital and maintenance costs of marine access channels, lights, buoys and navigational aids, sea locks and exterior breakwaters. In all countries (except Denmark and Eire), these costs are met wholly or mainly by the national Government or some other Governmental body. Moreover, in all EEC countries except Britain, Denmark and Eire, the national government or some other non-port body meets some of the capital costs of providing docks, quays and other port infrastructure. In 1974, it was estimated that if UK ports operated under the same financial regime as most continental ports, they could cut their charges* by at least 30%. (An analysis of EEC maritime countries' arrangements for meeting these capital and operating costs is contained in the Tables at the end of Annex E.)
- (b) Only in the UK is it common for port authorities to be substantial cargo handlers. Elsewhere there is a high degree of private sector participation in cargo handling.

* However, these ship, passenger, cargo and pilotage dues represent only about 10% of shipping companies' overall costs.

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1.38. Two common features also stand out. First, in all maritime countries there is a strong element of participation by central, regional or local government in the provision and management of ports. Private ports are fairly rare outside the UK. Second, systems of registration for dock workers and the payment to them of minimum daily fall back pay are found in all EEC maritime countries. In Denmark this is financed by the state and the unions; elsewhere it is paid for by levies on port employers, often with state contributions.

1.39. Annex E provides further descriptive and analytical material on the arrangements in other countries.

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PART II - THE GOVERNMENT'S OBJECTIVES AND POLICIES FOR THE PORTS INDUSTRY

2.1. Having described the ports industry briefly in Part I, we now come to the meat of the Committee's work: a review of the Government's objectives and policies for the industry. Our first task was to attempt to set out what we believe those objectives and policies to be. That is not so easy as it might sound. The Government's public statements on the subject have been few and have not purported to be comprehensive. Moreover, as paragraphs 1.1-1.6 suggested, we are not dealing with a homogeneous industry but a large number of independent port authorities, varying widely in size, constitution, powers, problems and importance. Any set of objectives and policies for the ports which is not wide enough to take account of the diversity of the industry is likely to be defective or only partial.

The Government's Objectives

2.2. Subject to those cautionary remarks, we suggest that the Government's objectives for the ports industry are as follows:

- (a) to ensure that provision exists for the movement of the country's external trade, over 95% of which (by weight) travels by sea;
- (b) to encourage the provision of a responsive, reliable and efficient service to ship-owners, importers and exporters at the lowest economic cost to users;
- (c) to secure free competition on equal terms between ports;
- (d) to minimise the risks to the economy from major industrial disputes in the ports;
- (e) to secure an adequate return on the investment already made in ports with Government financial assistance;
- (f) to ensure fair trading by port authorities (which are local monopolies) in the interests of the users and the wider community;

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- (g) to ensure the efficient and effective discharge of the responsibility for conserving the safety and openness of riverine and estuarial navigations.

The Government's Current Policies

2.3. The policies directly related to the ports industry are, we suggest, that:

- (a) commercial pressures and market forces should determine the pattern of the industry and the distribution of work between the ports;
- (b) the ports industry itself should have the clear and leading responsibility for securing improvements in efficiency (including port rationalisation)
- (c) ports should be encouraged to continue reducing their manpower and should be given borrowing consent or access to Government loans to assist in this where necessary;
- (d) the adverse effects of port rationalisation on local industry and employment should be minimised so far as possible;
- (e) the number of ports in receipt of Government financial assistance should be kept to the minimum as should the scale of assistance; and financial support should be discontinued as soon as possible;
- (f) BTDB and the Sealink ports should be privatised;
- (g) the introduction of private sector capital and management elsewhere should be encouraged, particularly in new developments;
- (h) the dependence of ports on Government loans for capital investment should be minimised and the proportion financed from commercial sources further increased;
- (i) unnecessary controls over port authorities should be removed.

Comment

2.4. Four general comments on the objectives and policies set out in the two previous paragraphs may be helpful at this stage. First, the objectives for the ports industry are broadly similar to those the Government has for British industry generally. Second, however, the policies take account of the special nature of port authorities - notably, that they are statutory bodies exercising what approaches a local monopoly-and they involve a greater degree of Government involvement than is normal in industry generally. We consider in Part III and Annex G whether this degree of involvement is desirable and the constraints in reducing it. Third, these objectives and policies also recognise the serious damage the country could suffer in the event of a prolonged national dock strike. And fourth, most of these policies are mutually supportive. For example, those in 2.3 (a) - (c) and (f) and (g) are interlinked. Similarly, in nearly every case, the objectives listed in paragraph 2.2 are being pursued through more than one policy. The following table illustrates the links between the objectives and the policies.

OBJECTIVE	POLICY
Para 2.2. (a) - to ensure that provision exists for the movement of the country's external trade	Para 2.3 (a) and (e)
Para 2.2. (b) - to encourage the provision of a responsive, reliable and efficient service at the least economic cost.	Para 2.3 (a), (b), (c), (f), (g) and (i)
Para 2.2. (c) - to secure free competition on equal terms between ports	Para 2.3. (a), (c), (e), (h) and (i)
Para. 2.2. (d) - to minimise the risks to the economy from major industrial disputes in the ports	Para 2.3. (c), (d) and (e)
Para 2.2. (e) - to secure an adequate return on the investment already made in ports with Govt financial assistance	Para 2.2. (c), (e) and (f)
Para 2.2. (f) - to ensure fair trading between ports	Para 2.3. (a), (e), (h) and (i)
Para 2.2. (g) - maintenance of the conservancy function	Para 2.3 (d) and (e)

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PART III

CONSTRAINTS ON ACHIEVING THE GOVERNMENT'S OBJECTIVES AND POLICIES

3.1. This Part of our report discusses the constraints on the achievement of the objectives and policies listed in paragraphs 2.2 and 2.3. It deals with the surplus of port manpower and the defects in the industry's labour regime including the Dock Labour Scheme and the non-statutory agreements made by management and the unions. It seeks to clarify the circumstances in which it would be consistent for the Government to make loans to ports and suggests criteria for assessing applications for grant-aid. It identifies the ports most at risk of getting into financial difficulties. And, finally, it considers the scope for further privatisation.

The Surplus of Port Manpower

3.2. Labour costs ~~constitute~~ 65%-75% of ports' operating costs. Cutting the size of the labour force represents, therefore, by far the most effective action the industry can take to reduce its costs and improve productivity.

3.3. There has already been a dramatic reduction in port employment. In 1960 there were 74,000 registered dock workers (rdws). Now, there are only 18,000. Between 1969-81, the industry shed 63% of its rdws and 45% of its non-rdws. The port employers' current estimate is that a further 4000 rdws should be "severed" over the next 3 or 4 years. But estimates vary. For example, the Chairman of the British Ports Association suggests that up to 8000 rdw severances might be appropriate. Much will depend on the rate at which unitisation spreads and on other changes in technology and patterns of trade. We are confident, however, that a severance programme of over 4000 rdws (with parallel savings among non-rdws) by 1985 is both feasible and essential. The size of the programme could well be substantially greater.

3.4. The recovery of the PLA and the Mersey, the two largest port employers, depends crucially on them achieving big and early manpower severances (a total of over 1500/^{rdws}this year alone). The Clyde, Manchester and Bristol - the next three ports most at risk - must also sever large sections of their labour force if they are to deal with their difficulties. In view of this and the high proportion of port

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operating expenditure attributable to labour costs, we are convinced that the elimination of surplus manpower is vital and will remove the single most important constraint on the achievement of the Government's objectives for the industry. Accordingly, the severance programme should be the industry's first priority over the next few years. The short-term cost will be heavy but will be far out-weighted by the longer term savings.

The Labour Regime and the Dock Labour Scheme

3.5. Like many of the older industries - such as printing, shipbuilding and railways - the ports industry has a bad record of industrial relations. Its unions are among the most powerful in the country. Over the years, port management has often conceded payments or practices that were not justified. These are among the reasons why the productivity of British ports is lower than that of most of their European competitors. The reduction in port manpower will remove some of the motivation which lies behind restrictive practices (e.g. as to gang sizes and movement of workers between jobs within the port).

But the severance programme is not a panacea. We have considered therefore to what extent the Dock Labour Scheme constrains the achievement of the Government's objectives and policies, and the proposal for an independent inquiry into the scheme made by the General Council of British Shipping (GCBS)

3.6. The Scheme is briefly described in Annex F. We are in no doubt that it aggravates and reinforces the industry's deficiencies. The Scheme is hopelessly out of date; for example, many of the definitions of "dock work" date back to the emergency orders made in the first years of World War II. (But modernisation of the definitions could only have the effect of extending the scope of the Scheme - e.g. to classify as "dock work" operations which were not current when the original definitions were devised.) Although most of the major ports are covered by the Scheme, some - such as Felixstowe and Dover - are not; coverage depends largely on historical factors. The ports within the Scheme have to pay a levy to the National Dock Labour Board (NDLB); this is currently 3½% of the port's gross wage bill. The NDLB employs more staff and costs more to operate than is now justified; it also provides some services (e.g. welfare) which duplicate those provided by employers or could be better provided by them. The Board recognises these criticisms and has recently issued consultative proposals for

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curtailing its operations substantially. Recruitment, severances and discipline are determined under the Scheme by the local Dock Labour Boards. The unions and employers have equal representations on these Boards. So the unions can exercise an effective veto and one result of this is that the Boards agree to dismiss an rdw rarely and only in the most flagrant cases.

3.7. But the Scheme is only a part of the total labour relations regime in the industry and not the most important part at that. Much is regulated by non-statutory agreements made between unions and management at national or local level. For example, there is a national agreement, reached in the light of the Aldington-Jones report of 1972, that surplus labour problems should be dealt with by re-allocating rdws to other employers in the port pending voluntary severance. The "Aldington-Jones" agreement has effectively ruled out compulsory severance; and it has also made the port authority "the employer of last resort". The problems of the PLA, the Mersey and other major ports have been heightened by this agreement, which is quite separate from the Dock Labour Scheme.

3.8. Manning levels, working practices, pay and the level of severance payments are also matters settled by local or national agreement. None of these is regulated by the Scheme. In reaching such agreements, port management has often found itself ground between powerful unions on the one hand, and shippers and shipowners on the other; the latter frequently put pressure on the port management to pay-up or accept a restrictive practice so as to avoid a dispute and the consequent delay to goods and ships. Port users as well as port ^{and the unions} management bear some of the blame for the history of industrial relations in the industry.

3.9. Moreover, as Annex E indicates, the Scheme is not unique to Britain. Our main international competitors also have schemes for the registration of dockers and most maintain special regimes for employment in the ports industry.

3.10. It is against this background that we have considered the proposal by the GCBS that there should be an independent inquiry into the Dock Labour Scheme. We agree with the GCBS that the Scheme is an impediment - but not the only or the most important one - to reducing the cost and improving the performance of the industry. We are

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convinced that the labour regime in the ports needs to be brought closer into line with that in other industries. But we do not believe that an independent inquiry into the Scheme would be an effective means to that end.

3.11. We take this view because the unions would see an independent inquiry as the beginning of an attack on the Scheme and this would harden their attitudes to other issues, most notably the manpower severance programme. That alone could prevent the PLA and the MDHC from achieving the targets the Government have set them; it would also frustrate the rationalisation programmes which are essential for the continued viability of other ports such as the Clyde and Manchester; and it would prevent the industry generally from cutting its costs and improving its labour productivity. So we recommend that the completion of the severance programme planned for the next two or three years (which has got off to a good start with the Special National Severance Scheme announced in April) **must** take precedence. Our view is shared by the National Association of Port Employers. When the manpower surplus has been eliminated, present barriers between dock work and non-dock work will look even more artificial. The conditions will then be more favourable to the making of local and national agreements to bring labour relations in the ports closer into line with those in the rest of industry.

3.12. We conclude from this that it would be mistaken to go beyond the decision the Government have already taken but not yet announced to repeal the Dock Work Regulation Act 1976. For the Government to mount an assault on the Dock Labour Scheme or the Aldington-Jones agreement at this stage would put at serious risk the progress the industry is already making to reduce manpower

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surpluses, improve working practices and slim down the bureaucracy of the Dock Labour Board. Recent industrial action against proposals to cut NDLB costs has shown the level of support the militants can achieve against any proposal they can present as "an attack on the Scheme". The trade union leadership continues to go along with re-organisation proposals and recently called off a national dock strike threatened in support of an extension of the Scheme. The militants have criticised these decisions and the announcement of any inquiry would play into their hands. Moreover at any time the outcome of any independent inquiry would be unpredictable and could be unwelcome. Accordingly we recommend that the Government should resist the suggestion that there should be an independent inquiry into the Dock Labour Scheme.

3.12A. The Department of Trade representative has certain reservations, however. He observes that paragraph 3.7 gives no weight to the possibility that the Dock Labour Scheme has led to a climate favourable to the other features of labour relations in the docks considered by the GCBS and other observers to be undesirable. He does not consider that the argument in paragraphs 3.11 and 3.12 that an enquiry would be untimely supports the conclusion in paragraphs 3.10 and 3.12 that there should be no inquiry at all. The GCBS, whose members depend

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to a considerable extent on the efficient and continued operation of UK docks, have advocated that there should be one and they are not alone in thinking that the risks of an enquiry are worth running. The Department of Trade representative believes that nearer the time of the announcement on the Dock Work Regulation Act Ministers should consider whether the prospective situation in the docks makes it an appropriate time also to announce an enquiry into the Dock Labour Scheme.

Government Loans and Grants

3.13. The Government has power under the Harbours Act 1964 and the Harbours (Loans) Act 1972 to lend money to port authorities. (Background information on these powers is given in paragraphs 1.15-19 above). And on a number of occasions - most notably, in the cases of the PLA and the Mersey - the Government has taken power to provide grant aid. We have considered the need for these powers in the context of the objectives and policies set out in Part II of our report, since their use puts ports in a more favourable position than firms in other sectors of the economy; and the existence of these powers may tend to draw the Government into the affairs of the ports.

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3.14. The Rochdale Committee recommended^{in 1962} that the Government should act as "lender of last resort" to the ports. It is far from clear that section 11 of the Harbours Act 1964 was used in that way during the late 60s and in the 70s. Some ports chose to finance their capital works by borrowing from the market, and some by borrowing from the Government. There has been a lack of clarity about the circumstances in which section 11 loans should be made. In fact, there have been few applications for these loans over the last couple of years. In part, this may be because there has been less investment. But it is also, no doubt, because ports find variable interest rates more attractive than the fixed interest terms available from the Government. So the ports have been behaving in a rational commercial manner and we recommend that the Government should reinforce this by making it clear that they expect ports to finance capital works from their own resources or by borrowing from the market.

3.15. We believe, however, that there will remain cases where there is a legitimate role for the Government to act as lender of last resort. For example, the Medway Ports Authority is faced with difficulties for the next few years as a result of BP's decision to close its Isle of Grain refinery. The Port Authority has approached the banks to seek loans for investment. But the banks are unwilling to give other than short-term loans because of the BP decision and the other local difficulties created by the decision to close Chatham Dockyard. The port's long-term viability is not at serious risk and it must make some investment if it is to compete successfully with other ports and attract new traffic to fill the gap left by BP. We believe that it is in exceptional circumstances such as these that it is appropriate for the Government to consider making loans **under** section 11 of the 1964 Act.

3.16. The policy towards loans under section 1 of the Harbours (Loans) Act also needs clarification. These loans may be made to help a port pay off a capital debt, a temporary loan or an overdraft.

3.17. The 1972 Act was introduced in the aftermath of the collapse of the Mersey Docks and Harbour Board in 1971. Until then, it had been assumed by the banks and institutions that the Government stood behind port authorities' borrowings. When this misapprehension was corrected,

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confidence in the credit-worthiness of port authorities slumped and emergency action was needed to avoid financial crises in a number of ports which were basically sound. The Clyde was among those most at risk. This was because the Port Authority had traditionally raised its loans from debentures and bonds. Every year, some of these fell due for repayment and renewal. In the aftermath of the Mersey Board's collapse, there was little enthusiasm among small local investors (the main holders of the stock) or the banks to renew their lending to the Clyde. All that was needed to restore confidence was for the Government to make the Port Authority a loan under the 1972 Act, which the Clyde repaid early. Only two other loans have been made under the Act: to the Forth, which was recently repaid on time, and to the Tyne, on which repayments are proceeding on time.

3.18. The Clyde have again applied for a loan under the 1972 Act. They are engaged on a major rationalisation programme that is essential to secure their commercial viability. A vital element in their programme is the severance of 240 non-rdws (as well as about 100 rdws) over the next two years. The short-term cost of severing the non-rdws will be heavy and will coincide with the need to repay about £6m of debentures. The Clyde would normally expect to roll over sufficient of these bonds to meet their borrowing requirements. But other forms of investment (e.g. building societies, Government stocks) are likely to be more attractive to the small investors who have traditionally taken up the Clyde's bonds. So the Authority doubt if they could renew all the bonds they require. And the banks are unwilling to lend without a guarantee from a port user. So the Clyde faces a short-term cash flow problem which it must overcome if it is to complete its rationalisation programme.

3.19. The 1972 Act was designed to cope with just such circumstances. It authorises the Secretary of State, where it appears to him that "a harbour authority are, or are likely to be, unable -

- (a) to pay, at the due time, the whole or part of any debt ... properly chargeable to capital account;
- (b) to repay or pay off, at the due time, the whole or part of a temporary loan made or an overdraft granted to them ...

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and it appears to the Secretary of State that the financial prospects of the authority justify making them a loan for the purpose of making the payment or repayment, then, with the approval of the Treasury, he may ... make the authority a loan for that purpose".

3.20. We see nothing inconsistent between the exercise of this power in exceptional cases, such as the Clyde's, and the Government's objectives and policies for the ports industry. Refusal to exercise the power in such cases could, of course, lead to the financial collapse of the port concerned and provoke demands for the Government to come to the rescue by making grants.

3.21. The Government have made it clear that it is their policy to minimise the number of ports which receive grant-aid, and the scale and duration of such aid. But, again, there is a lack of clarity about the criteria to be adopted in applying this policy.

3.22. We have considered whether a list of ports should be drawn up showing those which must - at all costs - be preserved. But we reject this approach for two reasons. First, it would be inconsistent with the policy that market forces should determine the pattern of the industry (para 2.3(a) above). Second, decisions on whether Government aid should be given must turn, in each case, on the best estimate of the comparative costs of closure or retention.

3.23. We suggest, therefore, that all applications for Government financial assistance should be evaluated by reference to:

- (a) the likely scale and duration of the assistance required;
- (b) the port's prospects of becoming and remaining viable;
- (c) relevant foreseeable trends in trade and shipping patterns and in technology;
- (d) implications of closure for port investment financed with the aid of public funds;
- (e) the risk that closure would provoke a major dock strike.

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3.24. In addition, it may also be necessary in some cases to provide an evaluation of the:

- (a) implications of the port's closure for local industry, including prospective inward investment in the region;
- (b) implications of closure for local employment;
- (c) implications of closure for the supply of essential food-stuffs and agricultural raw materials;
- (d) the significance of any specialised and expensive facilities in the port (e.g. granaries, specialised handling plant);
- (e) implications of closure for private sector investors in, and creditors of, the port; and
- (f) implications for land drainage and for conserving and regulating the navigation.

3.25. We also recommend that the Department of Transport should assemble, and up-date from time to time, information relevant to the criteria mentioned above for all the ports most at risk of getting into financial difficulties.

3.26. We recommend, therefore, that:

- (a) the Government should act only as lender of last resort but that loans to ports ^{be} may/justifiable, under either section 11 of the 1964 Act or section 1 of the 1972 Act, in exceptional circumstances;
- (b) all applications for grants from the Government should be assessed by reference to the criteria in paragraph 3.23; in some cases, the criteria listed in paragraph 3.24 would also be applicable;
- (c) the Department of Transport should maintain, for each of the ports most at risk, information relevant to the criteria listed in paragraphs 3.23 and 3.24.

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The Ports at Risk

3.27. The Government has, of course, already decided to provide the PLA and the Mersey with the temporary financial assistance they need to return to viability. We have considered whether there are any other major ports which are unlikely to be able to deal with their problems from within their own resources.

3.28. We have concluded that those most at risk are the Clyde, Manchester and Bristol. It is no coincidence that all three are located on the west coast. All three have had to face up to the dramatic shift of traffic to the east and south coast ports over the last decade or so. All three have large port systems. As major handlers of general cargo in the past, they had a lot of registered dock workers. Despite substantial manpower reductions over the last few years, their labour forces are still large. As firms of cargo handlers have left the industry, the port authorities have had no alternative but to take on the dockers formerly employed by private stevedores. Meantime, loss of traffic and new technology have reduced manpower requirements. The recession has aggravated these underlying difficulties.

3.29. The Clyde Port Authority is responsible for 450 square miles of water including the massive ore handling facility at Hunterston, the deep sea container terminal at Greenock and the general cargo docks at Port Glasgow. Until 1980 it was making healthy profits. These fell to £46,000 in that year and in 1981, the Clyde made an operating loss of almost £1m. The Authority immediately set about a major rationalisation programme. In the last two years it has cut its workforce by 37% (660 jobs), rationalised loss-making subsidiaries, sold-off assets and attracted some new traffic. Over the next two years, the Clyde plans to sever about 240 non-rdws and a further 100 rdws. This programme coincides, however, with the repayment of about £6m of debentures. In the normal course, most of these would be rolled over. But, as noted in paragraph 3.18, the Clyde doubt if they could renew the debentures on the required scale. So, despite liquid reserves of £8m, the Authority need bridging finance to tide the port over the next few years; and they have, therefore, applied for a loan under the Harbours (Loans) Act 1972 to enable them

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to complete their rationalisation programme and so ensure the port's long-term viability.

3.30. The Manchester Ship Canal Company lost £2m on its port operations in 1980 and £2.5m last year. However, it owns extensive property and made profits from rents of over £1m in each of the last two years. The Company also has very large liquid reserves, although these have been almost halved by the recent losses on port operations (reserves have fallen from £9m in 1979 to about £5.5m now).

3.31. Manchester faces two problems of its own as well as the difficulties of all west coast ports caused by the changes in shipping patterns. The first of these problems is that the Company is saddled with the conservancy of the full 35 miles of the Canal. Dredging expenditure last year was £3.5m. Hidden in that sum is the cost of land drainage which amounted to perhaps £1m and which was paid for entirely by the Company, so relieving the Regional Water Authority of a major expense which would otherwise fall on them. The Company have begun discussions with the Water Authority about sharing these costs. Manchester's second main problem arises from its operations on the upper part of the Canal and in the port of Manchester itself, which is still capable of taking deep sea traffic and handles general cargo. As a result the Canal has to be dredged extensively to enable big ships to get all the way up to Manchester; and general cargo is labour intensive. So Manchester is considering a variety of ways to cut dredging and other conservancy costs, reduce manpower, attract new types of traffic (short and near sea rather than deep sea general cargo) and further exploit its extensive non-port related assets. One option would be to close the upper part of the canal to port operations, but the Company are thinking more in terms of rationalisation than closure.

3.32. The Port of Bristol is owned by Bristol City Council. Last year, it lost nearly £13m and it is forecast to lose between £9m and £10m a year for the rest of the decade, despite planned major manpower severances and other rationalisations. Portbury is the main cause of these losses. The City Council's capital debt for the port is £56m, nearly all of which is attributable to the cost of building Portbury. Moreover, Portbury is losing money on operating account

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and is not expected to cover even its operating costs until 1985. The cost of the port's losses is being met by the ratepayers (with the aid of a rate of 17 pence in the pound in 1981/82 just to cover the port deficit).

3.33. Recently, the City Council asked the Government for financial assistance. This has been rejected. Government approval for the construction of Portbury was given only on the explicit understanding that the responsibility for the project, financially and otherwise, lay entirely with the City Council. There are no grounds of ports policy for departing from that position.

3.34. Other Ports: The only other major port facing significant difficulty at present is the Medway. Its problems are caused by the closure of BP's Isle of Grain oil refinery. But the Medway is expected to overcome this and remain viable. Some of BTDB's ports in South Wales are struggling, as are a few other medium and small ports on the west coast and elsewhere (e.g. Dundee). But none is in imminent danger of collapse.

3.35. Conclusion: we conclude from this that the Clyde, Manchester and Bristol are the ports most at risk. But the Clyde and Manchester have large liquid reserves and are engaged on major programmes of rationalisation. Present indications suggest that both ports should be able to overcome their difficulties provided they successfully complete their rationalisation programmes and the Clyde gets over its short-term cash flow problem. Bristol will remain in substantial deficit for the foreseeable future but is the financial responsibility of the City Council.

Privatisation

3.36. Privatisation is, of course, in accord with the Government's objectives and policies for the industry. Port authorities are in competition with each other. Shipowners' choices about the ports they will use certainly are affected by the quality and reliability of the service they receive and by port charges. It is undoubtedly true that competition and exposure to market forces are the most effective pressures on ports to improve their performance.

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3.37. It would be mistaken, however, to regard ports as wholly commercial bodies and just like private firms. As noted in paragraphs 1.8 - 1.11, all the commercial ports are statutory creations. Most of them are "trust ports", a few are statutory companies, others are owned by local authorities and the remainder are, for the time being, nationalised. All of them need powers that only statute can give them. Unlike private firms, port authorities cannot be wound up without first promoting the necessary legislation. And there are common law and statutory restrictions on their freedom to refuse ships entry to the navigation or the harbour. These characteristics need to be kept in mind when considering the scope for privatisation.

3.38. We have examined the scope for introducing more share capital into the industry. At present, however, trust ports cannot sell equity. They could do so only if they were reconstituted as statutory companies so that the shareholders could elect the directors. A few ports have considered this possibility. For example, a few years ago the Medway Ports Authority consulted merchant bankers about the prospects of raising equity capital; they were advised that investors were unlikely to regard ports as an attractive proposition. This may change, however, if the industry succeeds in reducing its manpower and improving its productivity and industrial relations. And the market may also become more interested in ports when it has seen the results of the privatisation of BTDB and the Sealink ports. But news that the Government were considering/a wider programme of port privatisation could adversely affect the flotation of BTDB and Sealink. We recommend, therefore, that Ministers should retain an open mind about the feasibility of a more extensive programme for the privatisation of port authorities and review the prospects again in a few years' time in the light of developments in the meantime.

3.39. Cargo handling need not be provided by port authorities. Indeed, it is only quite recently that the authorities have become the main cargo handlers. For example, writing of 1962, the Rochdale Committee found that at Liverpool "the port authority takes almost no part in cargo handling ... 'master stevedores' load ships, 'master lumpers' discharge them and 'master porters' do the shore work. The position is somewhat similar at Glasgow and Leith." In London, there were no less than 389 separate port employers, of whom the PLA was

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only one. The contrast with the present is dramatic. The Mersey Docks and Harbour Company now employs about 2200 rdws and private firms of stevedores only around 900; the PLA has about 3000 rdws and private employers only about 1300.

3.40. The main reasons for this exodus of private cargo handlers were:

- (a) the growth of containerisation, which required heavy capital investment in equipment and infrastructure, well beyond the resources of the old style private stevedore, who was little more than a labour contractor;
- (b) the greater attractions to investors and managers of other types of business, outside the ports industry;
- (c) the Aldington-Jones agreement, which effectively ruled out compulsory severance and made the port authority the employer of last resort at a time when the industry was shedding labour steadily in response to new technology and changes in the patterns of traffic.

3.41. Against this background, we have considered the likelihood of private firms coming back into cargo handling. One option would be to introduce legislation to prohibit port authorities from handling cargo. But this would be arbitrarily to split up well-run operations at ports such as Felixstowe. And it would be contrary to Rochdale's and Devlin's recommendations in favour of the unification of port functions and the need for the port authority to be one of the main employers of dock labour. There is no evidence to suggest that compulsory separation of the cargo handling function would increase efficiency. And the legislation to separate the functions would be strongly opposed by the port authorities as well as the unions (who might well back up their opposition with national strike action). In any event, we see no prospect of being able to attract the private sector back into the cargo handling business until the surplus of dock labour has been further reduced and the industrial relations regime has been brought closer into line with that in industry generally.

Other Constraints

3.42. Finally, we have identified some more detailed constraints.

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We discuss these and some other factors - such as the significance of ports for local industry and employment - in Annex G. The conclusions reached in the Annex are included in the summary of our recommendations which follows in Part IV of the Report.

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PART IV

CONCLUSIONS AND RECOMMENDATIONS

4.1. As a nation whose future depends on its success in international trade, Britain needs a reliable, efficient and responsive ports industry. We have over 300 ports. Many of them are very small and are little more than havens for small craft or serve the needs of local tourism and recreation. Our primary concern in this review has been concentrated, therefore, on the main commercial ports, the largest 20 of which handled 83% of total tonnage and 67% of non-petroleum tonnage in 1980.

4.2. As E(EA) expected, the review has confirmed that the two main weaknesses of the commercial ports are surplus manpower and the over-all labour regime. The industry's first priority over the next 3 years must be to rid itself of its surplus manpower; and it must also maintain the progress it has been making to improve working practices and slim down the bureaucracy of the Dock Labour Scheme.

4.3. Inevitably, the review has concentrated on defects and problems. It would be wrong, however, to ignore past successes and some encouraging indications as to the future. Most of our ports are profitable and enjoy labour relations no worse than those of most other enterprises.

There has already been a dramatic and much needed reduction in the labour force. The industry and most of the people who work in it have adapted quickly and with surprisingly little fuss to the rapid and radical changes of the last decade or so - including the growth of containerisation, the shift of traffic from the west to the east and south coasts, the exploitation of North Sea Oil and the revolution in ship size and technology. There are also some hopeful signs for the future; examples include the Mersey's successful negotiation of a new agreement involving greatly improved manning levels, and the determination throughout port management to achieve cost savings and productivity gains by driving on with the manpower severance programme.

4.4. Much remains to be done. We believe that the Government's current objectives and policies are well tuned to the task ahead and we see

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no need to modify them. Our more detailed conclusions and recommendations are summarised below.

Objectives and Policies

4.5. Prior to this review, no comprehensive statement existed of the Government's current objectives and policies for the ports industry. We have attempted to state them briefly in Part II.

Principal Recommendations

4.6. In Part III we have set out our views on the main constraints on the achievement of the Government's objectives and policies. Our principal recommendations are as follows:

- (a) The manpower surplus: the ports have shed 63% of their registered dock workers (rdws) and 45% of their non-rdws in the last 12 years. There are now 18,000 rdws. The industry needs to shed over 4,000 more rdws within the next 3 or 4 years, with parallel savings among non-rdws. Severances on this scale are essential to the recovery of the PLA and the Mersey, and to ensure the viability of the other ports most at risk (Clyde and Manchester). Labour costs represent 65-75% of ports' operating costs. So cutting out surplus labour is the most effective action the industry can take to reduce its costs and improve its efficiency. The severance programme should, therefore, be the industry's first priority over the next few years and the Government should encourage and facilitate the employers' efforts to this end. The cost of severances will be heavy in the short term but far outweighed by the long-term savings (paras 3.2-3.4).
- (b) The Labour Regime: the present labour regime in the ports industry constitutes the other main constraint on the achievement of the Government's objectives and policies for the industry. The ports have a poor record of industrial relations. Over the years, port management has often conceded payments or working practices that were not justified. The Dock Labour Scheme is an impediment to reducing the cost and improving the performance of the industry. But it is neither

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the only nor the most important obstacle. Much in the industry (manning levels, working practices, pay, the level of severance payments etc) is regulated by non-statutory agreements made by unions and management at local or national level. These are quite separate from the Dock Labour Scheme. Perhaps the most notable of these agreements is the Aldington-Jones agreement; it effectively rules out compulsory redundancy and has made port authorities into the "employers of last resort". We are convinced that the labour regime in the ports needs to be brought closer into line with that in other industries. But most of us believe it would be mistaken for the Government, at this stage, to go beyond the decision it has already taken but not yet announced to repeal the Dock Work Regulation Act 1976. For the Government now to launch an attack on the Dock Labour Scheme or on the Aldington-Jones agreement would put at serious risk the essential manpower severance programme planned for the next two or three years, which has got off to a good start, and the progress the industry is making to improve working practices and slim down the bureaucracy of the Dock Labour Board. Recent developments have shown the level of support that trade union militants can achieve against anything they can present as "an attack on the Scheme". We recommend, therefore, that the Government should not accede to the proposal by the General Council of British Shipping for an independent inquiry into the Dock Labour Scheme.

The Department of Trade representative however considers that the arguments are more open, and believes that nearer the time of the announcement on the Dock Work Regulation Act Ministers should consider whether the prospective situation in the docks makes it an appropriate

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time also to announce an inquiry into the Scheme (paras. 3.5 - 3.12A).

- (c) Loans: we consider that the Government should retain their powers to make loans to ports under the Harbours Act 1964 and the Harbours (Loans) Act 1972 because they may have a legitimate role as lender of last resort in exceptional circumstances. But we recommend that the Government should pursue a firm line of requiring ports to go to the market for their loan finance as a general rule (para 3.13-3.20).
- (d) Applications for Government Grant: Greater clarity is required about the criteria to be applied to applications from ports for Government financial assistance. We suggest that all applications should be evaluated by reference to:
- (i) the likely scale and duration of the assistance required;
 - (ii) the port's prospects of becoming and remaining viable;
 - (iii) relevant foreseeable trends in trade and shipping patterns and technology.
 - (iv) implications of closure for port investment financed with the aid of public funds;
 - (v) the risk that closure would provoke a national dock strike.

The evaluation of other factors (such as the implications of closure for local industry or the supply of essential food-stuffs) may also be relevant in some cases. We have listed these other factors in Part III and we recommend that the Department of Transport should maintain,

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for each of the ports most at risk, the information which would enable applications for grant to be assessed quickly should the need arise (paras 3.21-3.26).

- (e) The ports most at risk: the Clyde, Manchester and Bristol are the ports currently at most risk. Both the Clyde and Manchester have large liquid reserves and are engaged on major rationalisation programmes. Present indications suggest that both ports should be able to overcome their difficulties provided these programmes are successfully completed and the Clyde gets over its short-term cash flow problem. Bristol will remain in heavy deficit for the foreseeable future; but it is, and should remain, the financial responsibility of the City Council. Some other ports (notably Medway and Dundee) are struggling, but none is in imminent danger of collapse (paras 3.27-3.35).
- (f) Privatisation is clearly in line with the Government's objectives and policies for the industry. The British Transport Docks Board and the Sealink ports are to be privatised. Investors are unlikely, however, to regard ports generally as an attractive proposition until the industry has dealt with its manpower surplus and improved its productivity and industrial relations. And, until then, we can see no prospect of attracting the private sector back into cargo handling. The market may become more interested in ports when it has seen the results of the BTDB and Sealink privatisations.

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News that the Government were considering legislation to enable a wider programme of port privatisation could adversely affect those flotations.

We recommend, therefore, that Ministers should retain an open mind about the feasibility of a more extensive programme for the privatisation of port authorities and review the prospects again in a few years' time in the light of developments in the meantime (paras 3.36-3.41).

Secondary Issues

4.7. In Annex G we discuss some secondary issues. Our comments on them are summarised below:

- (a) Should the Conservancy Function be separated from the other responsibilities of port authorities?

We have not found convincing arguments of efficiency to justify separating compulsorily the responsibility for conserving and regulating the navigation from the cargo handling function and the provision of port facilities. (Annex G, paras 2-9).

- (b) Appeals against port charges: the statutory right of objection to port charges should be kept under review to see whether it has adverse effects on the ports industry or imposes disproportionate costs on the Department of Transport (Annex G, paras 10-12).

- (c) Local Employment and Industry: few generalisations can be made about the importance of ports to local employment and industry. Clearly, however, when a

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port is in trouble and seeks Government financial assistance, evaluation of these local factors may have an important influence on the Government's response. As recommended in para 4.6(d) above, the Department of Transport should assemble information about the local significance of the ports most at risk and should up-date the information periodically (Annex G, paras 13-15).

- (d) "The Grid System": while the grid system has helped to distort competition between ports, it seems at present to be operating in the overall interests of British industry and of the regions farthest from the south east and East Anglia (Annex G, paras 16-18).
- (e) Management Training and Development: the ports industry should devote more thought to identifying its future requirements for managers, ensuring that good people are recruited and that, once recruited, managers receive proper development and training. The Department of Transport (in consultation with the MSC) should continue its discussions about this with the British Ports Association, should monitor the progress made by the industry in management training and development, and should apply pressure or provide support as appropriate (Annex G, paras 19-21).

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- (f) Productivity Studies: the Department of Transport is already monitoring the study by the Port Users Consultative Committee of comparative container berth performance and should continue to exert pressure on the BPA to produce proposals for other exercises aimed at improving productivity (Annex G, paras 22-24).

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PORTS POLICY REVIEW COMMITTEE
MEMBERSHIP AND TERMS OF REFERENCE

Membership

Department of Transport (in the chair)
HM Treasury
Central Policy Review Staff
Department of Employment
Department of Trade
Department of Industry
Ministry of Agriculture, Fisheries & Food
Scottish Office
Welsh Office

Terms of Reference

The Committee set itself to:

- (a) draw up a statement of the Government's objectives and policies for the British ports industry;
- (b) identify and examine the constraints on the achievement of these policies and objectives;
- (c) suggest a framework within which applications should be considered for Government financial assistance to ports which get into trouble; and
- (d) report the Committee's conclusions and recommendations.

THE MAIN COMMERCIAL PORTS

This Annex lists Britain's 20 main commercial ports, using 1980 statistics. They are set out in order of the total tonnages they handled. But it needs to be noted that while petroleum accounted for about 60% of total tonnage, its handling is concentrated in a comparatively few ports. The list shows, therefore, not only total tonnage for each port but also petroleum and non-petroleum tonnages.

PORT	1980 TONNAGES (million tonnes)		
	TOTAL	NON-PETROLEUM	PETROLEUM
1. London	54.2	29.7	24.5
2. Tees & Hartlepool	39.4	9.7	29.7
3. Milford Haven	39.3	0.2	39.1
4. Shetlands	29.4	0.8	28.6
5. Forth	28.8	3.6	25.2
6. Southampton	24.0	5.0	19.0
7. Grimsby/Immingham	22.0	9.8	12.2
8. Orkney	17.6	0.2	17.4
9. Medway	17.2	5.2	12.0
10. Liverpool	13.5	8.9	4.6
11. Manchester	11.0	4.6	6.4
12. Clyde	7.0	4.4	2.6
13. Anglesey	6.8	-	6.8
14. Dover (also handled 11 million passen- gers)	6.7	6.5	0.2
15. Tyne	5.7	4.8	0.9
16. Felixstowe	5.4	4.9	0.5
17. Swansea	5.4	2.1	3.3
18. Bristol	4.9	3.8	1.1
19. Hull	3.8	3.4	0.4
20. Harwich	3.2	3.0	0.2
Total for 20 ports	345.3	110.6	234.7
All other ports	68.7	54.4	14.3
Total All Ports	414	165	249

POWERS OF THE SECRETARY OF STATE FOR TRANSPORT

1. The Secretary of State for Transport has surprisingly few statutory powers in relation to harbours and harbour authorities.

Harbours Act 1964

2. His powers under this Act are as follows:

- (a) The authorisation of harbour development costing more than a sum fixed by Order. Currently, projects costing over £3m require authorisation by the Secretary of State. (Sections 9 and 10.)
- (b) The making of loans for the execution of capital works (section 11).
- (c) The making of harbour revision orders, on the application of a harbour authority, for a wide variety of purposes relating to the operation or improvement of a harbour. This power was introduced in 1964 as a quicker and cheaper alternative to Private Bill procedure. About 100 such orders have been made. (Section 14)
- (d) The making of harbour revision orders on his own initiative to reconstitute a harbour authority or regulate its procedure. This power has rarely been used. (Section 15)
- (e) The ability to withdraw from making appointments to the boards of the smaller ports. This power was introduced in 1981 (Section 15A).
- (f) The making of harbour empowerment orders, on the application of an intending operator, to create a harbour authority. This power too has been rarely used. (Section 16.)
- (g) The making of harbour reorganisation schemes, on his own initiative or that of any of the authorities which would be affected, which would create a new authority for a group of harbours or reallocate functions among the authorities

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within a group. This power was used in the 1960s to create some of the new estuarial authorities of that period. It cannot be used to break up an authority. (Section 18.)

- (h) The making of compensation regulations for the loss of office or employment as a consequence of harbour re-organisation schemes. (Section 19.)
- (i) Approval or reduction of ship, passenger or goods dues following an objection from an interested person. This appellate function was transferred to the Secretary of State when the National Ports Council was abolished. The NPC dealt with about 25 cases. So far, the Secretary of State has had to decide only one case. (Section 31.)
- (j) Obtaining information or forecasts from harbour authorities. This function was also transferred to the Secretary of State when the NPC was abolished. It is under this power that the Secretary of State collects port statistics. (Section 41.)
- (k) The making of regulations about the form and content of the accounts of harbour undertakers. It is hoped to bring into operation later this year a new version of this power, contained in the Transport Act 1981, which will provide for harbour accounts to be modelled more closely on Companies Acts accounts and reduce the role for Ministerial regulation. (Section 42.)

Docks and Harbours Act 1966

3. Under section 2 of this Act, the Secretary of State has power to vary the application of the employer licensing scheme; and under sections 7 and 8, he considers appeals against the decisions of local licensing authorities on applications for licences to employ registered dock workers.

Harbours (Loans) Act 1972

4. The Secretary of State has powers, under section 1 of this Act, to make loans to harbour authorities to enable them to pay or repay capital debts, temporary loans or overdrafts.

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Other Powers

5. The Secretary of State has powers, in accordance with the local legislation of particular harbour authorities, to appoint Board members to certain authorities. He has also taken powers to provide financial assistance to the Port of London Authority and the Mersey Docks and Harbour Company. In addition, the Secretary of State has statutory responsibilities for the British Transport Docks Board and Sealink.

GRANTS AVAILABLE TO PORT AUTHORITIES:
AND LOANS AVAILABLE FROM THE EIB, AND ECSC

I - GRANTS

1. Industry Act 1972: UK Regional Development Grants under Part I of the Industry Act 1972 are given on capital expenditure on "qualifying premises" in Assisted Areas in which "qualifying activities" such as manufacturing are carried out. Grant can be paid to private or public trust ports for port development work if this takes place on "qualifying premises", although in practice this seldom happens. Local authority and BTDB ports are not eligible for RDG.
2. Selective assistance (in the form of grants or loans) under section 7 of the Industry Act can be given in Assisted Areas where the assistance is likely to provide, maintain or safeguard employment by way of promoting the development or modernisation of an industry, improving its efficiency, expanding productive capacity etc. Assistance is given only to viable bodies - those which after receiving assistance on a once-for-all basis can achieve and maintain profitability without continuing subsidies. The main emphasis is towards aiding successful companies, but assistance is sometimes given towards rescue operations. All applications are considered by the Industrial Development Advisory Board. Section 7 assistance has been given to only 2 ports - Mersey and Preston.
3. Grants under the Railways Act 1974: Grants may be made under section 8 for up to 50% of the cost of a private railway sidings and wagons. Both port authorities and port users are eligible for grant. The aim of section 8 is to encourage the transfer of freight from road to rail. The grants are solely concerned with environmental benefit and are not a subsidy to rail freight or industry. The main criteria are that:
 - (a) the provision of facilities will generate new rail traffic or retain an existing traffic on rail;

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- (b) the project will bring worthwhile benefits to localities otherwise affected by heavy lorries;
- (c) the facilities would not be provided in the absence of grant.

4. Section 36 of the Transport Act 1981 has extended similar grants to assist in the provision of facilities for freight haulage by inland waterway.

5. Coast Protection Act 1949: District Councils who are coast protection authorities (i.e. have a coast-line) may apply for grant from DOE towards the cost of coast protection works. Certain areas of shore are excluded from this provision - generally around the mouths of rivers. The grant - which is discretionary - is intended to reduce the burden on the rate-payers of works carried out for general benefit; where part of the benefit falls to a particular body, that body is expected to pay for its share of the works, and grant is paid only on the remainder. Ports become eligible for Coast Protection Grant only where they are operated by local authorities who are also coast protection authorities (e.g. Sunderland). In such cases there is generally an apportionment of benefit between the port and the general public, and grant is only paid on the benefit to the latter.

6. Local Employment Act 1972: Section 7 gives wide discretionary powers to any Minister, subject to Treasury consent, to advance loans or grants to promote the provision of basic services contributing to the development of industry in Assisted Areas. "Basic services" include the provision of transport facilities by water, road, rail or air. So far the only assistance given has been for roads, and only in one case has grant been paid to a port authority.

7. Grants and Loans from Local Authorities etc: Local authorities may offer financial assistance towards port projects. Recent examples include a loan on favourable interest and repayment terms to the trust port of Tyne, and the direct funding by a county council of 50% of the capital expenditure by a metropolitan district council port undertaking. Assistance may also be available in appropriate cases

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from bodies such as the Scottish or Welsh Development Agencies and the Highlands and Islands Development Board where port developments assist in improving the general economic wellbeing of the area.

8. Special grants to the PLA and Mersey: the Government are making grants to the PLA and Mersey to deal with the serious financial problems facing these ports as they deal with the major rationalisation and reductions in their workforces required to adapt the ports to modern needs and technology. The grants in part meet operating losses but are directed primarily towards the costs of severances of surplus labour. They are being paid under legislation, which sets a limit on the total sum available, specifically introduced to deal with these two ports, and are repayable in certain circumstances. The Government has set itself against extending similar help to other ports, and there is no proposal to introduce general legislation for financial aid to the ports industry in general.

9. EEC Regional Development Fund: public authorities in Assisted Areas, or those operating on a similar basis, may apply for grant from the ERDF towards the cost of providing infrastructure facilities which contribute to the development of the area or region in which they are situated. Schemes in SDAs and DAs have priority over those in Intermediate Areas. Generally, infrastructure projects have to satisfy the following criteria:

- (a) be a scheme in an Assisted Area which will proceed even without a grant;
- (b) be over a minimum cost of £50,000 in England and £32,000 in Wales and Scotland. (The £32,000 limit is one set by the Fund Regulations; the higher level in England is one set by DOE);
- (c) have a demonstrable link with the economic development of the area concerned;
- (d) be a new, forward-looking project without too large an element of maintenance or replacement;
- (e) benefit more than one user or industry.

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Statutory port undertakings are regarded as akin to public authorities and hence all categories of ports are eligible to apply for grant, including statutory company undertakings such as Mersey, Manchester and Seaham. Grant is generally at the rate of 30% of the capital cost of the project, though there is provision under the fund regulation for grant to be paid as a 3% interest rebate on loans from the European Investment Bank. This latter method has not however been used by the UK as it is less advantageous than direct grant.

10. The ERDF also assists industrial projects which have received State regional aid. In the UK, this applies to projects which have received Regional Development Grant under the Industry Act. The industries concerned do not receive any further money; the ERDF grant is retained by DI as part reimbursement of the RDG.

11. The Fund regulations have recently introduced a non-quota section to provide finance for specific Community measures. Funds under this section are not limited to Assisted Areas and are currently being used in the UK for projects in areas suffering from steel and shipbuilding closures. The ERDF may also assist with up to 50% of the cost of feasibility studies into projects likely to be candidates for grant. Only one such study has so far been grant aided in the UK, though there is pressure to use this provision for a study of port expansion at Falmouth.

12. FEOGA: the Agriculture and Fisheries fund of the EEC operates a scheme which provides aid towards community projects which improve the conditions under which agricultural and fish products are marketed and processed. The scheme, which can assist projects at commercial and fishery harbours, is relevant more to port users than port authorities.

LOANS

13. European Investment Bank Loans: the EIB provides loans for up to 40% of the cost of a project, with a minimum loan of £600,000. Loans are made in a mixture of currencies, and repayments are made in the same mixture. So UK borrowers generally arrange exchange risk cover with the Bank of England to protect themselves against

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fluctuating currency values. The EIB requires a guarantee from borrowers; nationalised industries and major local authorities can act as their own guarantors, but others need to negotiate commercial guarantees. This has proved a problem for port authorities in the past, since the exchange risk cover is not transferable to the guarantor. In practical terms this means that EIB loans are more readily available to nationalised and local authority ports than to trust or company ports. In financial terms, however, the interest rate savings offered by EIB loans are offset by the cost of exchange risk cover; so they offer little attraction for port projects.

14. ECSC Loans: The European Coal and Steel Community also provides loans of up to 50% of the cost of projects involving coal or steel activities. These loans operate on a similar basis to EIB loans and appear to pose the same drawbacks.

PORT ADMINISTRATION IN OTHER MARITIME COUNTRIESA. Forms of Organisation

1. Although legal and administrative structures vary, it is possible to discern four main types of port organisation.

- (i) Municipal Ports: these come under the authority of a commune or other local authority. Examples can be found in all EEC countries except France and Italy. In many countries (e.g. Japan, Germany, Holland, Denmark) this is the most important organisational form.
- (ii) "Autonomous" Ports: these are of a public character. The founding statute normally provides for a measure of central government control and local representation. In practice, "autonomy" is often fairly strictly circumscribed and central or regional government can exercise a strong influence. This form of organisation covers the most important ports in France, Italy, Ireland and Denmark.
- (iii) "State" Ports: these are under the direct control of the State so far as the provision of infrastructure is concerned. In France and Italy all ports not having "autonomous" status are of this type. The form of state ownership and "control" characteristic of the BTDB and BR ports is peculiar to the UK.
- (iv) Private Ports: these are relatively rare outside the UK and are usually associated with specialist traffic to major manufacturing enterprises (e.g. oil and ore handling facilities).

B. Description by Country

2. Australia: Ports are a state rather than federal matter. Some are managed by departments of state governments and others by independent statutory boards. Investment is largely financed by loans approved by the Australian Loans Council on a state quota basis and projects are not examined in detail. There is a non-statutory Marine and Ports Council which advises the Government. With rare exceptions, cargo handling work at all Australian ports is carried out by private sector companies.

3. New Zealand: All ports in New Zealand are controlled by Harbour Boards whose members are elected by voters on the ordinary political franchise. The powers of these Boards are circumscribed as to investment, borrowing and tariffs by the New Zealand Ports Authority and the Minister of Transport. Power to approve, or reject or vary specific schemes rests with the NZPA; the Boards can appeal against such decisions to the Minister of Transport.

4. Canada: There are three main systems of port administration:

- (a) the 15 major ports come under the National Harbours Board with a very strong degree of central control;
- (b) a number of lesser, but still significant, ports are managed by Harbour Commissions established under the Canadian Harbour Commissions Act 1964;
- (c) there are over 300 "public harbours" which are small or specialised harbours under a variety of different kinds of administration.

5. The organisation of the ports in Canada is currently the subject of legislation which will dissolve the National Harbours Board and substitute independent Commissions for each of the major ports. It is also intended to create a Canadian Ports Commission which, as a Federal Public Service organisation, will be responsible to the Canadian Minister of Transport for national policy and planning and will also operate some public harbours and government wharves. The Commission will itself be advised by a Canadian Ports Policy Council.

6. Most cargo handling is carried out by private sector companies who generally lease berths but some is also undertaken by port authorities. The National Harbours Board operates some grain elevators and owns several common user berths and the Harbours Commission at Toronto directly employs all labour on the quayside.

7. USA: Most US ports are managed by small boards the members of which are appointed by state or city governments. In some cases the members are directly elected or appointed by other methods and a few ports are managed directly by state or city government. Both capital and maintenance dredging are undertaken by the US Army Corps of Engineers except in water areas in the immediate vicinity of a quay face.

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There is little direct federal interference in port administration except that dues levied, and leases granted are subject to the approval of the Federal Maritime Commission. The Commission's regulatory powers do not however apply to charges for cargo handling. Most cargo handling is undertaken by the private sector.

8. Japan: Most ports in Japan are under direct municipal administration. These are however divided into 4 classes as follows:

- (a) specially designated major ports;
- (b) major ports;
- (c) local ports;
- (d) ports of refuge (mainly for small craft)

with, in general, financial assistance being provided in that order of priority. Major port investment is heavily subsidised by the Ministry of Transport.

9. All major ports must, and local ports may, produce a "port and harbour plan" and must consult the local Port and Harbour Council, which has representatives of related organisations, when it is being produced or modified. All major ports are strictly supervised by the Ministry of Transport which may ask the port management to alter their plan. They also ascertain whether the plan conforms with the basic national plan for the development of ports and harbours.

10. In exercising its functions the Ministry is advised by the National Ports and Harbours Council on all major port development.

11. Harbour authorities may make such charges as they see fit subject to a right by users to object to the Ministry of Transport (but apparently there have never been any objections). Most cargo handling work is carried out by the private sector with terminals often being leased by the port authority.

12. Sweden: Nearly all ports in Sweden are under municipal control. There is a National Administration for Shipping and Navigation which controls charges and is responsible for indicative planning, on

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a national basis, for major port investment. Cargo handling is still mainly carried out by the private sector but harbour authorities are increasingly beginning to undertake this work themselves.

13. Denmark: There are three main types of port administration in Denmark. The most common are the municipal ports. These were established by Act of Parliament as departments of the city administrators and are directly responsible to the City Councils. The port of Esbjerg is state owned being administered by a local board responsible to the Ministry of Public Works. The port of Copenhagen, which is by far the largest in Denmark, is managed by an independent statutory board.

14. Major investment at all Danish ports is subject to approval by the Government on the advice of the Danish National Ports Council. Its members include representatives of ministries, ports and the private sector and one of its functions is to receive 3 year investment plans by ports and to advise the Minister of Public Works. Port tariffs are also subject to approval by the Government on the advice of the National Ports Council.

15. Most cargo handling at Danish ports is undertaken by the private sector.

16. Germany: For most purposes ports are a matter for the Lander rather than the Federal Government except that the latter is responsible for dredging and navigational aids in the approaches to ports and in some cases for sealocks and outer breakwaters.

17. Most German ports are not independent entities since their land and water generally belong to the Land, city or other local body within whose areas they lie. There are no independent port authorities (except for one small port belonging to a private sector company), port functions being exercised as integral parts of the territorial authority concerned. Thus Emden, Brake and several other ports belong to a "Land". Bremen and Bremerhaven belong to a municipality as do several others. Hamburg, by far the largest port in Germany, is unique in that the Land and the city co-incide.

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18. Most cargo handling at German ports is undertaken by the private sector but at Bremen and Hamburg the major port operator is a company wholly owned by the City Government.
19. Holland: There are two types of administration in Holland. Some ports including the great port of Rotterdam, are municipally owned and some are managed by independent statutory boards which include representatives of the national government, the province and the municipality concerned.
20. Major investment requires the approval of the provincial and national government (usually more on grounds of regional and industrial planning than on those of economic or financial viability). Charges also require the approval of the provincial and national governments.
21. Marine approaches are the responsibility of the Rijkswaterstaat, a body responsible for public works in general and particularly for the maintenance of canals and waterways throughout Holland, but the port authority is required to contribute towards the cost.
22. Most cargo handling at Dutch ports is undertaken by the private sector.
23. Belgium: 99% of Belgian traffic is handled by the four ports of Antwerp, Gent, Ostend and Zeebrugge. Of these the first three are municipal. At Zeebrugge the port is governed as a public body along the lines of a private sector company whose directors are nominated by the state, the city and the other shareholders.
24. The national government is responsible for marine approaches, navigational aids and sealocks and also makes very substantial grants towards the costs of port infrastructure. All cargo handling is carried out by private sector companies usually at leased berths or terminals. At Antwerp the operation of leased berths and terminals is closely monitored by the port authority.
25. A National Commission on Port Affairs has been set up to advise the relevant Belgian Minister on a Belgian ports plan.

26. France: In France the 6 major ports are each managed by a statutory board which purports to be autonomous and includes representatives of relevant local interests. However, a good proportion of the members of these boards are civil servants appointed by the national government as also, in each case, is the Director General. Furthermore under the instruments establishing these boards, the government may intervene to dissolve them or change their constitutions. In short, there is^a very strong measure of central government control. Port investment at these major ports is heavily subsidised by the government.

27. Provision of infrastructure at all other ports is controlled by central government, usually through the prefect's office. The operation of these ports is often placed in the hands of local chambers of commerce which in France have statutory powers and rights.

28. Italy: Here the administrative structure is similar to the French model, the seven major ports being operated by "autonomous" public authorities. The remainder are managed directly by the state through local administrative offices.

C. Powers and Responsibilities

29. Variations in national practice and between countries are considerable, and it is necessary to review these in respect of different aspects of port operations and the provision of diverse types of facility.

30. Maritime Access: (Access channels, lights, buoys, navigational aids, sea locks, exterior breakwaters. Details of provision are set out in Tables D1 - D3.)

31. Generally governments or other public authorities finance the lights and buoys outside the port area throughout the Community. For all other matters concerned with maritime access there is a clear distinction between practice in Denmark, Ireland and Great Britain, and the other member states. In the former, the cost of creating and maintaining maritime access channels, lighting and buoying inside the port, building and maintaining sea-locks and

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exterior breakwaters (where relevant) is borne entirely by the port authority with no financial assistance of any kind.

32. In the other member states there is considerable variety of practice. In Germany the Federal Government is generally responsible for all these facilities outside the port; within the port the relevant territorial authority is responsible; this applies especially to sea-locks.

33. In Belgium, the national government is responsible for the entire initial cost of sea-locks and exterior breakwaters, and for the initial investment and maintenance costs of the maritime access channels. The municipalities (port authority at Zeebrugge) are responsible for lighting and buoying within the port and for the maintenance of sea locks and exterior breakwaters.

34. In France, Italy and the municipal ports of the Netherlands, the national government is responsible for the greater part of the initial cost of investment in all the above facilities, and is responsible for the entire cost of their maintenance. The balance of the initial investment cost is borne by the port authority in the French and Italian autonomous ports, by the "Havenbedrijf" in Rotterdam and the municipality in Amsterdam. In the state ports the balance is found by bodies such as the chambers of commerce (France) or by the communes and provinces (Italy). In the Dutch "Havenschappen" the financing of maritime access facilities is borne partly by the Belgian central government and partly by the Dutch central government (namely at Terneuzen and at Flushing). At Delfzijl, the financing is borne jointly by the "Havenschap", the central government, the province and the municipality, with the exception of the maritime access channel itself which is entirely financed by the central government.

35. Superstructure: The pattern for the financing of port equipment and other superstructure installations varies considerably, both from one state to another and often within any one country's ports.

36. In Belgium, Denmark, Germany and the Netherlands the greater part of the superstructure is, in general, financed and operated by the private sector. There are notable exceptions in all Belgian ports

and in most Danish ports where the cranes are mostly controlled by the port authority. In France the port authority in the autonomous ports and the Chambers of Commerce elsewhere are in most cases entirely responsible except where highly specialised equipment is involved. In Great Britain and in Ireland the port authorities are financially responsible for most of the superstructure but some of the specialised installations are financed by the private sector. In the Italian autonomous ports most of the superstructure and equipment is financed by the State and/or by the port administration. In the other ports the State is responsible. Private undertakings can be responsible for such installations if the appropriate authority has granted them a concession. In most cases these are such specialised installations as silos and warehouses and mobile cargo-handling equipment.

37. Services to Shipping: Here the private sector plays a dominant role. Thus unballasting & degassing (with some minor exceptions in France), ship repair, scaling, cleaning, shipping agencies, ship brokerage, revictualling and bunkering are everywhere the responsibility of the private sector.

38. Pilotage associations or similar bodies are responsible for pilotage in the access channels or at sea (where relevant) in all ports except Aarhus and the Irish ports (where the port authority is usually also the pilotage authority), and the Belgian and Dutch ports (where the State assumes the task). Pilotage within the docks is organised on similar lines but in Belgium the dock pilots are privately organised, in Rotterdam the "Havenbedrijf" is responsible and in Hamburg the responsible public authorities provide the dock pilotage service. No distinction is made between dock and sea pilotage at Irish ports.

39. Towage is almost always organised by the private sector. In Belgium, however, depending upon the port, both private bodies or port authorities may be responsible for the service. In Aarhus, the port authority is responsible and in Great Britain and Ireland the port authority sometimes provides towage within the port. Dry Docks and slipways are usually provided by the private sector.

40. Cargo Handling: Here at least there is in most countries a clear cut national picture. Thus in Belgium, Denmark and the Netherlands all such services are provided by the private sector.

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The same is true of Germany (with the exception of the ro/ro service at Cuxhaven operated by the Land), France (with the exception of the ro/ro service at Cherbourg) and Ireland (with the exception of certain warehousing, and groupage activities carried out by the port authority). In Great Britain, in contrast, 60-80% of cargo-handling is carried out by the port authorities, the balance by the private sector. In Italy there is no clear cut pattern.

41. Firefighting services are everywhere primarily the responsibility of the municipality or other local authority or of the state, frequently backed up by private bodies and specialised services from the port authority including the Harbourmaster's Department. Police services are usually provided by the bodies responsible in the port locality i.e. sometimes State, sometimes provincial and sometimes municipal police services. The police services may be backed up by private security organisations. Only in Great Britain is there a large number of ports with their own police services. Dublin also has its own port police service. In all countries the Harbourmaster's Department is responsible for certain maritime policing activities. Medical services are usually provided by state, provincial, municipal and private bodies and the port authorities. In most countries, the State provides the port health authority (sanitary and ship inspection etc). Pollution control is usually the joint responsibility of the state, local and regional authorities and the port administrations.

42. "In-Port" Infrastructure: This concerns the port itself and includes basic infrastructure i.e. the docks, quays, back-up land together with reclaimed land. In this area the port authorities themselves are solely responsible for the cost in Great Britain, Denmark and Ireland. In Germany, the public sector ("Land", province or commune) is usually responsible. In the Netherlands, the "Havenbedrijf" is entirely responsible in Rotterdam and Amsterdam. In the "Havenschappen" the central government, the province, the commune and the "Havenschap" itself share the cost. In the French and Italian autonomous ports, the cost of financing and maintaining these works is shared between the port authority, the central government, the province and the commune in varying proportions, often fixed on an ad hoc basis at the time that the construction concerned is decided upon. In the Belgian ports,

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the cost of investment for docks and quays is shared between the port authority and the central government. Land and the maintenance of all items of port infrastructure are the responsibility of the port authority. In the French and Italian "state" ports the financing, also in varying proportions, is shared between the central government and the chambers of commerce (France) and the communes and provinces (Italy).

43. In addition, there are cases where the port infrastructure is not provided by the public sector but completely or partly by private undertakings. This is especially true for the few private ports. Furthermore, there are also specialised installations which, as part of an industrial undertaking, are financed by that undertaking e.g. often the case with oil terminals. Finally there are also privately owned, multi-user, specialised terminals, for example for container and ro/ro operations and others.

D. Finance and Revenues

44. Dues and Charges: Naturally a great variety of systems is applied in levying dues and charges. No general rules can be laid down and detailed description of charges country by country would be complex and tedious. In most EEC countries the authority responsible for the port (state, commune or port authority) usually has considerable latitude for fixing charges, although in some cases subject to various controls or rights of appeal by users. In Italy dues and charges are generally determined and collected by the state and only a part is paid over to the port authority. In Denmark they are fixed by the state but accrue to the port authority. In France they are closely controlled by the state but usually paid to those public authorities or public bodies which help finance port investments.

45. One outstanding characteristic of the structures of charges is that in most countries, apart from the UK and Eire, lighting charges are not levied and Marine lighting is generally provided by the state and funded out of general taxation.

46. Finance and Accounting: Financial practice also varies widely, but port accounting usually follows normal practice in the country

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concerned. No annual accounts are published for the Italian state ports or the non autonomous ports in France, their financial affairs being subsumed in state budgets. In Germany and Belgium port accounts are generally included in the accounts of the relevant municipality.

47. In most cases cargo handling companies are treated on a basis comparable to other commercial enterprises, and they and other companies providing services to shipping are usually distinct from the port authority for accounting purposes.

48. Depreciation: There are no rules or general practices. In Germany and Italy no provision is made for depreciation. Elsewhere depreciation is usually on a historic cost basis.

49. Return on Investment: Where substantial contributions are received from the state towards infrastructure costs these are generally excluded when establishing financial criteria. In most countries therefore port authorities are only required to allow for their own participation when calculating their capital and operating expenditure. This obviously confers considerable advantages on ports outside GB, Eire and Denmark.

50. Loan Finance: Denmark is unique amongst EEC countries in providing low interest loans to its port authorities. Elsewhere ports generally have to borrow at near commercial rates and frequently in the open market for that part of their expenditure not covered by grants.

51. Taxation: Port administrations are not in general liable to profits tax outside the UK and France.

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TABLE E3

MARITIME ACCESS CHANNELS			
Country	Cost of Investment	Cost of Maintenance	Remarks
BELGIUM	100% National Government	100% National Government	Some responsibilities shared with Dutch government
DENMARK	100% Port Authority	100% Port Authority	
GERMANY	100% Federal Government outside port 100% relevant territorial authority within the port	100% Federal Government outside port 100% relevant territorial authority within the port	
FRANCE			
Autonomous ports	80% National Government 20% Port Authority	} 100% National Government	
Non-autonomous ports	30-50% National Government Balance Chamber of Commerce		
IRELAND	100% Port Authority	100% Port Authority	
ITALY			
Autonomous ports	National Government + Port Authority in varying proportions	Varies but in general the National Government pays	
State ports	80% National Government 20% Communes + Provinces	100% National Government	
NETHERLANDS			
"Havenbedrijven"	2/3 National Government 1/3 "Havenbedrijf" (Rotterdam) or Municipality (Amsterdam)	} 100% National Government	"Havenbedrijf" in Rotterdam responsible for entire initial cost of access channel for ships drawing over 57'
"Havenschappen"	100% National Government		
GREAT BRITAIN	100% Port Authority	100% Port Authority	

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LIGHTS, BUOYS AND NAVIGATIONAL AIDS

TABLE D2

Country		Cost of Investment	Cost of Maintenance	Remarks	
BELGIUM	outside port	100% National Government	100% National Government 100% Municipality/Authority		
	inside port	100% Municipality/Authority			
DENMARK	outside port	100% National Government	100% National Government 100% Port Authority		
	inside port	100% Port Authority			
GERMANY	outside port	100% Federal Government	100% Federal Government 100% relevant territorial authorities		
	inside port	100% relevant territorial authorities			
FRANCE	autonomous ports	outside port	100% National Government		
		inside port			
	non-autonomous ports	outside port			
		inside port			
IRELAND	outside port	100% Commissioners of Irish Lights (1)	100% Commissioners of Irish Lights		
	inside port	100% Port Authority			
ITALY	outside port	100% National Government	100% National Government		Except at Genoa
	inside port				
NETHERLANDS	"Havenbedrijven"	100% National Government outside the port - Position within ports varies from port to port	100% National Government outside the port - varying responsibility within the ports	Except radar	
	"Havenschappen"				
GREAT BRITAIN	outside port	Mostly Trinity House (2), sometimes Port Authority or similar body	Mostly Trinity House, sometimes Port Authority or similar body 100% Port Authority		
	inside port	100% Port Authority			

- (1) A statutory organisation responsible for all navigational aids around the coast of Ireland other than those for which the port authorities are responsible
- (2) Trinity House is a non-statutory private guild responsible for the pilotage in the Thames estuary and in 40 other ports and for most lighthouses

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TABLE D4

DOCKS, QUAYS, RECLAIMED LAND ETC.			
Country	Cost of Investment	Cost of Maintenance	Remarks
BELGIUM	60-100% National Government Balance municipality/authority	100% Municipality/Authority	
DENMARK	100% Port Authority	100% Port Authority	
GERMANY	100% "Land" or Commune	100% "Land" or Commune	
FRANCE			
autonomous ports	Docks, quays etc. 60% National Government, 40% Port Authority Reclaimed land - each case treated separately	100% Port Authority	
non-autonomous ports	30-50% National Government Balance Chamber of Commerce	National Government and Chamber of Commerce in varying proportions	
IRELAND	100% Port Authority	100% Port Authority	
ITALY			
autonomous ports	National Government and Port Authority in varying proportions	Port Authority with an annual contribution from the State	At Genoa this figure is fixed at 100 million lire p.a. by the Law of 1962 and falls far short of current costs.
State ports	80% National Government 20% Communes + Provinces	100% National Government	
NETHERLANDS			
"Havenbedrijven"	100% Port Authority	100% Port Authority	
"Havenschappen"	Cost shared by Port Authority, Central Government, Province + Commune	Cost shared by Port Authority, Central Government, Province + Commune	
GREAT BRITAIN	100% Port Authority	100% Port Authority	

Note : This table does not cover jetties and specialised terminals or docks, quays and reclaimed land owned by the private sector

DESCRIPTION OF THE DOCK LABOUR SCHEME AND THE NATIONAL VOLUNTARY SEVERANCE SCHEME

1. This Annex is purely descriptive. It outlines the main features of the Dock Labour Scheme. It also describes the National Voluntary Severance Scheme.

The Dock Labour Scheme

2. The first serious effort to regulate numbers of dockers was made in Liverpool in 1912. The scheme was voluntary. One of its principal features was the registration of workers to identify those entitled to seek work within the port. The registration system was extended during the 1914-18 war, when Joint Committees were set up in the larger ports to advise Government on release of men for the forces and subsequently to limit the number of demobilised men seeking casual work. The Shaw Inquiry (1919) regarded registration as "the beginning of a remedy" for the drastic conditions then prevailing in the industry. Nevertheless progress towards establishing effective schemes between the wars was patchy.

3. The second world war brought about a transformation, making comprehensive provision for schemes and real moves towards decasualisation. In 1940 the first statutory schemes were introduced under an order requiring compulsory registration. In 1941 decasualisation schemes were extended to all major ports, providing a guaranteed weekly wage and imposing specific obligations on dockers. The schemes applying to the ports of Merseyside and Clydeside were under the control of the Minister of War Transport; those for other ports were administered by the National Dock Labour Corporation, a body formed for that purpose and composed mainly of employer and union members drawn from the industry, with a Chairman and Vice-Chairman appointed by the Minister of Labour.

4. The Dock Workers (Regulation of Employment) Act 1946 enabled schemes to be made "for ensuring greater regularity of employment for dock workers and for securing that an adequate number of dock workers is available for the efficient performance of their work". Employers

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and unions disagreed about the new regime to be applied, the employers believing that decentralised schemes should be run by port authorities, on the basis of joint consultation with trade unions. Following an independent inquiry by Sir John Foster, however, the Minister of Labour introduced the first national Dock Labour Scheme (1947), which retained the system of joint control between management and unions. The NDLC was replaced by the National Dock Labour Board. Registered dock workers were employed by the NDLB and allocated to cargo handlers (e.g. private stevedoring firms, port authorities).

5. A subsequent landmark in developing the scheme was the Devlin Inquiry (1965) which concluded that industrial relations, working practices and modernisation in the docks would improve if all rdws were offered employment on a permanent basis and the number of registered employers were greatly reduced. The 1967 scheme reflected the Devlin report and ended the role of the NDLB as a direct employer of labour (except for the rdws to be placed on a temporarily unattached register). A system of licensing, to reduce numbers of employers, was incorporated in the Docks and Harbours Act 1966.

6. In the late 1960s and early 70s, a crop of disputes arose over the definition of "dock work". The definitions introduced during the war were still largely in use (as indeed they are to this day). As a result of containerisation and the shift of traffic to the east and south coast ports, dockers were seeing jobs that were traditionally theirs go elsewhere. So, for example, there were stoppages in 1969 over the establishment of the Aintree Containerbase and in London over the move of Hay's Wharf out of dockland. The Bristow Inquiry subsequently recommended (in an unpublished report) the establishment of a "five-mile corridor" on either side of the Thames. In 1972 dock work again became an issue in relation to stuffing and stripping of containers and led directly to the national dock strike of that year, and to the London dock strike of 1975. The Dock Work Regulation Act 1976 was aimed at taking arguments about definitions out of the jurisdiction of the industrial tribunals, and removing them from the area of industrial dispute, by making the NDLB responsible for recommending to the Secretary of State what should be dock work. The Act provided for the Scheme to be extended to all "definable dock areas" within half a mile of a harbour or of harbour land. These provisions do not come

into effect, however, until Parliament has approved a new scheme. The draft scheme submitted to Parliament in 1978 was rejected. Ministers agreed last year that the 1976 Act should be repealed at an early date.

7. How the Scheme Operates: the scheme made in 1967 is still in force. It applies to about 80 ports and does not cover, for example, Felixstowe or Peterhead although it does catch ports nearby such as Ipswich and Aberdeen. This in itself is a source of legitimate criticism because it distorts competition between ports. Although amendments can be made to the list of ports to which the Scheme applies the procedure for doing so is cumbersome and only one port has been removed (Preston) and only one added (Hunterston).

8. The NDLB is responsible for operating the Scheme. The Board has an independent Chairman and Vice-Chairman, appointed by the Secretary of State for Employment; of the 12 other members, 8 are NJC nominees and 4 are "independents" appointed after consultation with the TUC and CBI. The functions of the NDLB are laid down in the Scheme and are broadly to:

- (a) maintain registers of rdws and employers;
- (b) regulate recruitment to and discharge from registers, and allocation of rdws to employers;
- (c) provide for the training and welfare of rdws, including medical services, insofar as this does not exist apart from the Scheme.

The Board is funded by a levy on employers. The rate of levy is selected by the Board and is currently 3¼% of gross wages. This produces an annual income of about £5m.

9. The NDLB does not negotiate terms and conditions of rdws. This is a matter for the National Joint Council for the Port Transport Industry, and its local negotiating bodies. Main conditions still negotiated at national level relate to severance, hours and holidays. Fall-back rates are negotiated locally for each port. Under the Scheme, local dock labour boards are given broad powers to operate

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the Scheme (including its provisions on discipline) under the general supervision of the NDLB.

Description of the National Voluntary Severance Scheme (NVSS)

10. In 1965, the National Association of Port Employers (NAPE) opted out of the Redundancy Payments Act and undertook to make its own arrangements for severance which would be no less favourable than those under the Act. The National Voluntary Severance Scheme came into being in 1969 to help meet that commitment.

11. The NVSS (although not part of the Dock Labour Scheme) is administered by the NDLB on behalf of the industry and financed by payroll levies on registered employers. The size of the levies is determined by NAPE, not by the NDLB. They vary between ports, depending on the state of individual port funds and their severance needs. All registered employers pay a national levy which is currently $7\frac{1}{2}\%$. In addition employers pay between $\frac{1}{2}\%$ and 4% into local port funds. This produces in aggregate a current income of about £13m a year. Local funds are required to meet 40% of severance costs, the remainder coming from national funds. DE has continued to provide loan assistance to the NDLB to reduce the need for frequent changes in levies. Of the £13.5m loaned between 1969 and 1978 all but £200,000 (not due for repayment until February 1982) was repaid in full and on time. At present there is £53m of loan outstanding - most of it falling due for repayment in the second half of the 1980s. This total has grown and is growing rapidly.

12. The combined cost of the NVSS severance levy and the NDLB's administrative levy comes to about 14% of the total payroll of major ports such as the PLA, Mersey, Manchester, the Clyde and Bristol.

OTHER CONSTRAINTS AND ISSUES

1 Part III sets out what we see as the main constraints on the achievement of the Government's objectives and policies. In this Annex we examine the extent to which some other factors may be a constraint

Conservancy Functions

2 Although the statutory powers and duties of port authorities are not uniform, many authorities have statutory responsibility for conserving and regulating the navigation within their jurisdiction. This is an important function because ships may not be able to use the navigation if it is not dredged, and land drainage may be impeded. Without buoys, lights and the regulation of shipping, navigation of the waterway may become dangerous. So when a port authority which has had responsibility for conservancy or regulation is to be wound up, new statutory provision is required to transfer the responsibility to someone else (e.g. another port authority or the Regional Water Authority).

3 We have considered whether the separation of these statutory conservancy obligations from port authorities' other functions would either help to improve efficiency or make the closure of a port easier

4 We deal with efficiency first. There is, in fact, no evidence that ports which do not have responsibilities for conserving and regulating the navigation are, for that reason, more efficient at cargo handling and other harbour operations than ports which have got those responsibilities. For example, Ipswich is a well run and profitable port, with no conservancy functions, but so is the Tyne, which has got conservancy responsibilities. Nor is there evidence that port authorities whose responsibilities are confined to conserving and regulating the navigation (e.g. Harwich Harbour Conservancy Board) are ipso facto better at the job than other port authorities which provide port facilities and cargo handling in addition to their conservancy functions (e.g. Tees and Hartlepool Port Authority).

5 We need look back only 20 years to a time when conservancy and other port operations were separated to a greater extent than they

are now. Commenting on the position in 1962, the Rochdale Committee said that "we have been impressed by the administrative advantages to be gained by port and conservancy responsibilities being unified under the same authority and we think there is a strong case for extending this arrangement to estuaries where it has not already been adopted" (Para 74 of Cmnd. 1824). Accordingly, the Harbours Act 1964 provided powers for port reorganisation schemes and a programme of amalgamations was carried through by the NPC with Government backing during the late 60s and in the 70s.

6. If there appear to be no strong arguments of efficiency for separating the functions, are there grounds for doing so in order to facilitate port closures? First, we need to be clear what we mean by "closure" and what the objective of closure would be. By closure we mean that the port would cease to handle cargo (or, at least, cargo handling by the current operators would cease) and associated facilities such as enclosed docks would be shut down. The objective would be to allow market forces to operate on an inefficient port or one that was no longer justified because of changes in patterns of trade, shipping and so on. But conservancy and regulation of the navigation would continue to be required (albeit on a different scale).

7. We very much doubt whether separation of conservancy/regulation is necessary (or would facilitate) closure as described above. Preston is a case in point. The port authority there handled cargo and provided port facilities as well as conserving and regulating the navigation. Despite repeated efforts at rationalisation, it became clear that the port was not viable. Accordingly, the Preston Borough Council promoted private legislation to empower them to close the port. Under the local Act (which was passed in 1981) the Council ceased to be a port authority and were given power to dismantle, demolish and remove from the port, or dispose of, all property owned by them. The Council retained, however, the statutory responsibility for lighting the river Ribble, while responsibility for the maintenance of the river's walls was transferred to the North West Water Authority.

8. The Preston case illustrates the point that amalgamation of functions under one authority is not a bar to closure of a port.

9. But that leaves unanswered the question whether port rationalisation or closure would be quicker and easier if cargo handling and the provision of port facilities were separated from the conservancy function. The question can be answered only if it is known who else would take on cargo handling and the provision of facilities. Of course, these functions could be given to another statutory body, specially created for the purpose in each port. But a new statutory body would be no easier to wind up than an existing port authority and we see no practical attractions in this idea. The alternative would be for the private sector to take over cargo handling and the provision of facilities. This possibility is discussed in paragraph 3.41 and we need repeat here only our conclusion that there seems no prospect of attracting the private sector back into cargo handling until the surplus of dock labour has been further reduced and the industrial relations regime in the ports has become closer to that in industry generally; even then, we doubt if the private sector would be likely to regard cargo handling as an attractive proposition.

Regulation of Port Charges

10. Because port authorities have a local monopoly, Parliament has created machinery for their ship, passenger and goods dues to be open to appeal to the Secretary of State. If any interested person objects to these charges, the Secretary of State may either approve the charges or direct that they be reduced by a specified amount and for a specified period. This accords with one of the Government's objectives (i.e. to ensure fair trading by ports (see para 2.2(f)) but conflicts to some extent with the policy of allowing market forces to determine the distribution of traffic (para 2.3(a)).

11. When the Transport Act 1981 was being prepared, consideration was given to the possibility of repealing section 31 of the Harbours Act 1964 which creates the statutory right of objection to port charges and empowers the Secretary of State to direct that they be reduced. It was concluded, however, that the section should be retained because:

- (a) there is undoubtedly an element of local monopoly, which could be abused;
- (b) there was no evidence that the existence and use of the section was causing the industry harm;

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- (c) port users could be expected strongly to oppose repeal of the section.

(Until its abolition in autumn 1981, the NPC was responsible for deciding on objections to port charges and dealt with about 25 cases in all. The responsibility has now been transferred to the Secretary of State for Transport. So far, he has had to decide only one appeal.)

12. There are not sufficient grounds at present for suggesting that the conclusion to retain section 31 should be set aside. But we suggest that the Department of Transport should keep the operation of this provision under review to see whether it is having adverse effects on the industry or is imposing disproportionate manpower and other costs on the Department.

Local Employment and Industrial Factors

13. Few generalisations can be made about the importance of ports to their localities. But, of course, the closure of a major port or its drastic rationalisation will have important consequences for local employment and could put out of business firms (e.g. in the timber trade) which depend on their proximity to the port. Much will depend on the nature of the cargo handled at the port. Inland movement of bulk commodities (e.g. coal, ore, grain) is expensive and difficult. So firms dealing in bulks prefer to use the nearest port and, indeed, may be heavily reliant on it if the port possesses a specialised handling facility, particularly when the user has paid all or much of the cost of building the facility. Inland transport of containerised traffic is, however, easy and quick. So it is far easier for shippers of unitised goods to switch from using one port to another.

14. There is no doubt of the value of ports in helping to attract investment from outside the UK to a particular region. Potential inward investors want to have good port facilities nearby so that they can both import basic materials or components and export finished products. The availability of these facilities is only one of many factors which influence decisions on location but it is nevertheless an important one - Fords of Bridgend, for example, cite the availability of port facilities as one of their reasons for choosing the Waterton site.

15. When a port is in trouble and seeks Government financial assistance, evaluation of local employment and industrial factors is likely to have a major influence on the Government's response. We believe, therefore, that the Department of Transport, in consultation with other interested departments, should assemble (and up-date from time to time) information about the local significance of the ports most at risk.

"The Grid System"

16. Few ports outside the south east and East Anglia are able to handle much of the "unitised" traffic originating in, or destined for, their locality.* There are two main reasons for this:

- (a) The economic operation of large container ships requires the minimum number of ports calls. Much larger flows of traffic are needed to meet the high capital costs of vessels and terminals. Increasingly, port choice has become the responsibility of the shipping line rather than the shipper.
- (b) With the advent of containerisation, therefore, the shipping conferences concentrated their operations through a very few ports. They feared that shippers would react badly to this, if, in spite of a reduction in the cost of the sea leg of the journey, inland UK rates were thereby increased. They therefore devised the "grid system". Under it all ports at which the conference had originally called became "base ports" and the only inland charge a shipper is asked to pay is the cost of road transport to his nearest base port, even if, for example, this is Greenock and the conference now only calls at Southampton. The actual rates charged to the shipper are based on an elaborate grid. In practice, the shipping company often carries a high proportion of the cost of the UK inland leg of the journey.

* For example, in 1978, only 37% of container, and 7% of RoRo, export traffic related to Scotland was handled by Scottish ports; and 52% container (no RoRo) import traffic to Scotland was handled by Scottish ports.

17. As road transport costs rise (e.g. because of higher fuel costs or EEC regulation of drivers' hours), the shipping conferences may become unwilling to go on operating the "grid system". The full cost of inland transport would then fall on the shippers and that might make use of the nearest suitable regional port more attractive.

18. We have considered whether the grid system is a significant constraint on the Government's port policies. Our conclusions are:

- (a) the grid system provides a valuable subsidy to firms in regions remote from the south east and East Anglia;
- (b) if the system were abolished, some firms would leave their present locations and re-site themselves nearer the south east;
- (c) while the grid system has undoubtedly helped to distort competition between ports, it seems at present to be operating in the overall interests of British industry and of the regions farthest away from the south east and East Anglia.

Management Training and Development

19. High standards of management are essential if the ports are going to increase their productivity, manage their financial affairs competently and make best use of the new technology now becoming available. But management training and development for the ports industry in this country compares poorly with that provided by our main European competitors.

20. Management training is relevant to the objective of encouraging the provision of a responsive, reliable and efficient service (para 2.2(b)) and to the policy that the ports industry itself should have the leading responsibility for improving efficiency (para 2.3(b)). So we believe it to be right that the Department of Transport should be concerned with management and training in the industry but that the responsibility for action should rest on the British Ports Association and the ports themselves.

21. We believe that the industry should devote more efforts to identifying its future requirements for managers, ensuring that good people are recruited to the industry and that, once recruited, they receive proper development and training. The British Ports Association has recently strengthened its own staffing in order to deal more effectively with training issues. We welcome this and consider that the Department of Transport (in consultation with the Department of Employment and the MSC) should continue its discussions of these matters with the BPA, monitor progress and apply pressure or provide support as appropriate.

Productivity

22. Average productivity in our ports is lower than it is in, say, Rotterdam, Hamburg or Zeebrugge. Figures collected by the NPC illustrate the poor relative performance of most of our deep-sea container terminals (although Greenock, it should be noted, is among the most efficient performers in Europe). The following table shows the rate per hour at which cranes moved containers for the Carol line between January and June 1980.

PORT	GROSS CRANE RATE PER HOUR
Greenock	17.21
PLA Tilbury	9.68
Seaforth	7.67
Bremerhaven	14.39
Hamburg	13.61
Zeebrugge	15.18
Le Havre	12.82

Note: "Gross Crane Rate Per Hour" gives the average rate per hour, throughout the time the ship was alongside, at which the cranes moved containers.

23. This disparity of performance cannot be attributed to differences in equipment or facilities at the deep sea container terminals. On the contrary it is a reflection on the efficiency and attitudes of management and dock-workers.

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24. The British Ports Association has set up a Port Users Consultative Committee on which it, the General Council of British Shipping and the shippers are represented. The Committee has begun a study of comparative performance at 6 major British container terminals. The Department of Transport is monitoring the progress of the study and is exerting pressure on the BPA to produce proposals for other exercises aimed at increasing productivity.

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